You must have heard about Reliance Industries Limited (RIL), Tata Iron and Steel Company Limited (TISCO), Steel Authority of India Limited (SAIL), Maruti Udyog Limited (MUL), etc. Have you ever thought who owns them? What is the volume of financial transactions of these companies? If you think about it, you will find that these organisations are quite large in size and their activities are spread all over the country. Thus, it is not possible for these organisations to be formed as sole proprietorship or partnership form of business. Then, how are they formed and managed? Actually, they are a different form of business organisation and require much more capital and manpower than sole proprietorship and partnership form of business organisation.

Persons who contribute capital become members (share-holders) of the company. This form of business has a legal existence separate from its members, which means even if its members die, the company remains in existence. This form of business organisations generally requires huge capital investment, which is contributed by its members. The total capital of a joint stock company is called share capital and it is divided into a number of units called shares. Thus, every member has some shares in the business depending upon the amount of capital contributed by him. Hence, members are also called shareholders.

The companies in India are governed by the Indian Companies Act, 1956. The Act defines a company as an artificial person created by law, having a separate legal entity, with perpetual succession and a common seal.

The growth of Joint Stock Company constitutes an important advancement in the modern emerging commercial structure. Joint Stock Company has come to existence to overcome the limitations of Sole Proprietorship and Partnership. Mass production and Existence of economies of scale are the biggest advantages of this form of Organization. Moreover, present trend in industrial activity warrants expansion and diversification.
Definitions of Joint Stock Company:

Prof. L. H. Haney - "A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

James Stephens - "A company is an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss arising therefrom."

Chief Justice Marshall - "A corporation is an artificial being, invisible, intangible and existing only in the eyes of the law. Being a mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence."

(4) Indian Companies Act, 1956 - According to Section 3 of Indian Companies Act, 1956, "A company means a company formed and registered under this Act or an existing company." According to Clause (ii) of Section 3, "Existing company means a company formed and registered under any of the previously formed Companies Act."

Thus, a company may be defined as a legal and invisible artificial person, incorporated under an association of persons having an independent, separate legal entity along with perpetual succession and common seal, whose liability is ordinarily limited, the capital is divided into transferable shares, held by shareholders in order to earn profit.

Characteristics/ Features of Joint Stock Company:

1. **Legal formation:**
   
   No single individual or a group of individuals can start a business and call it a joint stock company. A joint stock company comes into existence only when it has been registered after completion of all formalities required by the Indian Companies Act, 1956.

2. **Voluntary Association of persons:**
A company is a voluntary association of persons established for profit motive. A private company must have at least two persons and the public limited company must have at least seven persons to get it registered. The maximum number of persons required for the registration in case of private company is fifty and in case of public company there is no maximum limit.

3. **Artificial person:**

A company is an artificial person. It is created by law. Like that of the natural person, it can own property, incur debts, file suits, enters into contracts with others under its own name. It can be sued and fined but cannot be imprisoned.

4. **Separate legal entity:**

A company being created under law has a separate entity from its members. Any of its members can enter into contracts with others. A member cannot bind a company by his acts or dealings with the third parties. The company can file a suit against its members and its shareholders can also sue the company. Further, a shareholder is not liable for the acts of the company even though he may be holding all the shares of that company.

5. **Limited liability:**

This is the biggest advantage of a Company form of Organization. The liability of the members or shareholders is limited to the extent of the value of shares held or the amount guaranteed by them. The shareholders are not personally liable for the debts of a company beyond that limit. It means personal assets of the shareholders are not attached to the obligations of the company.

6. **Transferability of shares:**

The shares of a public limited company are freely transferable and can be purchased and sold through the stock exchanges. A shareholder of a public limited company can transfer his shares without the consent of other shareholders. But there are certain restrictions on transferability of shares in case of private limited company.

7. **Common seal:**

A joint stock company has a seal, which is used while dealing with others or entering into contracts with outsiders. It is called a common seal as it can be used by any officer at any level of the organisation working on behalf of the company. Any document, on which the company's seal is put and is duly signed by any official of the company, become binding on the company. For example, a purchase manager may enter into a contract for buying raw materials from a supplier. Once the contract paper is sealed and signed by the purchase manager, it becomes valid. The purchase manager may leave the company thereafter or may be removed from the job or may have taken a wrong decision, yet for all purposes the contract is valid till a new contract is made or the existing contract expires.

8. **Separation of ownership from management:**

The shareholders are the owners of the company. They are heterogeneous group of people who are widely scattered throughout the country and abroad. The shareholders elect their representatives called directors to manage the company. Thus, the company is managed
by directors rather than the shareholders. This results in separation of ownership from management.

9. **Perpetual succession:**

A joint stock company continues to exist as long as it fulfils the requirements of law. It is not affected by the death, lunacy, insolvency or retirement of any of its members. For example, in case of a private limited company having four members, if all of them die in an accident the company will not be closed. It will continue to exist. The shares of the company will be transferred to the legal heirs of the deceased members.

10. **Investment facilities:**

A joint stock company raises its funds through issue of shares to general public. Due to the small denomination of the shares, the company provides investment opportunities to all sections of people who want to put their surplus money in the company's share.

11. **Accountability:**

A joint stock company has to function as per the provisions of the Companies Act. The accounts are to be audited by qualified auditors. Such accounts and exports are published for the information of all stakeholders. Regular and timely reports are to be submitted to the Government.

12. **Restricted action:**

A company cannot go beyond the powers mentioned in the abject clause of the Memorandum of Association. Therefore, its action is limited. Moreover, company has to abide by the laws laid down by the company act.

13. **Democratic management:**

Joint stock companies have democratic management and control. That is, even though the shareholders are owners of the company, all of them cannot participate in the management of the company. Normally, the shareholders elect representatives from among themselves known as ‘Directors’ to manage the affairs of the company.

**Types of Companies**

We find a variety of companies in our county. The formations, liability, management and ownership of all companies differ from each other. Let us classify the different types of companies on the basis of their ownership and nationality. Accordingly, we have three types of companies - Private Limited, Public Limited and Government companies on the basis of ownership and two types of companies - Indian and Foreign, on the basis of nationality.
Types of Company

- Charted Company
  - It is established by royal charter or special sanction by the head of the state. It is granted certain exclusive powers and privileges. E.g. British East India Company was created by a special charter by queen of England. E.g. The Bank of England, Dutch East India Company. This kind of company are rare now as decline of Monarchs.

- Statutory Company
  - It is established by the special act of the Central or State Legislature with a specific purpose. Its objectives, powers and activities are defined by special law under which it is created. It has to follow Company Act so far as the provisions do not conflict with those of special act, it means if the provision under which it is created contradicts with company act then special act has to be followed. E.g. RBI, SBI etc.

- Registered Company
  - It is established by registration under company act in the company registrar office. The formation, working and wind up of such company are governed by the provisions of company Act. All the companies are registered companies E.g. Tata, Reliance, Hindustan Steel, Maruti udhyog etc.
Unlimited Company:

It is a company in which liability of all the members are unlimited like partnership. Personal properties of all members of the company are attached with the obligations (Debt of the company). If company could not pay its liability Liquidator will take over all the assets and try to pay debts by selling it. It may or may not have a share capital. Number of members and capital is limited by article of association. The company act permits such companies but very rare in India.

Company limited by shares:

It is a company which is registered with specific amount divided in number of shares is called Company limited by shares. The liability of every member is limited by the number of share he/she has. It is most common.

Company limited by Guarantee:

In this type of company, the liability of every member is limited to the amount what he had undertaken to contribute which is known as Guarantee. They have to bring their amount of Guarantee only at the time of winding up. The amount of Guarantee is mentioned in Memorandum of Association. Amount of Guarantee of every member may differ.

Government Company:

In these companies the Government (either state or central government or both) holds a majority share capital i.e., not less than 51%. However, companies having less than 51% share -holding by the government can also be called Government companies provided control and management lies with the government.

Private Limited Company

These companies can be formed by at least two individuals having minimum paid–up capital of not less than Rupees one lakh. As per the Companies Act, 1956 the total membership of these companies cannot exceed 50. The shares allotted to its members are also not freely transferable between them. These companies are not allowed to raise money from the public through open invitation. They are required to use “Private Limited” after their names.

Public Limited Company

A minimum of seven members are required to form a public limited company. It must have minimum paid–up capital of Rs 5 lakhs. There is no restriction on maximum number of members. The shares allotted to the members are freely transferable. These companies can raise funds from general public through open invitations by selling its shares or accepting fixed deposits. These companies are required to write either ‘public limited’ or ‘limited’ after their names. Example: Hyundai Motors India Limited.
Advantages of Joint Stock Company

You must be keen to know why we should form a company for carrying out business? Obviously, this is because there are many advantages which the company form of business organisation enjoys over other forms of business organisation. Let us read about those advantages.

**Large financial resources:**
A joint stock company is able to collect a large amount of capital through small contributions from a large number of people. In public limited company shares can be offered to the general public to raise capital. They can also accept deposits from the public and issue debentures to raise funds.

**Limited Liability:**
In case of a company, the liability of its members is limited to the extent of the value of shares held by them. Private property of members cannot be attached for debts of the company. This advantage attracts many people to invest their savings in the company and it encourages the owners to take more risk.

**Professional management:**
Management of a company is vested in the hands of directors, who are elected democratically by the members or shareholders. These directors as a group known as Board of Directors (or simply Board) manage the affairs of the company and are accountable to all the members. So members elect capable persons having sound financial, legal and business knowledge to the board so that they can manage the company efficiently.

**Large-scale production:**
Due to the availability of large financial resources and technical expertise it is possible for the companies to have large-scale production. It enables the company to produce more efficiently and at lower cost.
Contribution to society:
A joint stock company offers employment to a large number of people. It facilitates promotion of various ancillary industries, trade and auxiliaries to trade. Sometimes it also donates money towards education, health and community services.

Research and Development:
Only in company form of business it is possible to invest a lot of money on research and development for improved processes of production, new design, better quality products, etc. It also takes care of training and development of its employees.

Scope of Expansion:
A company can easily expand its managerial capacities and financial resources. It has a great potential for diversification and growth. It can expand its business by issuing new shares and debentures as there is no restriction to the maximum number of members in public limited company.

Stability of Existence:
The organization of a company as a separate legal entity gives it a character of continuity. As an incorporated body, a company enjoys perpetual existence. Thus, a company because of its continuity and stability, can build up a power of endurance and high level of efficiency.

Democratic management:
Joint stock companies have democratic management and control. That is, even though the shareholders are owners of the company, all of them cannot participate in the management of the company. Normally, the shareholders elect representatives from among themselves known as ‘Directors’ to manage the affairs of the company and they take decisions for the benefit of the shareholders and the company.

Tax Relief:
The company enjoys greater tax relief as compared to other forms of business. Company pays lower tax on a higher income as its pays tax on the flat rates. Moreover, a company gets some tax concessions, if it establishes itself in a backward area. Some tax incentives are available for export promotion also.

Diffused Risks:
The membership of a public company is large. The business risk is divided among several members of the company. This encourages investment of small investors.
## Limitations of Joint Stock Company

<table>
<thead>
<tr>
<th>1. Difficult to form:</th>
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<tbody>
<tr>
<td>The formation or registration of Joint Stock Company involves a complicated procedure. A number of legal documents and formalities have to be completed before a company can start its business. It requires the services of specialists such as Chartered Accountants, Company Secretaries, etc. Therefore, cost of formation of a company is very high.</td>
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</tbody>
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<table>
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<tr>
<th>2. Excessive government control:</th>
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<tbody>
<tr>
<td>Joint stock companies are regulated by government through Companies Act and other economic legislations. Particularly, public limited companies are required to adhere to various legal formalities as provided in the Companies Act and other legislations. Non-compliance with these invites heavy penalty. This affects the smooth functioning of the companies.</td>
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</tbody>
</table>

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<tr>
<th>3. Delay in policy decisions:</th>
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<tbody>
<tr>
<td>Generally policy decisions are taken at the Board meetings of the company. Further the company has to fulfil certain procedural formalities. These procedures are time consuming and therefore, may delay action on the decisions.</td>
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</table>

<table>
<thead>
<tr>
<th>4. Concentration of economic power and wealth in few hands:</th>
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<tbody>
<tr>
<td>A joint stock company is a large-scale business organisation having huge resources. This gives a lot of economic and other power to the persons who manage the company. Any misuse of such power creates unhealthy conditions in the society, e.g., having monopoly over a particular business or industry or product; exploitation of workers, consumers and investors.</td>
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</tbody>
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<tr>
<th>5. Fraudulent Management:</th>
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<tbody>
<tr>
<td>The promoters and directors may indulge in fraudulent activities. The directors can present wrong picture of business in Annual Report. In this way innocent and ignorant investors are deputed.</td>
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</tbody>
</table>

<table>
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<tr>
<th>6. High Nepotism:</th>
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<tr>
<td>In Companies, employees are selected not on the basis of ability but on the basis of personal interest of the management. There is a scope of high degree of favouritism and nepotism and as a result worthless people join the company.</td>
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</tbody>
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<tr>
<th>7. Social Abuses:</th>
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<tr>
<td>Evils of factory system like insanitation, pollution, congestion of cities are attributed to the company form of organization. Moreover, a close and cordial relationship between the management and employees is difficult to maintain. It brings about strikes, lock outs, retrenchments, closures etc. in the business.</td>
</tr>
</tbody>
</table>
## Difference between Private and Public Limited Company:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Private Limited Company</th>
<th>Public Limited Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Members</td>
<td></td>
<td></td>
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<tr>
<td>Transferability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raising money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commencement of business certificate</td>
<td></td>
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<tr>
<td>Statutory Meeting</td>
<td></td>
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</tr>
<tr>
<td>Name</td>
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<tr>
<td>Prospectus</td>
<td></td>
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<tr>
<td>Formation</td>
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<tr>
<td>Index</td>
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<tr>
<td>Protection to member</td>
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<tr>
<td>Minimum capital</td>
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<tr>
<td>AGM</td>
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</tbody>
</table>
Suitability of Joint Stock Company

A joint stock company form of business organisation is found to be suitable where

1. The volume of business is large and huge financial resources are needed. Since members of a Joint Stock Company have limited liability it is possible to raise capital from the public without much difficulty.
2. This form of organisation is also suitable for businesses which involve heavy risks.
3. For business activities which require public support and confidence, Joint Stock form is preferred as it has a separate legal status.
4. Certain types of businesses like production of pharmaceuticals, machine manufacturing, IT, Iron and Steel etc. are generally organised for joint Stock Company.
5. Law makes it compulsory e.g. banking, insurance.
6. Owners wish to share responsibility
7. Business requires long time to mature and develop.
Privileges of Private Limited Company over Public Limited Company:

- Members
- Commencement of business
- Prospectus
- Statutory meeting
- Directors Shares
- Account
- Quorum
- Members register

Difference between Partnership and Joint Stock Company:

<table>
<thead>
<tr>
<th>Basis</th>
<th>Partnership</th>
<th>Joint Stock Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Status</td>
<td></td>
<td></td>
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<tr>
<td>Liability</td>
<td></td>
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<tr>
<td>Implied Agency</td>
<td></td>
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<tr>
<td>Audit</td>
<td></td>
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<tr>
<td>Management</td>
<td></td>
<td></td>
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<tr>
<td>Governing Law</td>
<td></td>
<td></td>
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<tr>
<td>Transferability of interest</td>
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</tbody>
</table>
### Multinational Companies

We have two types of companies, on the basis of nationality, one is Indian company and the other is Foreign Company. But have you ever thought, why are foreign companies coming to India or what are they doing in our country? Actually they are coming to India to produce goods and services and/or to sell their products. Similarly Indian companies are also extending their business operations across the boundaries of our country. This is called globalisation, which means extension of economic activities across the boundaries of a country in search of worldwide markets. In your day-to-day life you might be using different goods and services of Indian as well as foreign origin. The foreign goods are either imported in our country or sometimes these goods are also produced in our country. Due to globalisation the entire world has become one big market. Big companies are coming out of their home countries in search of better markets for their products.

### Meaning of Multinational Companies

Simply speaking, a multi-national company is one which is registered as a company in one country but carries on business in a number of other countries by setting up factories, branches or subsidiary units. Such a company may produce goods or arrange services in one or more countries and sell these in the same or other countries. You might have heard about many Multinational Companies (MNCs) running business in India, like Philips, Siemens, Hyundai, Coca Cola, Nestle, Sony, McDonald’s, Citi Bank, Good Year, etc.

### Features of Multinational Companies

<table>
<thead>
<tr>
<th>(i) International Operations:</th>
<th>Multinational Companies generally have production, marketing and other facilities in several countries.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(ii) Large size:</td>
<td>The volume of sales, the profits earned, and also the value of assets held by multinational companies are generally very large.</td>
</tr>
<tr>
<td>(iii) Centralised Control:</td>
<td>The branches and subsidiary units of an MNC operating in different countries are controlled from the headquarters of the company in the home country, which lay down broad policies to be pursued.</td>
</tr>
</tbody>
</table>

### Self-Assessment Task:

Here listed below the advantages of Multinational Company to your country. Explain them.

<table>
<thead>
<tr>
<th>Foreign Exchange</th>
<th>Generation of Employment</th>
<th>Advanced Technology</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Growth</td>
<td>Increase in Export</td>
<td></td>
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</tbody>
</table>
Self-Assessment Task
Here below is listed the dis-advantages of Multinational Companies. Explain them in the context of your country.
Least concern for priorities of host countries
Adverse effect on domestic enterprises
Change in tradition
Exploitation of natural resources

Multinational Company to produce tyres in Malaysia.

The European Tyre Group today announced its plan to open a huge factory on the outskirt of Kuala Lumpur. The Government id delighted that this new investment will bring hundreds of jobs to the area. Other responses to the news were less encouraging. One trade union leader said, ‘if workers are paid the same low wages as those paid to foreign workers in other ETG factories, then our members will be in poverty.’ A local resident said, ‘In other countries, their factories have got a bad record for pollution. – I am worried about the health of my children.’ A spokesmen for the Malaysian Tyre Group said – ‘The multinational could lead to closure of our own factory – we just do not have the same cost advantages’

ETG, a British- based company, today announced record profit from its operations in 12 countries and the dividends paid to stakeholders will increase by 50% this year. Despite this, the company announced it would go ahead with the closure of its loss-making Mexican factory.

Questions:

1. Explain why ETG could be described as a multinational business.(02)
2. Outline three possible disadvantages to Malaysia that might result from the operation of the new ETG factory. (06)
3. Explain three possible reasons why ETC is expanding its production facilities outside Europe. (06)
4. Explain any three bold terms. (06)
Questions

1) What is meant by Joint Stock Company? (2)
2) State the minimum and maximum number of members of private limited company. (02)
3) Why are the members of the company called shareholders? (02)
4) State the meaning of Multinational Company. (02)
5) Explain any four characteristics of Joint Stock Company. (05)
6) Explain the different types of companies. (05)
7) Write a note on Statutory Company and Charted Company. (05)
8) Classify Joint Stock Companies on the basis of nationality. (02)
9) Distinguish between Indian Company and Foreign Company. (02)
10) What are the features of Private Limited Company? How does it differ from Public Limited Company? (05)
11) Distinguish between Private Limited Company and Public Limited Company. (05)
12) Explain the privileges of Private limited company over Public limited company. (05)
13) Explain the advantages of Joint Stock Company. (05)
14) Explain the limitations of Joint Stock Company. (05)
15) What are the advantages of Multinational Company? Explain any four. (05)
16) Explain the features of Multinational Company. (05)
17) Describe the limitations of Multinational Company. (02)
18) What is Dividend? (02)
19) What is Prospectus? (02)
20) What is an AGM? (02)
21) How does Board of Directors selected in Company? (02)
22) What is Statutory Company? How it is established? (05)
23) What is Charted Company? How it is established? (05)
24) What is the main difference between Statutory Company and Charted Company? (02)
25) What is Share? (02)
26) Differentiate Partnership with Joint Stock Company. (05)
27) Company is the best form of Business Organization – Explain. (05)
28) Write a detailed note on Government Company. (05)
29) Difference between: Memorandum of Association and Articles of Association. (02)
30) Who are promoters? How do they have monopoly in the company? (02)
32) In which types of the business company form is suitable? (02)
33) Explain the feature Corporate Finance in the context of Joint Stock Company. (02)
34) Explain the feature Separate legal entity in the context of Joint Stock Company. (02)
35) Explain the feature Common seal in the context of Joint Stock Company. (02)
36) What is Perpetual Succession? (02)
37) A Joint Stock Company is the best form of business organization – Do you agree? Give reasons. (05)
38) What is a company limited by guarantee? (02)
39) What is a Private limited company? (02)
40) What is a Public limited company? (02)