1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Forms of Business Organisation / Joint Stock Company – Part 6
Module Id	kebs_10206
Pre-requisites	Knowledge about Forms of Business Organisation / Cooperative Society
Objectives	• Joint Stock Company - Meaning • Features of Joint Stock Company • Merits of Joint Stock Company • Demerits of joint Stock Company
Keywords	Company, Shares, Joint Ownership, Diffusion of Risk, Voting rights, Democracy

2. Development Team

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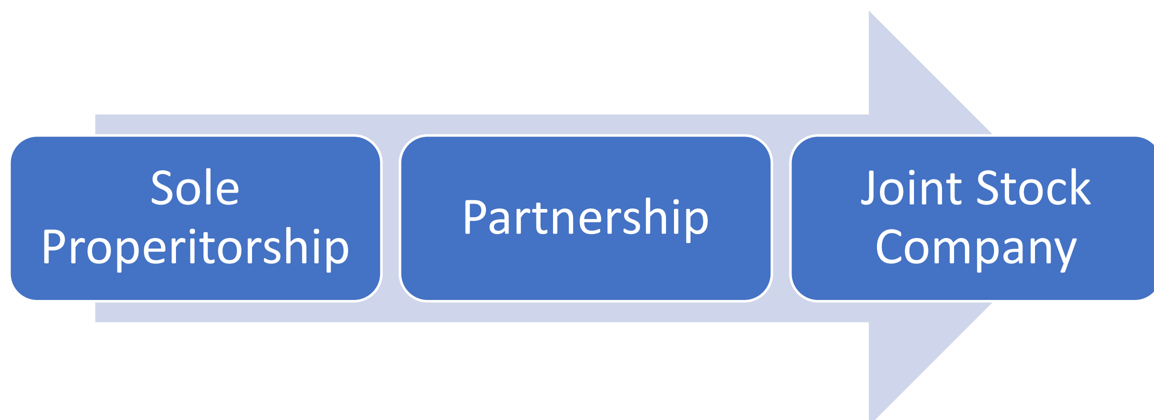
1. Joint Stock Company - Meaning

When you think of all the largest companies in the world, these are not **sole-proprietorships** or **partnerships.** These companies are all **joint stock companies**. A sole trading or Partnership business could not meet the requirement of large-scale organisation. Both of them have **limited fund** and **unlimited liability**. There is **lack of managerial ability** in sole trading and partnership firm. So, the Joint Stock Company was established.



When dealing with business on a fairly large scale, a joint stock company is the most suitable form of business organisation.

The modern corporation has its origins in the joint-stock company. A joint-stock company is a business owned by its investors, with each investor owning a share based on the amount of stock purchased.

Joint-stock companies are created in order to finance endeavours that are too expensive for an individual or even a government to fund. The owners of a joint-stock company expect to share in its profits.

There are records of joint-stock companies being formed in Europe as early as the 13th century. However, they appear to have multiplied beginning in the 16th century, when adventurous investors began speculating about opportunities to be found in the New World.

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The company form of

organisation is governed by The Companies Act, 2013. As per section 2(20) of Act 2013, a company means company incorporated under this Act or any other previous company law. The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

Professor Haney defines it as *"a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company."*

A joint-stock company is a business entity in which shares of the company's stock can be bought and sold by shareholders. Each shareholder owns company stock in proportion, evidenced by their shares (certificates of ownership). Shareholders are able to transfer their shares to others without any effects to the continued existence of the company.

2. Features of Joint Stock Company

The definition of a joint stock company highlights the following features of a company:

i) Artificial person: A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued but unlike them it cannot breathe, eat, run, talk and so on. It is, therefore, called an artificial person.

ii) Separate legal entity: From the day of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those of its owners. The law does not recognise the business and owners to be one and the same.

iii) Formation: The formation of a company is a time consuming, expensive and complicated process. It involves the preparation of several documents and compliance with several legal requirements before it can start functioning. Incorporation of companies is compulsory under The Companies Act 2013 or any of the previous company law, as state earlier. Such companies which are incorporated under companies Act 1956 or any company law shall be included in the list of companies.

Formation of a company is a complex activity involving completion of legal formalities and procedures. To fully understand the process one can divide the formalities into three distinct stages, which are:

i. Promotion

ii. Incorporation
iii. Subscription of capital

The first stage **'Promotion'** involves conceiving a business idea and taking an initiative to form a company so that practical shape can be given to exploiting the available business opportunity.
In the second stage named '**Incorporation'**, the application is to be filed with the Registrar of Companies of the state within which they plan to establish the registered office of the company.
In the stage **'Subscription of Capital'** a public company can raise the required funds from the public by means of issue of securities (shares and debentures etc.).

iv) Perpetual succession: A company being a creation of the law can be brought to an end only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed. Members may come and members may go, but the company continues to exist.
In company law, **perpetual succession** is the continuation of a corporation's or other organization's existence despite the death, bankruptcy, insanity, change in membership or an exit from the business of any owner or member, or any transfer of shares etc.
Perpetual succession, along with the common seal, is one of the factors explaining a corporation's legal existence as separate from those of its owners. This principle states that any change in membership of a company does not affect the status of the company,
Death, insolvency, insanity etc. of any member of a company does not affect the continuity of the company. Thus the life of the company does not depend upon the life of its members.
It shall continue forever irrespective of continuity of its members or directors, except in case of liquidation (or "winding up") of a company.

v) Control: The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business. The directors hold a position of immense significance as they are directly accountable to the shareholders for the working of the company. The shareholders, however, do not have the right to be involved in the day-to-day running of the business.

vi) Liability: The liability of the members is limited to the extent of the capital contributed by them in a company. The creditors can use only the assets of the company to settle their claims since it is the company and not the members that owes the debt. The members can be asked to contribute to the loss only to the extent of the unpaid amount of share held by them. Suppose

Akshay is a shareholder in a company holding 2,000 shares of Rs.10 each on which he has already paid Rs. 7 per share. His liability in the event of losses or company's failure to pay debts can be only up to Rs. 6,000 — the unpaid amount of his share capital (Rs. 3 per share on 2,000 shares held in the company). Beyond this, he is not liable to pay anything towards the debts or losses of the company.

vii) Common seal: A company may or may not have a common seal. If a company has a common seal, it must be affixed to the documents such as agreements of a company. If a company does not have a common seal then the person signing the document should be authorised by a board's resolutions.

viii) Risk bearing: The risk of losses in a company is borne by all the shareholders. This is unlike the case of sole proprietorship or partnership firm where one or few persons respectively bear the losses. In the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital. The risk of loss thus gets spread over a large number of shareholders.

ix) Capital: A joint stock company can raise large amount of capital by issuing its shares.

x) Management: A joint stock company has a democratic management which is managed by the elected representatives of shareholders, known as directors of the company. The board of directors, president, vice-president, and CEO are all examples of top-level managers. These managers are responsible for controlling and overseeing the entire organization. They develop goals, strategic plans, company policies, and make decisions on the direction of the business.

xi) Membership: To form a private limited company minimum number of members prescribed in the companies Act is 2 and the maximum number is 200. But in the case of public limited company the minimum limit is 7 and no limit on maximum number of members.

3. Merits of Joint Stock Company

The company form of organisation offers a multitude of advantages, some of which are discussed below:

i) Limited liability: The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts, leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor.

ii) Transfer of interest: Basically, a transfer of interest is when title to property or assets change from one person to another. This is usually accomplished through a sale, though it can also happen by means of a gift. The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids blockage of investment and presents the company as a favourable avenue for investment purposes.

iii) Perpetual existence: Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act, 2013.

iv) Scope for expansion: As compared to the sole proprietorship and partnership forms of organisation, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions. Thus there is greater scope for expansion. The investors are inclined to invest in shares because of the limited liability, transferable ownership and possibility of high returns in a company.

v) Professional management: A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specialisations. The scale of operations in a company leads to division of work. Each department deals with a particular activity and is headed by an expert. This leads to balanced decision making as well as greater efficiency in the company's operations.

vi) Social Benefit: It offers employment to a large number of people. It facilitates promotion of various ancillary industries. It also donates money for education, community service.

vii) Research and Development: Research and development (R&D) includes activities that companies undertake to innovate and introduce new products and services. It is often the first stage in the development process. The goal is typically to take new products and services to market and add to the company's bottom line. It invests a lot of money on research and

development for improved production process, improving quality of product, designing and innovating new products etc.

Limitations

The major limitations of a company form of organisation are as follows:

i) Complexity in formation: The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved. As compared to sole proprietorship and partnership form of organisations, formation of a company is more complex

ii) Lack of secrecy: The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy about the operations of company.

iii) Impersonal work environment: Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company. The large size of a company further makes it difficult for the owners and top management to maintain personal contact with the employees, customers and creditors.

iv) Numerous regulations: The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies, viz., registrar, SEBI, etc. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

v) Delay in decision making: Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

vi) Oligarchic management: In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners. In practice, however, in most large sized organisations having a multitude of shareholders; the owners have minimal influence in terms of controlling or running the business. It is so because the shareholders are spread all over the country and a very small percentage attend the general

meetings. The Board of Directors as such enjoy considerable freedom in exercising their power which they sometimes use even contrary to the interests of the shareholders. Dissatisfied shareholders in such a situation have no option but to sell their shares and exit the company. As the directors virtually enjoy the rights to take all major decisions, it leads to rule by a few.

vii) Conflict in interests: There may be conflict of interest amongst various stakeholders of a company. The employees, for example, may be interested in higher salaries, consumers desire higher quality products at lower prices, and the shareholders want higher returns in the form of dividends and increase in the intrinsic value of their shares. These demands pose problems in managing the company as it often becomes difficult to satisfy such diverse interests.

viii) Speculation and Manipulation: As the shares of a joint stock company are easily transferable thus the shares are purchased and sold in the stock exchanges on the value or price of a share based on the expected dividend and the reputation of the company.

Examples of **Joint Stock Companies**: Facebook, Microsoft, Apple etc. are some of the prominent examples of Joint Stock Company.

Facebook is a social networking service launched as 'The Facebook' on February 4, 2004. It was founded by Mark Zuckerberg with his college roommates and fellow Harvard University students.
Initially the costs for the website operations for thefacebook.com were paid for by Mark Zuckerberg and Eduardo Saverin, who had taken equity stakes in the company. The website also ran a few advertisements to meet its operating costs. Then later Facebook filed for an initial public offering (IPO) i.e. issuing shares to general public on February 1, 2012. The preliminary prospectus stated that the company was seeking to raise $5 billion. Now presently, the Facebook is ranked No. 76 in the 2018 Fortune 500 list of the largest United States corporations. It is one of the world's most valuable companies and is considered one of the Big Four technology companies along with **Amazon, Apple, and Google.**

Summary

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the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

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The definition of a joint stock company highlights the following features of a company:

i. **Artificial person**
ii. **Separate legal entity**
iii. **Formation:** Formation of a company is a complex activity involving completion of legal formalities and procedures. To fully understand the process one can divide the formalities into three distinct stages, which are:
    a. Promotion
    b. Incorporation
    c. Subscription of capital
iv. **Perpetual succession**
v. **Control**
vi. **Liability**
vii. **Common seal**
viii. **Risk bearing**
ix. **Capital**
x. **Management**
xi. **Membership**

Merits

The company form of organisation offers a multitude of advantages, some of which are discussed below:

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iv. Scope for expansion
v. Professional management
vi. Social Benefit
vii. Research and Development

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