

Lesson 8

Joint Stock Company

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. Let us now learn about this form of business organisation in detail.

8.1 Objectives

After studying this lesson, you will be able to:

- define Joint Stock Company ;
- state the characteristics of Joint Stock Company;
- identify the different types of Joint Stock Company;
- discuss the advantages and limitations of Joint Stock Company;
- suggest the suitability of Joint Stock Company as a form of Business organisation;
- explain the meaning and features of a Multinational Company; and
- enumerate the advantages and limitations of Multinational Company.

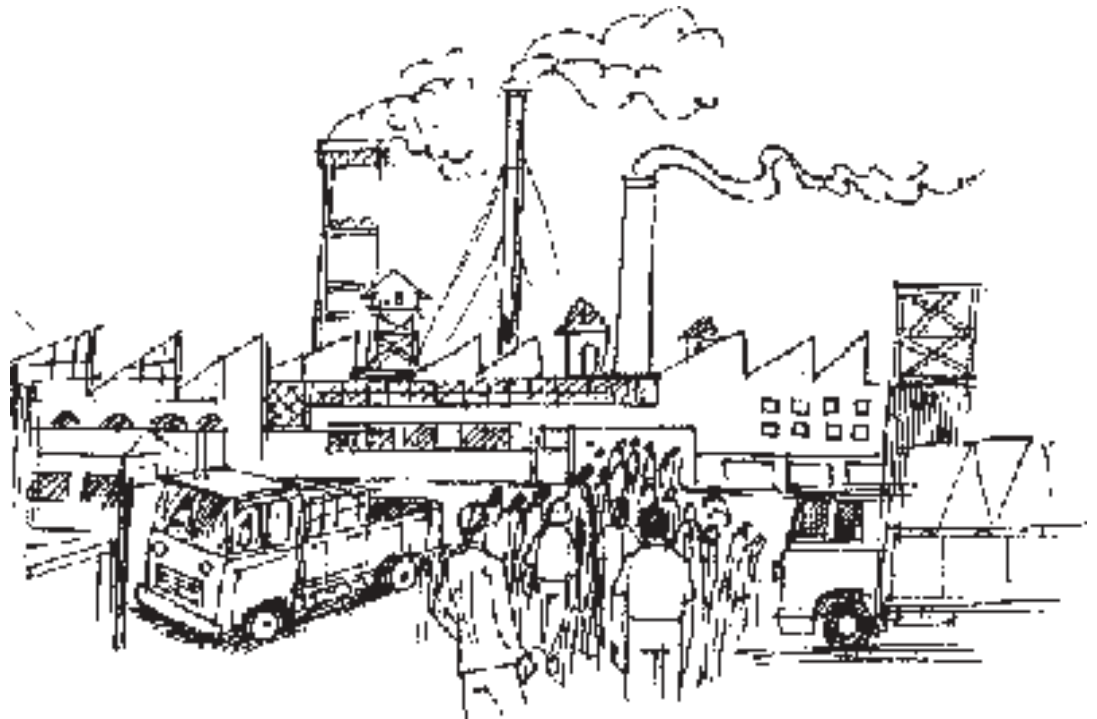
8.2 Meaning of Joint Stock Company

In a partnership firm we know that the number of partners cannot exceed 20. So there is a limit to the contribution of capital. Secondly, even if the partners could contribute a large

amount of capital, they would hesitate to do so considering the risk involved in business and their unlimited liability. Mainly to take care of these two problems, a company form of business organisation came into existence.

A company form of business organisation is known as a Joint Stock Company. It is a voluntary association of persons who generally contribute capital to carry on a particular type of business, which is established by law and can be dissolved only by law. Persons who contribute capital become members 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.



8.3 Characteristics of Joint Stock Company

You are now familiar with the concept of company as a form of business organisation. Let us now study its characteristics.

i. 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.

ii. Artificial person

Just like an individual, who takes birth, grows, enters into relationships and dies, a joint stock company takes birth, grows, enters into relationships and dies. However, it is called an artificial person as its birth, existence and death are regulated by law and it does not possess physical attributes like that of a normal person.

iii. Separate legal entity

Being an artificial person, a joint stock company has its own separate existence independent of its members. It means that a joint stock company can own property, enter into contracts and conduct any lawful business in its own name. It can sue and can be sued by others in the court of law. The shareholders are not the owners of the property owned by the company. Also, the shareholders cannot be held responsible for the acts of the company

iv. 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.

v. Perpetual existence

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.

vi. Limited liability

In a joint stock company, the liability of a member is limited to the extent of the value of shares held by him. While repaying debts, for example, if a person owns 1000 shares of Rs. 10 each, then he is liable only upto Rs 10,000 towards payment of debts. That is, even if there is liquidation of the company, the personal property of the shareholder can not be attached and he will lose only his shares worth Rs. 10,000.

vii. 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.

Intext Questions 8.1

Given below are some statements about characteristics of joint stock company. Some are right and some are wrong. Identify the wrong statements and strike them out:

- (i) No legal formality is required to form a joint stock company.
 - (ii) A joint stock company dies with the death of its shareholders.
 - (iii) The shareholders of a joint stock company have limited liability
 - (iv) A joint stock company can own property on its own name.
 - (v) A joint stock company is managed by the elected representatives of shareholders.
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8.4 Types of Companies

We find a variety of companies in our country. 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 type 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.

On the basis of Ownership	On the basis of Nationality
i. Private Limited	i. Indian
ii. Public Limited	ii. Foreign
iii. Government	

Now let us learn more about them:

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. The examples of such companies are Combined Marketing Services Private Limited, Indian Publishers and Distributors Private Limited, Oricom Systems Private Limited, etc.

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. Examples of such companies are Hyundai Motors India Limited, Steel Authority of India Limited, Jhandu Pharmaceuticals Limited etc.

Difference between Private Limited and Public Limited Companies:

Basis	Private Limited Company	Public Limited Company
Membership	Minimum - 02 Maximum - 50	Minimum - 07 Maximum - no restriction
Identification	Use a suffix "Private Limited" after its name	Use a suffix "Limited" after its name
Transferability of shares	Restricted	Free
Capital required	Not less than Rs. 1 lakh	Not less than Rs. 5 lakh
Raising of funds	Can not give open invitation to the public to subscribe the shares	Can raise as much money as required from public

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. Examples of government companies are: Mahanagar Telephone Nigam Limited, Bharat Heavy Electricals Limited.

Indian Company

A company having business operations in India and registered under the Indian Companies Act, 1956 is called Indian Company. An Indian company may be formed as a public limited, private limited or government company.

Foreign Company

A foreign company is a company formed and registered outside India having business operations in India.

Intext Questions 8.2

Fill in the blanks with suitable words:

- (i) There should be atleast _____ members in a Public limited company.
 - (ii) Transfer of share freely from one member to another is not possible in case of _____ company.
 - (iii) Minimum amount of capital required to start a public limited company is Rs _____.
 - (iv) Mahanagar Telephone Nigam Limited is _____ company.
 - (v) A foreign company is formed _____ India.
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You have just read about the different types of companies. Now we shall discuss about the advantages and limitation of company form of business organisation.

8.5 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.

The main advantages of Joint Stock Company are -

- (i) **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.
- (ii) **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.
- (iii) **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.
- (iv) **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.
- (v) **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.
- (vi) **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.

8.6 Limitations of Joint Stock Company

In spite of many advantages of the company form of business organisation, it also suffers from some limitations. Let us note the limitations of Joint Stock Companies.

- (i) **Difficult to form:** 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.

- (ii) **Excessive government control:** 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.
- (iii) **Delay in policy decisions:** Generally policy decisions are taken at the Board meetings of the company. Further the company has to fulfill certain procedural formalities. These procedures are time consuming and therefore, may delay action on the decisions.
- (iv) **Concentration of economic power and wealth in few hands:** 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.

8.7 Suitability of Joint Stock Company

A joint stock company form of business organisation is found to be suitable where 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. This form of organisation is also suitable for businesses which involve heavy risks. Again, for business activities which require public support and confidence, joint stock form is preferred as it has a separate legal status. Certain types of businesses, like production of pharmaceuticals, machine manufacturing, information technology, iron and steel, aluminum, fertilisers, cement, etc., are generally organised in the form of joint stock company.

Intext Questions 8.3

- (i) The liability of members of a joint stock company is limited to the extent of the _____.
 - (ii) A Joint Stock Company form of business organisation takes more _____ to take policy decisions.
 - (iii) A joint stock company form of business organisation is managed by _____.
 - (iv) The cost of formation of a company is very _____.
 - (v) Companies Act and other economic legislations are passed to regulate the _____.
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8.8 Multinational Companies

You have learnt that 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. In the next section you will find details about these big companies.

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.

Let us read the general features of multinational companies.

Features of Multinational Companies

Multinational Companies generally have the following features:

- (i) International Operations: Multinational Companies generally have production, marketing and other facilities in several countries.
- (ii) Large size: The volume of sales, the profits earned, and also the value of assets held by a multinational companies are generally very large.
- (iii) Centralised Control: 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.

Advantages of Multinational Companies

The Multinational Companies enjoy several advantages by way of huge earnings due to large-scale production and distribution activities across national borders. Besides, the host countries in which the Multinational Companies operate also derive a number of advantages. These are-

- (i) Investment of Foreign capital: Direct investment of capital by multinational companies helps under-developed countries to speed up their economic development.
- (ii) Generation of employment: Expansion of industrial and trading activities by multinational companies leads to creation of employment opportunities and raising the standard of living in host countries.
- (iii) Use of advanced technology: With substantial resources multinational companies undertake Research and Development activities which contribute to improved methods and processes of production and thus, increase the quality of products. Gradually, other countries also acquire these technologies.
- (iv) Growth of ancillary units: Suppliers of materials and services and ancillary industries often grow in host countries as a result of the operation of multinational companies.

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- (v) Increase in exports and inflow of foreign exchange: Goods produced in the host countries are sometimes exported by multinational companies. Foreign exchange thus earned contributes to the foreign exchange reserves of host countries.
 - (vi) Healthy competition: Efficient production of quality goods by multinational companies prompt the domestic producers to improve their performance in order to survive in the market.

Limitations of Multinational Companies

The advantages discussed above are no doubt beneficial to host countries. But there are several limitations of multinational companies, which we should take note of:

- i. Least concern for priorities of host countries: Multinational Companies generally invest capital in the most profitable industries and do not take into account the priorities of developing basic industries and services in backward regions of the host country.
- ii. Adverse effect on domestic enterprises: Due to large-scale operation and technological skills, multinational companies are often able to dominate the markets in host countries and tend to acquire monopoly power. Thus, many local enterprises are compelled to close down.
- iii. Change in tradition: Consumer goods, which are introduced by multinational companies in the host countries, do not generally conform to the local cultural norms. Thus, consumption habits of people as regards food and dress tend to change away from their own cultural heritage.

Intext Questions 8.4

Given below are some statements about Multinational Company. State which of them are advantages of Multinational Company?

- (i) Multinational companies speed up the economic development of the under-developed countries.
- (ii) Multinational Companies help to earn foreign exchange for the host countries.
- (iii) Domestic producers improve their performance because of Multinational Companies.
- (iv) Generally Multinational Companies invest money in profitable industries.
- (v) Multinational Companies sometimes dominate the markets of the host countries.

8.9 What You Have Learnt

- A Joint stock company is an artificial person created by law, having separate legal entity, with perpetual succession and a common seal. The companies are governed by the Indian Companies Act, 1956.
- Characteristics of Joint Stock Company
 - (i) Legal formation
 - (ii) Artificial person

- (iii) Separate legal entity
- (iv) Common seal
- (v) Perpetual existence
- (vi) Limited liability of members
- (vii) Democratic Management
- Types of companies-
 - On the basis of ownship
 - Private limited Companies
 - Public limited Companies
 - Government Companies
 - On the basis of nationality
 - Indian Companies
 - Foreign Companies
 - Advantages of Joint Stock Company
 - (i) Availability of large financial resources
 - (ii) Limited liability of members
 - (iii) Benefits of professional management
 - (iv) Large-scale production of goods and services
 - (v) Beneficial for the society
 - (vi) Emphasis on Research and Development
 - Limitations of Joint Stock Company-
 - (i) Difficult to form
 - (ii) Excessive government control
 - (iii) Delay in policy decisions
 - (iv) Concentration of economic power and wealth in few hands.
 - A company which is registered in one country but carries on business operations in a number of other countries by setting up factories, branches or subsidiary units is called Multinational Company.
 - Features of Multinational companies-
 - (i) International operation
 - (ii) Large size, and
 - (iii) Centralised control
 - Advantages of Multinational Company-
 - (i) Investment of foreign capital
 - (ii) Generation of employment
 - (iii) Use of advanced technology.

- (iv) Growth of ancillary units
- (v) Increase in exports and inflow of foreign exchange
- (vi) Healthy competition in the market.
- Limitations of Multinational Company-
 - (i) Least concern for priorities of host countries
 - (ii) Adverse effect on domestic enterprises
 - (iii) Change in tradition and culture

8.10 Terminal Exercise

- 1) What is meant by Joint Stock Company?
- 2) State the minimum and maximum number of members of private limited company.
- 3) Why are the members of the company called shareholders?
- 4) State the meaning of Multinational Company.
- 5) Describe any four characteristics of Joint Stock Company.
- 6) Explain the different types of companies on the basis of ownership.
- 7) State the different types of Joint Stock Company.
- 8) Classify Joint Stock Companies on the basis of nationality.
- 9) Distinguish between Indian Company and Foreign Company.
- 10) What are the features of Private Limited Company? How does it differ from Public Limited Company.
- 11) Distinguish between Private Limited Company and Public Limited Company.
- 12) What benefits do we derive from joint stock company form of business organisation.
- 13) Enumerate the advantages of Joint stock company.
- 14) State the limitations of Joint Stock Company.
- 15) What are the advantages of Multinational company? Explain any four.
- 16) Explain the features of Multinational Company.
- 17) Describe the limitations of Multinational Company.

8.11 Key to Intext Questions

8.1 Wrong i, ii

8.2 (i) Seven; (ii) Private limited; (iii) 5 lakh; (iv) Government; (v) Outside

8.3 (i) value of shares held by them; (ii) time; (iii) Board of Directors; (iv) high; (v) companies.

8.4 Advantage i, ii, iii

Activity For You

Collect any 10 items of daily use (Packed items) and list the names of the companies manufacturing those items. Classify those companies as public and private limited companies. Which of them are Multinational Companies?