Joint Stock Company

By
Dr Rupal Patel
Associate Professor
BJVM

Introduction:

The company form of business organization came into existence because of the defects of the sole proprietorship and partnership form of business organization. As the business expands, it requires huge capital investment and expert professional management and it also involves huge risk. Sole proprietorship and partnership forms of business organization cannot meet these requirements due to a shortage of funds, lack of stability, owner-oriented management, and unlimited liability. A joint-stock company was developed to meet these requirements which were difficult to be fulfilled by Sole proprietorship and partnership forms of organization.

A Joint-stock company is an incorporated association of two or more persons having a separate legal entity that is separate from its member. Its capital is divided into shares and is freely transferable (except in a private company). The shareholders are the owners of the company while the Board of directors who are elected by the shareholders manages the company.

According to Sec. 2(20) of Companies Act, 2013 a "company" means a company incorporated under this Act or under any previous company law.

According to Prof. Haney, "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"

Features of a Joint-stock company

1. **Separate legal entity:** A company has a separate legal entity from its members. A company bears its own name, acts under the name, has a seal of its own and its assets are separate and distinct from those of its members. It is capable of owning property, make contracts, and file suits in its own name. The members of the company are the owners; however, they can be the creditors of the company at the same time. A shareholder cannot be held liable for the acts of the company. The shareholders are not the agents of the company, so they cannot bind it by their acts.
2. **Perpetual succession:** A company never dies, except when it is wound up by law. Its life does not depend on the life of any of its members. A company’s existence does not affect the death, insolvency, or lunacy of its members. It continues to exist even if all the members die. Perpetual succession means that the membership of a company may keep changing from time to time, but that shall not affect its continuity.

3. Limited Liability: The members of a company have limited liability. The liability of every member is limited to the nominal value of the shares bought by them or to the amount of guarantee given by them.

For example, if a member has 70 shares of Rs 10 each, his liability is limited to Rs 700. Even if the assets of the company are not sufficient to satisfy the debts of the creditors, no member is liable to pay anything more than what is due from them.

4. Transferability of shares: The company's capital is divided into parts. Each part is known as a share. These shares are generally transferable. A shareholder can freely transfer his shares to someone. However, in actual practice, some restrictions are placed on the transfer of shares. Section 44 of the Companies Act, 2013 articulates the principle by providing that the shares held by the members are movable property and can be transferred from one person to another in the manner provided by the articles. If the articles do not provide anything for the transfer of shares and the Regulations contained in Table "F" in Schedule I to the Companies Act, 2013, are also expressly excluded, the transfer of shares will be governed by the general law relating to the transfer of movable property.

5. Common Seal: A company being an artificial entity, cannot act and sign itself. All the acts of the company are authorized by a common seal. A company must have a common seal on which the name of the company must be engraved. It must be affixed on all the important documents as a token of the company's approval. The common seal acts as the official signature of a company. Any document which does not have the common seal of the company is not binding on the company.

6. Separation of ownership and control: The members of the company cannot take part in the day to day activities of a company. The management and control of the company are undertaken by the directors of the company on behalf of the members. The members elect directors as their representatives. Therefore, the ownership of a company is distributed among the shareholders while the management is laid with the board of directors.

7. Voluntary association: A joint-stock company is a voluntary association of persons formed to carry out a specific purpose in common. The members of the company can join it and leave it as per their own will.

8. Artificial legal person: A company is an artificial person created by law. It is an artificial person because it is invisible, intangible. It exists only in contemplation of law. It is considered as a legal person which can be entered into contracts, own property in its own name, sue, and can be sued by others.

9. Statutory regulation and control: The government has control through company law over the management of joint-stock companies. A company is needed to comply with several legal formalities and to file several documents with the Registrar of Companies.

10. Formation: The formation of a company is a very time-consuming process. It involves the preparation of a number of documents and compliance with several legal formalities before it can start functioning. Incorporation of companies is mandatory under the Companies Act 2013, or any previous company law. The companies which are incorporated under the Companies Act, 1956, or any company law shall be included in the list of companies.