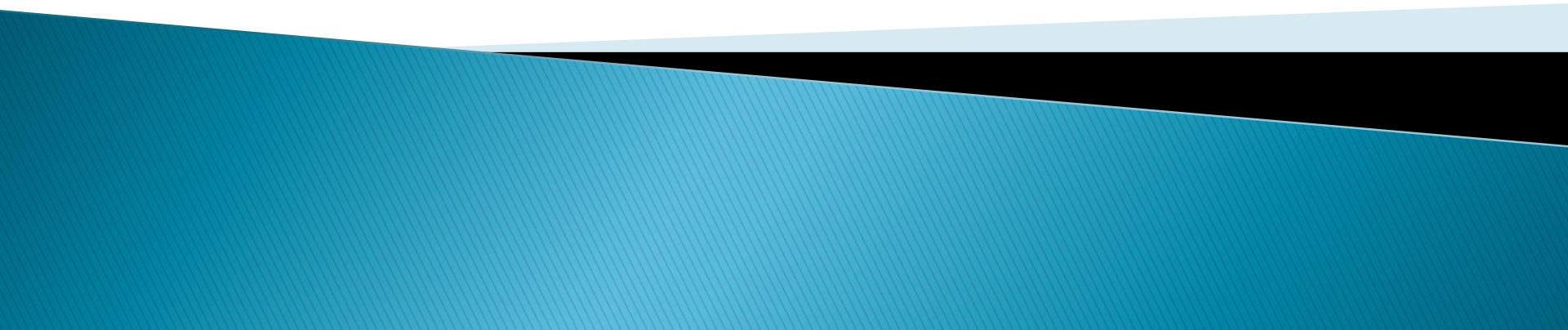


**SOS POLITICAL SCIENCE AND  
PUBLIC ADMINISTRATION  
MBA HRD 201  
SUBJECT NAME: FUNCTIONAL  
MANAGEMENT  
TOPIC NAME: MEANING OF COMPANY**



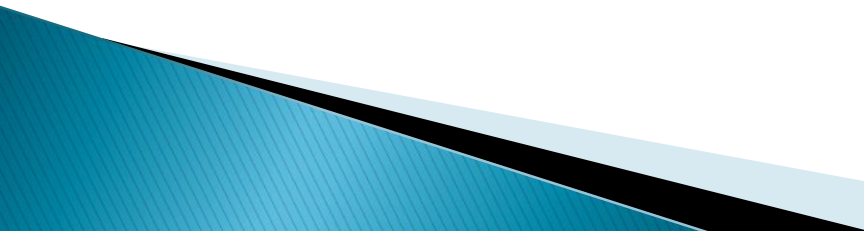
In noun:

- ▶ A commercial business.
- ▶ The fact or condition of being with another or others, especially in a way that provides friendship and enjoyment.

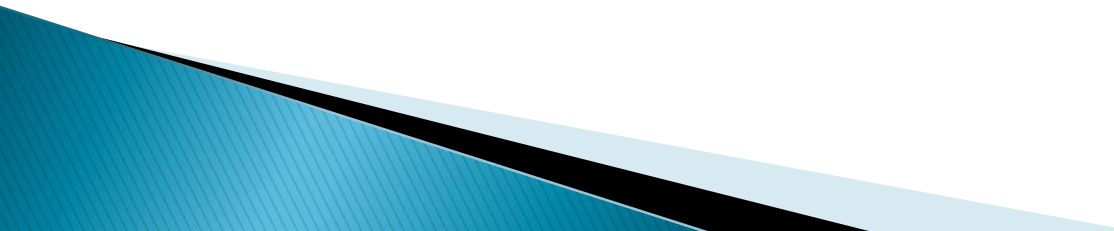
In Verb:

- ▶ Associate with; keep company with.
- 

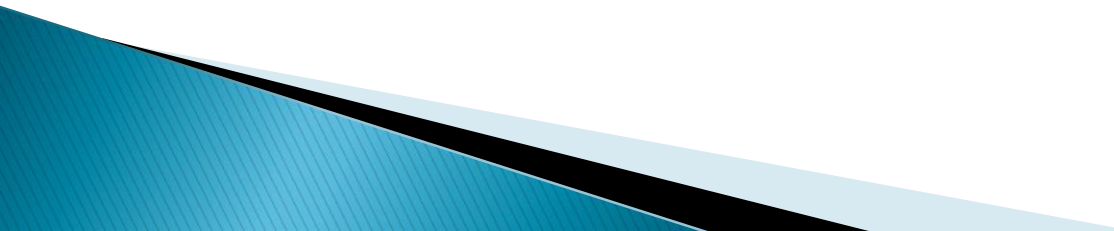
# MEANING OF COMPANY:

- ▶ A company is a legal entity formed by a group of individuals to engage in and operate a business—commercial or industrial—enterprise. A company may be organized in various ways for tax and financial liability purposes depending on the corporate law of its jurisdiction.
  - ▶ The line of business the company is in will generally determine which business structure it chooses such as a partnership, proprietorship, or corporation. These structures also denote the ownership structure of the company.
  - ▶ They can also be distinguished between private and public companies. Both have different ownership structures, regulations, and financial reporting requirements.
- 

# DEFINITION OF COMPANY:

- ▶ According to Prof. L.H. Haney, “Company is an artificial person created by law having separated entity with a perpetual succession and common seal”.
  - ▶ According to Justice Lindley a company means association of persons who contribute in shape of money or money’s worth to a common stock and employ it for some specific purpose.
- 

# CHARACTERISTICS OF A COMPANY:

- ▶ Separate Legal Entity
  - ▶ Limited Liability
  - ▶ Transferability of Shares
  - ▶ Ability to Acquire a Broad Capital Base
  - ▶ An Artificial Person created by Law
  - ▶ Continuous Existence
  - ▶ Common Seal
- 

## **Separate Legal Entity:**

- ▶ A company is a separate legal entity from its members who constitute it. It can hold, purchase and sell properties and enter into contracts in its own name. It is an artificial legal person who can sue and be sued. Companies are owned by shareholders and they elect the Board of Directors, who run the company. The board in turn selects the management. Thus the shareholders exercise only indirect control over the affairs of the company. The separation of ownership from the management some-times results in a conflict of interests between owners and management. The best the shareholders can do is to change some of the directors through vote in the annual general meeting subsequent to any such conflict.

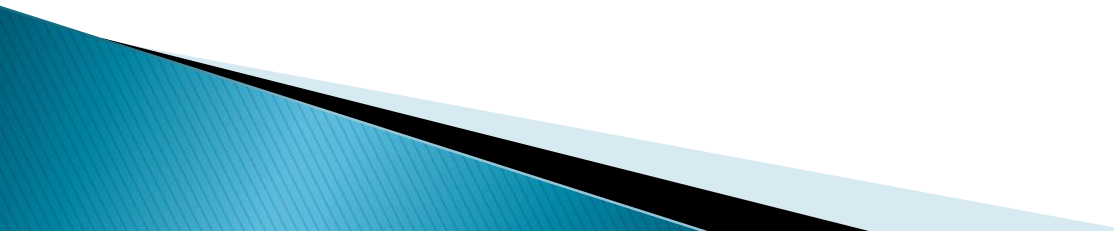
## **Limited Liability:**

- ▶ The liability of the shareholders of a company is limited to the nominal value of the shares held by them. In the event of liquidation the maximum loss of a shareholder is equal to the nominal value of the shares held by him. The creditors have no claim on the personal assets of the shareholders in the event of liquidation.

## **Transferability of Shares:**

- ▶ The shares of a joint stock company are freely transferable. It does not require any permission from the company or consent of other shareholders. The shares of listed companies can be sold or purchased on the stock exchange and ownership transferred without any difficulty. However, in case of a private limited company, the transfer of shares is subject to the restrictions given in the company's articles.

## **Ability to Acquire a Broad Capital Base:**

- ▶ Following are significant factors that enable a company to raise large amount of capital
  - ▶ The nominal value of shares is kept small, as a result of which investment of any size is possible.
  - ▶ Limited liability minimize the risk of the investors and makes investment attractive and safer.
- 

## **An Artificial Person created by Law:**

- ▶ A company is called an artificial person because it does not take birth like a natural person but it comes into existence through the law. The company possess only those properties which are conferred upon it by its Memorandum of Association (Charter).

## **Continuous Existence:**

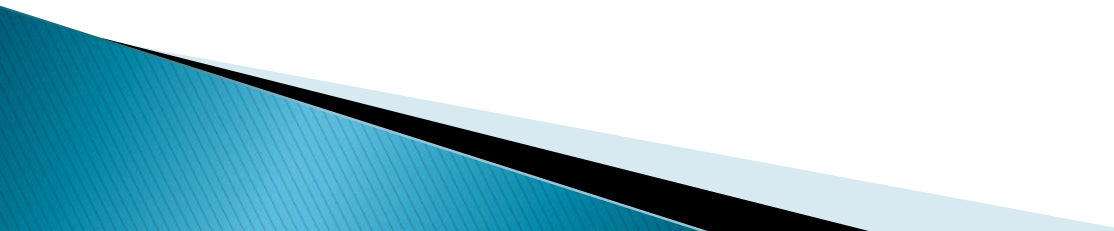
- ▶ The companies generally have a continuous existence irrespective of changes in ownership. In the cases of sole proprietorship and partnership, change in ownership means the dissolution of the original business and formation of a new business.

## **Common Seal:**

- ▶ Being an artificial person, a company can act through natural persons only. The acts of a company are authorized by the “common seal”. The “common seal” is the official signature of the company. A document not bearing the common seal is not binding on the company.



# HOW A COMPANY WORKS:

- ▶ A company is essentially an artificial person—also known as corporate personhood—in that it is an entity separate from the individuals who own, manage, and support its operations. Companies are generally organized to earn a profit from business activities, though some may be structured as nonprofit charities. Each country has its own hierarchy of company and corporate structures, though with many similarities.
  - ▶ A company has many of the same legal rights and responsibilities as a person does, like the ability to enter into contracts, the right to sue (or be sued), borrow money, pay taxes, own assets, and hire employees.
  - ▶ The benefits of starting a company include income diversification, a strong correlation between effort and reward, creative freedom and flexibility. The disadvantages of starting a company include increased financial responsibility, increased legal liability, long hours, responsibility for employees and administrative staff, regulations, and tax issues. Many of the world's largest personal fortunes have been amassed by people who have started their own company.
- 

# COMPANY VS. CORPORATION:

- ▶ In the U.S., a company is not necessarily a corporation, though all corporations can be classified as companies via a variety of structures. For example, U.S. corporate structures include sole proprietorships, general partnerships, limited partnerships, limited liability partnerships, limited liability corporations, S corporations, and C corporations.
  - ▶ A corporation is a type of business that is distinct from its owner. This means they require regular tax filings to be submitted separately from the personal taxes of their owners. Corporate ownership is determined by how much stock its shareholders hold. These shareholders may make decisions on how the company is managed, or they may choose a team of directors to do so.
- 