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NAAC ACCREDITED 'A' GRADE



Topic: Types of companies

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KINDS OF COMPANIES

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Just before closure of college, in several classes , dear students , I have elaborately discussed origin of companies Act, main highlights of companies Act,2013, meaning of company, meaning of body corporate, characteristics of company.

Now, let us discuss the types of companies. This discussion will show you, at a glance, **different types of companies from several perspectives**. So, we need to discuss these one by one.

The most common types of companies are:

- Statutory Companies.
- Chartered Companies.
- Registered or Incorporated Companies **(3 types)**
 - (i) Unlimited company [section 2(92)]
 - (ii) Company limited by shares [section 2(22)]
 - (iii) Company limited by Guarantee [section 2(21)] **[2 types]:**
 - (a) Company limited by Guarantee having share capital
 - (b) Company limited by Guarantee not having share capital

Company limited by shares may either be **public company or private company:**

- Public Company (or Public Limited Company)[section 2(71)]
- Private Company (or Private Limited Company)[section 2(68)]

- Government company[section 2(45)]
- Non-government company

On the **basis of control:**

- (i) Holding company[section 2(46)]

- (ii) Subsidiary company[section 2(87)]

Other companies:

- (i) Associate companies[section 2(6)]
- (ii) Foreign company[section 2(42)]
- (iii) One Person Company(OPC)[section 2(62)]
- (iv) Small company[section 2(85)]
- (v) Dormant company[section 455]

Statutory Companies

Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments. It is a corporate person and has the capacity of acting in its own name.

This is a body corporate created by the legislature with defined powers and functions and is financially independent with a clear control over a specified area or a particular type of commercial activity. It is a corporate person and has the capacity of acting in its own name. Statutory corporations therefore have the power of the government and the considerable amount of operating flexibility of private enterprises. A few are:

- Airports Authority of India
- Damodar Valley Corporation
- National Highways Authority of India
- Central Warehousing Corporation
- Inland Waterways Authority of India
- Food Corporation of India
- National Human Rights Commission

Features of Statutory Corporations:

It is a corporate body: It is an artificial person created by law and is a legal entity. Such corporations are managed by Board of Directors constituted by Government. A corporation has a right to enter into contracts and can undertake any kind of business under its own name.

Owned by state: State provides help to such corporations by subscribing the capital fully or wholly. It is fully owned by the state.

Answerable to legislature: A statutory corporation is answerable either to Parliament Legislature or State Assembly whosoever creates it. Parliament has no right to interfere in the working of statutory corporations. It can only discuss policy matters and overall performance of corporation.

Own staffing system: Employees are not government servants, even though government owns and manages a corporation. Employees of various corporations receive balanced or uniform pay and benefits by the government. They are recruited, remunerated and governed as per the rules laid down by the corporation.

Financial independence: A statutory corporation enjoys financial autonomy or independence. It is not subject to the budget, accounting and audit controls. After getting the prior permission from the government, it can even borrow money within and outside the country.

In a nut shell, the features are summarized below:

1. Generally financed by the central or state government.
2. May borrow funds from the public and government organization through statutory sources.
3. They have separate legal entity.
4. They have to frame their own policies and procedures within the scope of state legislature.
5. Provide better services to public and make adequate profit.
6. They are autonomous in their functioning, thus, they enjoy operational flexibility.
7. They can recruit and appoint their employees with their service condition, since they are a corporate body.
8. They have to follow the special statute strictly.
9. There is less government interference in matters of the corporation.
10. The members of the corporation have limited liability.

Merits of Statutory Corporations:

Initiative and flexibility: A statutory corporation manages and operates its affairs independently, without any government's interference, with its own initiative and flexibility.

Avoids red-tapism: Red-tapism and bureaucracy are such evils that hamper the working of organizations. Such evils are not found in statutory corporations. It can take quick decisions and prompt actions on any matter that affects its business.

Easy to raise capital: As such corporations are fully owned by government, they can easily raise required capital by floating bonds at low rate of interest. Since these bonds are safe, public also feels comfortable in subscribing such bonds.

Works with service motive: They work with the aim to render services and profit earning is not the first priority. The profits that such corporations earn are utilized for the benefit of consumers and community. Defects of exploitation, speculation and profiteering etc are avoided in case of statutory corporations.

Secures working efficiency: Such corporations provide better amenities and more attractive terms of service to its employees which help in reducing the labour problems. It, thus, helps in securing greater working efficiency.

Limitations of Statutory Corporations:

Less autonomy: In practice, autonomy of statutory corporations are in a closed and systematic way controlled by the government even in matters which allow them to enjoy freedom. FCI and Electricity Boards are statutory corporations important to government and public both. But central and state governments curtail their freedom which as per the Acts they are entitled to.

Inflexibility: A corporation is said to be inflexible and insensitive to changing situations because an amendment in the Act of legislature is required, if any change in objects and powers of corporation has to be made.

Clash amongst divergent interests: Government appoints the Board of Directors and their work is to manage and operate corporations. As there are many members, it is quite possible that their interests may clash. Because of this reason, the smooth functioning of corporation may be hampered.

Ignores commercial principles: Statutory corporations may ignore the commercial principles in their working because they do not work to earn profit and do not have any fear of loss. Without these principles, inefficiency and losses can take place in a corporation.

Excessive public accountability: Such corporations work with the motive to render services and not profit motive. This public accountability of corporation acts as a stumbling block in operational efficiency of the enterprise.

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