

The logo of Galgotias University, featuring a stylized circular emblem with four curved segments in shades of red, yellow, blue, and red, arranged in a spiral pattern.

HISTORY OF CORPORATIONS

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Topic covered

- Early History of Corporations
- Joint Stock Companies
- Introduction of Bubble Act
- Impact of Industrial Revolution on the Corporations
- Joint Stock Companies Act
- Limited Liability Concept

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Early History of Corporations -

- ✓ 'Company' in *14th century*.
- ✓ It was more or less a **business guild** - members had the right to participate in the trade.
- ✓ These guilds lacked - a generally accepted system of governance.
- ✓ **Policy aspect** - The government of England sought to make England a center of world trade and it started achieving this task by introducing regulations.

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An Overview on the Historical Development of English Law-Courts of the Common Law - Introduction & Exchequer -
<https://www.youtube.com/watch?v=KcOJf9w3-hQ>



Early History of Corporations -

- ✓ Royal Charter - Government started establishing business corporations by way of royal charter (or the act of Parliament).
- ✓ The royal charter had provided monopoly to trade over specified territory.
- ✓ East India Company was one of them.
- ✓ In other words, these newly incorporated companies (i.e. incorporated by royal charter) enjoyed an exclusive right to enter into trade agreements with a foreign territory.
- ✓ The profit of such company was distributed among the members.

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Joint Stock Companies-

- ✓ In 1653 - the joint stock company was introduced which contained a permanent fund to carry on business.
- ✓ Fixed capital - soon these companies were able to established fixed capital which were represented by the freely transferable shares.
- ✓ JSC soon became popular among the venturer and it led to a great expansion of the corporations.
- ✓ Procedural difficulties were still existing - a company was incorporated by the royal charter.
- ✓ Membership in the company increased without a proper framework of governance.

Bubble Act -

- ✓ The company was managed by few trustee only and they were not necessarily concerned about the safety of the investor's money.
- ✓ There was the separation between ownership and management.
- ✓ Many spurious companies were incorporated with the motive only to steal the public money.
- ✓ Flood of fraudulent companies.
- ✓ To prevent such a situation, in 1720 the Parliament had introduced the Bubble Act which declared the very business of such fake companies illegal.
- ✓ Inadequacies of the Act –
 - It provided nothing to regulate the company's administration in a lawful manner, i.e. the Act was frustratingly deficient to provide a system of governance in the company.

Industrial Revolution-

- ✓ In 1825 - Bubble Act repealed.
- ✓ The history of corporations saw a major change post 1820 when the industrial revolution had gathered its pace.
- ✓ Impact of the Industrial Revolution –
 - A spurt in the industrial activities
 - Increase in demand of the goods and commodity
 - Increased manufacturing activities
 - Requirement of the creation of more companies.

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Joint Stock Companies Act-

- ✓ In 1844 - by virtue of the initiatives taken by Gladstone, the then president of Board of Trade, the Parliament passed the Joint Stock Companies Act, 1844.
- ✓ Major developments -
- ✓ Registrar of Companies was established which facilitated the public participation in creation of business corporations.
- ✓ Establishment of a joint stock company by mere registration - it was not required to obtain Royal Charter or sanction by a special Act of Parliament.
- ✓ Filing of annual returns and particulars of Constitution of the companies.

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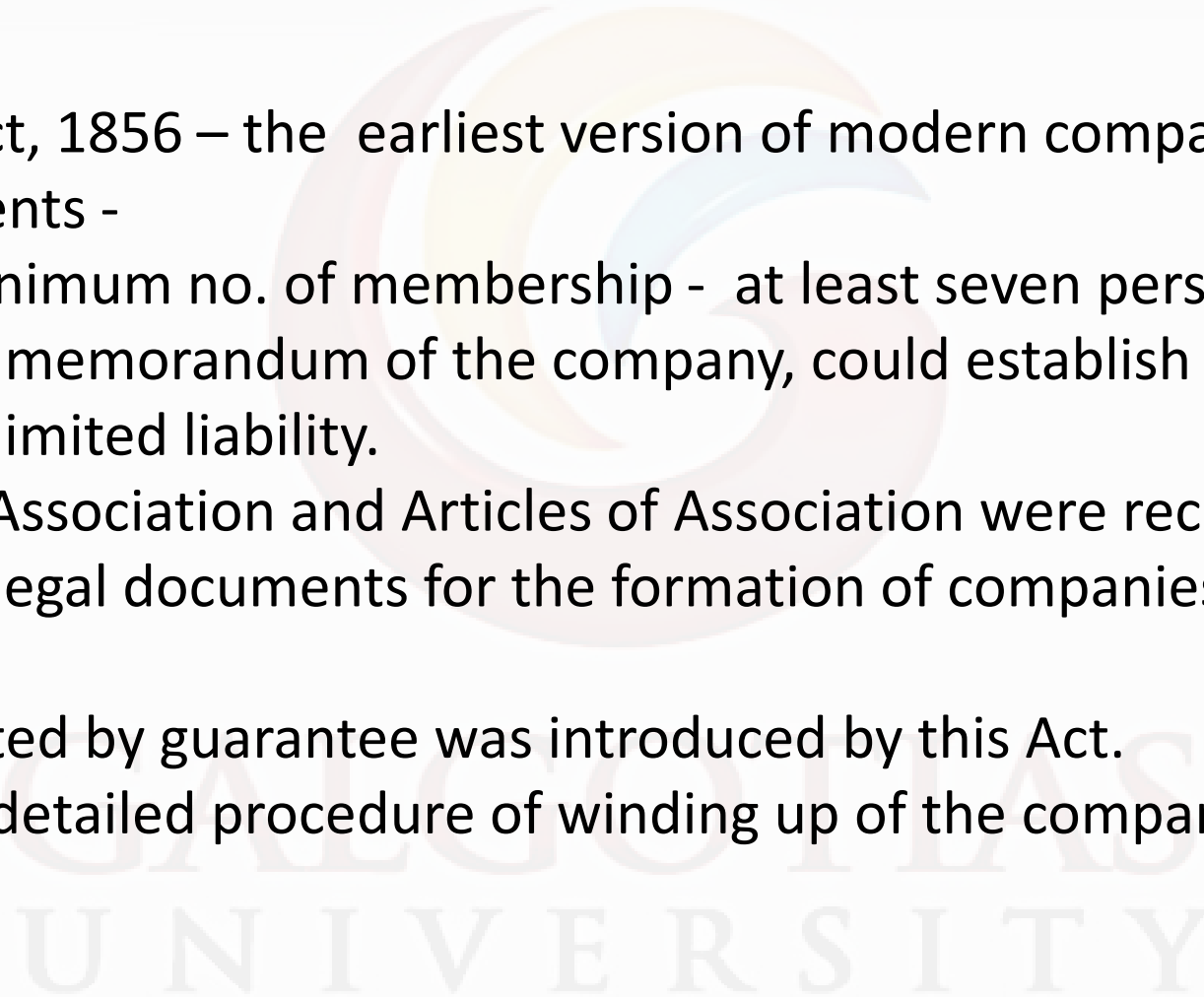
Limited Liability-

- ✓ Limited Liability Act, 1855.
- ✓ By this Act, the companies registered under Joint Stock Companies Act, 1844 were able to limit the members' liability regarding the company's debts and obligations.
- ✓ But very shortly, Joint Stock Companies Act, 1856 was introduced which had replaced the both of the Acts.

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Limited Liability-

- ✓ The Companies Act, 1856 – the earliest version of modern company Law.
- ✓ Major Developments -
- ✓ It provided the minimum no. of membership - at least seven persons, by subscribing to the memorandum of the company, could establish a company with limited or unlimited liability.
- ✓ Memorandum of Association and Articles of Association were recognized as two fundamental legal documents for the formation of companies. (vide 1862 amendment).
- ✓ The company limited by guarantee was introduced by this Act.
- ✓ It also provided a detailed procedure of winding up of the companies. [1862 amendment].



The End

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