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Joint-Stock Companies: Improvements in the Capital Formation Method

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ABSTRACT: This article discusses the advantages and analyses of sources and methods of capital formation for joint-stock companies, as well as the enhancement of development prospects. It highlights the existing issues regarding the development of these sources and methods in our country, along with the author's approaches and proposals to address them.

KEYWORDS: joint-stock companies, securities, shares, financial market, capital market, capital, retained earnings, reserve capital.

INTRODUCTION

Today, the sources of capital structure, along with their size and duration, hold significant importance in the organisation of joint-stock companies' activities. We believe that when examining the sources of capital structure within these companies, it is prudent to categorise them into two groups: the first group encompasses our own funds, while the second includes borrowed funds. The financial resources of joint-stock companies arise from their passive operations. Ideally, these resources should constitute 75-80 per cent of their total assets, with financial and credit institutions accounting for 10-15 per cent of this amount. It is evident that the formation of the capital structure of joint-stock companies predominantly focuses on their funds. Notably, pressing concerns include the effective deployment of funds, the timely and complete fulfilment of obligations to creditors, and the resolution of challenges related to the volume and valuation of funds, which are considered the primary elements of capital formation.

LITERATURE REVIEW

In the financial resources of joint-stock companies, authorised capital is initially established by the founders and serves as the principal share. Classical economic theorists have presented significant ideas regarding the formation and emergence of authorised capital.

A. Smith, in particular, highlights that capital represents a temporary surplus derived from its owner's personal consumption or material wealth. He categorises the owner's money stock into two groups. The first group consists of capital invested by the owner to generate income. The second group includes fixed and circulating capital, which are resources allocated towards profit generation, irrespective of their form of utilisation. [1]

The research conducted by mercantilists among economic theorists focuses on the concept of "value", which is synonymous with capital, forming the foundation of their theoretical framework. They assert that capital manifests in trade, becomes consolidated within the banking sector, and experiences accelerated circulation due to the interaction between banks, traders, and entrepreneurs, who store and facilitate the flow of capital.

In contemporary contexts, the involvement of commercial banks in the formation, effective utilisation, and allocation of financial resources for joint-stock companies is significantly important. Mercantilists further contend that trade serves as the cornerstone for wealth creation, with its tangible expression being money, specifically gold and silver. When examining this phenomenon through the lens of joint-stock companies, it becomes apparent that shareholders, as the owners of capital, anticipate receiving dividends. Meanwhile, employees' interests in management and organisational roles are reflected in the compensation they earn. Additionally, the state's role in this process is evident through the collection of income taxes from shareholders on dividends, from society on profits, and from employees on their wages. [2].

Physiocrats in economic literature propose that profits are not derived from money but from land, emphasising that capital serves as a secondary instrument. This perspective stands in opposition to the mercantilist view, which holds that profit arises from circulation (capital), asserting instead that capital is merely an auxiliary financial tool that organises the production process. Consequently, it is essential to analyse capital and its role in economic theory and practice in greater depth. They argue that “additional capital” is only created through peasant farming on land, with its monetary expression being “land rent.”. However, it is important to note that while the physiocrats do not regard capital as the primary instrument, they categorise it as “annual advance”, “annual expenses”, or “initial expenses”. Their classification of capital in this manner aligns with contemporary reporting, formulation, and study of it as "fixed capital" and "working capital." [3]

The authorised capital of joint-stock companies operating in our country is determined in accordance with Chapter 3, Article 16 of the Law of the Republic of Uzbekistan on "Joint-Stock Companies and Protection of Shareholders' Rights". This includes the procedure for its formation and sources. Additionally, Article 17 outlines the requirements for its minimum amount. [4].

The authorised capital of a company consists of the nominal value of the shares purchased by shareholders, expressed in the national currency of the Republic of Uzbekistan.

According to the law, joint-stock companies are required to issue ordinary shares when establishing their authorised capital, and they have the option to issue preferred shares as well. However, the nominal value of preferred shares must not exceed 20 per cent of the company's authorised capital. This limit is imposed because joint-stock companies are obligated to pay the specified dividend on preferred shares, regardless of whether they generate a profit by the end of the reporting period. The authorised capital, which constitutes a significant portion of the financial resources of joint-stock companies, plays a crucial role.

Additionally, undistributed profit is significant in the formation of joint-stock companies. This profit is defined as the amount remaining after the company has paid taxes and dividends from its net profit. While the formation of undistributed profits is largely similar in both domestic and international practice, the methods of utilising them differ markedly. To understand its distinction and nature, let us examine some economic definitions associated with it.

For instance, as stated by the English scientist Black James, retained earnings (or undistributed profits) refer to the portion of profits that are not allocated to paying taxes and dividends. Instead, these earnings are reinvested to enhance the company's assets and ensure its liquidity. [5].

Other foreign economists contend that retained earnings represent a form of profit that the company has received but has not distributed to shareholders as dividends. It is suggested that such profits are typically maintained as reserve capital. [6].

The text appears to convey its message clearly, but there are areas where clarity and coherence can be improved. The tone is formal and analytical, which is appropriate for the subject matter. Below is a revised version that maintains the original meaning while enhancing clarity:

It is evident that the question of the creation and use of undistributed profits within the society has been misinterpreted. In our view, framing the issue in this manner not only undermines the economic essence of undistributed profits but also introduces ambiguities regarding their purpose.

Considering the aforementioned points, we believe that the sources of capital structure for joint-stock companies in the formation of their funds are multifaceted. Furthermore, the broader application of effective methods in both the formation and utilisation of these funds will significantly impact the operations of joint-stock companies.

RESEARCH METHODOLOGY

The research employed various methodologies, including scientific abstraction, grouping, comparison, retrospective and prospective approaches, and empirical analysis. The article utilises the comparative method to examine the organisational and legal foundations of the sources and methods of capital formation for joint-stock companies, comparing international practices and those in developed countries with the existing frameworks in our country. It draws relevant conclusions based on this analysis.

ANALYSIS AND RESULTS

Since gaining independence, our country has been implementing extensive and targeted economic reforms aimed at shaping and enhancing the operations of joint-stock companies. The primary objective of these ongoing reforms is to establish a robust market infrastructure and to apply the principles of a free market. In this context, the roles of joint-stock companies and the advancement of the securities market are of significant importance. Numerous changes occurring within the framework of economic transformation are facilitated by attracting and efficiently managing both internal and external financial resources. As demonstrated by global experience, this process can only take place through the development of effective financial markets, with the securities market being central to this endeavour. A well-developed securities market, particularly in terms of corporate securities, contributes to increasing the country's investment volume and elevating economic growth to align with global standards.

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To begin, I would like to elucidate the concept of "corporate securities." As defined in "The Explanatory Dictionary of the Uzbek Language", the term "corporate" refers to something that is "belonging to a corporation or association or pertaining to the majority; common." [6]

Corporate securities encompass stocks and corporate bonds. Numerous economists, particularly E.F. Zhukov, have highlighted this perspective. These corporate securities (shares and bonds) are typically issued by corporations, companies, and enterprises, which are legal entities, predominantly in the form of joint-stock companies. [7]

For example, I.L. Butikov defines corporate securities as shares and bonds issued by an enterprise. These corporate securities, which include shares and bonds, are issued by corporations, companies, and enterprises (legal entities), particularly by joint-stock companies. According to the legislation of the Republic of Uzbekistan, only joint-stock companies are permitted to issue these securities. [8]

According to A.A. Misharev, shares represent the primary type of securities in the stock market. Joint-stock companies establish and enhance their authorised capital by issuing these shares. Essentially, shares serve as a certificate for the joint management of the private assets of a joint-stock company (JSC). [9]

According to E.F. Zhukov, "Shares are a certificate of participation in the share capital, granting the right to officially manage the enterprise and receive income." [10]

According to the Law of the Republic of Uzbekistan, "On the Securities Market," which was adopted in a new edition on June 3, 2015, a share is defined as an emissive security with an indefinite term. It confirms the right of its owner to receive a portion of the profit from a joint-stock company in the form of dividends, to participate in its management, and to claim a share of the property remaining after the company's liquidation. [11] Shares are issued for circulation without accompanying documents. Currently, the legislation in our republic permits only shares that are registered in the "owner's name" format.

In light of these factors, stocks can be categorised as follows (see Table 1).

Table 1 Classification of Shares by Characteristics and Types[1]

№	Characteristics	Types
1.	Regarding profitability and voting rights	simple
		preferential
2.	Based on the form of ownership	name written
		to the presenter
3.	According to the type of issuance,	documentary
		electron
4.	In terms of placement	openable
		indoor placement
5.	Based on the duration of circulation	indefinitely
		term (in certain Western countries)

Table 1 above presents the classification of shares based on their main characteristics and types, and this classification can be expanded further. However, as these represent the most fundamental and commonly recognised characteristics and types of shares, we deem this classification to be appropriate.

“The influx of foreign investments into joint-stock companies in Uzbekistan is a positive development. This is because foreign investments bring with them foreign managers, as well as new innovative technologies and ideas that benefit these companies. In our view, making such a situation mandatory and imposing restrictions on the activities of joint-stock companies does not align with market principles.” [12] This element deters the formation of new joint-stock companies; consequently, this requirement was removed from the legislation in 2018. The implementation of these requirements has resulted in a decline in the number of joint-stock companies. Consequently, the following trend has been observed recently (Figure 1). At the end of 2006, the total number of joint-stock companies was 2,189, with 1,815 of them operating as open -stock companies. [13]

As of 2022, there were 628 joint-stock companies in our republic. The distinction between open and closed joint-stock companies was abolished by the Law of the Republic of Uzbekistan, "On Joint-Stock Companies and Protection of Shareholders' Rights," which was adopted in a revised edition in 2014 [14].

[1] Compiled by the author using research

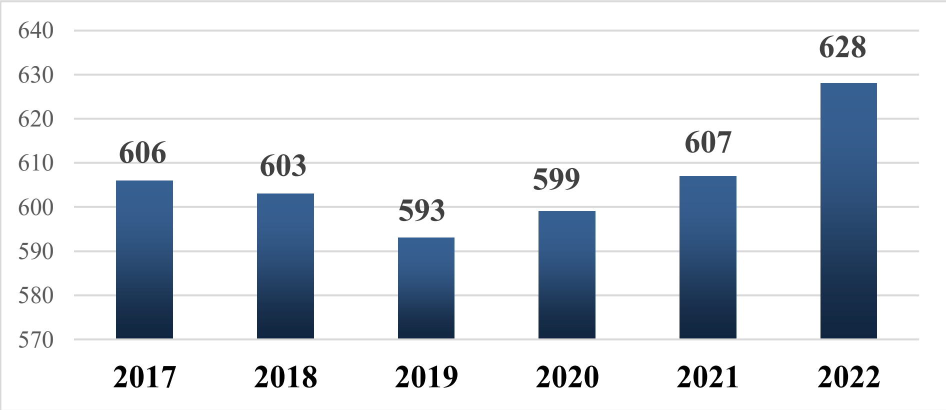

Figure 1. Trends in the number of joint-stock companies in our country.[2]

The analysis of changes in the numerical structure of joint-stock companies reveals a trend of growth between 2020 and 2022, albeit at a low level. This growth in 2022 is directly linked to the introduction of a regulation mandating insurers to adopt a joint-stock company as their organisational and legal form. Consequently, over 30 insurance companies have transitioned from a limited liability company to a joint-stock company. This shift suggests that we can anticipate increased activity from insurance companies in the securities market in the near future.

CONCLUSION

The low investment attractiveness of joint-stock companies, coupled with somewhat complex requirements for stock exchange listings, has resulted in a relatively weak secondary securities market. Thus, generating passive income through regular dividend payments could act as a catalyst for the future development of this market.

Joint-stock companies with a significant state share of their authorised capital tend to exhibit a low level of activity in the securities market, largely due to their limited financial management independence. Consequently, they are not fully capitalising on opportunities to attract affordable capital through share issuance. Moreover, the involvement of the state through closed placements further constrains their capacity for independent financial decision-making.

By forming their financial resources from stable, relatively inexpensive, and long-term sources, joint-stock companies gain the opportunity to compete freely and enhance their solvency.

However, joint-stock companies lack access to certain financial instruments that could help raise additional capital. It is our view that several large state-owned joint-stock companies operating in our country could generate extra capital by issuing infrastructure bonds at a rate no lower than the Central Bank refinancing rate.

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