

Article

The Essence and Theoretical Foundations of the Concept of Joint-Stock Companies

Jumaniyazova Feruza Rajabovna

1. Independent Researcher at Tashkent State University of Economics, PhD, Associate Professor

* Correspondence: feruza042820@gmail.com

Abstract: The article examines the economic essence of the joint-stock company and the theoretical foundations on which the concept rests. The joint-stock form is treated not as one legal form among several, but as an institutional answer to a definite economic problem: the mobilisation of capital in a volume and for a term that exceed the capacity and the planning horizon of any individual owner. On the basis of the historical genesis of the form, six constitutive features are identified — the division of capital into shares, limited liability, separate legal personality, perpetual succession, transferability of shares and delegated management — and for each of them the legal content is distinguished from the economic function it performs. Seven theoretical approaches to the nature of the corporation are then compared: the transaction-cost, managerial, contractual, agency, property-rights, legal-entity and stakeholder approaches. The comparison shows that these approaches are complementary rather than mutually exclusive, and that a complete definition of the joint-stock company requires elements of each. A structural and functional model of the company is proposed, representing the movement of capital from its providers through the governance bodies to the assets and back in the form of return, and the joint-stock company is compared with the partnership and the limited liability company across eight criteria. The article concludes that the separation of ownership from management is simultaneously the source of the form's capacity to mobilise capital and of its central contradiction, so that corporate governance and disclosure are conditions of the viability of the form rather than external requirements imposed upon it.

Citation Rajabovna, J. F. The Essence and Theoretical Foundations of the Concept of Joint-Stock Companies. American Journal of Economics and Business Management 2026, 9(5), 1014-1023.

Received: 25th Mar 2026

Revised: 30th Apr 2026

Accepted: 20th May 2026

Published: 31st May 2026



Copyright: © 2026 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license

(<https://creativecommons.org/licenses/by/4.0/>)

Keywords: joint-stock company, corporation, share, charter capital, limited liability, separate legal personality, asset partitioning, separation of ownership and control, agency problem, corporate governance, transaction costs, property rights, capital mobilisation, securities market.

1. Introduction

Among the institutions created by economic practice over the last four centuries, few have had consequences comparable to those of the joint-stock company. Railways, large-scale metallurgy, the chemical industry, electric power generation, and later telecommunications and information technology, all required amounts of capital that no individual fortune could supply and pay-back horizons that no individual life could span. The joint-stock form provided the answer to both constraints at once, and for that reason the history of large-scale industry is largely inseparable from the history of the corporation.[1]

The economic literature nevertheless offers no single, generally accepted definition of what a joint-stock company essentially is. It has been described as a nexus of contracts,

as a mechanism for economising on transaction costs, as a structure in which ownership is separated from control, as an allocation of residual rights over assets, as a device of organisational law that partitions assets, and as an entity accountable to a wide circle of stakeholders. Each of these characterisations captures something real; none of them exhausts the phenomenon. The clarification of the essence of the form is therefore not a purely terminological exercise: the way the joint-stock company is conceptualised determines how its efficiency is measured, how the interests of its participants are balanced, and what is expected of corporate governance and of disclosure.[2]

The question has a particular significance for the economy of Uzbekistan. Here the joint-stock form did not emerge gradually from the practice of raising capital from the public; it was introduced administratively during the privatisation of state enterprises. As a consequence, a considerable number of companies possess the legal status of a joint-stock company without making use of the economic mechanism that the form was created to provide: they do not place shares publicly, their free float is small, and their investment programmes are financed from retained earnings and bank credit. Understanding what the joint-stock form is for is thus a precondition for any discussion of how its potential can be realised.

The aim of the article is to substantiate the economic essence of the joint-stock company and to systematise the theoretical approaches that explain its nature. The following tasks follow from this aim: (a) to trace the genesis of the joint-stock form and to establish which economic problems each stage of its development solved; (b) to identify the constitutive features of the form and to separate their legal content from their economic function; (c) to compare the principal theoretical approaches to the nature of the corporation and to determine what each explains and what it leaves unexplained; (d) to construct a structural and functional model of the joint-stock company; and (e) to define the place of the joint-stock company among other organisational and legal forms of enterprise.

The object of the study is the joint-stock company as an economic and legal institution; the subject is the set of theoretical relations that constitute its essence. The scientific contribution of the article consists in the systematisation of the theoretical approaches into a single comparative framework and in the demonstration of their complementarity, as well as in the formulation of the constitutive features of the form through the distinction between their legal content and their economic function.[3]

2. Material and Methods

The study is theoretical in character and applies methods appropriate to the analysis of an institution rather than of a data set. The historical and logical method is used to trace the genesis of the joint-stock form and to establish the correspondence between the successive stages of its development and the economic problems that each of them solved; this method makes it possible to distinguish features that belong to the essence of the form from those that are the product of particular historical circumstances.[4]

The method of scientific abstraction is applied in order to isolate the constitutive features of the joint-stock company — those without which the form would cease to perform its function — from the numerous secondary characteristics established by the legislation of individual states. Systemic analysis is used to represent the company as a set of interrelated elements: the providers of capital, the governance bodies, the control bodies, the assets, and the flows connecting them. Comparative analysis serves two purposes: the comparison of theoretical approaches to the nature of the corporation, and the comparison of the joint-stock company with other organisational and legal forms.

The theoretical basis of the study comprises the classical and contemporary works on the theory of the firm, the theory of agency relations, the theory of property rights and the theory of corporate governance, listed in the references. The normative basis is formed by the legislation of the Republic of Uzbekistan on joint-stock companies and by the internationally recognised principles of corporate governance. The results are presented in the form of two figures and three analytical tables compiled by the author.[5]

3. Results and Discussion

The joint-stock company did not appear at once as a finished construction. Its constitutive features accumulated gradually, each of them resolving a limitation that the preceding stage had left unresolved. The medieval associations of merchants already knew the pooling of contributions and the distribution of profit in proportion to them, but the association was created for a single voyage or venture and was dissolved on its completion; the capital was therefore temporary, and no undertaking with a long horizon could be financed by such means.[6]

The decisive step was taken at the beginning of the seventeenth century, when the Dutch East India Company was constituted with capital that was not returned to the participants at the end of each voyage but remained permanently with the company, while the participants received instead the right to sell their share to a third party [16]. This substitution of exit through the market for exit through withdrawal of capital is the essential invention on which everything that followed depends: it reconciled two requirements that had previously been incompatible — the liquidity of the investor and the permanence of the capital of the enterprise.[7]

The subsequent development addressed the consequences of that invention. The speculative crisis of 1720 and the restrictive legislation that followed it demonstrated that a market in shares requires legal discipline and reliable information, without which the transferability of shares turns from a mechanism of capital allocation into a mechanism of speculation. The English statutes of the middle of the nineteenth century made incorporation generally available and established limited liability as a normal attribute rather than an individual privilege granted by a charter, thereby completing the legal construction of the form and opening it to the mass investor [8].

In the twentieth century attention shifted from the construction of the form to its internal consequences. Berle and Means showed that the dispersion of shareholding among a large number of holders transfers actual control from the owners to the managers, and that the corporation of the industrial era is therefore governed by persons who bear only a small part of the financial consequences of their decisions. This observation, anticipated in general terms by Adam Smith in his discussion of the management of other people's money [9], became the point of departure for the whole subsequent theory of agency relations and of corporate governance. The final stage, from the 1990s onwards, is associated with the mass appearance of joint-stock companies in transition economies and with the parallel development of international standards of corporate governance and disclosure [10]. The sequence is presented in Figure 1.

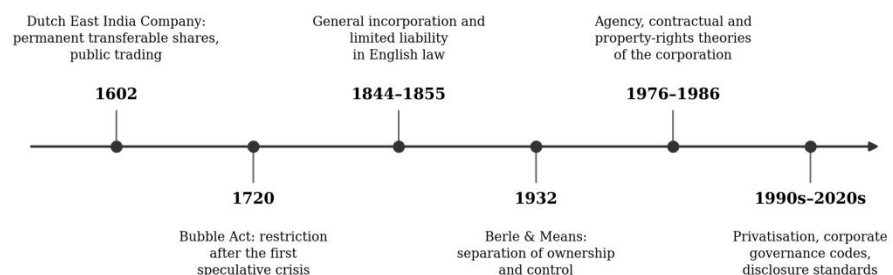


Figure 1. Stages in the development of the joint-stock form and the problems solved at each of them

The historical sequence set out above allows the essence of the form to be stated in a single proposition: the joint-stock company is an institutional mechanism that converts dispersed, short-term and risk-averse individual savings into concentrated, long-term and risk-bearing productive capital. All the features of the form are subordinated to this conversion, and it is by their contribution to it that they should be interpreted.

Six features are constitutive, in the sense that the removal of any one of them would prevent the conversion from taking place. Their legal content and their economic function are distinguished in Table 1.

Table 1. Constitutive features of the joint-stock company: legal content and economic function

Constitutive feature	Legal content	Economic function
Division of capital into shares	The charter capital is divided into a definite number of shares of equal nominal value	Makes the contribution divisible and standardised, so that capital can be collected from many small holders
Limited liability	The shareholder bears the risk of loss only to the extent of the value of the shares held	Caps the downside of the investor, which lowers the required risk premium and widens the investor base
Separate legal personality	The company owns its assets in its own name and is liable for its own obligations	Partitions the assets of the company from those of its owners and protects them from the owners' personal creditors
Perpetual succession	The existence of the company does not depend on the composition of its shareholders	Permits investment with a horizon longer than the life or the intentions of any individual owner
Transferability of shares	A share may be alienated without the consent of the other shareholders	Provides liquidity to the investor while leaving the capital of the company untouched
Delegated management	Current decisions are taken by bodies elected and controlled by the shareholders	Allows the specialisation of management, but creates the agency problem that governance must contain

Two observations follow from the table. First, the features operate as a system and not as a list: limited liability without transferability would leave the investor locked in; transferability without separate legal personality would expose the assets of the enterprise to the personal creditors of its owners; perpetual succession without delegated management would be unattainable, since the composition of the shareholders changes continuously while the enterprise must be managed continuously. It is their combination, not any of them taken singly, that constitutes the form.[11]

Second, the features are not costless. Limited liability transfers part of the risk from the shareholders to the creditors; asset partitioning restricts the recourse of the owners' personal creditors; delegated management creates the possibility that decisions will be taken in the interest of the decision-maker rather than of the residual claimant. The legal order accepts these costs in exchange for the mobilisation of capital, and it balances them by imposing on the company an obligation of disclosure and a mandatory structure of

governance bodies. Disclosure is therefore not an administrative addition to the joint-stock form but a constitutive element of it.

The economic theory of the corporation developed as a succession of answers to different questions, which explains why the resulting characterisations diverge. Coase asked why firms exist at all if the market allocates resources efficiently, and answered that the use of the price mechanism itself involves costs which internal coordination may economise; Williamson developed this into a theory of governance structures selected according to the specificity of the assets involved. Berle and Means asked who actually controls the large corporation, and established the separation of ownership from control. Alchian and Demsetz and Jensen and Meckling asked what holds the firm together in the absence of authority in the strict sense, and characterised it as a nexus of contracts among the suppliers of resources. Fama and Jensen asked why the separation of the residual claim from the decision function survives in large organisations, and answered that it is sustained by the separation of decision management from decision control. Grossman and Hart and Hart asked what ownership means when contracts are necessarily incomplete, and defined it as the possession of residual rights of control. Hansmann and Kraakman asked what organisational law provides that private contracting cannot reproduce, and answered that its essential contribution is asset partitioning. Freeman [12] asked to whom the corporation is accountable, and extended the circle beyond the shareholders.

The comparison of these approaches is presented in Table 2.

Table 2. Theoretical approaches to the nature of the joint-stock company

Approach	Key representatives	Interpretation of the joint-stock company	Principal limitation
Transaction-cost approach	Coase Williamson	A mechanism that replaces market exchange where the cost of using the price system is higher than the cost of internal coordination	Explains the boundaries of the firm better than the internal distribution of rights within it
Managerial (ownership–control) approach	Berle and Means	A structure in which dispersed ownership is separated from concentrated control exercised by managers	Assumes dispersed ownership, which is not typical of transition economies
Contractual approach	Alchian and Demsetz; Jensen and Meckling	A nexus of contracts between the suppliers of capital, labour and other resources rather than a unitary actor	Understates the role of formal legal status and of mandatory rules
Agency approach	Jensen and Meckling	A relationship of delegation in which the residual claim is separated	Concentrates on conflicts and pays less attention to the productive

		from the decision function	function of the form
Property-rights approach	Grossman and Hart	An allocation of residual rights of control over assets under incomplete contracts	Highly abstract; difficult to operationalise empirically
Legal-entity (asset- partitioning) approach	Hansmann and Kraakman	A device of organisational law that partitions assets between the company and its owners in both directions	Explains the legal function rather than the economic behaviour of the company
Stakeholder approach	Freeman	A structure accountable not only to shareholders but to all groups affected by its activity	Multiplicity of objectives complicates the measurement of performance

The approaches are complementary rather than competing, because they answer different questions and operate at different levels of analysis. The transaction-cost and property-rights approaches explain the existence and the boundaries of the firm; the managerial and agency approaches explain the distribution of power within it; the legal-entity approach explains the specific contribution of law; the contractual approach explains the mechanism of coordination; the stakeholder approach defines the circle of interests to be taken into account. A definition of the joint-stock company that relied on any one of them alone would be incomplete.

It should be added that the financial theory of the firm, originating with Modigliani and Miller addresses a further dimension: the conditions under which the method of financing affects the value of the company. Read together with the agency literature and with the comparative research on the legal protection of investors [13], it shows that the capacity of the joint-stock form to attract external capital depends not only on the form itself but on the institutional environment in which it operates — above all on the protection of minority shareholders and on the quality of information available to them.

The systemic representation of the joint-stock company must show both the hierarchy of its bodies and the movement of capital through it, since it is precisely the combination of the two that distinguishes the form. Figure 2 presents such a model.

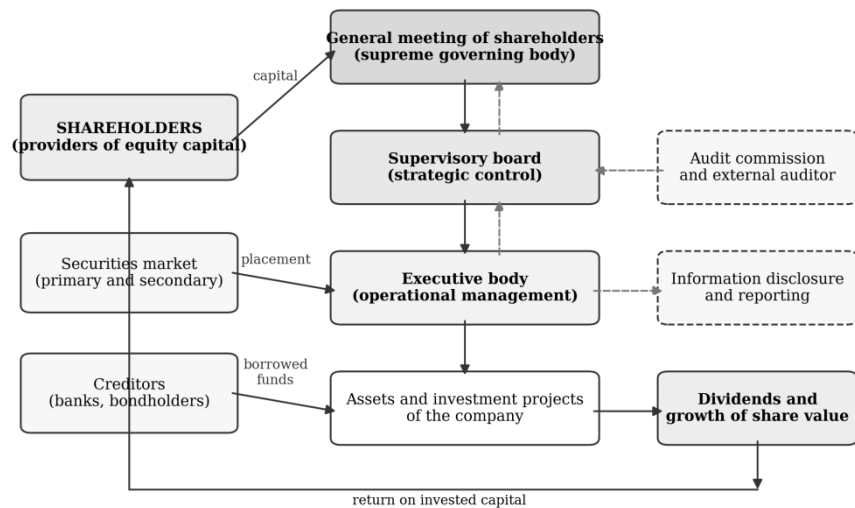


Figure 2. Structural and functional model of the joint-stock company

The model reproduces three distinct circuits. The first is the circuit of capital: the shareholders transfer resources to the company in exchange for shares; the resources are converted into assets and investment projects; the projects generate cash flows which return to the shareholders in the form of dividends and of an increase in the value of the shares. The second is the circuit of authority: the general meeting of shareholders, as the supreme body, elects the supervisory board, which determines strategy and controls the executive body, which in turn manages current operations; authority descends while accountability ascends. The third is the circuit of information and control: the audit commission and the external auditor verify the reliability of the reporting, and the disclosure of information returns to the market and to the shareholders the knowledge on which their decisions depend.

The model makes visible the point at which the principal contradiction of the form is located. The circuit of capital and the circuit of authority do not coincide: the person who bears the residual risk is not the person who takes the decisions that generate it. This divergence is not a defect of a particular company but a structural property of the joint-stock form, and it cannot be eliminated without destroying the advantage that the form provides. It can only be contained — by the composition and independence of the supervisory board, by the procedures for approving investment decisions and related-party transactions, by the disclosure of information, and by the linking of management remuneration to the results actually achieved. This is precisely the subject matter of corporate governance, which is therefore to be understood as a condition of the viability of the joint-stock form rather than as an external requirement addressed to it.

The distinctive properties of the joint-stock company appear most clearly in comparison with the forms that preceded it and that continue to exist alongside it. Table 3 presents this comparison across eight criteria.[14]

Table 3. Comparative characteristics of the principal organisational and legal forms of enterprise

Criterion	Partnership	Limited liability company	Joint-stock company
Liability of participants	Unlimited for general partners	Limited to the contribution	Limited to the value of the shares
Form of the contribution	Share in the common property	Share in the charter capital	Share as a security
Transfer of the interest	Requires the consent of the partners	Normally subject to a pre-emption right	Free, through the securities market

Number of participants	Small, personal in character	Usually limited by law	Not limited
Access to the capital market	Absent	Limited (bonds only)	Full: shares and bonds
Governance structure	Direct management by the partners	Meeting of participants and a director	Three-tier: meeting, supervisory board, executive body
Disclosure requirements	Minimal	Moderate	Extensive and mandatory
Suitable scale of capital	Small	Small and medium	Large and capital-intensive

The comparison shows that the advantages of the joint-stock form are inseparable from its costs. Access to the capital market is obtained at the price of a three-tier governance structure, of mandatory disclosure and of the agency problem; free transferability of shares is obtained at the price of the possible loss of control by the founders. For an enterprise of modest scale these costs exceed the benefit, and the limited liability company remains the rational choice. The joint-stock form becomes efficient at the scale at which access to external capital becomes the binding constraint on development — which is why it historically established itself first in railway construction, metallurgy and banking, and why today it predominates in the capital-intensive branches of industry.[15]

This conclusion has a direct bearing on the practice of transition economies. Where the joint-stock form is conferred administratively upon enterprises that do not use the capital market, the costs of the form are incurred while its benefits are not obtained. The corrective is not the abandonment of the form but the actual use of the mechanism it provides: public placement of securities, an adequate free float, genuine functioning of the governance bodies, and disclosure that enables investors to assess the company.[16]

4. Conclusion

Joint-stock companies represent one of the most important and institutionally developed forms of business organization in the modern market economy. The theoretical analysis conducted in this study demonstrates that the emergence and development of joint-stock companies are closely connected with the need to accumulate substantial amounts of capital, distribute entrepreneurial risks, separate ownership from management, and establish effective mechanisms for coordinating the interests of different economic participants. Unlike individual or partnership-based forms of business, the joint-stock company provides an organizational and legal framework that allows capital to be concentrated from a large number of investors while simultaneously limiting the financial liability of shareholders to the amount of their investment. This characteristic has made the joint-stock company a fundamental institution for the development of large-scale production, infrastructure, financial markets, and investment activity. The theoretical foundations of joint-stock companies can be explained through several complementary approaches. First, the theory of the firm developed by R. Coase emphasizes the economic rationale for the existence of organized firms as mechanisms for reducing transaction costs. From this perspective, the joint-stock company can be regarded as an institutional structure that enables economic transactions to be coordinated more efficiently than through individual market contracts. The expansion of a company, however, creates new organizational costs, including monitoring,

coordination, information exchange, and managerial control. Therefore, the effectiveness of a joint-stock company depends not only on its ability to attract capital but also on its capacity to maintain an appropriate balance between the benefits of organizational expansion and the costs associated with internal governance. Second, agency theory provides an important explanation of the relationship between shareholders, managers, directors, and other stakeholders. The separation of ownership and control, which is characteristic of joint-stock companies, creates the possibility of conflicts between the interests of owners and professional managers. Jensen and Meckling's theoretical framework demonstrates that agency costs arise because managers may have objectives that do not completely coincide with the interests of shareholders. Consequently, an effective corporate governance system becomes essential. Boards of directors, independent oversight, internal controls, external auditing, disclosure requirements, shareholder meetings, and incentive mechanisms can all contribute to reducing agency problems and improving managerial accountability. Third, information asymmetry theory demonstrates that the quality, availability, and distribution of information have a direct influence on the functioning of joint-stock companies and financial markets. Investors generally possess less information about the internal condition, risks, investment projects, and future prospects of a company than its managers. This creates the possibility of adverse selection and moral hazard. Transparent financial reporting, timely disclosure of material information, independent auditing, corporate reporting standards, and effective investor-relations mechanisms are therefore fundamental components of a modern joint-stock company. The development of digital technologies further increases the importance of information transparency because investors can rapidly compare companies and make investment decisions based on publicly available information. The analysis also confirms the importance of property-rights and contractual approaches to understanding joint-stock companies. Ownership in a joint-stock company is divided into shares, which represent legally recognized claims on the company's assets and income. This structure makes ownership transferable and creates opportunities for investors to enter or exit the company without necessarily disrupting its operational activities. The separation between the legal personality of the company and the individual personalities of shareholders also contributes to organizational continuity. Thus, a joint-stock company can continue its activities even when individual shareholders change, which distinguishes it from many traditional forms of business organization. From the perspective of corporate finance, joint-stock companies provide broad opportunities for mobilizing financial resources. The issuance and circulation of shares allow companies to obtain equity capital without creating a fixed obligation to repay principal in the same manner as debt financing. At the same time, the ability to issue shares creates certain requirements concerning shareholder rights, dividend policy, capital structure, and corporate disclosure.

REFERENCES

- [1] R. H. Coase, "The nature of the firm," *Economica*, vol. 4, no. 16, pp. 386–405, 1937.
- [2] A. A. Berle and G. C. Means, *The Modern Corporation and Private Property*. New York, NY, USA: Macmillan, 1932.
- [3] A. A. Alchian and H. Demsetz, "Production, information costs, and economic organization," *The American Economic Review*, vol. 62, no. 5, pp. 777–795, 1972.
- [4] M. C. Jensen and W. H. Meckling, "Theory of the firm: Managerial behavior, agency costs and ownership structure," *Journal of Financial Economics*, vol. 3, no. 4, pp. 305–360, 1976.
- [5] E. F. Fama and M. C. Jensen, "Separation of ownership and control," *The Journal of Law and Economics*, vol. 26, no. 2, pp. 301–325, 1983.
- [6] S. J. Grossman and O. D. Hart, "The costs and benefits of ownership: A theory of vertical and lateral integration," *Journal of Political Economy*, vol. 94, no. 4, pp. 691–719, 1986.
- [7] O. Hart, *Firms, Contracts, and Financial Structure*. Oxford, U.K.: Clarendon Press, 1995.

-
- [8] O. E. Williamson, *The Economic Institutions of Capitalism*. New York, NY, USA: The Free Press, 1985.
 - [9] H. Hansmann and R. Kraakman, "The essential role of organizational law," *The Yale Law Journal*, vol. 110, no. 3, pp. 387–440, 2000.
 - [10] F. Modigliani and M. H. Miller, "The cost of capital, corporation finance and the theory of investment," *The American Economic Review*, vol. 48, no. 3, pp. 261–297, 1958.
 - [11] A. Shleifer and R. W. Vishny, "A survey of corporate governance," *The Journal of Finance*, vol. 52, no. 2, pp. 737–783, 1997.
 - [12] R. La Porta, F. Lopez-de-Silanes, A. Shleifer, and R. W. Vishny, "Law and finance," *Journal of Political Economy*, vol. 106, no. 6, pp. 1113–1155, 1998.
 - [13] R. E. Freeman, *Strategic Management: A Stakeholder Approach*. Boston, MA, USA: Pitman, 1984.
 - [14] A. Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. London, U.K.: W. Strahan and T. Cadell, 1776.
 - [15] J. Micklethwait and A. Wooldridge, *The Company: A Short History of a Revolutionary Idea*. New York, NY, USA: Modern Library, 2003.
 - [16] O. Gelderblom, A. de Jong, and J. Jonker, "The formative years of the modern corporation: The Dutch East India Company VOC, 1602–1623," *The Journal of Economic History*, vol. 73, no. 4, pp. 1050–1076, 2013.