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STRATEGIES OF INCREASING AUTHORIZED CAPITAL IN JOINT-STOCK COMPANIES AND MARKET CAPITALIZATION IN FOREIGN COMPANIES

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Abstract

This paper presents a theoretical-empirical study comprising a comparative analysis of the influence of specific strategies for increasing authorised capital on the economic efficiency of companies on capital markets. The paper consists of the evaluation of possible relations between the efficiency of a company's activities and the process of authorised capital increase. As well as presents the results of the study on their efficiency in the context of methods applied in order to increase share capital. Additionally, the article illustrates the various procedures (strategies) for increasing authorised capital in corporate governance system. Also, market capital is analyzed in other countries.

Key words: Strategy, Corporate governance, Capital reflect, Authorised capital, financial liquidity, Market capital.

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Annotatsiya

Ushbu maqolada vakolatli kapitalni ko'paytirish bo'yicha aniq strategiyalarning kapital bozorlaridagi kompaniyalarning iqtisodiy samaradorligiga ta'sirini qiyosiy tahlilini o'z ichiga olgan nazariy-empirik tadqiqotlar keltirilgan. Qog'oz kompaniya faoliyati samaradorligi va vakolatli kapitalni ko'paytirish jarayoni o'rtasidagi mumkin bo'lgan munosabatlarni baholashdan iborat. Shuningdek, ustav kapitalini oshirish maqsadida qo'llaniladigan usullar kontekstida ularning samaradorligi bo'yicha tadqiqot natijalarini taqdim etadi. Bundan tashqari, maqolada korporativ boshqaruv tizimida vakolatli kapitalni ko'paytirish bo'yicha turli xil protseduralar (strategiyalar) ko'rsatilgan. Hamda, bozor kapitalini boshqa davlatlardagi analizi korsatib o'tilgan.

Kalit so'zlar: strategiya, korporativ boshqaruv, kapitalni aks ettirish, vakolatli kapital, moliyaviy likvidlik, bozor kapitali

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Абстракт

В данной статье представлено теоретико-эмпирическое исследование, включающее сравнительный анализ влияния конкретных стратегий увеличения уставного капитала на экономическую эффективность компаний на рынках капитала. Статья представляет собой оценку возможных взаимосвязей между эффективностью деятельности компании и процессом увеличения уставного капитала. А также представлены результаты исследования их эффективности в контексте методов, применяемых с целью увеличения уставного капитала. Дополнительно в статье иллюстрируются различные процедуры (стратегии) увеличения уставного капитала в системе корпоративного управления. Также анализируется рыночный капитал в других странах.

Ключевые слова: Стратегия, Корпоративное управление, Управление капиталом, Уставный капитал, финансовая ликвидность, рыночная капитализация.

Introduction

The conceptual basis of the legislative system of economic organizations is presented in the form of requirements regarding authorized capital within such organizations, which is assumed to be the minimal property basis for the organization's activity, guaranteeing the interests from creditors. Moreover, authorized capital, its function in the process of establishment of economic organizations, and its size - are one the problematic areas in the current legal framework. The problems of the legal framework regarding the authorized capital are pointed out by a number of authors, including (Makarova, 2010). Among the main problems - the question regarding the necessity, size and composition of authorized capital in economic organizations.

The problems of legal nature and legal regime of shares within the authorized capital are also out for discussion. Therefore the relevance of the topic under discussion is explained by the following: important role of authorized capital in the process of formation of economic organizations property; discussion nature of theoretical basis within the structure of authorized capital, shares in authorized capital and others; imperfections of legislative basis that constitutes the legal regime of authorized capital of economic organizations. Real research is emerging from the hypothesis stating the need for improvement of the current authorized capital concept and changes in the current legislation in the mentioned sphere.

The study aims, to investigate the point of the matter and the order of formation of authorized capital in the context of current legislation. In order to achieve the targets presented above, the following problems need to be resolved: to define the legal nature of authorized capital and shares in authorized capital, to consider the order of formation of authorized capital at the stage of agricultural community formation.

Literature review

Economic literature points out the importance of economic organizations in the organizational structure of the economy (Ushakov and Shieh, 2013; Glavina, 2015),

considering the investment attractiveness of communities as small business enterprises (Ermakova et al., 2016; Bashamakov et al., 2015; Arslan-Ayaydin et al., 2014). It is pointed out, that the main reasoning behind the purchase of shares of the authorized capital by investors is profit seeking, which means that a more effective system of asset management is needed (Xudaykulov, 2014; Lukasevicius and Lapinskaite, 2014). Problems of legal regime regarding the authorized capital of economic organizations have been numerous brought up in civil literature. Authorized capital of a community - is a money equivalent of property value, which should have a legal party in the process of its establishment (not related to the objects included in its composition); the value of pure assets of the legal party should never be on a level lower than the authorized capital (Shapkina, 2001). Authorized capital represents the value (or money valuation) of property, invested by all the shareholders as a payment for the right to be part of the community. Hence the sum of authorized capital, stated in the communities' documentation - is a nominal, narrative number that only specifies the cumulative value of inputs made by the shareholders at the moment of joining (Shitkina, 2011; Nejad, 2014).

Research methods

The methodology used authors is presented as all-round scientific methods of research - dialectical, systematic, sociological, as well as scientific methods - legalcomparative, historical, structural, functional, normative, logical, technical and linguistic. Specifically, the author group will conduct statistical description analysis, correlation analysis to eliminate capital market between foreign countries. This basic analysis step helps to check the appropriateness of the sample before performing regression analysis to ensure the reliability of quantitative research results.

Results

The functions and goals of increased authorised capital arise from both the general functions performed by this capital as well as those that may refer to expanding or maintaining a company's economic activity. As far as the former are concerned, it should be pointed that increased authorised capital strengthens mostly the legal, economic and guarantee function of capital.

Moreover, increased capital can perform other, additional functions, e.g. development, restructuring, stimulation, credit, and stabilization and marketing functions. Undeniably, the process chosen for increasing capital reflects the specific strategies of joint-stock companies, which focus not only on strengthening the legal-guarantee function, but mainly the economic one. Research presented in the majority number of literature observes that joint-stock companies, when increasing the value of authorised capital, take into consideration various strategic goals. These include, among others:

1. Financing intensive and extensive enterprise developments (increase in efficiency, expansion of a company's operations, modernization, increase of production capacity, financing modern technological solutions, etc.),
2. Reorganization and rationalization of activities oriented at lowering costs and increasing the quality and efficiency of investment and financial transactions,
3. Changing the structure and character of capital ownership in financing business activity,
4. Changing the capital structure in order to gain optimal rate of return from investment and capital costs,

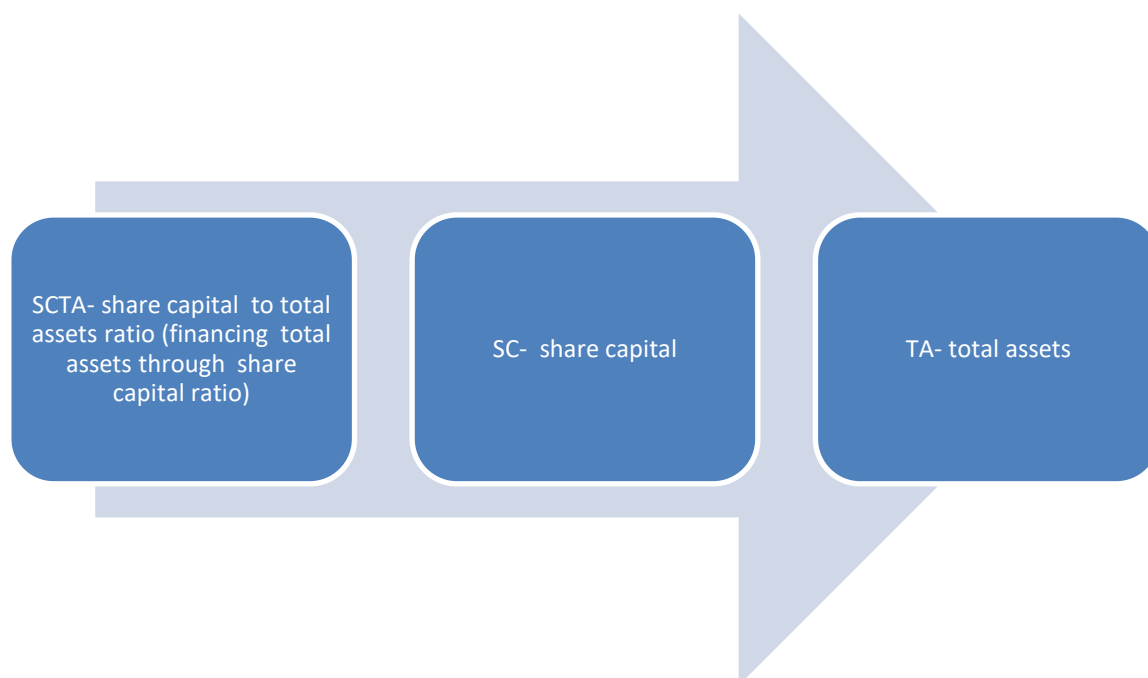
5. Increasing an enterprise's financial liquidity (source of debt repayment),
6. Increasing the guarantee basis and improving creditworthiness,
7. Execution of a previously granted right to receive employee shares,
8. Carrying out a merger, consolidation, or the acquisition of other enterprises,
9. Stock market floatation,
10. Implementation of a company's statutory provisions.

It seems apparent that the aim of effectively increasing authorised capital is the desire to obtain means for the implementation of economic plans. The ordinary increase of authorised capital is most often applied in order to receive additional financial means which may be required for financing investments, reorganization and rationalization actions, as well as increasing the guarantee base. In the light of our conducted empirical study, the goals of ordinary increases of share capital focus mainly on capital and material investments which result from a specific strategy of company development that includes mostly expansion of a company's activity or acquiring another enterprise. Moreover, companies aiming to strengthen guarantee-stabilization functions most often mention: covering liabilities, improvement of liquidity, regaining financial stability. It can be generally claimed that the primary aim of transforming the equity structure via capitalization of reserves is the necessity of increasing a company's credibility among shareholders and other groups of stakeholders. Furthermore, a share capital increase without an increase of financial means in a company can also be undertaken in order to, e.g., link the capital and a company more strongly, cope with problems with share sales or a decline in share prices on the market, or issue shares to shareholders instead of a dividend. Shareholders who resign from receiving current income and decide to retain a part, or even the whole of generated profit in a company expect that such steps will increase a company's standing and ensure a high level of efficiency.

Regardless of the forms and methods of increasing authorised capital it can be assumed that positive changes in market capital value can be correlated with an increase of economic efficiency, which meets the owners' expectations. Thus, there is a need to introduce changes in the value of share capital to achieve better return on equity and multiply the value of invested capital in an enterprise. In order to formulate and accomplish a specific analysis of the strategies involving share capital increases in financing a company's total assets in order to improve return on equity, the degree of financing total assets through share capital can be calculated by means of the following formula:

$$SCTA = SC/TA \times 100$$

The strategy of authorised capital increases induces not only changes in the capital structure, but also influences the volume of forecast cash flows. Thus, the announcement of a share issue itself, according to the signalling theory, can in a very short time exert a positive influence on shaping share prices in the capital market. Conversely, the long-term reactions of investors can bring about an adverse growth of equity value through the issuance of new shares in the form of so-called "dilution of capital". This is the case when an increase in the number of shares is not accompanied by a proportionate growth of profits generated by a company. This may lead to a decline in the values of return ratios, and as a consequence exacerbate an enterprise's overall financial situation.



The importance of market share lies not simply in maintaining your company's current share of the market. After all, as the industry grows, a company's market share must grow as well to stay competitive and profitable. Increasing market share is crucial and involves gaining a bigger share than you have already. That would indicate that your growth is greater than average and you're outperforming your competition.

Nevertheless there are another procedure (strategy) for increasing authorised share capital in public companies: a company may need to increase its authorised share capital before issuing new equity shares and increasing paid-up capital. Authorised share capital is the total value of shares a company can issue, while paid-up capital is the total value of shares the company has issued. Paid-up capital can never exceed authorised capital. Hence, if a company having an authorised capital of Rs.10 lakhs and paid-up capital of Rs.10 lakhs would like to induct new shareholders, it can do so either by:

- Increasing authorised share capital and issuing new shares. (or)
- Transferring shares from existing shareholders to the new shareholders.

In most cases, new shares are issued and authorised capital is increased.

Convene Board Meeting

To increase the authorised share capital, first, convene a Board Meeting by providing notice to the Director. At the Board Meeting, obtain approval from the Board of Directors for increasing authorised share capital. Then fix a date, time and place for conducting an Extra-Ordinary General meeting to obtain approval of shareholders for the increase of authorised share capital and making changes to the MOA of the company. Finally, obtain approval of the Board of Directors of Company Secretary present at the meeting to present notice of Extra-Ordinary General Meeting to the shareholders. Based on the approval, present the Notice of Extra-Ordinary General Meeting to all shareholders, Directors and Auditor of the Company.

Extra-Ordinary General Meeting

On the time, date and place mentioned on the Notice of Extra-Ordinary General Meeting, conduct the Extra-Ordinary General Meeting and obtain shareholders approval for increase of authorised capital. The approval of shareholders for increasing authorised share

capital must be in the form of an ordinary resolution. If the procedures for increasing authorised capital are followed as mentioned in the Companies Act and Companies Rules, then the Registrar would approve the filing and increase the authorised share capital of the company.

Allotment of Shares

Post the increase in authorised share capital, the paid-up share capital of the company can be increased by issuing fresh equity shares.

To sum up in order to avoid losing its market share, a company should monitor its market share metric, keep an eye on the performance of its competitors, and take steps to improve the aspects of its business that can affect its market share standing. These can include things like product and service quality and pricing, customer satisfaction, the growth of its customer base, marketing, and advertising, the quality of its staff, and the potential for the acquisition of competing companies.

Market capitalisation by location

The US, China and its regions and Saudi Arabia continue to occupy the podium in terms of market capitalisation, holding 1st, 2nd and 3rd position. US companies comprising the March 2021 Global Top 100 saw an increase of 56% as compared to March 2020. Saudi Arabia saw a 20% increase in the value of its sole representative, Saudi Aramco in the year to March 2021 as oil prices trended upwards throughout 2020 into 2021. All Switzerland based companies (Nestlé, Roche, and Novartis) saw marginal increases in value in the year to March 2021 resulting in a net increase of just 3%. Samsung, South Korea’s sole representative increased in value by 84% in the year to March 2021. A 59% increase in the market capitalisation of industrial gases and engineering company, Linde, was offset by muted increases in the United Kingdom’s other two Global Top 100 Companies (Unilever and AstraZeneca).

| Location | Change in market capitalisation of the current Global Top 100 Mar-2020 to Mar 2021 (% change) | Market capitalisation Mar-2021 (\$bn) | # companies 2021 | Like-for-like market capitalisation Mar-2020 (\$bn) ⁽¹⁾ |
|-----------------------|--|--|-------------------------|---|
| United States | 56% | 20,549 | 59 | 13,164 |
| China and its regions | 46% | 4,188 | 14 | 2,872 |
| Saudi Arabia | 20% | 1,920 | 1 | 1,602 |
| Switzerland | 3% | 816 | 3 | 795 |
| Netherlands | 62% | 584 | 3 | 361 |
| Japan | 63% | 563 | 3 | 345 |
| France | 65% | 552 | 2 | 334 |
| Germany | 69% | 456 | 3 | 269 |
| South Korea | 84% | 431 | 1 | 234 |
| United Kingdom | 25% | 425 | 3 | 340 |
| India | 84% | 341 | 2 | 185 |
| Ireland | 49% | 335 | 2 | 225 |
| Australia | 92% | 163 | 1 | 85 |
| Denmark | 11% | 160 | 1 | 144 |
| Canada | 50% | 131 | 1 | 87 |
| Belgium | 42% | 128 | 1 | 90 |

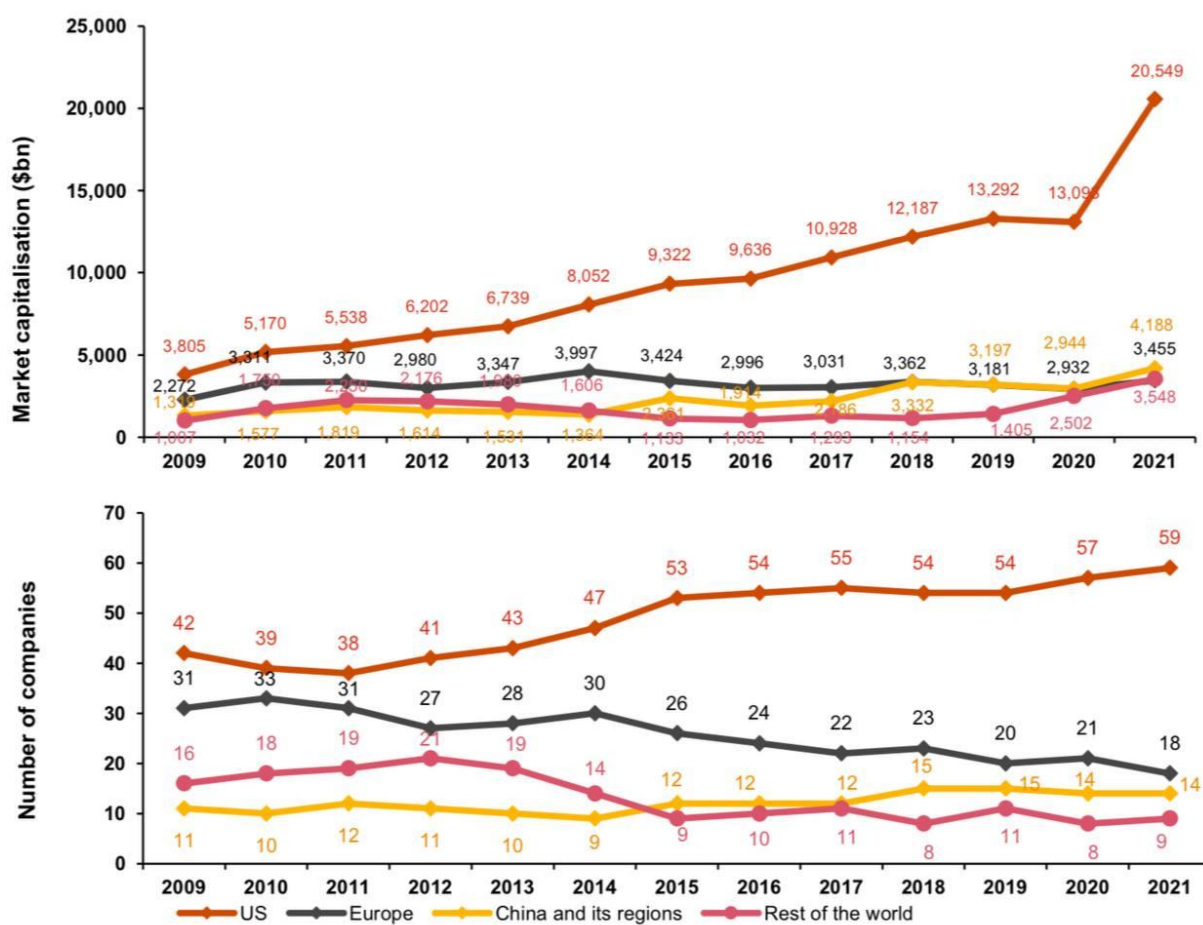
Market capitalisation of the Global Top 100 by region

Source: Bloomberg with PwC analysis

The United States continues to dominate the Global Top 100 by a significantly increased margin, both in terms of market capitalisation and number of companies. The market capitalisation of the Global Top 100 Companies from the US increased by 57% in the year to March 2021, considerably higher than all other regions:

- China and its regions – 42%
- Rest of the world – 42%
- Europe – 18%

Europe lost five companies from the Global Top 100 in the year to March 2021, three in the UK and two in France, offset by two new entrants to the list from Germany (net decrease of three). Notwithstanding an increase in absolute market capitalisation, all regions outside the US saw a fall in their relative positions in terms of market capitalisation with the US now accounting for 65% of the Global Top 100 Companies total market capitalisation (March 2020: 61%)



Number of companies by location

Source: Bloomberg with PwC analysis

The 73 companies represented by the US and China and its regions accounts for 77% of the total market capitalisation of all Global Top 100 companies. Siemens and Volkswagen returned to the Global Top 100 in the year to March 2021 contributing to Germany’s rise from 13th to 8th position. The United Kingdom saw the largest net change in the number of companies in the Global Top 100, resulting in the United Kingdom falling from 5th to 10th position. Three companies departed the list (HSBC, BP and GlaxoSmithKline). BHP Billiton’s return to the Global Top 100 has resulted in Australia being included the March 2021 list.

| Location | Global Top 100 Mar-2021 | | | Global Top 100 Mar-2020 | | |
|-----------------------|-------------------------|-----------------------------------|-------------------------------|-------------------------|------------------------------|-------------------------------|
| | # companies | Market capitalisation 2021 (\$bn) | Rank by market capitalisation | # companies* | Market capitalisation (\$bn) | Rank by market capitalisation |
| United States | 59 | 20,549 | 1 | 57 | 13,093 | 1 |
| China and its regions | 14 | 4,188 | 2 | 14 | 2,944 | 2 |
| Saudi Arabia | 1 | 1,920 | 3 | 1 | 1,602 | 3 |
| Switzerland | 3 | 816 | 4 | 3 | 795 | 4 |
| Netherlands | 3 | 584 | 5 | 3 | 357 | 8 |
| Japan | 3 | 563 | 6 | 3 | 395 | 7 |
| France | 2 | 552 | 7 | 4 | 545 | 6 |
| Germany | 3 | 456 | 8 | 1 | 136 | 13 |
| South Korea | 1 | 431 | 9 | 1 | 234 | 9 |
| United Kingdom | 3 | 425 | 10 | 6 | 640 | 5 |
| India | 2 | 341 | 11 | 2 | 185 | 11 |
| Ireland | 2 | 335 | 12 | 2 | 225 | 10 |
| Australia | 1 | 163 | 13 | - | - | - |
| Denmark | 1 | 160 | 14 | 1 | 144 | 12 |
| Canada | 1 | 131 | 15 | 1 | 87 | 15 |
| Belgium | 1 | 128 | 16 | 1 | 90 | 14 |

Source: Bloomberg with PwC analysis

Conclusion

The results of the study have shown the importance of the role of authorized capital of economic organizations in providing guarantees for the interests of participants and creditors of economic organizations. For future improvements of legal regulations of authorized capital in economic organizations, we propose the following: in order to create an effective system of guarantees of creditor rights and to discourage the emergence of «one-day firms» it is necessary to increase the minimal size of authorized capital up to the level in European organizations. This will allow implementing the concept of «hard» authorized capital economic organizations, which is traditional for the countries with continental system of rights is leaning towards. In Uzbekistan, as country with transition economy the corporate governance reforms is yet underway and still needs to be further developed. Moreover, we have accepted a fact that the present urgent problem for national corporate legislation in Uzbekistan is to bring closer and to adapt them to the global corporate governance standards. For joint-stock companies of Uzbekistan it is intrinsic to raise their level of capitalization artificially that is on the basis of relevant governmental decrees and resolutions. However, domestic joint-stock companies should also tend to have natural capitalization that is to increase their authorized share capital on the basis of issuing and initial public offering of shares to the stock market on their own initiative. The corporate governance reforms in Uzbekistan have been government-initiated rather than corporations-initiated. We studied the corporate governance reforms dividing the reform periods in four stages which step-by-step resulted in shaping the current corporate governance system.

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