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 authorized capital on the economic efficiency of companies on capital markets. The paper evaluates possible relations between the efficiency of a company’s activities and the process of authorized 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 authorized capital in the corporate governance system. Also, market capital is analyzed in other countries.

Keywords: Strategy, Corporate governance, Capital reflects, Authorized capital, financial liquidity, Market capital.

ANNOTATSIYA


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

АННОТАЦИЯ

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 - legal comparative, 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 authorized 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 authorized 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 authorized 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 authorized capital is the desire to obtain means for the implementation of economic plans. The ordinary increase of authorized 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 authorized 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:

\[
SCTA = \frac{SC}{TA} \times 100
\]

The strategy of authorized 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 signaling 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 the 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 is another procedure (strategy) for increasing authorized share capital in public companies: a company may need to increase its authorized share capital before issuing new equity shares and increasing paid-up capital. Authorized 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 authorized capital. Hence, if a company having an authorized 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 authorized share capital and issuing new shares. (or)
• Transferring shares from existing shareholders to new shareholders.

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

**Convene Board Meeting**

To increase the authorized 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 authorized 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 authorized share capital and making changes to the MOA of the company. Finally, obtain approval of the Board of Directors of the 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 authorized capital. The approval of shareholders for increasing authorized share capital must be in the form of an ordinary resolution. If the procedures for increasing authorized capital are followed as mentioned in the Companies Act and Companies Rules, then the Registrar would approve the filing and increase the authorized share capital of the company.

**Allotment of Shares**

Post the increase in authorized 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 capitalization by location**

The US, China and its regions and Saudi Arabia continue to occupy the podium in terms of market capitalization, 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 Mach 2021. A 59% increase in the market capitalization 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).

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

Source: Bloomberg with PwC analysis

**Market capitalization of the Global Top 100 by region**

The United States continues to dominate the Global Top 100 by a significantly increased margin, both in terms of market capitalization and number of companies. The
market capitalization 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 capitalization, all regions outside the US saw a fall in their relative positions in terms of market capitalization with the US now accounting for 65% of the Global Top 100 Companies total market capitalization (March 2020: 61%)

Source: Bloomberg with PwC analysis

Number of companies by location

The 73 companies represented by the US and China and its regions accounts for 77% of the total market capitalization 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.

<table>
<thead>
<tr>
<th>Location</th>
<th># Companies</th>
<th>Market Capitalisation 2021 ($)</th>
<th>Rank by Market Capitalisation</th>
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<th>Market Capitalisation ($)</th>
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<tr>
<td>United States</td>
<td>59</td>
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<td>1</td>
<td>57</td>
<td>13,093</td>
<td>1</td>
</tr>
<tr>
<td>China and its regions</td>
<td>14</td>
<td>4,188</td>
<td>2</td>
<td>14</td>
<td>2,944</td>
<td>2</td>
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<tr>
<td>Saudi Arabia</td>
<td>1</td>
<td>1,920</td>
<td>3</td>
<td>1</td>
<td>1,632</td>
<td>3</td>
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<tr>
<td>Switzerland</td>
<td>3</td>
<td>816</td>
<td>4</td>
<td>3</td>
<td>795</td>
<td>4</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3</td>
<td>584</td>
<td>5</td>
<td>3</td>
<td>357</td>
<td>8</td>
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<tr>
<td>Japan</td>
<td>3</td>
<td>563</td>
<td>6</td>
<td>3</td>
<td>395</td>
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<tr>
<td>France</td>
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<td>552</td>
<td>7</td>
<td>4</td>
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</tr>
</tbody>
</table>

Source: Bloomberg with PwC analysis

**Conclusion**

The results of the study have shown the importance of the role of the 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 minimum size of authorized capital up to the level in European organizations. This will allow the implementation of the concept of «hard» authorized capital economic organizations, which is traditional for countries with a continental system of rights is leaning towards. In Uzbekistan, as a country with a transition economy, corporate governance reforms are yet underway and still need to be further developed. Moreover, we have accepted the fact that the present urgent problem for national corporate legislation in Uzbekistan is to bring it 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 an 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 into four stages which step by step resulted in shaping the current corporate governance system.

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