

DEVELOPMENT OF JOINT STOCK COMPANIES IN CROATIA- A HISTORICAL OVERVIEW

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Abstract: *Due to its characteristics joint stock companies have been developing as an appropriate legal way of raising substantial capital for achieving certain business objectives. The capital has normally been raised from a range of sources. Members of a joint stock company (shareholders) were not accountable for the company's liabilities with their entire personal holdings. This paper will give a partial overview of the historical development of legislation related to joint stock companies in the territory of today's Croatia.*

Key words: *joint stock company, capital, stocks, shares, equity, Enterprise Act, Companies Act*

1. INTRODUCTION

Ever since their beginnings, joint stock companies have been very interesting as a legal form, i.e. as a way to raise substantial amounts of capital in order to achieve ambitious business objectives. There are a number of economic advantages attributed to joint stock companies, some of the more important are as follows:

- An individual's capital is almost never big enough for serious business ventures. Thus, by raising capital from more people it is possible to attain major economic objectives, while at the same time decreasing the risk of losing the entire personal assets, since shareholders are held liable only to the amount of their share in the company.
- Depending on the situation on the capital market, one can sell the shares in order to regain the funds invested into buying those shares. When a person acquires shares in a company, they also gain a say in managing the company.
- If a person is reluctant to invest all the available funds in a single joint stock company, it is advisable to distribute the investment into several joint stock companies, thus reducing the risks.

We might add a few disadvantages of joint stock companies for balance:

- The company is actually managed by big shareholders. Given that they are in a position to make decisions on other people's capital, they are not excessively risk-averse.
- Shares and stocks can be traded speculatively on the capital market.

In Croatia, according to the Companies Act (Official Gazette 137/09) companies are defined as follows: "A joint stock company is a company in which the members (shareholders) participate with stakes in the basic capital divided into shares." In recent history, by which is meant the period of last twenty years, there have been frequent changes

regarding this matter, most of which were related to changes in the *acquis communautaire*.

2. HISTORICAL OVERVIEW

The origins of the creation of companies can be traced back to 15th century. San-Giorgio bank in Genoa was organized as a joint stock company and in Milan, San-Ambrogio was also organized as a corporation. Companies that were organized in a way resembling today's joint stock companies can be found in 17th century.

In Croatian territory and the region surrounding it (then also in Dalmatia, Serbia, Montenegro and Bosnia) old laws were being applied that were influenced by French and Austrian legislation. Even with such legislative situation joint stock companies were being established. The data from historical archives indicate that there were quite a large number of such companies in 1926.

According to Zebić (1928), there were more than a thousand joint stock companies in the Kingdom of Serbs, Croats and Slovenes, and the exact numbers are given in Table 1 below.

Area:	Nuber of companies:
Croatia	541
Serbia	292
Vojvodina, Bosnia and Herzegovina, Slovenia, Montenegro	362
Total:	1 195

Tab. 1. The number of joint stock companies in the Kingdom of Serbs, Croats and Slovenes in 1926

According to a special law from 1922, the establishment of joint stock companies was harmonized and subjected to the same regulations. To establish a joint stock company, the owners had to obtain a prior approval (concession system).

The normative system is the opposite of this system of establishing joint stock companies, and was applied after 1922 in Croatia, Slavonia, Banat, Backa and Baranja. From then on, it was no longer required to have any special approval in order to establish a joint stock company, only to fulfill legal requirements i.e. conditions.

In the years 1936 and 1937 the government developed a bill for a new Commercial Code, but it never came into force. The years of legislative silence and complete negation of the shareholding were a big step back.

Until the entry into force of the Companies Act (Official Gazette of SFRY 77/88 and 40/89) our laws had not offered the possibility to establish joint stock companies. This was because the ruling ideology held that joint stock companies would be incompatible with the socio-political order based on self-governing socialism.

However, when the ideological barriers were removed, there were constitutional changes that allowed not only the work but also the invested funds to be the basis for governance and appropriation of the operation results. In this way the foundations were laid for joint stock companies in newer Croatian history. Stockholding has become a new world, a new Croatian reality.

According to Article 85, paragraph 1 of the Companies Act passed in 1989, a joint stock company is defined as a company that raises funds for its establishment and operation by issuing shares.

Since 1993 joint stock companies have been regulated by the Companies Act (Official Gazette 111/93, 34/99, 52/00, 118/03, 107/07, 146/08, 137/09).

If we take a historical view of the legal definition of a joint stock company, we see that in every definition (some of which we specify) it is stated:

- A joint stock company is such a company whose equity is pre-determined and divided into equal parts -transferable shares
- Stock-owners are liable up to specified amounts of stock
- A joint stock company has its own name
- A joint stock company is a legal entity
- A joint stock company is managed by elected bodies.

For example, the Joint Stock Company Act that was part of the Commercial Law applied before and after the First World War in Croatia and Slavonia states in its Article 147: "A joint stock company is considered to be the company incorporated with an equity that is pre-determined, consisting of shares (whole shares or separated into parts), of pre-determined number and of equal value, and for which shareholders are liable only to the extent of their shares".

Article 207 of the Commercial Law as applied in Slavonia and Dalmatia in the former Kingdom of Serbs, Croats and Slovenes stated that the company is a joint stock company when the shareholders participate in certain amounts, but are not liable personally for the company's liabilities. The equity will be divided into shares which may be in a person's name or be bearer shares.

According to Samuelson (2000), a joint stock company is an almost perfect way to raise large amounts of capital that need not be paid back, that do not endanger the whole property of the owner, which allow you to manage the company's affairs, for a few cents provide a greater income than interest and which ultimately give each individual the opportunity to recover the capital invested in the nominal or increased amount, at any point in time.

Samuelson (2000) mentions the role of luck when selling stock since the value of stock on the capital market cannot be predicted with certainty. Shifts in value can be sudden and unforeseeable, and are something that shareholders cannot really influence. Given that the world undergoes interchanging business cycles, which can result in share price volatility within a single day, it can be concluded that the stock market is an "unfathomable mystery not only for the ordinary man in the street but also for science".

According to substantive legislation in the Republic of Croatia, the establishment of a joint stock company can proceed:

- Simultaneously (all at the same time)
- Successively (at different times).

The etymology of the words "simultaneous" and "successive" indicates the fundamental difference between these two modes of establishing a joint stock company. The word "simultaneous" comes from Latin *simul*, which means *together, jointly, at the same time*. In terms of legislation, this means that all the shares are subscribed at the same time. The word "successive" comes from Latin *succedo* which means *to follow, to come after*. In terms of business law this means that all the shares or a certain number of shares are subscribed on the basis of public offering.

Simultaneous foundation is faster and less complex. Successive foundation of a joint stock company is undertaken when it is necessary to raise significant amounts of capital from a number of investors, which means that a large number of investors will become shareholders in that company.

The right to a dividend is the incentive for investors to put their excess funds into securities instead of giving them to financial institutions for safekeeping. There is of course a certain risk involved as the prices on the stock market fluctuate. Sometimes people are in a hurry and cannot wait for a higher price, and are thus forced to sell the stock at a lower price, losing money in the process. On the other hand, buying stock relatively cheaply and selling it at a higher price will bring profit.

3. CONCLUSION

As a concept, stockholding can be defined as a timeless, trans-capitalistic way of business organization and operation. We are aware that we live in a new world and are on the brink of an even newer world, which is why we have to be sensitive and open to different worldviews. The most pressing issue for Croatia today is joining the European Union. To be properly prepared to join the EU economy, it is necessary to examine their legislation relating to this matter, to harmonize our laws in order to revive the Croatian economy and to strive for more rapid growth and development so that that we might not remain on the margins of European economic flows, but to be an equal participant.

The next paper will cover the historical changes of legislation related to joint stock companies in member countries of the EU as well as EU candidate countries.

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