M. Com. Sem. II

Corporate Legal Framework

Topic – Promotion of a Company

A company is an artificial legal person. It means, the birth or formation is possible only by completing certain legal formalities, which are given in the Companies Act, 2013. It refers to the legal and procedural process through which a company comes into existence and is registered as a separate legal entity. This process involves several stages. The stages of formation of a company can be divided into the following –

I. Promotion
II. Registration or Incorporation
III. Commencement of Business

I. Promotion of a Company

Promotion is the first stage of company formation. It refers to the situation when the idea of establishing a company arises in the mind of a person or group of persons.

In the words of Prof. Gerstenberg, "formation involves the discovery of business opportunities and the subsequent organisation of funds, property, and managerial ability into a business concern for the purpose of making a profit."

~~According to~~ Prof. E. S. Mead has mentioned ~~for~~ four elements under promotion - the birth of an idea, detailed investigation, assembly of the factors of production, and lastly, the management of capital.

Following are the stages of Promotion —

(i) Discovery of idea and preliminary investigation.
(ii) conducting a detailed investigation.
(iii) Assembling necessary resources,
(iv) Arranging finance.
(v) Entering into preliminary contracts.
(vi) Preparing necessary documents.
(vii) Obtaining permission from the Central Government for capital issue
(viii) Fixing the name of the company.