- **Provide Compensation**: They can be used to make up for any wage reductions that any employees may have experienced. Employees and directors in some companies generally agree to a lower salary in return for a stake in the company.

DIFFERENCE BETWEEN EQUITY SHARE CAPITAL AND PREFERENCE SHARE CAPITAL:

Equity Share Capital is the funds generated by a company through issuing Equity shares (also known as ordinary shares). It consists of company shares that the owners decide to sell to individual investors and institutions in the stock market. The Equity Shareholders become stakeholders in the organisation, and these investors are eligible for both ownership and voting rights in the company to select their management.

Some of the features of Equity Shares are as follows:

- Equity Share Capital Remains with the organisation, and the investors can claim it back only when the company winds up their operations. It is like a perpetual source of funding for the organisation.
- They get a percentage of the company’s profits, but only after preference shareholders get their dividend.
- The Equity Shareholders do not get a fixed rate of dividend. The dividend amount depends on the surfeit capital with the company after paying the preference shareholders.
- Equity shareholders get voting rights in the selection of the company’s management.

What is the meaning of Preference Share Capital?

Preference Share Capital is the funds generated by a company through issuing preference shares (also known as Preference Stock). Preference Shareholders have the first right to receive dividends even before equity shareholders. They are also part owners of the company, but they do not get any voting rights to select its management. They are entitled to a fixed rate of compensation every time the company decides to declare a dividend. They also have the right to claim repayment of capital if the company dissolves.

Some of the features of Preference Shares are as follows:

- Preference Shareholders have the first right to claim the company’s assets whenever they decide to wind up their operations.
- Preference Shareholders have the first claim to their dividend.
- The Preference Shareholders get a fixed rate of dividend.
- Preference shareholders do not get voting rights in the selection of the company’s management.
- Preference Shares have features of both debt and equity investment. They are also known as a hybrid security option for their investors.

Differences between Equity Share Capital and Preference Share Capital