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# Professional Issues: Organisations

Massimo Felici



## Becoming a Legal Entity

- **Types of organisation:** *commercial, public, not-for-profit*
- Mostly we look at commercial organisations intended to make profits
- Different kinds of organisation

## Kinds of Organisations

- **Sole trader** — individual, no legal formalities, the legal entity is the individual
  - If turnover is big enough will need to register for VAT etc.
  - The individual is liable for company debts — so assets like home, savings are at risk
- **Partnership** — this is the form a group must trade under unless it is a limited company
  - Often the required form of organisation for professionals e.g. law, medical, hedge fund etc. because the liability issues control excesses
  - Liability is joint and several liability — all are fully liable for the debt of the partnership
- **Limited company** — the preferred form of legal entity for commercial firms

## Limited Companies

- Three principles:
  1. The company is a legal person (entity) separate from the people who own or work in the company
  2. Ownership is divided into shares that can be bought and sold by shareholders
  3. Owners of the company have no obligation to pay debts incurred by the company — the owners' risk is limited to the value of their shares
- In the UK:
  - **Public limited company (Plc)** — public can hold shares (e.g. British Airways plc); shares may or may not be listed on the stock exchange
  - **Private limited company (Ltd)** — shares cannot be held by the public; Small Company Ltd

## Setting Up a Limited Company

- Two documents:
  1. **Memorandum of Association:** short and simple — name, location of the registered office, objects of the company, liability clause (saying the limits to liability of the owners), share capital (e.g. 100 shares, value £1 — to be a plc must have capital over £50K). Concludes with declaration of association that list the people setting up the company.
  2. **Articles of Association:** Complex and technical (see the handout). Covers how the company will run, roles of directors,...
- Once a company is registered then the memo of association and articles of association are on public deposit at Companies House

## Directors

- Sometimes shareholders run the company but in larger companies directors may be employed — Directors must:
  - Have regard to the owners and employees' interests
  - Act in good faith and for the benefit of the company
  - Exercise skill and care (be 'professional')
  - Declare conflicts of Interest
  - Legally: Be aware of the financial position of the company; Drawing up annual reports and accounts and filing them at companies house; Complies with relevant law
- Companies have executive (employed) and non-executive (non-employed advisors)
- Every company has a company secretary responsible for required communications

## Setting Up a Company

- Not necessary to employ a lawyer or accountant
- Easiest way is to buy an “off-the-shelf” company and tailor it to your needs (change the name, objectives, constitution,...)
- Registering a company yourself costs £100 (same-day service at the Register of Companies) — this is slower because you need to fill in forms etc.
- UK and US have similar, easy, ways to set up companies — In other countries it can take several months and cost thousands of pounds

## Non-Commercial Bodies

- Statutory Bodies — set up by act of Parliament e.g. local unitary authorities
- Royal Charter — sets up free-standing bodies that are independent of the state, e.g. Universities
- Not-for-profit organisations (often established as companies limited by guarantee):
  - Charities
  - Professional organisations: BCS, Institute of Physics, etc.
  - Political Parties

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## Summary

- Becoming a legal entity
- What situations are different entities appropriate
- Limited companies
- Obligations on limited companies
- Other organisations

## Required Readings

- Textbook (Bott)
  - Chapter 4 on What is an organization?
  - Chapter 9 on Structure and management of organizations
- *Model articles for a company limited by guarantee*
- *Developing an effective organisational structure*

## Activity 4

- Read clause 14 of the model articles — *Model articles for a company limited by guarantee*
- Look again at clause 14(4) parts (a)–(c), write an explanation for each part
- Review different explanations and choose the best one
- Write a short scenario describing when you think that clause might be invoked in an imaginary company; see for instance the organisation case study — *Developing an effective organisational structure*
- Discuss or question any relevant aspect in the course wiki