Organisations

Bott Chapter 3
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:
  - 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:
  – The company is a legal person separate from the people who own or work in the company.
  – Ownership is divided into shares that can be bought and sold by shareholders
  – 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 – BA 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:
  – 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.
  – 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
Conflicts of Interest – Activity – Reading

• Individually, read clause 14 of the model articles
• In pairs look again at clause 14(4) parts (a)-(c)
• Choose one each of (a) – (c) and try to explain it to your partner
• Write down your explanations.
• Get together in a group of four
• Review your explanations – choose the best one and then work together to write a short scenario describing when you think that clause might be invoked in an imaginary company.
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, ...
  - Political Parties
Summary

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