

Professional Practices

**“The Structure of
Organizations”**

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Organization

“An organized group of people with a particular purpose, such as a business or government department”

Organization

- It is impossible to live in a civilized society without close contact with many large organizations such as
 - Schools
 - Universities
 - Government departments
 - Health service
 - Commercial and industrial companies

Legal Form of Organization

- Fundamentally the law recognizes individuals that is the individuals has a legal existence.
- They can
 - enter into the contracts which can be enforced by the courts
 - Sued for damages
 - Give evidences...

Legal Form of Organization

- Organizations should also be given legal existence separate from that of its proprietors....and that is done through a process known as *"Incorporation"*.
- After adopting any specific legal configuration, organizations take different legal forms.
- Four basic legal forms of organization are **Sole Proprietorship; Partnerships and Corporations.**

Legal Form of Organization

- **Sole Proprietorship**

- The vast majority of small businesses start out as sole proprietorships.
- These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business.
- Sole proprietorships own all the assets of the business and the profits generated by it.
- They also assume complete responsibility for any of its liabilities or debts.
- In the eyes of the law and the public, you are one in the same with the business.

Legal Form of Organization

- **Partnerships**

- In a Partnership, two or more people share ownership of a single business.
- Like proprietorships, the law does not distinguish between the business and its owners.
- The Partners should have a legal agreement that sets forth how decisions will be made, profits will be shared, disputes will be resolved, how future partners will be admitted to the partnership or what steps will be taken to dissolve the partnership when needed.
- They also must decide up front how much time and capital each will contribute, etc.

Legal Form of Organization

- **Corporations**

- A Corporation, chartered by the state in which it is headquartered, is considered by law to be a unique entity, separate and apart from those who own it.
- A Corporation can be taxed; it can be sued; it can enter into contractual agreements.
- The owners of the corporation are shareholders.
- The shareholders elect a board of directors to oversee the major policies and decisions.
- The corporation has a life of its own and does not dissolve when ownership changes.

Companies

- A company is a legal entity made up of an association of people.
- Company members share a common purpose, and unite in order to focus their various talents and organize their collectively available skills or resources to achieve specific, declared goals.

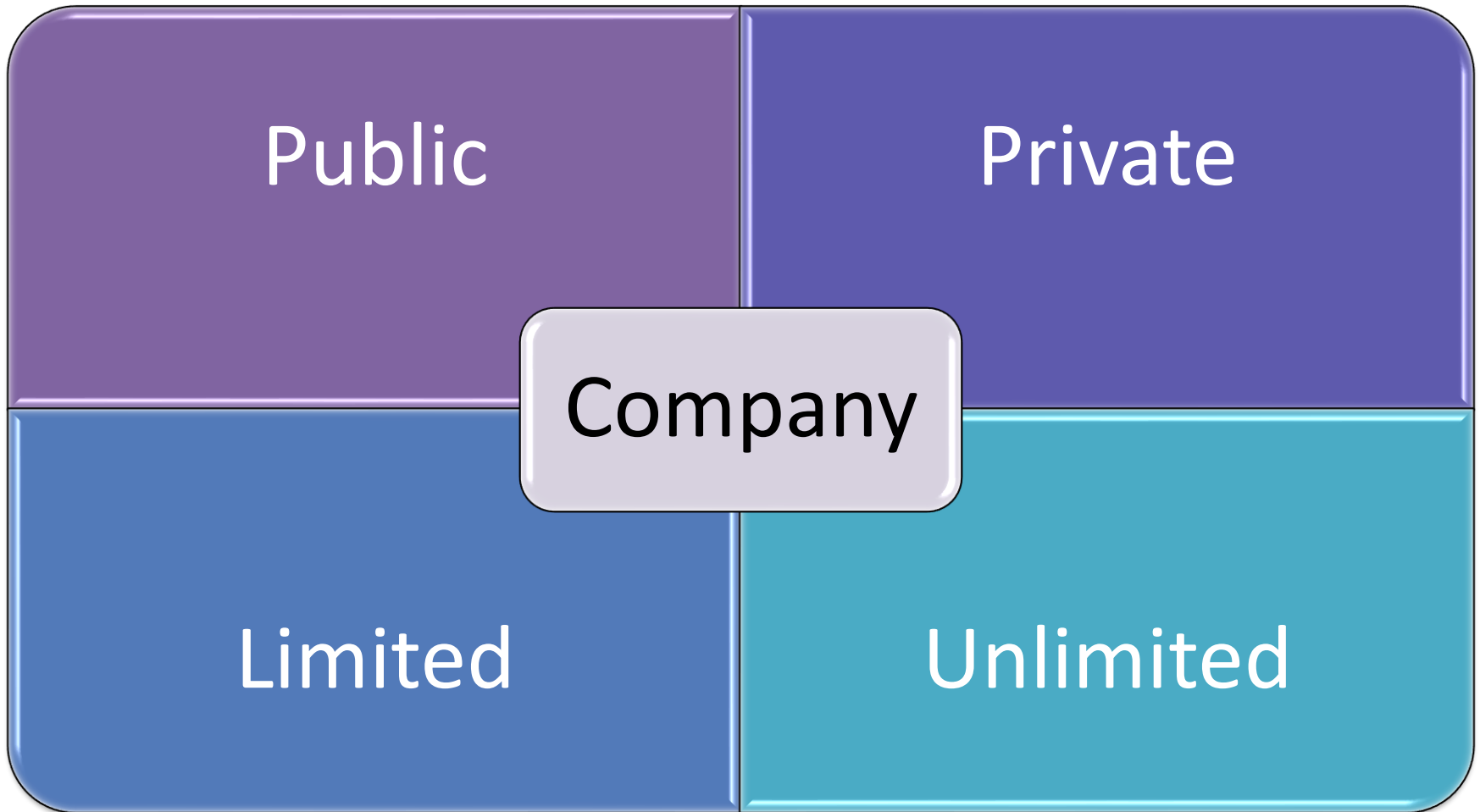
Companies

- The essence of a company is that it enjoys an independent existence as a legal person.

 Ownership of the company is divided into a number of shares.

- An individual or another company may own one or more shares.
- Individuals who own shares in a company are known as the shareholders or members of the company.

Companies



Companies

- **Public** companies are allowed to offer their share to the public and their names must end with the word “Public limited company”.
- A public company has a minimum paid up capital of Rs. 5 lacs.
- There is no limit for the number of members.

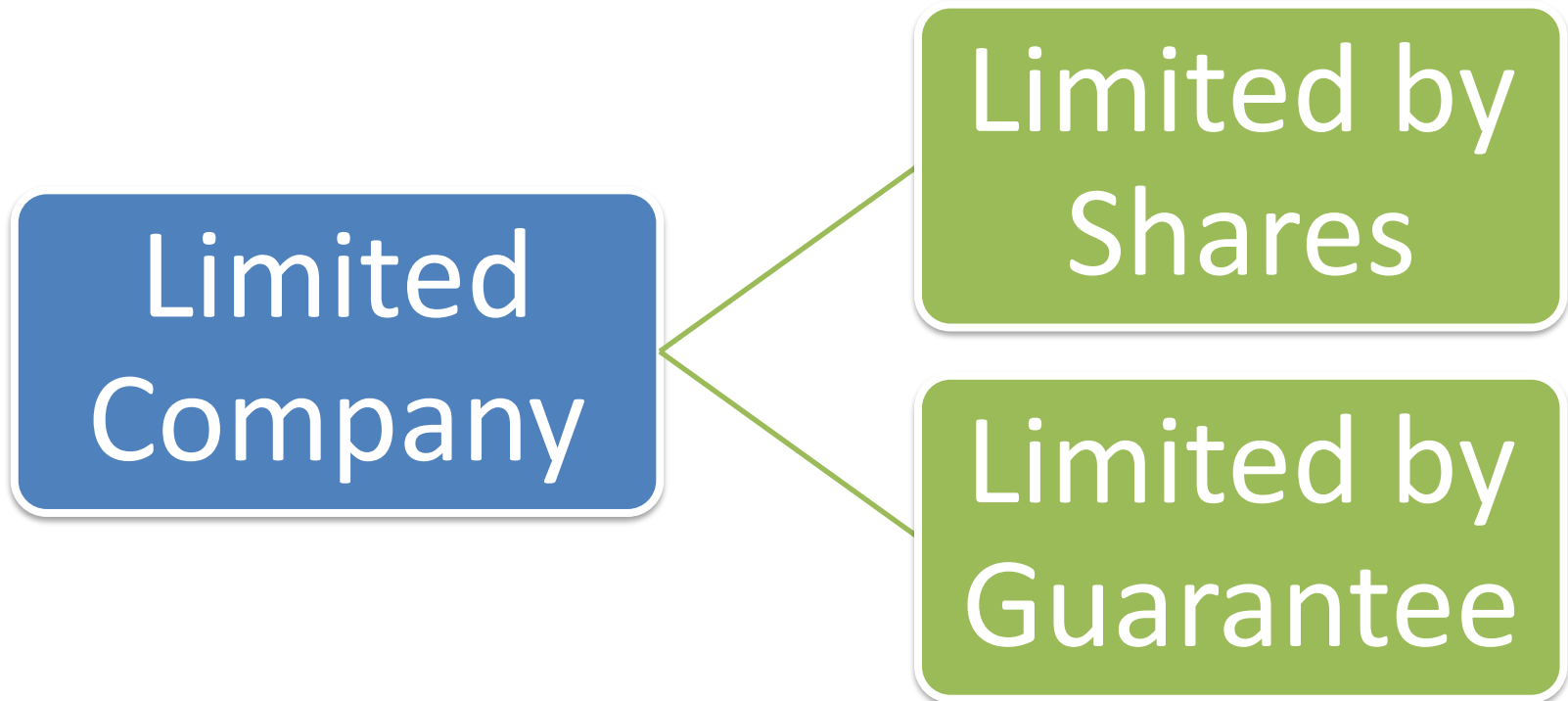
Companies

- A ***private*** company cannot offer its shares to the public and its name must end with the word “limited”.
- It has a minimum paid up capital of Rs. 1 lakh.
- It has limited members up to 200.
- It prohibits any invitation from public for subscription to shares and any acceptance of deposits from persons other than members or directors.

Companies

- In an *unlimited company*, the shareholders are personally **liable** for all the company's debts.
- The shareholders (or members) of this type of company have unlimited liability.
- This means each member is jointly and severally **liable for the debts** of the company in the **event of its winding-up**.

Companies



Companies

- **Company limited by Guarantee:**
 - Commonly used where companies are formed for non-commercial purposes, such as professional bodies or charities.
 - The members guarantee the payment of certain fixed, usually small amount towards the company's debts if the company wound up
 - Otherwise they have no economic rights in relation to the company.

Companies

- **Company limited by Shares**
 - It is the **most common** form of company used for business ventures.
 - Specifically, a **limited** company is a company in which the liability of **each shareholder** is limited to **the amount individually invested**
 - **Corporations** are the **most common** example of a limited company.

Companies

Companies

Constitution
of a Company

Directors and
the Company
Secretary

Disclosure
Requirements

Corporate
Governance

Constitution of a Company

- All companies must have a written constitution, which consists of two documents
 - ***Memorandum of association***....which controls its external relations
 - ***Articles of association***.... which states how internal affairs are to be run.

The Memorandum of Association

- This document covers the following matters
 - The name of the company
 - The country in which its registered office will be located
 - The objects of the company
 - A liability clause
 - The company's authorised share capital and the number and nominal value of its shares.

The Articles of Association

- This document usually addresses the following topics
 - The rules to be applied in allotting new shares
 - The rules governing the transfer of shares
 - The rules regarding meeting of shareholders or members
 - Appointment and removal of directors
 - Powers of directors
 - Dividends and reserves

Directors and the Company Secretary

- Directors are elected by shareholders to run the company on their behalf.
- They have considerable powers and in a large company with many shareholders, the effective democratic control is very weak.

Directors and the Company Secretary

- This situation is balanced by a series of obligations
 - Directors must act in good faith and for the benefit of company.
 - Directors must exercise the skill and care in carrying out their duties that might be expected from someone of their qualifications and experience.
 - A director who has an interest in a contract made with the company must disclose this interest to the board of directors.

Directors and the Company Secretary

- Most companies have both executive and non-executive directors.
 - **Executive directors** are normally also employees of the company, with specific responsibility.
 - **Non-executive directors** act in advisory capacity only. Typically they attend monthly board meetings to offer the benefit of their advice and are paid a fee for their services.

Directors and the Company Secretary

- A company is required to have a ***company secretary*** whose duty is to **keep** various **records** that a company is **obliged to maintain**.
- Because of the technical expertise required, **small companies** often **appoint an outside professional advisor** as a company secretary.

Disclosure Requirements

- The limited companies are required to disclose information about their operations.
- All limited companies must submit an annual return and copies of their accounts to the registrar of companies.

Corporate governance

“Relationship between stakeholders in companies and its most senior management is known as corporate governance”