3 WHAT IS AN ORGANISATION?

After studying this chapter, you should know and understand:

- *the different ways in which an organisation can be become a legal entity;*
- *the situations for which the different types of legal entity are appropriate;*
- *what a limited company is and why it is the preferred legal form for a commercial organisation;*
- *what is meant by the terms* takeover, merger, management buyout *and* outsourcing;
- *the most important ways in which the law regulates limited companies.*

3.1 THE ROLE OF ORGANISATIONS

An organisation is a group of people working together in a formal way. Our life in a modern society is dominated by our interactions with organisations. We go to school and to college; schools and colleges are organisations. We or our friends and relatives go to hospital; a hospital is an organisation. We have a bank account; a bank is an organisation. We take the examinations of BCS; it is an organisation. And we work for a company or a government department, both of which are organisations. We may even set up a business of our own and thus create an organisation ourselves. However, as we mentioned in Chapter 1, organisations need to have a legal existence. In this chapter we shall describe the different ways in which an organisation can acquire a legal existence, concentrating on the idea of a limited company because this is the most important type of commercial organisation.

A very broad distinction can be made between commercial organisations, which are in business to make money, and public organisations or other non-profit-making bodies. This distinction is reflected in the different procedures used to set up the organisations and the different ways in which they are governed. Most of this chapter will be concerned with commercial organisations but in the last section we shall look briefly at non-commercial organisations.

3.2 COMMERCIAL ORGANISATIONS

The law offers several different ways of setting up and operating a commercial organisation. Depending on the circumstances, the business may be operated as a sole trader, a partnership, a cooperative or a limited company.

A **sole trader** is an individual who runs his or her own business. There are no legal formalities attached to becoming a sole trader; you become a sole trader simply by starting to run a business. If the income of your business is large enough you will need to register with HM Revenue & Customs (HMRC) for VAT (value-added tax) purposes, and you may need to negotiate with HMRC about your income tax status but neither of these is necessary simply in order to become a sole trader.

A sole trader is personally liable for all the debts of the business so that all the trader's assets, including the family home, are at risk if the business fails. For this reason, anyone who is in business in anything other than a very small way should not operate as a sole trader. It is usually better to form a limited company, as discussed later in this chapter.

If a group of people carry on a business with a view to making profits, and the business is not a limited company, then the law will treat them as being in a **partnership**. This will happen whether the people in question intend it to or not. The legal framework governing partnerships was established in the Partnership Act 1890 and has since been changed only in minor ways. The Act has important consequences for people going into business together.

The most important consequence of the Partnership Act is that the liability of the partners is unlimited and that the partners are **jointly and severally** responsible for the partnership's liabilities.

What does this mean in practice? Suppose that you and a friend are working together to write software for local company. Your friend is doing most of the work and you have agreed that he will get most of the money. Unfortunately, his software doesn't work and the company decides to claim damages for the harm it has suffered because of the defective software. You own a house and a car and have money in the bank; your friend doesn't. The company can sue you for the entire amount of the damages, despite the fact that it was your friend's software that didn't work.

A second problem with partnerships is the difficulty of making changes in the ownership. If one of the partners wishes to leave the partnership, perhaps to retire, how much money are they entitled to receive in return for relinquishing their share of the partnership? And how do the remaining partners raise this money? In the extreme case that one of the partners dies, how much is due to his or her estate?

Partnerships are mainly used in professions such as the law, medicine or architecture. The bodies that govern these professions have often insisted that their members practise in partnerships because the draconian rules regarding liability are seen to be a way of discouraging recklessness and ensuring the probity of the professionals concerned.

A more recent innovation is the **limited liability partnership** (LLP), which was introduced in the Limited Liability Partnership Act 2000. Unlike an ordinary partnership, an LLP is a corporate body, that is, it is a legal person and has a continuing existence independent of its members. The members of an LLP have a joint or collective responsibility to the extent that this is agreed when setting up the partnership but they have no responsibility for each other's actions. The LLP structure is commonly used by such professionals as accountants, solicitors and patent attorneys but is being increasingly used by groups of professionals such as management consultants and even web designers.

Another way in which an organisation can acquire a legal existence is as a **cooperative**. They are important in fields such as agriculture and enjoy a special legal status. They are, however, unusual in the information systems industry and we shall say no more about them.

By far the commonest form of commercial organisation, however, is the limited company. It is also the most suitable form of organisation for most businesses. Most of the remainder of this chapter will be dedicated to describing this type of organisation.

3.3 LIMITED COMPANIES

There are three principles that are fundamental to the concept of a limited liability company:

- The company has corporate legal identity, that is, it is a legal person, completely separate from the people who work in it or the people who own it.
- The ownership of the company is divided into a number (usually large) of shares. These shares can be bought and sold individually. The people who own these shares are known as the members of the company or shareholders. If the company is profitable, it may decide to distribute some or all of the profit to shareholders, in proportion to the number of shares that each of them holds. Profit distributed to shareholders in this way is known as a dividend.
- In the event that the company incurs debts or other legal liabilities, the owners of the company have no obligation to pay these. The most that shareholders stand to lose is the money they paid for their shares.

The UK recognises two main types of **limited company**, the public limited company (plc) and the private limited company. The essential difference is that a plc can, if it so wishes, offer its shares for sale to the public but a private limited company cannot. The name of a private limited company will end with the word Limited or Ltd, for example Augusta Technology Ltd, while the name of a public limited company will end with plc, for example, Lloyds Bank plc.

In return for the privileges, particularly limited liability, that the status of being a limited company confers, a limited liability company has certain obligations. It must provide details about itself to Companies House. This is a government agency that handles the formation and dissolution of UK companies, receives and stores information about companies that is required by law, and makes such information available to the general public. Companies must produce annual accounts (see Chapter 6) and an annual report; these must be submitted to Companies House and will be publicly available. Some of the reporting requirements are eased for small companies, while there are more stringent requirements for companies whose shares are quoted on a stock exchange.

Until the middle of the 19th century, the only way to create a limited company was through an Act of Parliament or the issue of a royal charter, both very slow and expensive routes. The modern idea of the limited company was developed through a number of acts of the UK parliament in the middle of the 19th century and was rapidly taken up in other countries. It has played a very important part in subsequent economic development, which would probably have taken place much more slowly if the convenient mechanism offered by the limited company had not been available.

It can be safely said that the three principles stated at the start of this section hold in any country that recognises the concept of a limited company. Within this framework, however, the details vary widely from country to country (as does the terminology – in particular, the term corporation is commonly used in the US to denote a large limited company). Several countries (New Zealand, Canada, Australia, for example) have enacted legislation in recent years that simplifies the law relating to companies.

The UK government carried out a review of company law that was trailed as being a complete overhaul that would greatly simplify the law. It resulted in the Companies Act 2006. This act proved to be **consolidating** act, that is, an act that brought together into a single place all the provisions relating to company law, which were previously distributed through many pieces of legislation. This undoubtedly made it easier to understand the existing law and some useful new provisions were introduced. Nevertheless, pressure from those who had a vested interest in the status quo meant that many opportunities for simplification were missed. The Act contains 1,300 sections, making it one of the longest and most complicated pieces of UK legislation.

3.4 SETTING UP A COMPANY

A limited company is created by a group of people each agreeing to subscribe a certain amount of money to set up an organisation to pursue some stated goal and to register the organisation as a limited company in accordance with the law. In the UK the process of setting up a limited company is straightforward and it can be done online, quickly and cheaply. It is not necessary to employ a lawyer or an accountant, although this may be advisable if you have little experience of dealing with formal documents.

The commonest way of setting up a company is to buy an ‘off-the-shelf’ company. There are a number of company formation agents that set up companies with a standard constitution; they hold a stock of such companies, which never actually trade, and they sell them to customers wanting a company through which to run their business. Once the customers have bought the company, they can make changes to its constitution, including its name, at their leisure.

The alternative is to create a company specifically to meet the requirements of the business. The process of registering the business is quick and cheap; the Registrar of Companies offers a same day service for less than £100. In practice, however, there are decisions to be made and forms to be completed, with the result that the process is likely to be slower and more expensive than buying a shelf company.

There are only a few countries in which companies can be set up as cheaply and as conveniently as in the UK or the USA. At the other extreme, in some countries it can take up to six months to register a new company and the cost can run into several thousands of pounds.

3.5 THE CONSTITUTION OF A LIMITED COMPANY

When a new company is incorporated, it is necessary to produce a memorandum of association signed by the founding shareholders. This simply states their wish to form a company under the Companies Act 2006 and the agreement of each of them to take at least one share. (Up until 2009, the memorandum of association was a longer and more complicated document.) The document must be filed with Companies House, the central repository of information about companies registered in the UK.

In order to become incorporated, in addition to the memorandum of association the company requires **articles of association**. These are much more complicated and technical. They relate to such matters as the number of directors, how directors are appointed and removed, what their powers are, what happens when new shares are to be issued, what process is required in order to modify the articles, and so on. In order to simplify the setting up of companies, the Companies Act 1948 included a specimen set of articles of association, which have been regularly updated; these were known as *Table A*. Following the Companies Act of 2006, these were replaced by a set that are now known as **model article**. Most new companies adopt these model articles as the basis of their articles of association and specify only the way in which their articles differ from the model ones.

Once a company has been registered, the memorandum of agreement and the articles of association are deposited at Companies House and are public documents, in the sense that anyone may visit Companies House and inspect them. It often happens in private companies that the shareholders wish to conclude a further agreement among themselves. Such an agreement is called a **shareholders' agreement**. It might, for example, say that, if a shareholder wishes to dispose of shares, the recipient of the shares must be a person acceptable to the remaining shareholders. Unlike the memorandum and the articles, a shareholders' agreement is not a public document.

3.6 DIRECTORS

In small companies, it may well be that the shareholders run the company directly but this is not feasible if there are more than a handful of shareholders; in any case, some shareholders may not wish to be involved directly in the day-to-day operations of the business. The law requires that the shareholders appoint directors to take responsibility for running the company on their behalf.

In small companies, the shareholders may actually be directors or at least be in regular contact with them. In large public companies, however, the shareholders have very little opportunity to influence the directors. To compensate for this, the law makes directors subject to certain obligations.

First, the Companies Act 2006 lays down that the overall duty of a director is to promote the success of the company for the benefit of its members as a whole, having regard to the following factors:

- the likely consequences of any decision in the long term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the company maintaining a reputation for high standards of business conduct;
- the need to act fairly as between members of a company.

More specifically:

- Directors must act in good faith and for the benefit of the company. Suppose, for example, that you are a director of a small company that writes software and that someone approaches you to have some software written. If you decided that you could do this yourself in your spare time rather than having it written by the company, you would not be considered to have acted in good faith for the benefit of the company, and you could be required to pay the company compensation for the loss of the contract.
- Directors must exercise the skill and care in carrying out their duties that might be expected from someone of their qualifications and experience. This means, for example, that a director with long experience of purchasing computers who signed a contract to buy a computer system that was not suitable for the use the company intended to make of it might be ordered by a court to pay back to the company the cost of the computer. Furthermore, directors must take the same care as an ordinary person might be expected to take on his or her own behalf.
- A director who has an interest in a contract made with the company (e.g. owning an office cleaning company that the company is thinking of employing) must disclose this interest to the board of directors. The model articles stipulate that the director must not be allowed to vote or be counted in the quorum when the matter is discussed but, in the case of a small company, this may well be varied.

The obligations described above can be described as domestic, that is, they are obligations owed to the company. In addition, there are certain external or legal obligations that the directors must fulfil:

- Directors are required to keep themselves aware of the company's financial position and not allow it to continue to incur debts when they know or should have known that the company will be unable to repay them. If they fail to do this, a court can make them personally liable for the company's debts.

- The directors are responsible for drawing up the company's annual report, including its accounts, and for filing this report with Companies House. We shall explore this in more detail in Chapter 6.
- The directors are responsible for ensuring that the company complies with all relevant provisions of the law. Although the company itself, having a legal existence, can be prosecuted for criminal breaches of the law, in some cases directors can be made personally responsible. Thus the Health and Safety at Work Act 1974 provides that in appropriate circumstances a director or other senior manager can be criminally liable if a company is found to be in serious breach of the Act.

Many companies have both executive directors and non-executive directors. Executive directors are normally also employees of the company, with specific responsibility for certain areas of its activities. Non-executive directors are directors who act in advisory capacity only. Typically, they attend monthly board meetings to offer the benefit of their advice and serve on committees concerned with sensitive issues such as the pay of the executive directors and other senior managers; they are usually paid a fee for their services but are not regarded as employees. It is important to realise that, legally, the duties and responsibilities of non-executive directors are precisely the same as those of the executive directors.

Every public company must have a company secretary; private companies can choose not to have a secretary. The company secretary is legally responsible for keeping the various records that the company has to maintain and for submitting various statutory returns to Companies House in Cardiff. He or she will normally also take responsibility for a variety of related matters. The company secretary is often also a director. Small companies often appoint an outsider, typically a solicitor or accountant, as company secretary, because such people are likely to have the necessary professional expertise.

3.7 TAKEOVERS, MERGERS AND OUTSOURCING

Limited companies, whether private or public, are, on the whole, short-lived. They disappear, not because they fail – although, of course, some do – or are wound up for other reasons, but because they are taken over by other companies.

3.7.1 Takeovers

How and why do such takeovers take place? The commonest scenario in the IT industry is of a private company, A, being taken over by a larger company, B, probably but not necessarily a public one. The mechanism of such a takeover is that B acquires all the shares of A, paying for them either in cash or in its own shares or in a mixture of both. It is likely that the shareholders of A will also be its directors and that much of the value of the company derives from the skills of these people and their contacts. Accordingly, there may well be an agreement that they will work for B for, say, the next three years.

Why might the owners of A want to sell the company? First, although as the owners of a successful small company they will be quite wealthy on paper, they are probably only able to pay themselves a comparatively modest salary and they certainly don't feel wealthy. Furthermore, their wealth on paper is critically dependent on the continued success of the company and probably vulnerable to a change in market conditions. By selling the company, they are able to convert their paper wealth into real money and, at the same time, protect themselves against fluctuations in the value of the company. A second reason for wanting to sell the company may be the need for further capital investment.

One reason why B may wish to buy A is that A has intellectual property or high level skills that complement those of B. In one such case, A was a small company that had developed software for automatically carrying out failure mode analysis on the electrical system of a car, that is, it would predict the result of all the different possible ways in which the electrical system could fail. Such an analysis, formerly done by hand, is a requirement before a new model of car can be put on the market. Although A's technical development had been successful, it did not have the resources to market its software successfully. B was a large US-based multi-national company that produces electronic design automation tools. A's software complemented B's software perfectly and B already had excellent access to all its potential customers. B bought A, and A's software became one of B's products and continued to be maintained and developed by staff who had developed it originally.

A very different type of takeover occurred in 1991, when the British software house SD-Scicon, which specialised in defence and other hi-tech systems, was taken over by the American company Electronic Data Systems (EDS). EDS was in the business of providing IT services to large organisations, particularly in the field of health services. It showed no interest in SD-Scicon's traditional markets and rapidly shed the considerable number of highly skilled professional staff who worked for the company. It used the acquisition of SD-Scicon as a means of getting a foothold in the much more profitable market for IT services in the UK but SD-Scicon effectively lost its identity and completely disappeared.

In contrast, when EDS itself was acquired by Hewlett-Packard for $13.9 billion in 2008 it was able to retain its identity, staff and structures, although it now trades as HP Enterprise Services. In this instance, Hewlett-Packard wanted to enter the large and profitable area of IT services and it chose to do so by acquiring a company that was a major player in the field. To have broken up EDS would have defeated the purpose of the takeover.

In cases such as these last two examples, where the company being acquired is a public company, the stock exchanges on which the companies' shares are quoted impose strict regulations in an attempt to prevent improper exploitation of the situation.

REASONS FOR TAKEOVERS

From the point of view of the owners and managers of the acquiring company, the fundamental reasons for taking over another company are to make more money and to get bigger. In more detail these amount to:

- expanding the customer base. This occurs particularly when the company taken over offers services similar to those of the buying company but in a different geographical area;
- expanding its range of offerings. This occurs when the company taken over offers products or services that are complementary to those of the buying company, for example, when a company offering a human resources package acquires a company that offers a payroll package;
- acquiring new staff. There has been a shortage of high quality IT staff for most of the past 40 years and this has prevented many companies expanding as they would have wished. Taking over another company can be a quick way of acquiring additional staff;
- economies of scale. The larger company's human resources (HR) department, for example, may be able to take on HR responsibilities for the company being taken over, without itself requiring any extra staff. It is frequently claimed that such savings will result from a takeover but the reality is that the savings are usually small and often negligible;
- vertical integration;
- eliminating a competitor.

These benefits do not come without risks. The acquisition in 2007 of the Dutch bank ABN AMRO by a consortium including the Royal Bank of Scotland is a recent example of an acquisition that, far from yielding the expected benefits, resulted in disaster for the purchaser. There are many similar, if less well-publicised, examples in the IT industry.

3.7.2 Mergers

In a takeover, one company gains control of another by acquiring a majority, if not all, of its shares. Although the terms takeover and merger are commonly used synonymously, strictly speaking there is a difference. In a merger, the two companies come together on equal terms. A common mechanism is that a new company is set up, which acquires all the shares of the merging companies in exchange for its own shares; the merging companies themselves cease to exist.

Mergers in this strict sense are comparatively uncommon. A good example, however, was the merger of the two telephone operating companies Bell Atlantic and GTE to form Verizon Communications Inc. This merger, completed in June 2000, was one of the largest mergers in American industrial history. There is a risk that mergers on this scale can have a serious effect on competition and work against the public interest. For this reason, they may be subject to examination under monopolies legislation (anti-trust legislation in the USA). It took two years to obtain complete approval of the merger of Bell Atlantic and GTE.

3.7.3 Management buyouts

It may happen that some of the senior employees of a company decide to purchase the company from its existing owners. This is known as a management buyout. It will usually require a lot of capital to do this and the purchasers will need to borrow this. However, the lenders are likely to demand that the purchasers shoulder a significant part of the risk by raising a substantial amount of capital, for example, by mortgaging their homes. At first sight a management buyout looks praiseworthy – the people who are running the company become its owners. In practice, there are many potential conflicts of interest. The management may run the company down over a period before bidding to buy it, thus reducing its apparent value and the sum they have to pay to buy it. Once they have bought it, they rapidly build the company up again before selling it at a considerable profit.

3.7.4 Outsourcing

Outsourcing is contracting out activities or processes from one business to another. Fifty years ago, large companies would employ their own cleaners, their own gardeners to look after their grounds, their own maintenance staff and painters to look after their premises, their own catering staff to run the staff canteen, and so on. Nowadays all, or most of, these activities will be outsourced, that is, contracted out to other, specialist companies. More surprisingly, perhaps, so will the processing of the company's payroll and the maintenance of staff records. Theatres and airlines outsource the sale of tickets. And some organisations outsource the whole of their IT operations.

Historically, outsourcing in the UK was associated particularly with IT and the civil service and was introduced by the Conservative government under Margaret Thatcher that came to power in 1979. The Conservative party was committed to the politically popular goal of reducing substantially the number of civil servants. By outsourcing the provision of government IT services, the number of civil servants could be cut dramatically. At the same time, there were good reasons for thinking that this might lead to an improvement in the quality of those services – the civil service had difficulty in recruiting and retaining high quality IT staff, while specialist outsourcing companies, not being subject to the same staffing restraints as the civil service, had fewer problems.

As a result of this policy, which has been accepted by all succeeding governments, of whatever complexion, almost all government operational IT is now outsourced. The policy has been by no means universally successful and there have been many examples of serious problems. However, it must be borne in mind that the size and scope of government IT systems is much greater than that of systems in use in private industry. If outsourcing companies have often failed to appreciate this, so also have politicians and civil servants.

ARGUMENTS FOR OUTSOURCING

Outsourcing is now widely practised by private industry as well as by the public sector. The arguments put forward in favour of outsourcing IT provision can be summed up as follows:

- It frees management to concentrate on the core business of the company.
- It makes the costs of IT more visible and therefore easier to control.
- Specialist companies are able to produce and operate more effective systems because:
  - they have much wider experience of system development than do user companies;
  - they can justify employing highly specialised staff;
  - working in a specialised IT company provides a better career path for IT staff than working for a user organisation.
- Overall, it saves money.

There is an element of truth in all these points but there is also a danger that the company that outsources too much of its IT provision may lose control and understanding of its own operations.

Outsourcing is often associated with **off-shoring**, that is, moving activity to other countries. Thus, companies in Britain may outsource software development to companies in India. The reason for doing this is straightforwardly one of cost. Well qualified and experienced software engineers in India earn much less than they do in the UK and there are plenty of them available.

Employment issues connected with outsourcing are considered in Chapter 9 and outsourcing contracts are discussed in Chapter 12.

3.8 NON-COMMERCIAL BODIES

3.8.1 Statutory bodies

Roughly speaking, about 80 per cent of jobs in the UK are in the private sector and provided, on the whole, by limited companies. The remaining 20 per cent are in the public sector – local government, the National Health Service, education, the police, the armed services and so on. It is in the nature of the public sector that it deals with data on a much larger scale than most private sector organisations – very few private companies have as many as a million customers but the Department for Work and Pensions holds records for everyone in the UK over the age of 16 – about 50 million people. Because of the large numbers involved, such public sector bodies make great demands on IT services; they employ many IT staff directly and many more work for private sector companies that provide IT services to the public sector. Large public sector IT projects also have very poor record of success, precisely because of their size.

Many public sector organisations come into existence by statute, that is, by Act of Parliament. Such organisations are often referred to as statutory bodies. Frequently the organisations themselves are created by secondary legislation. In the terms of object-oriented programming, the Act of Parliament defines a class of organisations, specifying their structure, their duties and their powers. Secondary legislation is then used to create objects belonging to that class, that is, specific instances of it. Thus, in the field of local government, the Local Government Act 1992 created the class of unitary authorities together with a body, the Local Government Commission, which would make recommendations for the creation of specific unitary authorities; these authorities would then be created by secondary legislation. The unitary authorities themselves are empowered to create and run schools and certain other public services.

The overall objective of the directors of a limited company is fairly straightforward even if achieving them is difficult: they have to run the company in order to make as much money for the shareholders as they reasonably can, while having due regard to the interests of the employees and certain other defined considerations. If the shareholders are unhappy they can either sell their shares or, if enough of them are unhappy, they can vote to replace the directors. If the directors fail to run the company profitably it will ultimately be forced to close or it will be taken over.

The position in the public sector is very different. The overall objective of a public body is to provide some sort of public service such as keeping the roads in an area in good condition, providing education for children or administering state pensions. There are no shareholders but everyone has an interest in seeing that the body does its job satisfactorily. But profitability is not a measure of success and the option of closure if the body does not perform satisfactorily is not usually acceptable. There thus needs to be some mechanism for making the management of the body accountable to the general public.

Many different mechanisms have been adopted to achieve accountability in the public sector. At the level of national and local government, accountability is achieved through the ballot box. Members of Parliament and local councillors are elected for limited terms and they take responsibility for the activities of national and local government respectively. However, their role is fundamentally different from that of directors of a company. Company directors – or, more precisely, executive directors – are expected to run a part of the company and are usually selected on the basis of their ability to do this. Members of Parliament and local councillors are elected to represent the public and to contribute to council policy making, rather than to the carrying out of policy. The national government and local councils employ professionals – civil servants, engineers, IT staff, social workers, teachers and so on – to carry out their policy. There is often a tension between politicians, who are motivated by policy issues, and the professionals, who are motivated by practical considerations. Too often, professionals feel that the politicians are stick-in-the-muds who are opposed to all change, while the professionals feel that the councillors have their heads in the clouds and don't understand the practicalities. A particular problem that frequently arises is that politicians decide that a change to, say, the social security system is required. They fail to realise how long it will take to make and test the necessary changes to the IT systems and insist that the changes are implemented too quickly. The result is that the system fails and causes serious problems for some members of the public. The IT professionals – or, increasingly often, the company to which the development is outsourced – are blamed for the failure. In most such cases, the blame should be shared: on the one hand, those responsible for setting over-ambitious goals and timescales and insisting on them, against professional advice, must take their share of the blame but, on the other hand, outsourcing companies are too eager to sign lucrative contracts whose timely fulfilment depends on a lot of very optimistic assumptions.

3.8.2 Other non-profit-making bodies

As well as statutory bodies, there are very many organisations whose activities are generally seen to be in the public interest and which are not intended to be profit-making. Such organisations include professional bodies, such as BCS or the Institute of Physics, political parties, charities such as Oxfam or Christian Aid and so on. Such organisations usually take the legal form of a **company limited by guarantee**. In this case, rather than subscribing for shares, the members agree that, in the event that the body has to be wound up, each will pay a small fixed amount (typically £1) to cover liabilities. A company limited by guarantee is not allowed to distribute its profits to its members. It can apply for charitable status and for the grant of a royal charter.

Like most of the larger professional bodies, BCS is a company incorporated by royal charter and a registered charity. The royal charter states that 'the government and control of the Institute and its affairs shall be vested in the Trustee Board'. This means that the Trustee Board performs the functions of the board of directors of company and of the trustees of a charity. The Trustee Board consists of the President, Deputy President and the immediate past President, all of whom serve for one year, plus the four Vice-Presidents and five other members. All the members of the Trustee Board are elected by the Council, which consists of the members of the Trustee Board, together with 27 members elected directly by the membership of BCS and the chief executive, who is the only member who is a paid employee of BCS.

An organisation the size of BCS is much too large to be run solely by its members and so, like most professional bodies, it is run by a combination of full-time employees and volunteers from amongst its members. The structure described in the previous paragraph seems, on the face of it, to ensure control of the Institute rests firmly with its members. In practice, however, the short tenure of the senior elected officers and the limited amount of time that members, who have full-time professional commitments elsewhere, can devote to BCS business, mean inevitably that the senior full-time employees have a great deal of influence over BCS policy and the way it is carried out.

FURTHER READING

The UK government has a website that describes in simple language the duties of a director of a private limited company:
www.gov.uk/running-a-limited-company

The Corporate Responsibility (CORE) Coalition has produced a much more sophisticated guide to directors' responsibilities, which can be found at:
http://corporate-responsibility.org/wp-content/uploads/2009/09/directors_guidance_final.pdf

The Companies House website provides detailed information about registering a company, filing a company's annual return, changing a company's details and so on:
www.companieshouse.gov.uk