

Professional Issues in IT

Organizations



What is the organization?

- A group of people working together in a formal way.
- We daily face many organizations like schools, colleges, universities, civil service organizations, defense and security organizations, and business organizations etc.
- Every organization need to have a legal existence
- Organizations vary among Commercial, government, non-government, and private organizations

Different Types of Organizations

- Commercial: Conducts business to make money
- Government Organization: formed and owned by government
- Non-government Organization: works as private organizations for public interest.

Commercial Organizations/Sole Trader

- Commercial Organizations could be legally setup and operated in different ways
- Securities and Exchange Commission of Pakistan (SECP) operates as regulator in Pakistan.
- Sole Trader:
 - Owned by single person
 - No legal obligations to setup
 - Optionally register with Income tax and land revenue departments
 - Personal liability of all debts to the business
 - All assets and savings are at risk
 - For a medium or large scale organization, it is recommended not to operate as a sole proprietor.

Partnerships

- Partnership:
 - A group of people carry on a business with a view to making profit.
 - According to Pakistan's Companies Act 2017, the partnership could be formed among 20 people at maximum.
 - The liability of partners is unlimited
 - Partners are jointly responsible for all the liabilities
 - Difficulty of making changes in the ownership (in case of retirement/death of a partner)
 - Certain professions (such as law, medicine, or architecture) promote partnerships

Cooperative

- Cooperative:
 - A private business organization
 - Owned, controlled, and operated by the people who use its products, supplies or services
 - Vary in type and membership size
 - All were formed to meet the specific objectives of members
 - Structured to adopt to members' changing needs
 - Important in the fields of public interest such as agriculture, religion etc.
 - Never opted by IT organizations

Limited company

- Limited Company
 - Commonest form of commercial organizations
 - Most suitable for most of the organizations
 - Three Fundamental principles
 - The company has legal entity
 - A person (or department) separate from workers and owners in the company
 - The ownership of the company is divided into a (usually large) number of shares
 - Shareholders can buy and sell their ownership
 - The owner of the companies have no legal obligations to pay the debts and liabilities
 - Shareholders' money will be used to clear the debts and liabilities

Limited company

- Limited Company
 - Two types of limited companies exist
 - Public limited company
 - A public limited company can sell its shares to general public
 - The legal name of public limited company ends with plc.
 - Private limited company
 - A private limited company can not sell the shares publically
 - The legal name of private limited company end with Limited. or Ltd.

Limited company has Obligations

- It must provide details about itself to SECP
 - Organization structure, board of directors, financial statements etc.
- Details must be kept updated and it should be available to general public
- It must produce annual accounts and an annual report for public and SECP
- The public limited companies (who offer shares through stock exchange) have more stringent requirements (e.g. publishing company accounts on website and newspapers).

Constitution of a Limited Company

- A company must have a constitution (describing the rules)
- It consists of two documents
 - Memorandum of Agreement
 - Articles of Association
- The memorandum of agreement is fairly a short and straightforward document. It describes:
 - The name of the company
 - The country in which the head office will be located
 - Objective statement of the company
 - A liability clause
 - The company's authorized share capital and the number and nominal values of its shares.
 - Declaration of association among desirous people who want to form the company

Constitution of a Limited Company

- Articles of Association
 - A complicated, detailed, and technical document. It describes:
 - Number of directors
 - How directors are appointed and removed
 - What are the powers of directors
 - What happens when new shares will be issued
 - What process is required in order to modify the articles
 - SECP provides templates and sample documents to prepare memorandum of agreement and article of association
 - Once registered, the memorandum of agreement and articles of association are available publically for shareholders
 - “Shareholders agreement” is a private agreement among shareholders and it is not available to public.

Board of Directors

- Small companies are operated by individuals
- Large companies are directed by group of people who may or may not be shareholders
- Directors take the responsibility and runs the company on behalf of shareholders
- Directors are not free to move. Certain Domestic Obligations are:
 - Directors must have regard to company's employees and its shareholders
 - Directors must act in good faith and for the benefit of the company
 - Directors must be skillful and fit for the job
 - A director must declare the contrast of interest before board of directors

Board of Directors

- Legal Obligations for directors
 - 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.
 - Directors are responsible for drawing up the company's annual report, including the accounts, and for filing this report with SECP.
 - Directors are responsible for ensuring that the company complies with all relevant provisions of the law. While the company itself, having a legal status, can be prosecuted for criminal breaches of law, in some cases directors can be made personally responsible

Board of Directors

- Companies have two types of directors
- Executive directors
 - Normally employees of the company
 - Have certain responsibilities and assigned activities
- Non-executive directors
 - Works as advisors
 - Typically attend monthly meetings
- Company Secretary
 - Every company **MUST** have a company secretary
 - S/he is responsible for keeping and maintaining records that need to be submitted to SECP
 - Often also acts as director
 - Small companies appoint external accountant and/or solicitor as company secretary

Non-commercial organizations

- Formed either by Government as regulators or works as not-for-profit organizations.
 - Usually charge a nominal fees to cover daily expenses
 - Profits are used to run promotional activities, scholarships and other welfare activities.