

# CENG20008

# Professional Engineering

The Commercial and Legal Frameworks for  
Engineering Businesses

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13th November 2018

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# Today's Objectives

- By the end of this lecture, students will have an understanding of:
  - the reasons why organisations are formed
  - the different structures that businesses can use
  - the different types of businesses that can be seen in the UK's private sector
- These topics address Learning Outcomes 2 and 4 in Professional Engineering

# Overview

- Organisations come in all shapes and sizes, and all are regulated using the same legal frameworks
- Engineers have to understand how organisations work in order to manage professional or technical tasks effectively
- Company operations can be constrained by the legal form that has been adopted
- UK legal system is commonly used as the basis for companies

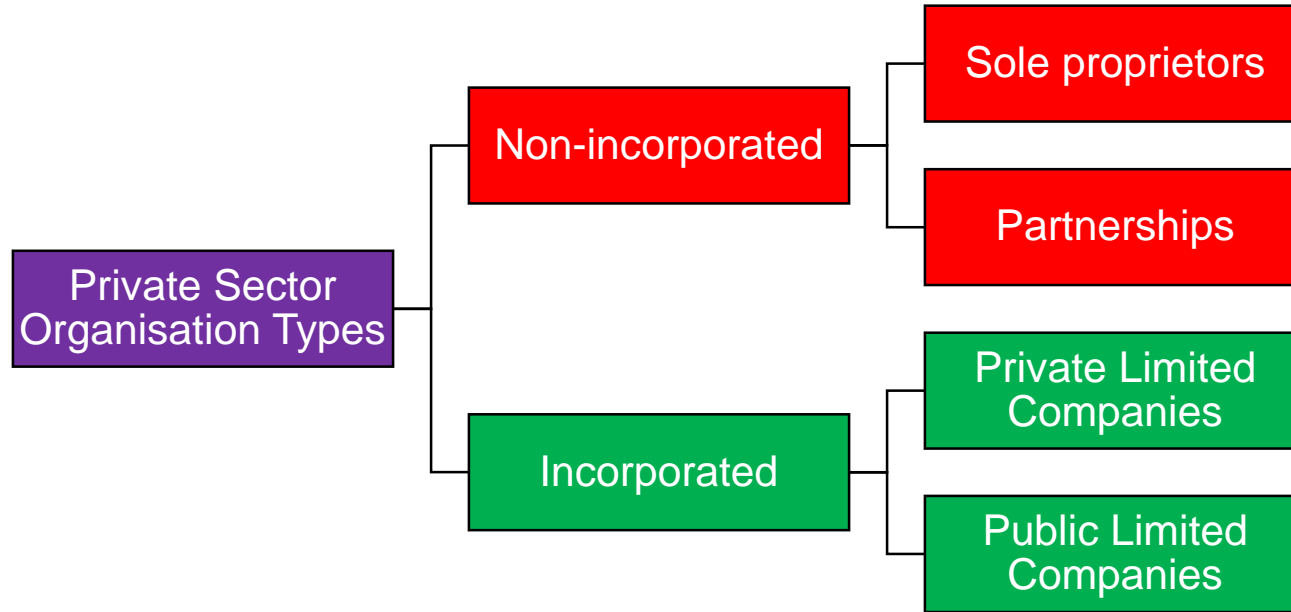
# Organisation Types

Non-Incorporated Organisations	Limited Companies	Other business organisations
Sole Proprietors	Public Limited Company	Charities
Partnerships	Private Limited Company	Government Departments
		Non-Government Organisations
		Co-operatives
		Franchises

# Why Does This Matter?

- Legal status required to complete any/all of the following:
  - to make a contract
  - to conduct business transactions
  - to own property
  - to employ people
  - to sue (or be sued) for breach of contract or other reasons
- Organisation types help define the legal status of the business

# Taxonomy of UK Private Sector Businesses<sup>(1)</sup>



# Sole Traders

## ▪ Advantages

- simplest structure possible
- no set-up fees
- single owner (= total control)
- agile and responsive
- highly personalised service possible
- all profits belong to the owner

## ▪ Disadvantages

- All assets, liabilities and losses belong to the owner
- personal possessions (such as family homes) used as security for finance
- very difficult to get extra funding for business development
- very long hours and very low pay in early years
- no sick pay, holidays, training courses

# Partnerships

## ▪ Advantages

- ownership shared across several people
- liability and responsibility shared
- less formal/expensive than forming a company
- accounts remain strictly private
- wider range of skills and resources

## ▪ Disadvantages

- Joint liability for any contract made by any partner
- harder to make quick decisions
- access to capital constrained once partnership is formed
- sudden changes to partners (e.g. death, bankruptcy) could wreck the business



# Limited Companies

## ▪ Advantages

- Limited liabilities for directors and shareholders
- Share ownership open to any investor
- Greater opportunities to access capital from existing and new investors

## ▪ Disadvantages

- Very cumbersome and expensive to set up and administrate
- banks may be reluctant to lend money
- investors not automatically entitled to all the profits

# Limited Companies: Private vs. Public

## ▪ Private (Limited)

- Closed shareholder group
- financial reports are not made public
- access to new capital restricted by original shareholder structure

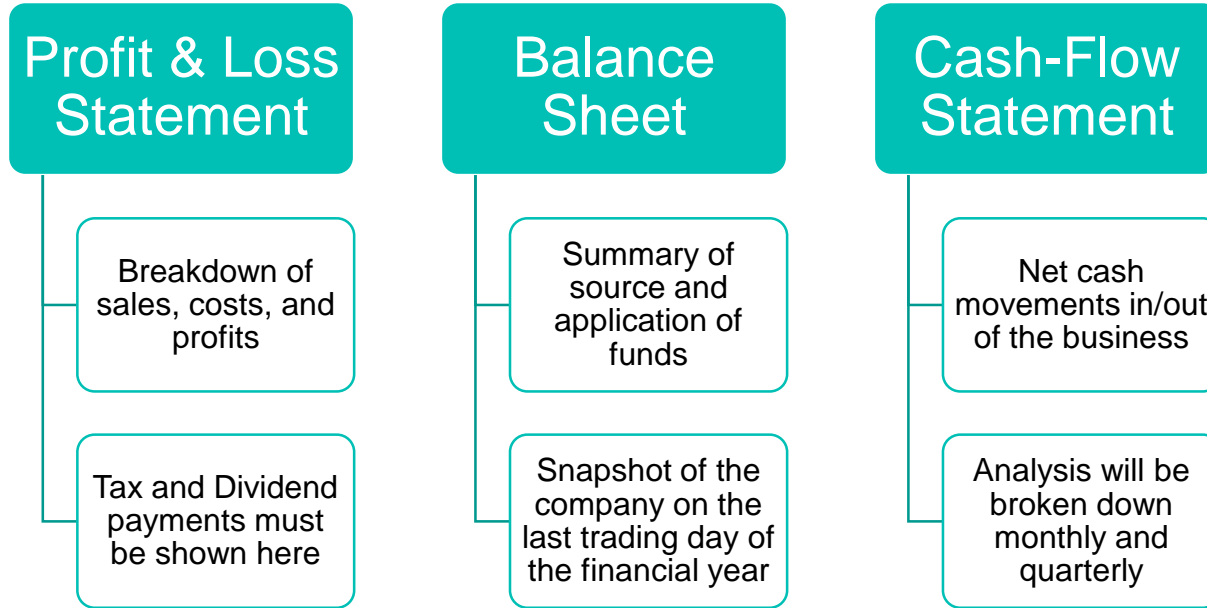
## ▪ Public (plc)

- Open to any potential investor
- all financial reports must be published to all shareholders
- ‘shareholder revolts’ challenge the authority of the Board of Directors

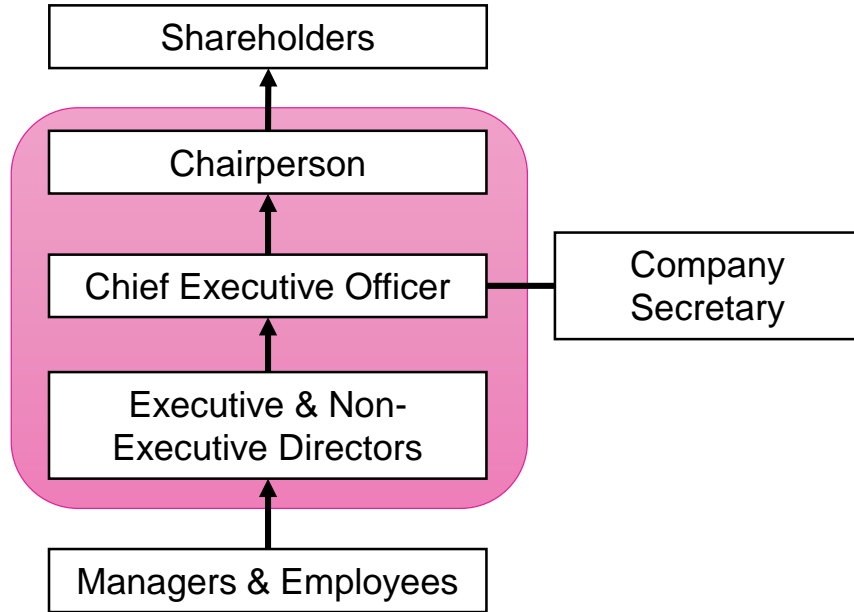
# Limited Liability Comes At A Price

- Limited companies must, when they are formed:
  - file Articles of Association and Memorandum of Association at Companies House
- Audited Accounts of the business must be filed annually, without exception
- Articles of Association
  - set out the internal procedures of the company, including:
    - identifies of shareholders (private companies only)
    - process for electing directors
    - contact information for all directors
- Memorandum of Association
  - extensive background data for the company's head office, purpose, value of share capital, etc.

# Annual Audited Accounts



# Management & Control of Limited Companies (1)



- Management structure governed by law (statutory demands)
- Board of Directors (highlighted) are collectively responsible for the total organisation
  - they answer to the shareholders
  - they are on rolling 1-3 year contracts

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# Other Types of Business Organisation

- Not-For-Profit

- profit is not the primary motive for the organisation
  - charities provide services to target groups
  - government departments provide services to meet the needs of the population
- think surplus & deficit, not profit & loss

- Other

- Co-operatives
- Business Franchises

# Other Business Organisations

## ▪ Co-operatives

- started back in 1840's
- members, not shareholders
- mutual responsibility for operations
- very supportive of all members
- all profits are shared

## ▪ Franchises

- allow others to operate your business idea as their own
- alternative to organic growth
- lower risk than opening new outlets on your own
- strict commercial terms often enforced on franchisee

# Conclusions

- Business organisations have evolved since the Industrial Revolution to overcome the complexity and scale of commercial ventures
- In order to limit personal liability, legal entities were created to protect investors and business owners from financial ruin
- Management processes (financial and people) are essential in order to maintain safe business operations
- Legal protection (limited liability) comes at a price: regulation and formal reporting of revenues, costs, profits and losses



# References

1. Campbell, D., & Craig, Tom. (2005). Organisations and the business environment / David Campbell and Tom Craig. (2nd ed.). Amsterdam ; London: Elsevier Butterworth-Heinemann.