Companies

There are many examples of LIMITED COMPANIES in the UK. They range from Garrick Engineering, a small family business, to British Airways which has many thousands of shareholders. One feature is that they all have a separate legal identity from their owners. This means that they can own assets, form contracts, employ people, sue and be sued in their own right. Another feature is that the owners all have limited liability. If a limited company has debts, the owners can only lose the money they have invested in the firm. They cannot be forced to use their own money, like sole traders and partners, to pay business debts.

The capital of a limited company is divided into shares. Each member or shareholder owns a number of these shares. They are the joint owners of the company and can vote and take a share of the profit. Those with more shares will have more control and can take more profit.

Limited companies are run by directors who are appointed by the shareholders. The board of directors, headed by a chairperson, is accountable to shareholders and should run the company as the shareholders wish. If the company’s performance does not live up to shareholders’ expectations, directors can be ‘voted out’ at an Annual General Meeting (AGM).

Whereas sole traders and partnerships pay income tax on profits, companies pay corporation tax.

Forming a limited company

How do shareholders set up a limited company? Limited companies must submit some important information to the Registrar of Companies.

Memorandum of Association The Memorandum sets out the constitution and gives details about the company. The Companies Act 1985 states that the following details must be included:

- The name of the company.
- The name and address of the company’s registered office.
- The objectives of the company, and the scope of its activities.
- The liability of its members.
- The amount of capital to be raised and the number of shares to be issued.

A limited company must have a minimum of two members, but there is no upper limit.

Articles of Association The Articles of Association deal with the internal running of the company. They include details such as:

- the rights of shareholders depending on the type of shares they hold;
- the procedures for appointing directors and the scope of their powers;
- the length of time directors should serve before re-election;
- the timing and frequency of company meetings;
- the arrangements for auditing company accounts.

Form 10 This form gives details of the first directors, secretary and the address of the registered office. Directors must give their names and addresses, dates of birth, occupations and details of other directorships they have held within the last five years.

Form 12 This form is a statutory declaration of compliance with all the legal requirements relating to the incorporation of the company. It must be signed by a solicitor who is forming the company, a director or the company secretary.

These documents will be sent to the Registrar at Companies House. If they are acceptable, the company’s application will be successful. It will be awarded a Certificate of Incorporation which allows it to trade. The Registrar keeps these documents on file and they can be inspected at any time by the general public for a fee. A limited company must also submit a copy of its Annual Report and Accounts to the Registrar each year. The accounts will include information such as the balance sheet and income statement or profit and loss accounts of the business. Finally, the shareholders have a legal right to attend the AGM and should be told of the date and venue in writing well in advance.

Question 1.

MD Chris Lay re-mortgaged his house to launch Gigasat Limited in 2000. The business was incorporated on 16.10.2000 and the registered address is 12 Rylands Mews, Lake Street, Leighton Buzzard, Bedfordshire. The company’s registration number is 04090608. The company develops satellite communications equipment, such as lightweight, carbon-fibre antennas, and vehicles installed with satellite systems. Clients include the news channels CNN and Al Jazeera. They use Gigasat technology for live television coverage. The equipment has also been adopted by the government and the military for secure satellite transmissions. For example, its equipment allows troops posted abroad to access the Internet and talk to loved ones. Sales have grown 67% per cent a year from £2 million in 2003 to £5.7 million in 2005.

Source: adapted from Tech Track 100 and information from Companies House.

(a) What evidence is there in the case to suggest that Gigasat is a private limited company?

(b) What legal obligations will Gigasat Limited have to:
   (i) shareholders and (ii) the Registrar of Companies each year?

(c) Discuss two advantages to the owners of Gigasat Limited of operating as a private limited company.
Private limited companies

Private limited companies are one type of limited company. They tend to be relatively smaller businesses, although certain well known companies, such as Reebok and Littlewoods, are private limited companies. Their business name ends in Limited or Ltd. Shares can only be transferred 'privately' and all shareholders must agree on the transfer. They cannot be advertised for general sale. Private limited companies are often family businesses owned by members of the family or close friends. The directors of these firms tend to be shareholders and are involved in the running of the business. Many manufacturing firms are private limited companies rather than sole traders or partnerships.

Advantages of private limited companies

There are certain advantages in setting up a business as a private limited company:

- Shareholders have limited liability. As a result more people are prepared to risk their money than in, say, a partnership.
- More capital can be raised as there is no limit on the number of shareholders.
- Control of the company cannot be lost to outsiders. Shares can only be sold to new members if all shareholders agree.
- The business will continue even if one of the owners dies. In this case shares will be transferred to another owner.
- There may be tax advantages for the owners, particularly if owners are currently paying the higher rate of income tax. Profits can be retained by the company and distributed to the owners at a later date, for example when they retire.
- Some businesses may not deal with unlimited businesses or businesses that are not registered for VAT. This is because they think that limited companies registered for VAT are more likely to be run well, since, they have to keep proper accounts and tend to use the professional advice of accountants and solicitors.

Disadvantages of private limited companies

There are some disadvantages in setting up a business as a private limited company:

- Profits have to be shared out among a much larger number of members.
- There is a legal procedure in setting up the business. This takes time and also costs money.
- Firms are not allowed to sell shares to the public. This restricts the amount of capital that can be raised.
- Financial information filed with the Registrar can be inspected by any member of the public. Competitors could use this to their advantage.
- If one shareholder decides to sell shares it may take time to find a buyer.

Public limited companies

The second type of limited company tends to be larger and is

Question 2.

Burton’s Foods, famous for its Wagon Wheels and Jammie Dodgers biscuits, was bought by the private equity company, Duke Street Capital in 2007. Burton’s, the UK’s second largest biscuit producer, employs 3,000 people on five sites in the UK. Founded in the 1930s it became part of Associated British Foods in 1949 before being sold to Hicks, Muse, Tate & Furst seven years ago. The deal was said to be worth around £200 million. However, just two months later the new owners announced that biscuit production would cease at its factory in the Wirral, with the loss of 660 jobs. The announcement of the job cuts sparked an angry reaction from unions.

Tony Woodley, joint general secretary of the newly-created Unite union, said: ‘We are not going to just roll over and accept this. We will be urgently consulting with our members about a strategy to keep the factory open and will meet management on Monday to hear their rationale for this body-blown to Merseyside manufacturing’.

The factory in Moreton is the biggest employer in the Wirral after Vauxhall cars. Mr Woodley said the job losses would ‘devastate the community’. The company is to stop making biscuits, at the site but will continue to manufacture chocolate and assemble seasonal assortments at the factory. It is thought 330 jobs will remain on the site. Paul Kitchener, chief executive of Burton’s Foods, said that while the company ‘sincerely’ regretted the loss of jobs, the changes were needed because of overcapacity in the biscuit market.

Source: adapted from The Guardian, 19.3.2007.

(a) Using this case as an example, explain what is meant by a private equity company.

(b) What evidence is there in the case to suggest that the private equity company is pursuing ruthless efficiency gains?
called a public limited company. This company name ends in plc. There were around 1.85 million registered limited companies in the UK in 2006. Only around 1 per cent were public limited companies. However, they contributed far more to national output and employed far more people than private limited companies. The shares of these companies can be bought and sold by the public on the stock exchange.

When ‘going public’ a company is likely to publish a Prospectus. This is a document which advertises the company to potential investors and invites them to buy shares before a FLOTATION. An example of a company floated on the stock exchange in 2006 is Styles & Wood. It supplies property services to retailers such as Waitrose and B&Q. ‘Going public’ can be expensive because:

- the company needs lawyers to ensure that the prospectus is ‘legally’ correct;
- a large number of ‘glossy’ publications have to be made available;
- the company may use a financial institution to process share applications;
- the share issue has to be underwritten (which means that the company must insure against the possibility of some shares remaining unsold) and a fee is paid to an underwriter who must buy any unsold shares;
- the company will have advertising and administrative expenses;
- it must have a minimum of £50,000 share capital.

A public limited company cannot begin trading until it has completed these tasks and has received at least a 25 per cent payment for the value of shares. It will then receive a trading certificate and can begin operating, and the shares will be quoted on the Stock Exchange or the Alternative Investment Market (AIM).

A stock exchange is a market where second hand shares are bought and sold. A full stock exchange listing means that the company must comply with the rules and regulations laid down by the stock exchange. Many of these rules are to protect shareholders from fraud. The AIM is designed for companies which want to avoid some of the high costs of a full listing. However, shareholders with shares quoted on the AIM do not have the same protection as those with ‘fully’ quoted shares.

Advantages of public limited companies

Some of the advantages are the same as those of private limited companies. For example, all members have limited liability, the firm continues to trade if one of the owners dies and more power is enjoyed due to their larger size. Others are as follows:

- Huge amounts of money can be raised from the sale of shares to the public.
- Production costs may be lower as firms may gain economies of scale.
- Because of their size, plc's can often dominate the market.
- It becomes easier to raise finance as financial institutions are more willing to lend to plc's.
- Pressures from the financial media and financial analysts, as well as the danger that the plc might be taken over by another company, encourage executives and managers to perform well and make profits. These pressures do not exist for private limited companies.

Disadvantages of public limited companies

There are also disadvantages in setting up a public limited company.

- The setting up costs can be very expensive - running into millions of pounds in some cases.
- Since anyone can buy their shares, it is possible for an outside interest to take control of the company.
- All of the company's accounts can be inspected by members of the public. Competitors may be able to use some of this information to their advantage. They have to publish more information than private limited companies.
- Because of their size they are less able to deal with their customers at a personal level.
- The way they operate is controlled by various Company Acts which aim to protect shareholders.
- There may be a divorce of ownership and control which might lead to the interests of the owners being ignored to some extent.
- It is argued that many of these companies are inflexible due to their size. For example, they can find change difficult to cope with.

Some public limited companies are large and have millions of shareholders and a wide variety of business interests all over the world. They are known as multinationals, which means that they have operations in a number of different countries. For example, Kellogg's is an American based multinational company with a production plant and head office situated in Battle Creek, USA. It has also had factories in Manchester, Wrexham, Bremen, Barcelona and Brescia.

Exiting the stock market

Sometimes a business operating as a public limited company is taken back into private ownership. This may be called ‘exiting the stock market’. Why does it happen?

- The people responsible for running the business might no longer be willing to tolerate interference from the external shareholders. For example, shareholders such as financial institutions may demand higher dividends when the senior managers would prefer to reinvest profits to generate more growth.
- Sometimes businesses lose favour with the stock market. This may happen when city analysts publish unhelpful or negative reports about companies failing to reach profit targets for example. Such publicity often has the effect of lowering the share price very sharply.
- A business currently operating as a plc may be bought...