

CHAPTER 11

COMPANIES

◇ Useful words and concepts

company

set up

run

business

operate

paperwork

completed

legal body

owners

shareholders

deal with

shares

promoter

directors

apply to

registrar of companies

issue

authorised capital

issued capital

actually

in stages

call

paid up capital

private companies

public companies

family businesses

traded

stock exchange

board of directors

managing director

set out

rights

raise

unlimited-liability businesses

limited liability

full quotation

dealers

control

purchased

takeover bid

quoted

Stock Exchange Council (the)

go public

arrange for

merchant banks

handle

paperwork

placing

share-buying institutions

pension funds

say

secure

underwritten

share capital

advertised

leading

apply

up and running

rights issue

Instructions For Study

1. Turn to the **definitions** following the text *Companies*. They refer to the specialist terms printed in **bold** type in the list of **Useful words and concepts**. Study them closely and pinpoint them in the text.
2. Use an **English** language dictionary to check the meanings (in context) of the other words in the list.
3. Do the exercises to improve language skills.

Companies

A company is set up to run a business. It has to be registered before it can start to operate, but once all the paperwork is completed and approved the company becomes recognised as a legal body. The owners of a company are its *shareholders*. However, other individuals and businesses do not deal with the shareholders – they deal with ‘the company’. Shareholders put funds into the company by buying shares.

The promoter or directors of the company can apply to the Registrar of Companies for permission to issue new shares. The amount that the Registrar agrees to is called the *authorised capital*. The *issued capital* is the value of the shares that are actually sold to shareholders. A company may choose not to issue the full value of its authorised capital: it may hold back a certain amount for future issue.

Shares can be issued for payment in stages over a period of time. Each stage is then termed a ‘*call*’. There may be three or four calls before the full price is finally paid. The *paid-up capital* is the money that has been received for these partly paid shares.

Private companies tend to be smaller than public ones and are often family businesses. There must be at least two shareholders but there is no maximum number. Shares in private companies cannot be traded on the Stock Exchange, and often shares can only be bought with the permission of the *board of directors*. The board of directors is a committee set up to protect the interests of shareholders. The members of the board choose the managing director, who is responsible for the day-to-day running of the business. The rules of the business set out when shareholders’ meetings will take place and the rights of shareholders.

Private companies may find it possible to raise more cash (by selling shares) than unlimited-liability businesses. The shareholders can also have the protection of limited liability. The main disadvantages compared with unlimited-liability businesses are that they have to share out profits among shareholders and they cannot make decisions so quickly. They cost more to set up.

A *public company* has its shares bought and sold on the Stock Exchange. Companies can go to the expense of having a ‘full quotation’ on the Stock Exchange so that their share prices appear on the dealers’ visual display screens. The main advantage of selling shares through the Stock Exchange is that large amounts of capital can be raised very quickly. One disadvantage is that the original shareholders can lose control of the business if large quantities of shares are purchased as part of a ‘takeover bid’. It is also costly to have shares quoted on the Stock Exchange.

In order to create a public company the directors must apply to the Stock Exchange Council, which will carefully check the accounts. A business wanting to 'go public' will then arrange for one of the merchant banks to handle the paperwork. Selling new shares is quite a risky business. The Stock Exchange has 'good days' (when a lot of people want to buy shares) and 'bad days' (when a lot of people want to sell). If the issue of new shares coincides with a bad day a company can find itself in difficulties. For example, if it hopes to sell a million new shares at £1 each and all goes well, it will raise £1 million; but on a bad day it might only be able to sell half its shares at this price.

One way around this problem is to arrange a 'placing' with a merchant bank. The merchant bank recommends the company's shares to some of the share-buying institutions with which it deals (pension funds and insurance companies, for example) who may then agree to buy, say, one-tenth of the new shares. In this way the merchant bank makes sure that the shares are placed with large investors before the actual date of issue comes round. Then, even if it is a bad day on the Stock Exchange when the shares are issued, the company's money is secure. The shares are therefore 'underwritten' by the merchant bank.

Another common method by which public companies raise share capital is to offer new shares for sale to the general public. The company's shares are advertised in leading newspapers and the public are invited to apply. When a company is up and running, a cheaper way of selling is to contact existing shareholders inviting them to buy new shares. This is a *rights issue*.

Excerpt from: *Advanced Business*, Dave Needham & Robert Dransfield, Pearson Education Limited, 2000.

◆◆ DEFINITIONS ◆◆◆

- ◆ **company** a commercial or industrial organization that aims at making a profit by doing business; *business enterprise, firm*
- ◆ **legal body** an association, company, partnership, trust or individual that has legal standing in the eyes of the law; *legal person, legal entity*
- ◆ **shareholders** owners of stock in a company; *stockholders, equity holders*
- ◆ **shares** parts or portions of the equity capital of a company; *stocks*
- ◆ **promoter** person or legal entity that plans the formation of a new firm, and then sells the idea to others
- ◆ **directors** individuals in a company who generally make strategic decisions and who are responsible by law to the business's customers, employees, suppliers and shareholders
- ◆ **registrar of companies** person or office responsible for recording and controlling the formation of new firms, and renewal of or changes in the existing ones in a particular jurisdiction
- ◆ **issue** to put on the market
- ◆ **authorised capital** the maximum value of shares that a company can legally issue; *authorised share capital*
- ◆ **issued capital** the total value of a company's shares that are actually held by shareholders; *issued share capital*
- ◆ **call** specified period of time during which holders of a share-buying option contract have the right, but not the obligation, to buy a certain quantity of shares at a specified price
- ◆ **paid up capital** shares for which the company has received the full nominal value in payment; *fully-paid share capital*
- ◆ **private companies** companies whose shares are not traded on the open market and whose ownership is limited to a small number of investors who tend to be those who are closest to the founders: family, friends, colleagues, employees and angel investors; *private enterprises*
- ◆ **public companies** business firms whose stock is traded on the stock exchange; *public limited companies, public corporations*
- ◆ **family businesses** companies owned by one or more members of the same family
- ◆ **stock exchange** the marketplace where securities (stocks and shares) are traded; *stock market*
- ◆ **board of directors** governing body of a company elected by the shareholders and which represents their interests by monitoring management decisions; *board (the)*
- ◆ **managing director** person with the ultimate responsibility in the UK for a firm's overall operations and performance; *chief executive officer (CEO), chief officer (CO)*
- ◆ **unlimited-liability businesses** companies whose owners have the legal obligation to pay all the outstanding debts in the event of bankruptcy
- ◆ **limited liability** the legal protection granted to shareholders that limits their obligation to pay a company's debts to the amount of the shareholding if the company is bankrupt
- ◆ **full quotation** official registration of a company with the stock market enabling it to sell shares directly to the public at large; *full listing*
- ◆ **dealers** traders of securities (shares and bonds) who buy and sell for their own account rather than as agents for someone else's account
- ◆ **control** the ownership of 50% of a company's shares, plus one, although this can be achieved with less if one person or group owns a significant proportion of the voting shares; *controlling interest*

- ◆ **takeover bid** when one company undertakes to acquire a controlling interest in another through the purchase of its shares
- ◆ **quoted** listed on the stock market
- ◆ **Stock Exchange Council (the)** the committee which runs the London International Stock Exchange and regulates the way in which its members work
- ◆ **go public** when a privately-owned company starts trading its shares on the stock market, often to raise money for its expanding business
- ◆ **merchant banks** financial institutions which act for and advise companies, and which underwrite new issues of securities; *investment banks*
- ◆ **placing** finding individual or institutional buyers for a large number of shares in a new company or a company that is going public
- ◆ **pension funds** state and private institutions which collect and invest pension contributions to provide for retirement pensions
- ◆ **underwritten** guaranteed by a merchant bank
- ◆ **share capital** the value of the assets of a company held as shares; *equity capital*
- ◆ **advertised** made known to the public through printed or online media
- ◆ **rights issue** the privileged offering of stocks or bonds at below market prices to existing shareholders or loan subscribers; *rights offering*

◆◆ EXERCISES ◆◆◆

◆ EXERCISE 1

Comprehension

Circle the alternative (a), (b) or (c) that most fully and correctly completes the statements or answers the questions below

1. To set up a company in Britain, the relevant documents have to be sent to
 - (a) a merchant bank
 - (b) the stock exchange council
 - (c) the registrar of companies
2. Who in the company handles the paperwork needed for registration?
 - (a) the promoter
 - (b) the registrar
 - (c) the shareholders
3. What costs most to set up?
 - (a) a private limited company
 - (b) a family business
 - (c) a public limited company
4. Shareholders are safer if they choose to invest in
 - (a) a limited liability business
 - (b) a family business
 - (c) an unlimited liability business

5. The managing director, who is the person responsible for the day-to-day running of the business, is
 - (a) appointed by the board of directors
 - (b) elected by the board of directors
 - (c) nominated by the board of directors
6. As part of a takeover bid, the owners of a company can change if
 - (a) original shareholders buy a large number of shares on the Stock Exchange
 - (b) original shareholders sell a large number of shares on the Stock Exchange
 - (c) original shareholders maintain their current level of stockholding
7. The Stock Exchange is the place where companies can raise
 - (a) authorised capital
 - (b) issued capital
 - (c) share capital
8. Selling new shares is quite a risky business for companies because
 - (a) it is costly to be quoted on the Stock Exchange
 - (b) there is a degree of uncertainty on the Stock Exchange
 - (c) there is a lot of paperwork involved
9. Merchant banks underwrite new share issues by placing shares with
 - (a) share-buying institutions
 - (b) small investors
 - (c) the general public
10. Which of the following is a public company in Britain?
 - (a) John Swire & Sons
 - (b) Anglo American plc
 - (c) Iceland Ltd

◇ EXERCISE

Vocabulary

(A) Use the list of definitions above to select the appropriate term to fit each sentence

1. Dividends can be distributed to if the business is profitable.
2. As a company, you can issue new shares up to the full amount of
3. Generally speaking, the is lower than the maximum amount of shares allowed for the company.
4. Conflicts often arise in about the role each member has to play in the firm.
5. Investors in British companies purchase shares on the
6. The managing director has been requested by the to coordinate plans for increasing next quarter's profit.
7. Companies would be well advised to be registered as businesses once they have developed.
8. The issue of new shares by a company cannot be if the merchant bank has no faith in that company.
9. Nowadays, many companies raise capital through share issues online.
10. Investors may take advantage of a to increase their stockholding in a company.

(B) **Match** the meanings of the words and expressions in column (A) as used in the text with those in column (B)

(A)	(B)
1. in stages	a. organize
2. traded	b. hazardous
3. raise cash	c. not all at once
4. go to the expense of	d. arrives
5. arrange for	e. spend money on
6. a risky business	f. bought and sold
7. one way around	g. collect money
8. say	h. well established
9. comes round	i. a means of avoiding
10. up and running	j. for example

◇ EXERCISE 3

Grammar

Tenses

(A) The sentences below describe market trends. **Choose** between the *simple past* and the *present perfect* to express these trends.

- The Dow Jones industrial average (*rise*) 66.04 points to finish at 7,740.03 yesterday.
- The Standard & Poor's 500 index (*gain*) 3.6 percent this quarter.
- The Nasdaq composite (*surge*) 0.6 percent and the Russell 2000 (*be*) up 0.3 percent last Friday.
- The MSCI Emerging Market Index (*jump*) 0.8 percent since this morning, the first advance in more than a week.
- Intel shares (*drop*) 69 cents to \$16.01 in the heaviest trading of any stock last Thursday.
- The British pound (*decline*) 0.4 percent to \$1.3394 for more than a week now.
- West Texas Intermediate crude (*slide*) heavily to \$51.47 a barrel last month.
- Copper (*fall*) to an astonishing \$2.9465 a pound, its lowest level ever.
- Gold sales (*be*) stagnant lately.
- The euro (*remain*) steady at \$1.1806 over the last week.

(B) **Make** sentences in the correct tense to describe a trend of your own, **using** the verbs and phrases below. **Consult** stock market reports to assist you.

to boost, to be stagnant, to climb, to crash, to decline, to dive, to fall, to deteriorate, to ease back, to edge up, to get better, to get worse, to go down, to go up, to hit bottom, to improve, to rise, to surge, to plunge, to plummet, to rally, to rise, to recover, to reach a peak, to peak, to remain steady, to rocket, to slip back, to slump, to shoot up