

What is a company?

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This glossary entry was published yesterday. Does it work? It would be good to know if this is the sort of detail people want. There are missing glossary entries related to this as yet and they will be added as soon as I can get to them.

A company is legal entity created by law through a registration process that is treated as a separate legal person from those who set it up. It is called a corporation in some countries.

Almost all countries allow for the creation of companies but the rules by which they do so vary considerably. Most offer limited liability, which means the members of the company are not liable for its debts if it were to go bankrupt.

When companies were first made available it was thought that this was a privilege, and certain duties were demanded in return, not least that accounts and information concerning the ownership and management of the company should be put on public record. That principle has been undermined by offshore secrecy and a resulting downward trend in domestic regulation in many jurisdictions. This is part of the so-called race to the bottom in regulation.

The members of a company are either shareholders or guarantors. Shareholders own shares in a company. Most companies have shares. Those that do not are usually described as limited by guarantee. Their members agree to make a fixed donation not exceeding an agreed sum in the event that the company becomes insolvent and has to cease to trade. Companies limited by guarantee cannot usually pay dividends to their members and as such are usually used for not-for-profit activities such as community groups, charities, non-governmental organisations and the like.

Companies are regulated by the legislation of the jurisdiction in which they are incorporated. This regulation can vary. At best it requires that the following be made available on public record:

- * The constitution of the organisation
- * A full list of members
- * The names of those who manage the organisation (its directors)
- * The locations where the company trades and its registered offices with contact details being provided
- * The full financial statements or accounts of the company for each accounting period to an accounting reference date.

Few countries require all this data for all companies and many provide considerable exemptions for smaller companies meaning that limited liability companies can frequently be operated almost anonymously. As such they are very often a perfect vehicle for those wishing to unaccountably evade tax, most especially on trading income. This is facilitated if there is a weak Registrar of Companies in a jurisdiction as there is in the UK.

The directors of a company are supposedly answerable to its shareholders but in most cases shareholders actually have very limited control over the activities of those directors.

Shareholders have no direct claim over any of the assets of the company in which they own a share if it is solvent and continuing in trade. They usually only have entitlement to vote at annual general meetings (and then usually only to accept the accounts as presented to them and to appoint directors) and to receive dividends from the company if it decides to pay them.

If a person has more than 50% control of a company then they have the power to appoint its board and this gives them considerable power over its operations. If the person owning more than 50% of the shares in a company is another company then the company whose shares are owned is called a subsidiary company and the company that owns them is called a parent company and together they are called a group of companies.

Each company within a group has to prepare its own accounts. The parent company is usually required to prepare what are called consolidated accounts for the group as a whole.

Limited liability companies can create considerable problems in creating fair markets, as Adam Smith, the reputed founder of modern economics noted in his seminal work on this issue, the Wealth of Nations. These include:

- * Reckless behaviour because of the provision of limited liability resulting in fraud on the creditors and members of a company.

- * Tax fraud because the shareholders are not liable for the tax debts due by the company that they own.
- * Fraudulent trading hidden behind the anonymity that companies frequently permit.
- * Difficulty in holding a company to account for its actions because it fails to file information required of it with a Registrar of Companies.

Despite considerable awareness of those issues few governments anywhere seem willing to tackle them.