

## FORMS OF BUSINESS OWNERSHIP

The objective of any business drives the motive for which individual or group of people engage themselves in any kind of business according to their importance.

Basically, the objectives of business are:

- I. Survival
- II. Growth
- III. Profit making
- IV. Corporate social responsibility

## BUSINESS OWNERSHIP AND ITS FORMS

Ownership is a legal relationship between a person and some objects. Ownership explains the rights which the owner exercises over the possessions and it is determined by law. However, the legal owners of any enterprise need to be determined specifically in order to know who the beneficiaries from such productive endeavors are. Thus, any form of business ownership would clearly spell out the profit sharing arrangement along with the responsibilities for debts and other liabilities.

### SOLE PROPRIETORSHIP

This is the simplest, the most common and the oldest form of business ownership. The business is owned, managed and controlled by an individual. He is entitled to all the profits and has to bear the losses of the business. The sole proprietor is solely saddled with the responsibility of raising capital from personal resources, friends, relatives, and from the bank; he or she is mainly responsible for all the business decisions.

This form of business arrangement is common in the retail and wholesale trading, professional practice and construction industry. Because of the high degree of independence of the sole proprietor, this form of ownership can be formed without any written agreement, charter or legally binding agreements.

Features of sole Proprietorship.

1. Initiative of the owner dominates: The owner of the business takes decision on his own based on experience and sense of judgement without any contributions and recourse from anybody.

2. risk bearing:: Proprietor alone bears all the risks of the business. He needs to be careful and rational in his business decision. However, the owner takes all the profit.

3. Management and control:: The Proprietor manages and controls the business. He has the option of engaging a manager or not and where he does, he usually assigned insignificant managerial power while the control still resides with the business owner.

4. Unlimited liability: the proprietor is responsible for the losses and liabilities of the business. Where there is an insufficient capital to run the business, he may sell his personal assets.

5. Secrecy: the proprietor keeps all the business secrets to himself alone.

6. Minimum government regulations: Government does not interfere with the operations of the business. In most cases they do not pay taxes, no requirement for them to make their performance known.

#### Advantages of Sole Proprietorship

- I. Easy formation
- II. Benefits of small scale operations
- III. Inexpensive management
- IV. Better control

#### Disadvantages of Sole Proprietorship

- I. Lack of continuity
- II. Limitation of size
- III. Slow technological progress
- IV. Limited ability to attract and retain capable employees
- V. Limited access to sources of capital
- VI. Limitation of management skills
- VII. Unlimited liabilities

#### PARTNERSHIP

This arrangement occurs when two or more individuals come together and agree to

organize and operate an enterprise jointly with profit as the motive. They contribute their capital and jointly offer their efforts and services for the success of the business. The legal basis for this arrangement is contractual and it specifies the duties and rights of the partners.

The practice of law, insurance, finance, accountancy and other similar professions abound with partnership form of ownership. In the course of their contractual activities, the partners specialize in one or more aspects of the activities of the firm.

Furthermore, this arrangement become very useful as a way for the partners to contribute their resources such as capital, time, efforts and services in order to earn profit which can be shared on an agreed basis. Partnership deed of agreement establishes the relationship between and among the partners.

### Features of Partnership

#### I. Based on an agreement

This type of business is usually formed on this basis of an agreement between two or more persons to carry on business. The terms and conditions of partnership are usually stated in the partnership Deed.

#### II. Profit and loss sharing

The partners are entitled to share the profits realized and also bear the loss.

#### III. Agency relationship

The business can operate such that all partners will participate in the operation, with each being a principal partner. Any of the partners can also act on behalf of other partners as agent. By this, every partner can bind the firm by his acts.

#### IV. Unlimited liability

In case some obligations arise and the partnership assets are not sufficient, private properties of the partners can be taken to defray the liabilities of the firm.

#### V. Common management

Every partner has a right to participate in the management of the business. Where a partner does not partake in the running of the business, it becomes imperative that his consent be sought before taking strategic business decisions.

#### VI. Restriction in the transferability of shares

## TYPES OF PARTNERS

### a) The General Partner

The general partner has unlimited liability for all actions of the business. He is also referred to as an active partner. He takes active part in the management of the business. He may act as the managing or executive director, or manager of the firm.

### b) The limited Partner

The limited partner is sometimes referred to as the sleeping partner or dormant partner. He or she contributes only a part of the capital of the business but does not usually take an active part in the management of the enterprise. He/she shares in the profit or loss of the business with other partners but risks only the loss of the capital contributed in the event of failure of the business

There are varied legal formalities for partnerships. It is desirable that there is a written partnership agreement. As a rule, this document is drawn up by a legal practitioner having the following items as important information:

1. Description of the partners (names, responsibilities, initial investments, salary and proportion of profits entitled to)
2. Description of business (Business names, location, and types of business)
3. Description of the business practices (the fiscal year and accounting system and the amount of fund that can be withdrawn within a given period).
4. Provision for changes in the partnership (duration of partnership, renewal of partnership, admission of new partners and the treatment of partnership upon withdrawal or death of a partner)
5. Signature of partners.

## Advantages of Partnership

- I. More managerial skills available than in a sole proprietorship.
- II. Pooling of financial resources by partners

- III. Reduction of strain on one individual, as responsibilities can be shared with other partners.
- IV. New partners can be admitted
- V. Enhanced ability to attract and retain capable employees.
- VI. Balanced business decision
- VII. Risk sharing

#### Disadvantages of Partnership

- I. Unlimited liability
- II. Limited life \
- III. Arguments or disagreement can arise among the partners
- IV. Limited access to initial capital when compared with companies
- V. Difficulty in withdrawing from the firm
- VI. Risks of implied authority

#### Dissolution of a Partnership

A partnership can be dissolved for any of the following reasons;

- I. Court order
- II. Technical insolvency
- III. Mutual agreement
- IV. Completion of the assignment or task for which the partnership was established
- V. Death of a partner

#### THE CORPORATION

A company can either be a Private Limited Company or a Public Limited Company. The government agency with the responsibility to register company in Nigeria is called Corporate Affairs Commission (CAC). As soon as the company is incorporated, it becomes a legal entity; it can then be regarded as an artificial person in law, which is expected to live forever Most large businesses are organized as corporations because

of the inherent disadvantages of the sole proprietorship and partnership forms of business. A corporation comes into existence as a result of legal document which is generally referred to as a "Charter" This charter is available to any prospective applicant based on request, and who is expected to meet and fulfill certain basic legal requirements.

#### A. Advantages of a Corporation

##### I. Limited liability

Each shareholder who has paid the full par value of his stock is liable only to the extent of his investment. If the corporation fails, he can lose his investment but the company's creditors have no claim to his personal property.

##### II. Capital formation

When members of the general public have confidence in the viability of the business and the soundness of its management, they become encouraged to invest in it by buying its shares and stocks. As a result, the corporation can raise a large amount of capital.

##### III. Perpetual life

The corporation which has a legal existence is independent of its owners. In the event that a shareholder withdraws by selling his or her shares or dies prematurely, his next of kin can take over ownership of the shares or stocks and the existence of the business is not affected.

##### IV. Ease of expansion

Because of the existence of the capital market, companies can expand more easily. Thus, capital can easily be raised through the sale of shares which can be used to expand and run the business.

##### V. Transferability of Ownership

This is easily and readily affected by anyone who wants to purchase shares and/or stocks and is willing to pay the price asked by the owners.

##### VI. Competent management team

Professional and competent managers can be hired. If such managers hired cannot perform, they can easily be replaced by the board of directors

## **b. Disadvantages of a Corporation**

### **i. Government regulations**

By Federal and state laws, the activities of these corporations are regulated because it is a legal person.

### **ii. Large initial capital**

Much capital is needed in the formation of a corporation.

### **iii. Lack of secrecy**

A company's financial transaction cannot be shielded from public view because shareholders must be provided with annual report of its performance.

### **iv. Goal incongruence**

When there is a conflict of interest between individual goal and the business objective, for example, employees are usually concerned with increase in salaries while the organisation is likely to be emphasizing profit maximization.

### **v. Divergence of owners/management interested**

Since owners wants their dividends while the management may desire growth and expansion, conflict may arise when review of stewardship comes up during the annual general meeting.

### **vi. Organizational expenses**

This form of business involves substantial costs of incorporations, allowances for members of the board of directors, salaries of top management staff e.t.c

### **vii. Large Size**

This may bring about reduction in efficiency as a result of bureaucracy when there is too much complexity, rigid rules and regulations.

## **Formation of a Limited Liability Company**

Before anyone is allowed to start a business enterprise, he/she must register with the Corporate Affairs Commission (CAC), and be duly cleared by them.

Before registration, a company is required to file Article of Association and Memorandum of Association. Below are some of the contents of these documents.\

## 1. ARTICLES OF ASSOCIATION

This contains the rules and regulations of the company in question which are the following

- a. Appointment and termination of directors
- b. Procedures for the issue and transfer of shares
- c. Rights and responsibilities of shareholders
- d. Procedure for auditing and accounting.

## 2. MEMORANDUM OF ASSOCIATION

In this document, there are laid down guidelines for the company and the members. In addition, there are laid down parameters concerning the company and its outside public listed below: it contains

- a. The name of the company with letters PLC which means public listed company attached or LTD which means limited liability company
- b. The address and/or location of the business
- c. The type of business
- d. A statement indicating that the liability of its corporate members is limited.
- e. The number of shares into which the company's share-capital is divided

## 2. CERTIFICATE OF INCORPORATION

Upon submission of the required documents and payment of the prescribed fees, the Corporate Affairs Commission will issue a Certificate of Incorporation to the company; and then authorization is given for it to legitimately commence business.

## TYPES OF COMPANIES

Basically, four types of companies are recognized for business ventures in Nigeria, namely;

### 1. Private Limited Company (LTD)



2. Public Limited Company (PLC)
3. Companies limited by guarantee and
4. Unlimited companies

#### 1. Private Limited Company (LTD)

A LTD is an acronym for limited Liability Company (Private Limited Company). A company is said to be a Limited Liability Company when its shareholders are only limited to contributing money in exchange for shares which will be represented by assets of the company. A private limited company is a legal entity in its own right, separate from those who own it, the shareholders. The shareholders are also only limited to losing the shares they own in the company in an event of liquidation. As a shareholder of a private limited company, the shareholders personal possessions remain separate (unless they are secured against the business for borrowing)

A private Limited company has the following characteristics

- I. A private company must have a minimum of two shareholders and a maximum of 50
- II. The total number of members in a private limited company must not include those who are bona fide in the employment of the company
- III. If two or more people jointly hold one or more shares in a company then they will be treated as a "single shareholder". Example Mr X and Y known as XY contributed money to buy 20 shares in a company. Then they will both be regarded as just one shareholder XY.
- IV. Private companies by law are not allowed to invite the public to:
  - a) Subscribe for any shares or debentures of the company or
  - b) Deposit money for fixed periods or payable at call, whether or not bearing interest
- V. The name of a private company limited by shares shall end with the word "limited"  
E.G OjoOluwalogbon Limited.
- VI. The authorized share capital shall not be less than ₦10,000
- VII. The company name must not be exactly identical to any other company name currently held in the registry of the Corporate Affairs Commission.

VIII. At least twenty five percent (25%) of the authorized shares capital of the company must be allocated at incorporation among the shareholders (members)

IX. Every private limited company shall by its articles restrict (limit) the transfer of its shares

## 2. Public Limited Company (PLC)

The owners of a corporation are referred to as shareholders or stakeholders. The shareholders elect the board of directors which directly controls the management of the corporation. The board of directors is saddled with the responsibility of appointing the chief executive and other top officials who are expected to carry out management functions delegated to them. It is owned by the shareholders

It has the following characteristics

- I. A public Limited Company end with the word "PLC" at the end of its name
- II. A public limited company can invite the public to subscribe to the shares or debentures of the company provided it is listed on the floor of the Nigerian Stock Exchange (NSE)
- III. Public companies must have a minimum authorized share capital of ₦500,000 with minimum subscription of 25% of the shares
- IV. Public companies can therefore raise money via Initial Public Offers(IPO's) or public offers
- V. A company listed on the floor of the Nigerian Stock Exchange should be a Public Limited Company but not all Public Limited company must be listed
- VI. Shareholders of Public Limited Companies must be a minimum of 50 persons while there is no upper limit for its members.

## 3. COMPANY LIMITED BY GUARANTEE (LTD/GTE)

Company limited by guarantee is a company formed for promoting commerce, art, science, religion, culture, education, research, charity, or similar objects, and the income property of the company are to be applied solely towards the promotion of its objects. There is no portion of the income property of the company is to be paid or transferred directly or indirectly to the members except permitted by law. The company is registered as limited by guarantee not limited by shares. It is the type mostly form by charitable organizations. All income generated is used to cover operating cost and to achieve the objectives of the company.

It has the following characteristics

(i) company limited by guarantee is not incorporated with the object of carrying on business for the purpose of making profit for distribution to its members.

(ii) A company limited by guarantee has the liability of its members limited by the asset of the company in the event of its being wound up.

(iii) Upon its winding up, there remains after a discharge of all its debts and liabilities any property of the company, the same shall not be distributed to its members but to some other company limited by guarantee having similar objects or otherwise determined by its members prior to dissolution of the company.

(iv) A guarantee company does not have share capital, and its members do not own the company.

#### 4. Unlimited Company (Ultd)

An unlimited company is a company having the liability of its members unlimited by the memorandum to any amount. An unlimited company is one having a share capital not below the minimum share capital permitted by law. The name of unlimited company shall end with the word unlimited.

#### COOPERATIVE SOCIETY

This form of business setup is distinct from its owners and is usually regarded as a legal person. There is continuity of the business irrespective of individuals death or withdrawal. In this arrangement an individual buy shares in a similar fashion as what obtains in a corporation. In taking decisions, each member has only one vote., in the course of the business, surplus earning are shared in the form of dividends which is hinged on the volume of members' purchases. The concept of cooperative is to ensure that the goods and services available and supplied are cheaper than what obtains elsewhere. Usually, a manager is appointed to run the business by a board of directors which is charged with the responsibility of making policies that guide the running of the cooperative.

#### Characteristics of Cooperative Organization

- i. Voluntary association
- ii. Equal voting rights by members
- iii. Separate legal entity
- iv. Based on service motive of its members
- v. Distribution of surplus

## TYPES OF COOPERATIVES

There are three major types of cooperatives;

### (a) The agricultural marketing cooperatives

These are usually found in the purchasing and marketing area. The purchasing cooperative usually purchases products and then resells them to its members and non-members alike. Here, they are involved in products such as seeds, farm machineries and fertilizers. On the other hand, in the area of marketing, a group of growers or producers come together to do business. The types of products they are usually involved in are single products or a group of closely related products.

### (b) The credit and banking cooperatives

In this setup, the members organize credit and banking cooperatives to address loan issues to members and the general public at affordable interest rates. Cooperative banks springing up in most parts of the country are examples.

### (c) Consumer cooperatives

This type is usually established by a group of consumers. Products are bought at wholesale prices so as to eliminate excessive profits made by middlemen. By so doing, products are sold more cheaply to its members and general public.

## Advantages

(i) Tax advantage: By the nature of their operation, cooperative enjoy tax advantage over other forms of businesses.

(ii) Democracy is practiced: Democratic elections are held to choose members of the executive. Each member is entitled to only one vote.

(iii) Training: The members are trained in the various aspect of managing the cooperative.

(iv) Pooling of resources: As a result of the large number of co-operators, they are able to pool their resources together and this affords them access to funds to run the business. Governments also support cooperatives with various incentives including loans at concessionary rates of interest.

(v) Limited liability: The liability of the members is limited to the extent of capital contributed by them.

(vi) Economical operations: The operation is quite economical due to elimination of middle men and voluntary services provided by its members.

## Disadvantages

- (i) Lack of freedom: The members are not free to sell their products in any market of their choice.
- (ii) Reduced finance: When some members are not forthcoming in their financial contributions, these reduces the pool of funds available. Thus, this may hinder it to compete more favourably with private business men who they want to replace.
- (iii) Dishonesty: Due to insincerity of some of the executives and staff who collude to enrich themselves, many cooperatives have not thrived very well and collapsed .
- (iv) Low salaries: There is the tendency to pay staff lower salaries then prevailing rates in the economy. This account for the poor calibre of managers and staff they employ.
- (v) Rigid rules and regulations: Excessive government regulations and control affect the effective functioning of the cooperative societies.