

*Introduction to*  
**Entrepreneurial  
Skills**

A Textbook for GES 301

Published by  
General Studies Programme  
University of Ibadan



# Introduction to Entrepreneurial Skills

**Edited by**

**Prof. Gbemisola Oke,**

Director, Centre for Entrepreneurship and Innovation  
and

**Dr. Adeolu Adedapo,**

Faculty of Veterinary Medicine, University of Ibadan

**A Textbook for GES 301**

Published by  
The General Studies Programme (GSP) Unit

© All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the publisher.

First Published 2012

ISBN 978-31064-8-3

Printed & Bound by  
Tigerkids Publications Limited  
+234 805 6040 350, (0)802 2320 622

General Studies Programme (GSP) Unit  
University of Ibadan.  
Ibadan, Nigeria

## Some Relevant Issues in Small Business Management in Nigeria

Jadesola O Lokulo- Sodipe

Faculty of Law

### Objectives

At the end of this unit, the student should be able to:

1. Identify the different forms of business organisations.
2. Know the different types of incorporated companies.
3. Distinguish a private limited liability company from a public limited liability company.
4. Understand the nature of contract of insurance.
5. Know the different regulatory bodies and their functions.

### 1. Forms of Business Organisation.

There are three forms of organizations through which businesses can be carried on. These are Sole Proprietorship (individual trader), Partnership and Corporate bodies. Each form has advantages and disadvantages in complexity, ease of formation, cost, liability of its members, periodic reporting requirements, operating complexities and taxation. Consequently, choosing the right business form requires a delicate balancing of competing considerations.

#### 1.1. *The Sole Proprietorship (Individual Trader)*

This is the simplest economic and legal unit. In this type of business organisation, an individual carries on business either entirely on his own or employs others. Sole proprietorship is a popular business form because it is simple and reasonably cheap to set up. It requires fairly small amount of money to start. Secondly, setting it up requires little or no formalities and the decision making process is faster. This makes running the business flexible.

The sole proprietor, however, lacks continuity as the death of its proprietor would usually signify its end. Similarly, the liability of the proprietor is unlimited. Consequently, the business can be terminated easily as it usually does not attract capital for expansion.

#### 1.2. *Partnership*

This is a relationship between persons carrying on business in common with a view to profit. Under the law, the business name of a partnership may be registered under Part B of the Companies and Allied Matters Act (CAMA), Cap C20, LFN 2004.

In a partnership, the liability of each partner for the debt of the firm is unlimited. In addition the death of a partner may result in the termination of the partnership, particularly where the estate of the deceased partner is unwilling or unable to continue. The law, under S.19 of CAMA, makes provisions for a partnership to consist of a minimum of 2 and a maximum of 20 people. Where the number exceeds 20, it should be incorporated as a company. Consequently, any partnership of more than 20 people will be illegal. Exceptions to this include legal and accounting firms. Another characteristic of a partnership is that, there are no limits to the nature and business which the partnership can engage in and each partner has the right to participate in the management of the firm except the sleeping partner.

### 1.3 Incorporated/Registered Company

A company is a body or association of persons with separate and distinct legal personalities. This is the most important form of business organisation for modern economic activities. It arises formally, as a result of a statutory process carried out by certain people. It is incorporated or registered under the Companies Act in force at the relevant time, that is, the time of incorporation.

What distinguishes the incorporated company from other forms of business associations is the fact that it has a separate and distinct legal personality. Once incorporated, the association of persons is treated as an entity in itself, having a personality of its own and

capable of being a party to legal relationships. In law, an incorporated company is an artificial person. Registered associations of this type are governed by CAMA 2004 and are classified into three. This distinction is based on the liability of the members. The three types are discussed below.

1) Company limited by shares – it issues shares to its members. Each share has a nominal value and the total nominal value of the shares allotted to members represents the minimum amount of capital the members must contribute. A member's liability is, therefore, limited to the nominal value of the shares that he/she takes up, up to the amount unpaid on his/her shares. Once he/she has paid the company for his/her shares, his liability is discharged completely and he cannot be made responsible for making up the deficiencies of the company or of other shareholders. This option is the most popular and most adopted. Companies limited by shares can either be private or public. The name of a company limited by shares ends with the word Limited (Ltd) if a private company; and Public Limited Company (PLC), if a public company.

2) Companies limited by guarantee – this is one where its members make a promise to contribute a fixed amount if necessary to pay the company's debt when the company is wound up. The company has no share capital. It is usually not incorporated with the purpose of profit. It is used mainly by professionals, research or

trade associations which exist to provide services to its members; it obtains income to meet its expenses by charging fees for its services. The name of a company limited by guarantee ends with Limited by Guarantee (Ltd/Gte). Examples include ICAN and Nigerian Stock Exchange.

3) Unlimited companies – the liability of a member in this type of company is without limit. Consequently, each member's liability to provide money for the payment of the company's debt is without limit. The issue of liability arises only when the company goes into liquidation. The name of an unlimited company ends with Unlimited (Ultid).

This type of company must be registered with a share capital.

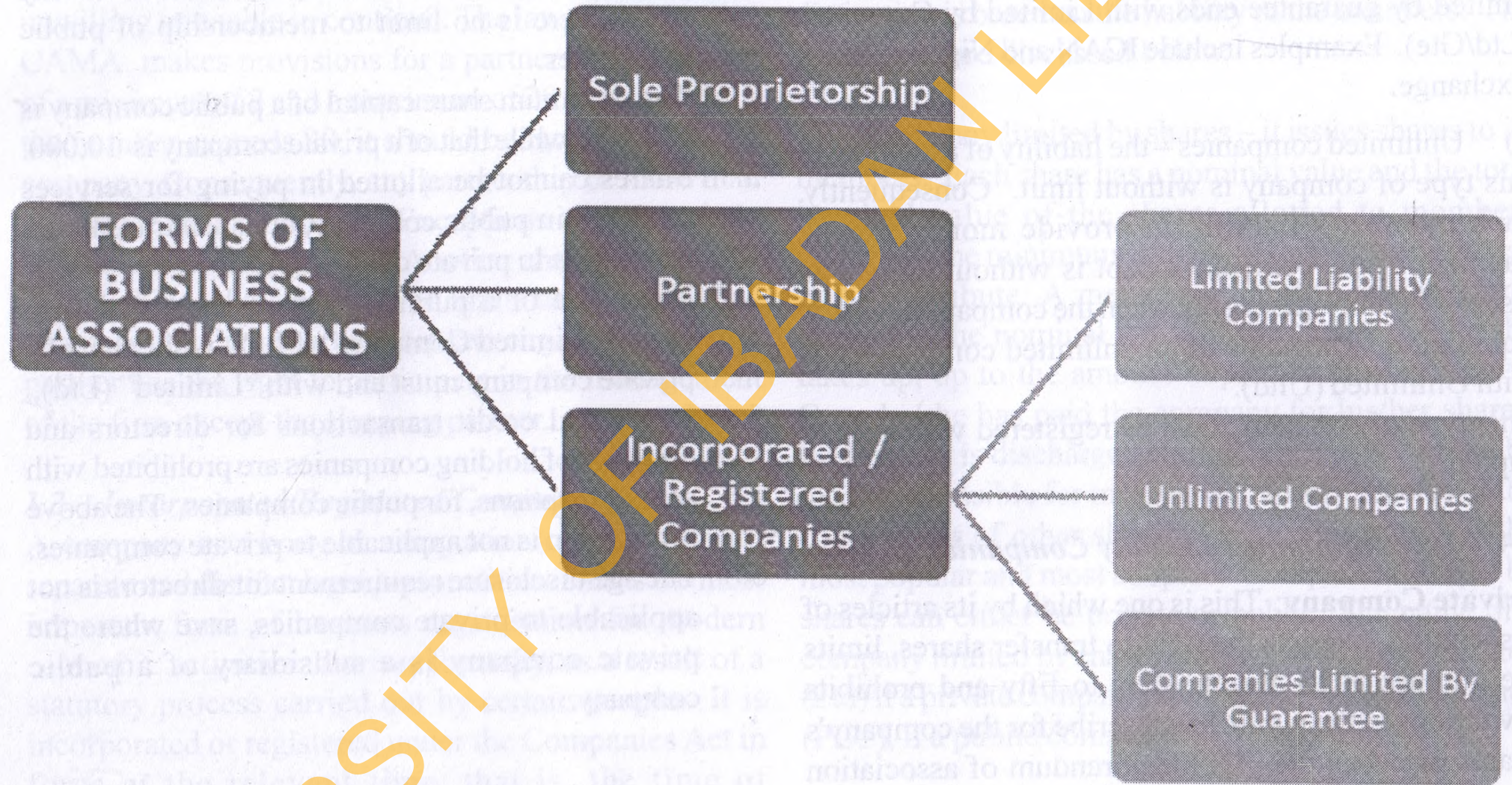
#### 1.4 Types of Limited Liability Companies

**Private Company:** This is one which by its articles of association, restricts the right to transfer shares, limits the number of its shareholders to fifty and prohibits invitations to the public to subscribe for the company's shares or debenture. Its memorandum of association must state that it is a private company.

**Public Company:** It is a company with no restrictions as to maximum number of members and subscription of its shares and debentures. Its memorandum of association must state that it is a public company.

#### 1.5. Differences Between A Public Company and a Private Company

1. Membership of a private company is limited to fifty (50). There is no limit to membership of public companies.
2. The minimum share capital of a public company is 500,000, while that of a private company is 10,000.
3. Shares cannot be allotted in paying for services rendered in public company, but such transaction is possible in private companies.
4. The name of a public company must end with "Public Limited Company" (PLC), while that of a private company must end with "Limited" (Ltd),
5. Loans and credit transactions for directors and directors of holding companies are prohibited with some exceptions, for public companies. The above prohibition is not applicable to private companies.
6. The age disclosure requirement for directors is not applicable to private companies, save where the private company is a subsidiary of a public company.



UNIVERSITY

OF BORDAN LIBRARY

## Revision Questions 1

1. What are the various types of business organisations?
2. What does limited liability mean in relation to company formation?
3. What are the differences between a private company and a public company?

## 2. Insurance

### 2.1. Introduction

Insurance is very significant to commerce and industry. Modern industrial and commercial enterprises would not function efficiently without some form of organized insurance service.

In business, insurance has two main functions, namely: primary and secondary functions. The primary function is to ensure that the financial losses of the individual are fairly and equitably distributed over the insured community. The policy holders or the insured pay a premium into a common pool, out of which those who suffer losses are compensated. The secondary function of insurance relates to the incentive it gives the businessman to venture into viable but risky businesses, by way of the promise to be indemnified in the event of loss.

Insurance policies are good securities for loan advances from banks. The large sums of money accumulated by insurers are invested in profitable capital market securities which in turn help in capital market capitalization. In addition, the insurance industry is an important employer of labour.

### 2.2. Nature of Insurance Business

A contract of insurance is one whereby a party, the “insurer”, promises, in return for cash consideration, the “premium”, to pay to the other party, the “insured” or the “assured”, a sum of money or to provide him with some corresponding benefit, upon the occurrence of one or more of the specified event(s).

Please note that the event insured against must involve some degree of uncertainty. The uncertainty must be as to whether the event will ever happen or not, or if the event is one which must happen, the time of its occurrence must be uncertain.

Contracts of insurance are generally (except life and personal accident) contracts of indemnity. Indemnity implies that the insured is to be placed (by the insurer) in the same position as he was before the happening of the event he insured against. ***The assured cannot recover more than his actual loss.***

The agreement between the parties to the contract is set out in the policy of insurance. The purpose of the insurance policy is to

- i. define the risk that is being insured against;
- ii. state the conditions and the terms of the contract; and
- iii. clarify the procedure that will be followed in the event of a loss occurring.

The policy document evidencing the contract of insurance must be delivered to the insured not later than 60 days after payment of the first premium. Note that



payment of an insurance premium is a condition precedent to a valid contract of insurance and there will be no cover in respect of the insured risk unless the premium has been paid in advance.

### 2.3. Types of Insurance Businesses

There are two types of insurance businesses in Nigeria. These are:

1. Life-assurance business.
2. General insurance business

Life insurance business is sub-divided into:

- i. individual life assurance business;
- ii. group life assurance and pension business; and
- iii. health insurance business.

General insurance business is divided into eight categories.

- a. fire insurance;
- b. general accident insurance;
- c. motor vehicle insurance;
- d. marine and aviation insurance;
- e. oil and gas insurance;
- f. engineering insurance;
- g. bonds credit guarantee and surety ship insurance business; and
- h. miscellaneous insurance business

### REVISION QUESTIONS 2

1. What are the characteristics of an insurance contract?
2. What is purpose of the insurance policy?

3. How many types of insurance businesses do we have in Nigeria?

### 3. REGULATORY BODIES

In relation to business organisations the regulatory bodies are:

#### 3.1. The Corporate Affairs Commission (CAC)

The affairs of companies are regulated by the Corporate Affairs Commission (CAC). The CAC is saddled with the underlisted duties.

- a. Regulating and supervising the formation, incorporation, registration, management and winding up of companies under the Companies and Allied Matters Act (CAMA), Cap C20, LFN, 2004.
- b. Establishing and maintaining companies' registry and offices in all the states of the federation.
- c. Arranging or conducting an investigation into the affairs of any company where the interests of the shareholders and the public so demand.
- d. Administering the business names and incorporated trustees' parts of the CAMA.
- e. Performing such other functions as may be specified by the CAMA or any other law.
- f. Undertaking any other activities as are necessary or expedient for giving full effect to the provisions of the CAMA.

Although the CAC has wide powers, an order of mandamus may be obtained to compel it to carry out specific duties where it fails or neglects to do so.

### 3.2. The Securities and Exchange Commission (SEC)

The Securities and Exchange Commission came into being in 1979 following the promulgation of the Securities and Exchange Commission Decree No. 71 of 1979 to supersede the Capital Issues Commission. The Commission has powers to regulate and develop the Nigerian capital market, in addition to determining the prices of issues and setting the basis for allotment of securities. Unlike its two predecessors, the Commission at this stage was excised from the CBN, although it continued to receive funding from the apex bank.

In regulating the market, the Commission undertakes the following activities in order to protect investors, market operators and also ensure market integrity. SEC regulates the capital market by deploying the following tools:

(1) Registration of securities and market intermediaries to ensure that only fit and proper persons / institutions are allowed to operate in the market.

◆ Instruments and persons registered in the market are:

- Securities/Commodity Exchanges/Capital Trade Points
- Futures, Options and Derivatives Exchanges
- Depository, Clearing and Settlement agencies
- Capital Market Operators: Issuing Houses
- Securities dealers/Stock brokers/Sub- brokers
- Registrars/Transfer agents

- Trustees
- Reporting Accountants
- Solicitors
- Investment Advisers, etc.

- ◆ Securities:
  - Equities
  - Debentures
  - Debt instruments
  - Collective investment schemes

(2) On or Off site Inspection. The Commission, at regular intervals, calls for information from capital market operators. It also undertakes and conducts inquiries and audits of any participant in the market whenever necessary.

(3) Surveillance is carried out over exchanges and trading systems to forestall breaches of market rules as well as deter and detect manipulations and trading practices which are capable of causing market disruption.

(4) Investigation of alleged breaches of the laws and regulations governing the capital market and enforcement of sanctions where appropriate.

(5) Enforcement actions are taken against market operators who are found wanting after investigation is carried out, in minor cases, an all parties' meeting is convened by the Commission where it mediates between parties involved in a dispute. However, if the case is

serious or where no resolution is reached or a party fails to comply with a directive given at the all parties meeting, the defaulting party will be called before the Administrative Proceedings Committee (APC), which is a quasi-judicial court, with only civil jurisdiction.

Appeals against decisions of the APC are usually made at the Investment and Securities Tribunal (IST). Enforcement action may be in the form of payment of fine, ban, suspension or even forwarding the case to the Nigeria Police Force (NPF), Economic and Financial Crimes Commission (EFCC) or the Attorney - General of the Federation (AGF) where allegations are found to be criminal in nature.

(6) Rulemaking by the Commission as developments occur: This is to ensure that the Commission meets up with international best practices.

(7) Market Development : In the area of market development, the Commission collaborates with relevant stakeholders to introduce new products and processes. The SEC encourages improved investor participation in the market through any or a combination of the following activities:

- Workshops and seminars
- Town hall meetings
- Television/Radio programmes
- Introduction of e-processes, e.g. e-dividend, e-allotment, etc.
- Secondary school quiz and essay competitions
- Introduction of capital market studies in tertiary institutions

Publications (i.e. Journals, bulletins and cartoons)

### 3.3. The National Insurance Commission:

The National Insurance Commission (NAICOM) was set up by decree No. 1 of 1997 to ensure the effective administration, supervision, regulation and control of insurance business in Nigeria.

NAICOM has powers to administer, supervise, regulate and control insurance business in Nigeria. Specifically, the Commission is vested with the responsibility of performing the following functions:

- Establish standards for the conduct of insurance business in Nigeria;
- Approve rates of insurance premiums to be paid in respect of all classes of insurance business;
- Approve rates of commissions to be paid in respect of all classes of insurance business;
- Ensure adequate protection of strategic Government assets and other properties;
- Regulate transactions between insurers and reinsurers in Nigeria and those outside Nigeria;
- Act as adviser to the Federal Government on all insurance related matters;
- Approve standards, conditions and warranties applicable to all insurance business;
- Protect insurance policy – holders and beneficiaries and third parties to insurance contracts;
- Publish, for sale and distribution to the public, annual reports and statistics on the insurance industry;

- Liaise with and advise Federal Ministries, extra ministerial departments, statutory bodies and other Government agencies on all matters relating to insurance contained in any technical agreements to which Nigeria is a signatory;
  - Contribute to the educational programmes of the Chartered Insurance Institute of Nigeria and the West African Insurance Institute, and
  - Carry out such other activities connected or incidental to its other functions under the 1997 Act.
- NAICOM is, however, under the supervision of the Federal Ministry of Finance.

### REVISION QUESTIONS 3

1. Name the different regulatory bodies and highlight their functions.

### REFERENCES

- Olakunle, Orojo, Nigerian Company Law  
Irukwu J.O, Insurance Law and Practice in Nigeria.  
Companies and Allied Matters Act, Cap C20, LFN 2004.  
Investments and Securities Act, 2007.  
NAICOM – [www.naicom.gov.ng](http://www.naicom.gov.ng)  
Securities and Exchange Commission – [www.sec.gov.ng](http://www.sec.gov.ng)