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Insights

HOW TO IDENTIFY WHEN A BUSINESS HAS OUTGROWN A ONE-MAN BUSINESS STRUCTURE

The term one-man business is very common among startups and growing companies. It is probably as old as the idea of business itself. However, it is positive when referring to the initiative of an entrepreneur to start a business, but more negative when referring to situation when a business growth, productivity, employment terms and process control all completely depend on what is acceptable or permissible by an entrepreneur.

The Company and Allied Matters Act (herein referred to as CAMA) 2020 made provisions acknowledging the concept of one-man business as a small company. Section 271 states that it can have just one director; Section 18 (2) states that it can have one shareholder; Section 330 states that it does not need to have a secretary; Section 394 provides that the annual turnover is less than N120 million and the net asset is not more than N60 million; and Section 402 states that it is not mandated to appoint an auditor. The spirit is in appreciation of the need for businesses to probably keep cost low and drive the ease of doing business policy of the government.

It is imperative at this point to identify practical qualifications for companies that are no longer small:

- Annual turnover is more than N120,000,000.00
- Net asset is more than N60,000,000.00
- Workforce is not less than 10
- Product/service is gaining substantial market acceptance

At this point it is becoming obvious that the business is gaining traction and becoming successful.

This is without prejudice to some sectors like banking, finance, insurance, pension among others that regulations never permit to start with small companies structure as stakeholders interests here are usually high.

This is usually the point that a business outgrows a one-man business structure. Upon meeting this threshold, the law (CAMA) requires more structure around the business which includes appointment on at least one more director, a company secretary and an auditor. These are constituents of the concept of corporate governance. In fact, corporate governance is the antidote for all the woes of one-man business structure.

In the Nigerian Code of Corporate Governance 2018, we have six key governance pillars:

- Board of Directors and Officers of the Board
- Assurance
- Relationship with Shareholders
- Business Conduct and Ethics
- Sustainability
- Transparency

There are 28 principles with recommended practices for their implementation and the expected outcome of corporate governance include enhancing business integrity, rebuild public trust and confidence, facilitate trade and investment and drive business sustainability.

An entrepreneur who likes or holds on to control of his business and all that can happen to it risk the following:

- Limited outcome expected from standard corporate governance
- Job insecurity for employees in cases of illness or inability to lead the business
- Loss of employees to competition with better governance structure
- Unsettlement for customers who rely on product or services when the entrepreneur can't or is unable to lead
- High risk of non-compliance with regulations
- Low access to funding and investment
- Fast depreciation of business worth to almost nothing when the entrepreneur dies

This is not exhaustive.

To an entrepreneur whose major asset is the business, the least he/she should do is to preserve the value of the business to be worth something substantial to the beneficiaries/ Estate after death.

It takes being objective and deliberate to start a company, and grow it from the small company described in CAMA and cross the threshold to become a success. The task of greater growth for profitability and sustainability is usually beyond the task of one person which also requires objective and deliberate decision of an entrepreneur.

The decision is about knowing when the business has become well established and outgrown the control of one person. Corporate governance is the next phase and entrepreneurs at this level should seek professional counsel to get the best out of their business.

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