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ABSTRACT

This paper seeks to examine the role of financial functions on Business Organisation in Nigeria Private Sector and proffers solution. The basic objective of the financial function is to assist management in formulating financial policies so that the most effective used is made of its financial resources. The financials function is to assist the company to make the best use of funds at its disposal and select the most favourable sources of additional funds to finance future activities. This ratio shows how effectively the operating assets of firm have been played in generating profit. It is calculating on return on investment. This is the most important profitability ratio because it is a measure of the operational efficiency of the firm, capital employed is equal to owner's equity plus long term debt and equals to total assets. It will explore the problem of poor financial management in the private sector economy and sources of information for financial analysis and planning; such variables as performances, sales, expenses, profits, assets and liabilities. The study highlights the impacts and expresses their findings in numerical terms, thus can be communicated to individual, management and all interested parties based on balance sheet reports. The quest for adequate return on capital employed is the reason why people invest their money in any business venture. Therefore, if the return on capital employed is less than the interest rate, this is unsatisfactory. The capital employed is taken as the excess of total assets over current liabilities. The paper opines that, analysis of financial statement which includes sources and the level of financial investment should be made public. The paper adopted empirical review method by contacting texts and relevant journals. The paper concludes that, the role of Financial Functions of Business Organization in Nigeria Private Sector should show the sources of fund for proper evaluation and monitoring.

KEYWORDS: Business Organization, private sector, statement of financial position, liabilities.

INTRODUCTION

Business as an institution, being small, medium or large scale is the sum total of all activities involved in the creation and distribution of goods and services for private or personal profit. Some scholars look at business as a commercial activity, a means of livelihood, a trade, profession; occupation etc which implies that business is regarded as a lawful human activity aimed at creating utilities for personal profit. It is worthy, however, that there are some voluntary institutions involved in the creating of goods and services but without the profit motive for instance Girls Guide Societies, Red Cross Society etc. However, the primary objective of business as a whole is the supply of goods and services to satisfy the environment or society needs but to the private investor profit making is optimal goal. Wherever people lives there is always the need for goods and services. These goods and services are supplied by the Financial Function available; it could be from the business of private individual, voluntary organisation, local, state and federal governments. The paper has tried to develop a realistic role of Financial Functions of Business Organisation in Nigeria. It also picture how the business (private) enterprise fits into our own society, that is what it does and what factors affect its operations.





In this case business is also depicted as the interaction of basic functions in the enterprise that supply the needs of the dynamic society. Business or trade is as life itself during the primitive era, when people lived in caves, goods and services were provided by individual family. Private sectors were not pronounced. However, specialisation leading to trade came, in when man started living in settlements and life rose above more subsistence living. For instance, a hunter, or farmer or petty trader could be ready to exchange his goods in exchange of other provided that will satisfy his need at the given situation (*Sika 2000*).

In Nigeria's pre-colonization era trade went on successfully in the historical kingdoms or empires such as Kanem Bornu, Oyo and Benin. The people's economy thrived on agriculture, fundamentally in subsistence farming, craft and commercial activities were not strong enough to speak about sources of funding perhaps to be able to analyse their financial statement. However, in Northern Africa, Trans-Sahara trade with the Portuguese flourished. Nations then traded in such commodities as gold, ivory, kolanuts, salt, slaves etc in exchange for items that were brought in by the Portuguese when colonization came into Africa and Britain took control of Nigeria, trade with the Britain was bolstered while the Britain industrialist needed raw materials such as palm oil, groundnuts and cocoa which were cheaply produced in West Africa for the industries, they also needed trading outlets, that commercial opportunities for the finished good.

Prior to independence, the nation's economic and standing activities were control by Europeans, Turkey, with the indigenisation decree of 1972 and governments direct involvement in ownership of business, the control has shifted from Europeans to Nigerians.

ROLE OF PROPRIETORSHIP:

The business environment as regards the proprietorship is an intricate and dynamic concept which embraces the independent actions of all institutions, organisations and individuals that directly or indirectly impact on a business organisations operation. The business environment can be conveniently classified into two:- the internal and external business environments. The internal environment consists of technologies used by the organisation and its sub- elements, that is, its market and the marketing system, its products and services and production system, the administrations and control procedures formation but a few.

The external business environment comprises sub-elements like the customers, competitors, the political and legal system, the economic and social systems, the technological and ethical systems, the government regulatory system etc (*Beach, 1975*)

As noted earlier, the Nigerian business environment is dynamic, that is it is constantly changing. Whether the change is friendly or hostile, positive or negative, it definitely results either in opportunities or threats to the business organisations. No business organisation can make discussions that are not affected by a wide range of internal and external business environmental factors that is, there is inter-dependence. An application of its interdependence is an important tool to understanding how business functions and how policies are made to favour private or sole proprietorship. The familiar word "ownership" is a legal concept in business environment that defines the relationship between a person and what he possesses as far as business is concern. The ownership of an object grants certain legal rights and extent of these rights are determined by law. For instance, the law permits ownership of a weapon like knife, gun etc or property like schools, lands, houses and business centres, used for the benefits of the society or citizens. The implication therefore is that an owner is responsible for the use and behaviour of what he/she has.

In business, the form of ownership is determined by the activities of the business. This paper observed that the form of business ownership decides "the sharing of profits, the responsibility for debts, the responsibility for illegal or legal activities and all other similar questions that may arise as far as the business is concern (*Beach 1972*)

To a sole proprietorship, the form a business would take depends on factors like the size of the enterprise, the capital available or how it could be raised, the products to produce statutory regulations etc. However, each type of ownership is subjected to different tax regulations, and the responsibility of the owner(s) differ(s) from one proprietor to another.

SOLE PROPRIETORSHIP:-

The concept “proprietor” denotes exclusive ownership; therefore, Sole Proprietorship means exclusive ownership of a business by an individual. This type of business is very common in Nigeria and its usually established in the name of the owner.

There are no legal requirements for establishment; neither is there any formal organisations and publicity. Any person who buys, sells and provide a product or service under his own name is the proprietor of the business. For example, Okon Akpan mechanic workshop, or Okon trading stores etc owners of these businesses may decide to let the business have established business names like Joshua consultancy, Ishaku supermarket etc such business names therefore, would need to be registered at a token fee, to make the owners position as the business owner, a public record (*Dibb 1991*)

Some businesses in this category, however, require a licence to be obtained for their operation before they commence, example, selling of gasoline, tobacco, liquor products etc; profession like insurance and stock brokerage, medicine, dentistry etc also require a licence before establishment. However they do not limit on the proprietorship concept. The sole proprietorship has the following distinguishing characteristics:- it is the oldest and simplest of business, it is incorporated, it has no separate legal existence that is, the business is equal to the owner, there is no requirement for disclosure of information to tax authorities, examples are farming, craftsmanship, building, rental business and personal services etc (*Foster, 1982*)

THE NIGERIAN ECONOMY AS REGARDS SOLE PROPRIETORSHIP

Nigeria primarily runs a mixed economy, an economic system that is midway between a free market (capitalist) economy and a pure planned (socialist) economy. In a mixed economy, the government accepts a degree of state ownership of the means of production, for example land labour and capital, all these without adequate support from the government, which will enable the sole proprietorship in development of the nation’s economy, but the government internally influences the key economic variables like interest rate through taxes collection, exchange rate and the poor maintenance of good financial regulation etc.

Besides for fairness and sound judgement in any developed economy government should be involved in direct supply of necessary utilities like portable water, electricity, good roads network, postal services, and telecommunication services among others. These are vital economy institutions whose activities are very basic to the total economy system which would enable sole proprietorship progress in good manner. (*Klek, 1975*)

However, the mixed economy system practiced in Nigeria has its legal backing in the 1979 Nigerian Constitution, which specifies that:-

- ✓ The state shall control the national economy in such a manner, as to secure the maximum welfare freedom and happiness of every citizen on the basis of social justice, equality of status and opportunity, but the reverse is the case as at today.
- ✓ The state shall manage the major sectors of the economy like, defence, currency, export and import, ovation, military, railway, mineral resources etc and may take active part in other sector like education, electricity, water resources agriculture etc.
- ✓ The state shall, without prejudice to the rights of any person participate in the areas within the major sectors of the economic and protect the rights of every citizens and engage in any economic activities outside the major sectors of the economy.

From the above, it is apparent that, in Nigeria, the state and her agencies, as well as the private investors are involved in the supply of goods and services that meet the society's needs. While the objective of the state is primarily aimed at promoting maximum welfare, freedom and happiness as stated in the constitution that of the private business investors is profit maximization. Profits are indices to measure performance, continued existence, comparison with other businesses, expansion etc. (Kotler, 1976).

By this research work, there are however, other secondary objectives, that were equally touched and they are:-

1. **Innovation:** - That is introduction of new products at a given time.
2. **Productivity:** - Every business aims at enhancing productivity that is the ratio of input to output. Increase in productivity can be measured in terms of output per labour employed, and output per capital employed, which show the extent to which the business is able to effectively utilize a set of resources to achieve the highest possible value of output.
3. **Employee's satisfaction:-** Business seeks to enhance employee's satisfaction so as to optimize contribution to businesses well-being.
4. **Shareholder's satisfaction;** every successful business require increase in dividends and reduction in business risk exposures.
5. **Social Responsibility:-** Successful businesses aimed at identifying with the locality in which it operates
6. **Stakeholder's Satisfaction:-** Apart from employees and shareholders who are directly involved in the running of business, there are other stakeholders every business outfit strives to satisfy, such as consumers. These are the people who buys the goods and services produced. Suppliers; they supply the inputs to businesses. Distributors: They distribute the goods produced by business. Government:- The government legally regulates the society so that individuals rights would not be infringed upon pressure groups/general public. They are the recipients of all that the business produces and assess the positive and possible negative impacts on the society (*Mike, 1994*)

SOURCES OF FUND/FINANCE FOR INVESTMENT

In good business setting there are basically two sources of funds:- Internal and External;
Internal:- This is the form of finance that come from retention of profit. It is called retained earnings. Others are reserves for depreciation of assets, such as plant and machinery, deferred payment or tax accrued while in external; it is the type of funds recieved from outside the firm. It could be short or long-term in nature.

Short-term Sources:- Short-term finance is obtainable from the money market (Commercial banks, discount houses etc) and the duration of repayment is normally not exceeding two years. Examples are bank credit and overdraft, bills of exchange acceptance credit, etc. A debtor can draw in bill of exchange, which is acceptable as an alternative for making payments for goods received. Such bill of exchange can be discounted by commercial banks or discount house for immediate funds. Acceptance credits are where a borrower draws a bill on a merchant bank or discount house such a bill can be discounted for immediate funds. (*Newman, 1976*)

Other short-term sources of funds are trade credit (payment in arrears for goods and services received from supplies and factors that pay cash and later collect the money debts from the trade debtors.

Long-term Sources of Finance:- Insurance Companies, Merchant banks and pension funds are called institutional investors. In Nigeria, the notable institutional investors in banking industry, established by the government, are the Nigerian Industrial Development Bank (NIDB) and the

Nigerian Bank for Commerce and Industry (NBCI), now merged with the National Economic Reconstruction Fund (NERFUND) to form the Bank of Industry (BOI).

Other long-term sources of finance for firms are the sale of ordinary and preference share via the Nigeria stock exchange, lease financing and the proprietor's personal savings.

Lease Financing:- this enable a firm to use valuable assets or machinery and equipment without having to source for funds for outright purchase. An important source of long-term funds for incorporated business is the sale of shares, while the unincorporated utilizes the proprietor's personal savings (*Owojuyigbe, 1998*)

In a successful business organization, other forms of finance are:-

- ✓ **Long-term Borrowing:-** A firm can obtain a long-term loan from an insurance company, a merchant bank or pension fund, for the purchase of land, buildings, etc, repayable over a long period of time of 20-25 years.
- ✓ **Sale and Lease-back Transaction:-** A firm, which may be in need of additional capital, can sell its fixed assets to an insurance company or a pension fund, and at the same time take it back on a long-term lease. This implies that the firm, which is the former owner of the asset, example, a building, now becomes a lessee and pays the rental fee.
- ✓ **Debenture:** This is a loan capital, just like a mortgage debenture is secured on all or some of the assets of the borrowing company. Debenture received a fix interest and is repayable at a fixed date.
- ✓ **Shares:-** This could either be preference or ordinary shares. Preference or ordinary shares are issued to the public, but preference shareholders have a first claim to the profits of the company.

If the company folds up, they will receive payment first before other shareholders. Most preference shares are issued cumulatively, that is the holders receive dividends in arrears. The ordinary shareholders are referred to as equity holders, as the dividends received by them are dependent upon the fortunes of the firm. Dividend payment is not automatic and not expected to be in arrears, to ordinary shareholders (*Anthony, 1965*)

The sole proprietorship capital is a *Sinequa non* for a good business starting with capital, a business is started very well, and a business also can collapse due to insufficiency of capital, capital means all and all, cash, funds, or finance, the supply of which is needed for the smooth running of a business. When setting up a business, the promoter(s) would need funds to purchase the machinery, building and raw materials hire labour etc before production begins, it is after production has been carried out that sales are made for the business to earn cash.

Finance plays a vital role in business organization. Before products are turned out for sale, there is a waiting period which varies from one business to another. The implication is that two kinds of capital are needed to run a business, that is the long-term and the short-term capital. The long-term funds are needed to finance fixed assets (factory buildings, machinery and tools, employment of key personnel etc.) while short-term funds are needed to finance each round of production (buying of raw materials and other supplies) before cash is received from sales. (Elkins 1980)

REASONS FOR THE PREVALENCE/PROBLEMS OF SOLE PROPRIETORSHIP IN NIGERIA

For a sole proprietorship business, the Nigerian business environment is characterised by a prevalence issues, this is largely because:-

- ✓ It is easily established with very little cost and with no formal procedures like organisational and legal service fee.
- ✓ Little capital is required. The individual owner can make use of his personal savings.

- ✓ There is little governmental regulation. The owner starts his own goals and manages the business within the confines of the law of the land.
- ✓ There is personal contact with employees and customers. It is a highly personalised form of business ownership.

However, the profits accrue to the owners alone, and he is legally liable for debts on the business. There is no corporation tax. The owner has the right to independent decision-making without consultation. In private sector, the business can easily be liquidated just as it is started. For instance, the owner can suddenly decide to stop doing business, as the business assets and liabilities are his. The owner is highly motivated as he focuses solely on the business. The business exempted from legislation such as Value -Added Tax (VAT) (Likert 1996)

PROBLEM OF SOLE PROPRIETORSHIP:-

Many business enterprises have ethical codes which fashion out the relationship among the constituents of the enterprise such as employee's customers, and the management. Much as it is very easy to establish, sole proprietorship is constrained in so many ways, these include:-

- ✓ **Limited Liability:** The owner is fully liable for the debts of the business. His private property could be sold to pay such debts. This is unlike limited liability companies where owners are liable only to the extent of their financial investments in the company.
- ✓ **Lack of continuity:** The business often dies with the owner. This is because there is no clear distinction between the owner and the business. Some businesses depend on the owner's skill and charisma for survival.
- ✓ **Limited Capital:-** It is very difficult to attract outside capital for expansion. The owner cannot appeal to the public for capital; hence, only private loans may be obtained.
- ✓ **The Business Burden is Borne Alone:-** Just as he takes all the profit to himself, the owner bears the burden alone. In this highly comparative era, he therefore would have to work hard and strive to meet up with growing challenges.
- ✓ **Obsolete Equipment:** Technological progress does not favour the sole proprietor, as he has little capital to acquire efficient equipment. This increases the gap of prosperity between large businesses and sole proprietors. The customers patronize big firms for their efficiency.
- ✓ **Unexpected occurrences:** Illness or serious injury, which may incapacitate the business owner, can bring about collapse of the business particularly in its formative stage.
- ✓ **Competition:** There is intense competition from small and large organisation and has to fully prepare for this challenge.
- ✓ **Self-exploration:-** The owner has to work for long hours to maximize profit.
- ✓ **Lack of management skills:-** Inadequate funds constraint the employment of professionals or the buying of expertise (*Kerth, 1975*)

CONCLUSION/RECOMMENDATIONS:

The primary aim of any business is the supply of goods and services to satisfy the societal needs. Wherever people live in conurbations, there is always the need for goods and services to be provided. These goods and services are supplied by the private sectors or sole proprietorship etc. Prior to independence, the nation's economic and trading activities were controlled by the Europeans. Today, with the indigenization decree of 1972 and government direct involvement in ownership of business, the control has shifted from Europeans to Nigerians. Though Nigeria primarily runs a mixed economy, an economic system that is midway between a free market economy and a pure planned economy, here sole proprietorship is not having a good economic environment to predict the business at a glance.

Therefore the role of financial functions is what the paper is out to examine in \Nigerian Private Sector. Due largely to its significant role the paper made the following recommendations. For a



good business establishment, there should be a good environmental provision made by the government of the day. The sources for funds should not be allowed to rest on the hands of sole proprietors; loans with interest free should be made available to the private sectors. Private sectors should be encouraged for continuity after death. The business burden should not be borne alone, government should intervene, private sector should be discourage from engaging on obsolete equipment purchase and use, as it does not contribute to the growth of the business.

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