HOW NIGERIAN BUSINESSES FALL BEHIND IN GROWTH AND WHAT MOST FOUNDERS MISS IN LEGAL FIXES.

The five structural problems holding Nigerian growth-stage businesses back - and what to do about each one before the next deal.

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Background

Your product is validated, you have end users, your revenue is growing, and your team is getting bigger. And then it stops, and the founders can not understand why. This does not happen because the market changes or because the product fails. It's because legal and structural foundations were built for a startup, and nobody updated the structures for a growing company. Every day, we see these problems in growth-stage Nigerian businesses, but these five are the most consistent, and we fix each one.

1. A COMPANY STRUCTURE THAT HAS OUTGROWN THE BUSINESS

Having outgrown the business, many Nigerian growing or growth-stage businesses are operating in a corporate structure designed for their founding context: Two equally invested co-founders, with no institutional investors, a simple CAC registration, and annual returns handled by a company secretary. That structure worked well from the start. This was unsuitable for Series A.

Companies face new investors with specific governance requirements, senior hires who need equity, new business lines with different regulatory requirements, potential international expansion etc. Here the original structure creates additional problems such as:

- A capitalization table is not compatible with institutional investment.
- Articles of association are not suitable for series A or B governance.
- Share classes that do not represent the economic reality of the company.
- No way to issue options or warrants to key employees.

A structural review of the articles of association, shareholder register, corporate governance framework, and if a new holding structure is required, the most tax-efficient way to reorganize is through the new Nigeria Tax Act 2025. More quickly and easily, this review can be done.

2. CONTRACTS DESIGNED FOR A MUCH SMALLER OPERATION

Contracts designed for much smaller operations are signed by larger counterparties for larger values, but many of these businesses are still using the same contract templates they drafted (or downloaded from the internet when they started out). The exposure from inadequate commercial contracts grows as the business expands.

Among the business-prone gaps that we observe in Nigerian growth-stage business contracts are:

- Uncovered liability provisions that give the business unlimited financial risk in a single contract.
- Intellectual property clauses, which assign the most valuable assets of the company to clients, suppliers, or contractors.
- Paying on long credit terms creates cash flow frictions - especially in contracts with large corporates or government entities.

Force majeure clauses that were last updated in 2019 are now standard and do not cover the full spectrum of disruptions that are now commonplace, making them unworkable in a real dispute.

3. GOVERNANCE THAT CANNOT SUPPORT INSTITUTIONAL INVESTMENT

Governance that is not conducive to institutional investment is one of the most consistent barriers to institutional investment for Nigerian growth-stage businesses.

Institutional investors like venture capitalists, private equity funds, development finance institutions, family offices etc do due diligence on governance. They consider Board composition and independence, information rights, reserved matters, anti-dilution protections, and the quality of the underlying corporate documentation. Often businesses that have not invested in their governance documents fail because they look uninvestable on paper.

An investment that a growth-stage business can make is having a governance readiness review done before any fundraising process begins. Fixing governance issues before a term sheet arrives is cheaper and takes less time than doing so during a live due diligence process, where every day of delay costs money and investor confidence.

4. OUTDATED COMPLIANCE FRAMEWORKS

A business that has grown from three people to thirty people has substantially different regulatory obligations than when it started. A compliance framework built around a smaller operation may be inadequate for a larger one - but founders tend to get so caught up in growth that they do not even notice until the regulator does. Some of the compliance areas that are often left behind in Nigerian growth-stage businesses are:

- Payroll and pension compliance have changed to include a higher number of staff members who mix due to changes in the workforce.
- Sector-specific licenses - for businesses that have diversified into regulated activities - they were not originally engaged in.
- For a more complex corporate structure, CAC obligations include annual returns and board resolution documentation.

There are FIRS tax obligations including value-added tax registration and returns where turnover is above the threshold, as well as data protection obligations under the Nigeria Data Protection Regulation for businesses that collect and process more customer and employee data.

5. SHAREHOLDER ARRANGEMENTS THAT NO LONGER REFLECT REALITY

The shareholder arrangements that no longer reflect reality are changing relationships between people and extending to the commercial relationship between shareholders as well. Founders who started as equals may have different contributions, involvement levels, expectations for the business, and personal finances. New investors may have stepped in at different valuations and key employees may have received promises of equity that have not been documented.

alignment.

Where the shareholders' agreement does not reflect the actual company and its relationships, disputes are likely to arise. Among the most expensive events a growth-stage business can face are Shareholder disputes in Nigeria. Such disputes alarm investors and, in extreme cases, dissolve the company.

The solution: Proactive review of the shareholders' agreement as the company grows - new investments, new founder roles, or preparation for a sale - to keep it aligned.

The businesses that scale well in Nigeria are not always the ones with the best products or markets. These are the ones who often invested early on in getting their foundations right. It is work that needs to be done before the deal, not during it.

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