UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

DP 77

ECONOMIC CRISIS, STRUCTURAL ADJUSTMENT AND THE COPING STRATEGIES OF MANUFACTURERS IN KANO, NIGERIA

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September 1996

♦ Preface

Nigeria's manufacturing sector has experienced major changes in production techniques, labour relations, marketing arrangements and management practices, which raise questions about the future of industrialization and the livelihoods of industrial employees. Despite the high industrial growth rates that accompanied the petroleum boom of the 1970s, value added remained low for a number of key industries, which were often protected by an overvalued currency, tariff barriers and state subsidies. The long recession and the economic stabilization programmes of the 1980s exposed the structural weaknesses of import-substitution industrialization, and forced manufacturers to devise a variety of coping and accumulation strategies to overcome the crisis. What these strategies are and their implications for industrial growth and sustainability constitute the subject of this discussion paper.

The study relies on government data, records of manufacturing companies and associations, as well as wide-ranging interviews of three groups of manufacturers — indigenous entrepreneurs, Levantine manufacturers and Western transnational corporations — to analyse entrepreneurial responses. By focusing on the dynamics of individual and collective corporate strategies, the study attempts to go beyond standard works that deal with the effects of adjustment on industry, which have often been concerned with technical issues: output growth, rates of investment or disinvestment, labour absorption and productivity, value added and industrial competitiveness. Instead, the author uses data derived from the coping strategies of the three groups of entrepreneurs to place the macro-economic and industrial sector indicators in perspective, as well as to comment on the changes and challenges confronting Nigerian industry today.

The first parts of the paper deal with conceptual issues and the history of entrepreneurship in Kano, the study site, which is the country's second industrial city and the northern region's leading commercial centre.

The study goes on to show that in the 1980s, foreign corporate manufacturers were present in all sub-sectors of manufacturing except wooden and metal furniture, and glass products. Levantine manufacturers were dominant in the plastic products sub-sector, as well as in the textiles, weaving, knitting and spinning sub-sectors, and they enjoyed varying levels of involvement in the production of a wide range of other products. Foreign and Levantine capital were clearly dominant in Kano's industrial sector. However, the indigenization decrees of the 1970s helped to promote indigenous entrepreneurship, which in the 1980s became well-entrenched in the sub-sectors of food, beverages, vegetable oil, metal and wooden furniture products, and soap, perfumes, toiletries and cosmetics. The light consumer goods sub-sectors, where much of the indigenous and Levantine capital is concentrated, registered very high rates of return in the 1970s and 1980s — no doubt aided by the existence of an oil boom-induced mass market for such goods. The study suggests that all three groups of manufacturers shared broadly similar performance levels — in terms of profitability and turnover — before the mid-1980s.

The government's ability to finance the import needs of industry came under considerable strain following the collapse of oil prices in the early 1980s. The paper discusses the nature of the emerging industrial crisis in the national and Kano contexts, as well as the sets of policies that were introduced under various stabilization and adjustment programmes. It highlights certain contradictory elements in the main adjustment programme of 1986 — such as the inflationary consequences for industry of large-scale repeated devaluations, and the tensions inherent in the goals of agricultural export promotion and the conservation of local resources for industrial use — which tended to undermine some of the benefits associated with the policy changes. In general, agro-allied industries, which were able to source raw materials locally, coped better under structural adjustment than did industries like motor vehicles, pharmaceuticals and chemicals that were wholly or largely dependent upon imported inputs. However, even these industries had to reckon with very high interest rates and a general decline in consumer spending power. Average capacity utilization levels stood at 45 per cent for the good performers and as low as 10 per cent for industries that had problems diversifying their sources of raw materials.

The rest of the paper provides a detailed empirical discussion of the various coping strategies of the manufacturers. This is divided into two sections, with the first examining strategies that are common to all three groups, and the second on practices that are specific to groups belonging to particular sub-sectors. These strategies are discussed under the headings of investment diversification and export promotion; rationalization of production and input use; changes in marketing, procurement and financial arrangements; changing managerial strategies and relations; and trends in informalization.

Most indigenous and Levantine manufacturers have a number of investment holdings, the most frequently mentioned being import trade, road haulage and real estate. None of the foreign corporate manufacturers surveyed had any interest outside of manufacturing. Several manufacturers, mostly indigenous or Levantine, also introduced new production lines in such emerging markets as cosmetics, food products and plastics, while others introduced new in-house production schemes for certain inputs. In general, the firms that introduced new production lines had some of the highest levels of capacity utilization, good sales returns and turnover, and relatively good profit margins. Despite the emphasis placed on export promotion by the reform programme, only 7 per cent of the firms surveyed reported producing goods for the export market.

All firms attempted to rationalize their production structures and use of inputs to overcome the constraints of raw material and foreign exchange shortages. Rationalization involved the retrenchment of workers, increasing the workload of labourers, and reducing the length of the working day and number of shifts to correspond to the availability of raw materials, in-house fabrication of spare parts, re-tuning of machinery and rehabilitation of old equipment. In addition, a number of innovative strategies were introduced in the areas of marketing, procurement and finance. These entailed new packaging, the reduction of the size and content of packages, discounts on bulk purchases, the opening of new sales points, intensive advertising, use of multiple bank accounts for foreign exchange transactions, and participation in the parallel foreign exchange market. Changes were also introduced in management systems: foreign companies sought an increase in their expatriate quota to recruit overseas managers with developing country experience; and some Levantine and indigenous entrepreneurs recruited family members with university education as managers. A trend towards decentralization and flexibility in decision-making is discernible for many relatively successful firms.

Finally, the paper examines collective corporate strategies. This took two forms in the Kano context. The first relates to the efforts by entrepreneurs to act collectively as an interest group. The principal business associations, the Manufacturers' Association of Nigeria and the Kano Chamber of Commerce, Industry, Mines and Agriculture closely monitor trends in the economy, comment on various aspects of the reform programme, and often lobby the state and federal governments to tailor the adjustment programme to the needs of industry. The second collective type of response concerns the involvement of firms in community activities, which are seen as a source of legitimacy in an environment where the lines between business and philanthropy, and public and private interests are sometimes blurred. The study shows that foreign corporate enterprises are much more active than Levantines and indigenous entrepreneurs in the work of the business associations, whereas the indigenous entrepreneurs dominate the community activities.

The study concludes that a process of de-industrialization is clearly discernible in Nigeria, but that this is not an inevitable outcome, and that industrial decline is not uniform across the manufacturing sector. A lot will depend upon whether the macro-policy environment regains some sense of stability and whether effective institutional support could be provided to industries that have shown encouraging signs of adaptability against all the odds.

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September 1996 Dharam Ghai
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♦ Abbreviations and Acronyms

CBN	Central Bank of Nigeria
CFAO	Compagnie française de l’Afrique Occidentale
FIIRO	Federal Institute of Industrial Research
FOS	Federal Office of Statistics
GDP	gross domestic product
IOU	“I owe you”
KACCIMA	Kano Chamber of Commerce, Industry, Mines and Agriculture
KSF	Kano State Foundation
KSIP	Kano State Investment and Property Company
LBA	licensed buying agent
MAN	Manufacturers Association of Nigeria
MNC	multinational companies
N	naira
NACCIMA	National Association for Chambers of Commerce, Industry, Mines and Agriculture
NECA	Nigerian Employers’ Consultative Association
NERFUND	National Economic Reconstruction Fund
NEXIM	Nigerian Export-Import Bank
NNDC	New Nigerian Development Corporation
PRODA	Project Development Agency
PZ	Patterson Zochonis
R&D	research and development
SAP	structural adjustment programme
SCOA	Société commerciale de l’Ouest africain
UAC	United Africa Company
UNCTAD	United Nations Conference on Trade and Development
UTC	United Trading Company

1. INTRODUCTION

Nigerian industry is undergoing major restructuring in production, marketing and management practices, the outcome of which may have serious implications for the survival of industry itself and the livelihoods of those who work in it. Like many developing countries that attempted to industrialize in the 1960s and 1970s, Nigerian industrialization has been heavily import-dependent and largely protected by an overvalued currency, tariff barriers and, in some cases, state subsidies. Thus even before the onset of the current economic crisis, the industrial sector suffered from very serious structural imbalances. These imbalances are manifested in the linkages between the various sub-sectors of industry, particularly the consumer, intermediate and capital goods industries, with the bulk of manufacturing capacity concentrated in the consumer goods sector. The intermediate goods sector is relatively underdeveloped and the capital goods sector almost non-existent. Factories depend for their full operation on the importation of essential raw materials, spare parts and machinery (Teriba and Kayode, 1977; Bangura et al., 1984; Olukoshi, 1991; The Odama Report, 1983; Forrest, 1993). The implications of this heavy import dependence are that, for all the rapid growth of industrial production in the 1970s, value added has been generally low in a large number of industries, and backward and forward linkages with the rest of the economy have been few and far between. The oil crisis in the early 1980s and the sharp reductions in foreign exchange accruing to the federal government greatly exposed these major weaknesses in industrialization.

This paper examines the ways in which major manufacturing groups, namely indigenous entrepreneurs, transnational corporations and Levantine companies, have coped with the crisis and programmes of stabilization and structural adjustment. It seeks to identify patterns of entrepreneurial response to the changing structure of opportunities in the macro-economy and the industrial sector specifically. It explores, in turn, the question of whether there have been new developments in industrial economic behaviour and the social organization of firms, and traces out the implications of entrepreneurial coping strategies for industrial development.