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UNIVERSITY OF STRATHCLYDE

Department of Marketing

"Response to foreign investment regulations in Nigeria: The Bargaining Power Model"

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Submitted for the Doctor of Philosophy

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DEDICATED TO:

MY WIFE, RAHILA;

MY DAUGHTER, HILDA; AND

MY SON, ANTHONY.

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ABSTRACT

The interest for this research developed from the researcher's observation of host countries' policies (particularly developing countries) towards foreign direct investments. Available literature identify five main categories (though not mutually distinguishable) of host country policies: expropriatory, regulatory, receptive, promotional, and open-door policies. In this research, we are concerned with regulatory (control) policies.

The response of MNCs to regulatory policies is identified to comprise of two stages: initial behaviour to 'conflict' (the policy), and the exploitation of (ownership) advantages. An MNC's initial behaviour could be competitive, collaborative, accommodative, compromising, or avoidant. Where the MNC adopts a compromising behaviour, bargaining as a means of resolving the 'conflict' is pursued. Whether this takes place or not in resolving the 'conflict', the MNC is likely to look back (assess) on what its ownership advantages are, vis-a-vis the host-country's location advantages, and then act on the basis of this assessment.

Nigeria, like any other host country has economic policies, some of which affect MNCs. These include the Business Permit / Immigration Act, 1963; the Companies Decree, 1968; the Nigerian Enterprises Promotion Decrees, 1972 and 1977; the Local Sourcing Policy; etc.

This research considers the factors influencing the response of MNCs to three of these policies: indigenization of ownership; nigerianization of management; and the local sourcing of raw materials.

Four host-country characteristics and five MNC characteristics were hypothetically chosen as influential in the firms' response to each of the policies. The host country characteristics are: Nigeria's market attractiveness, availability of needed raw materials in Nigeria, availability of required human resources in Nigeria, and competition in the firm's industry in Nigeria. The MNC characteristics are: the firm's technological intensity, export intensity, complexity of managerial and operational tasks, size, and age.

The major research findings are:

(a) Most of the firms in the sample were collaborative in their behaviour in all the policies.

(b) The most important (actually, the only) host country characteristic that significantly influenced the response of firms to the policies was Nigeria's market attractiveness.

(c) The most important MNC characteristic that influenced the firms' response to the policies was their technology.

(d) Contrary to popular opinion, this research found that important MNC characteristics encouraged or made firms to remain in Nigeria as well as comply

with government policy, rather than making them arrogant or delay compliance.

(e) All the firms in the study indicated that they had complied with the policies.

Survey results were complemented with case studies. And the findings from the cases support all the above.

CHAPTER ONE

CHAPTER ONE

INTRODUCTORY CHAPTER

1.1 THE NEED FOR THE RESEARCH

1.2 THE SCOPE OF THE STUDY

1.3 ORGANIZATION OF RESEARCH

CHAPTER ONE

INTRODUCTORY CHAPTER

1.1 THE NEED FOR THE RESEARCH

When a government is striving toward greater control of the local economy, it normally finds itself in conflict with foreign-owned enterprises with decision-making centres located outside the host country. And this is more so in developing countries. Often the goal of the host government when setting up its foreign investment policy is to secure domestic bases of support for the government as a whole.

Nigeria's policy towards foreign direct investments from independence (1960) until 1973 remained 'promotional' as it was before independence, believing that foreign investments should be encouraged for economic development. This approach however, was not unanimously supported as some sections of the society strongly believed that unless the operations (and rate of entry) of foreign firms were controlled, Nigeria's political independence would be of no significance. Thus economic dependence on the developed countries would take over from political dependence which they had just been liberated from. For the twelve years following independence, the government kept to their

'promotional' policy. But in 1973, the first significant attempt to regulate (or control) investments by foreigners occurred. This was through the 'Nigerian Enterprises Promotion Decree' which sought to indigenize some sectors of the economy. Following this, were more stringent regulatory measures.

With the exception of the indigenization policy, most other policies introduced by the government do not have any formal means of assessment of the degree of success achieved in implementing the policies. And sadly, the government hardly consciously investigate why firms respond to policies in some particular way(s). This occasionally leads to underestimation of the ability or power of the multinational firm in influencing or even altering policy. The result being that policy objectives are not realized and/or policy enforcement is thwarted as agencies charged with this responsibility face insurmountable difficulties created partly or wholly by the affected firms.

In many developing countries, stated policy has often been seen to differ to a large extent from implemented policy. In other words, the actual implementation of a government policy is usually found to be at some variance with the stated policy. The direction of the variation is not always the same, at times, less stringent, and at other times, more stringent. A lot depends on the people or agencies charged with the responsibility of enforcing the policy, but a lot has also to do with the comparative

strengths of the host country vis-a-vis the multinational company. In the Andean Common Market (ANCOM) for example, their foreign investment code provides that:

> "Only the products produced by national enterprises or joint venture of the Member Countries, as well as foreign enterprises in the process of becoming national enterprises or joint ventures within the conditions stipulated in chapter II of the code, may enjoy the advantages of the customs duties liberation under the Cartegena Agreement's program".[1]

Briefly put, the ANCOM investment code offers trade-offs to MNCs - fade-out policies in return for access to the Common market. Futhermore, the implementation of the codes is vested with respective member countries.

And Lombard [1978] (in a study of entry regulations in Colombia) found that:

> "Analysis of the Colombian case revealed a large gap between screening regulations ('the rules') and administrative practices ('the practice'). This gap can be explained by the subjectivity of decision makers, the high power concentration in a limited number of people and the relatively low level of development in the country. ... In actual practice, final decisions are usually the result of complex power play..."[2]

Nigeria, and Nigeria's policies towards foreign investments identify closely with the situation revealed in Lombard's work in Colombia. There is the need therefore to identify the factors that contribute in explaining the response of multinational corporations (MNCs) to selected policies, especially in Nigeria, the home country of the researcher. The beneficiary of this study is primarily the Nigerian government, as the study aims at finding explanations for why firms responded to the policies the way they did. This, the researcher hopes, would provide

the government with a good knowledge base, useful in further policy-making.

1.2 THE SCOPE OF THE STUDY

The subject of firm response to government policy is wide. One might be interested in the actual process of response (thus studying cases of response by selected firms would be the ideal approach), or in the explanations for why firms respond the way they did, etc. This study touches on both of the above aspects, though it concentrates on the second. The actual process of response is examined with the use of case studies. On the second aspect - why firms respond the way they did - we are primarily concerned with factors that influence (or determine) the response of firms, and in this study, the factors are divided into host-country factors, and MNC factors.

The research assumes an understanding of the eclectic model as an explanation for foreign direct investment. The key issues in this model are briefly summarized here. The model is based on the opinion of many theorists, especially J. H. Dunning, that:

> "The propensity of an enterprise to engage in international production - that financed by foreign direct investment - rests on three main determinants: first, the extent to which it possesses (or can acquire, on more favourable terms) assets which its competitors (or potential competitors) do not possess; second, whether it is in its interest to sell or lease these assets to other firms, or make use of - internalize -

> them itself; and third, how far it is profitable to exploit these assets in conjunction with the indigenous resources of foreign countries rather than those of the home country. The more the ownership-specific advantages possessed by an enterprise, the greater the inducement to internalize them; and the wider the attractions of a foreign rather than a home country production base, the greater the likelihood that an enterprise, given the incentive to do so, will engage in international production".[3]

The internalization strand of the eclectic theory is important in our understanding of the negotiating ability of Multinational Corporations (MNCs) in a host country. The possession of ownership advantages determines which firms will supply a particular foreign market, whereas the pattern of location endowments explains whether the firm will supply that market by exports (trade) or by local production (non-trade). But why does a firm choose to use the ownership advantages itself to exploit a foreign market rather than sell or lease these advantages to a firm located in that market to exploit? Why does it internalize its capital, technology, management skills itself to provide goods rather than externalize their use by engaging in port-folio investment, licensing, management contracts, and so on?

The basic incentive of a firm to internalize its ownership endowments according to Dunning, is to avoid the disadvantages, or capitalize on the imperfections, of one or the other of the two main external mechanisms of resource allocation - the market or price system and the public authority fiat. Among many other considerations, Dunning observes that public intervention in the allocation

of resources may also encourage firms to internalize their activities. This arises particularly with respect to government legislation toward the production and licensing of technology, including the patent system, and where there are differential tax and exchange rate policies, which multinational enterprises may wish to avoid or exploit.

Oftentimes it is the desire to internalize ownership advantages (on the part of the MNCs) met with opposing demands by the host country that leads to conflict between the MNC and host governments. The internalization strand of this theory therefore has significant implications on the relationship between MNCs and host governments (countries). Firstly, it means that MNCs would do everything possible in a host country to make sure that ownership-specific advantages are protected in order to ensure continuous (profitable) survival in the host country. This may involve seeking to have majority equity ownership in the subsidiary, employing mainly home-country nationals in "sensitive" top-management positions, the supply of raw materials and/or parts to the subsidiary, and so on.

Furthermore, an infringement of the internalization attempts of an MNC by a host country could result in the subsidiary being alienated, or the MNC withdrawing from the host country. The subsidiary could be alienated by being refused further supply of technology and other parent services. In some cases, 'menial' parent services could be supplied to the subsidiary but at very high costs,

rendering the subsidiary unprofitable and not beneficial to the host country.

This study considers the role of these factors in influencing the response of firms to government policies: ownership advantages of firms, and location advantages of host countries. Ownership-specific advantages are regarded as those characteristics of the MNC that are capable of granting the MNC a favourable deal from the host government. And location-specific advantages on the other hand, are those host country characteristics that are capable of granting the host country a favourable deal from the MNC(s).

The study assesses each of the host-country and MNC factors (or characteristics) from the point of view of the MNC. There was no attempt to examine the host country's assessment of factors. This means that we are left with the MNCs' assessment of what roles they think their factors (characteristics) play in influencing either policy-making and/or enforcement, or their response to policy. In an attempt to minimise the weaknesses of this approach, satisfactory proxies have been used in measuring most of the MNC characteristics instead of relying entirely on the MNCs' assessment of these factors.

1.3 ORGANIZATION OF RESEARCH

The work is in two parts: literature review and methodology, and analysis of results and conclusion. The literature review section comprises of five chapters. The first chapter (chapter Two of the thesis) reviews literature on developing country policies towards foreign direct investments. This discusses policy-making in developing countries, and types of policies adopted by developing countries towards foreign investments. Chapter three discusses firms' response to government policy, possible approaches, etc. Chapter four discusses foreign direct investment in Nigeria, providing assessments of the involvement of foreign firms in Nigeria. Chapter five concentrates on the regulation of foreign direct investment (FDI) in Nigeria, reviewing the major policies that had been introduced to regulate the entry and/or operations of foreign firms in Nigeria. The last chapter in this section is the research methodology.

Section two comprises of five chapters. The first chapter (chapter Seven of the thesis) presents and discusses the research results on the indigenization policy. Chapter eight discusses the findings on the nigerianization of management policy (the second policy selected for the study), and chapter nine discusses the research results on the local sourcing policy (the third policy studied).

Chapter ten of the thesis contains six case studies which have been written to complement the analysis in chapters seven, eight, and nine. The last chapter in this section and in the thesis (chapter eleven), is the summary of the work, conclusions drawn from the work, and the researcher's recommendations.

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CHAPTER TWO

CHAPTER TWO

DEVELOPING COUNTRY POLICIES TOWARDS FOREIGN DIRECT INVESTMENT (FDI)

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CHAPTER TWO

DEVELOPING COUNTRY POLICIES TOWARDS FOREIGN DIRECT INVESTMENTS

2.1 INTRODUCTION

Governments in developing countries have come to realize that foreign direct investment can be a double-edged sword. The technology, capital, management expertise, etc. brought by these firms bring costs as well as benefits to the host countries. Representatives of the host governments are often not adequately prepared to bargain for the best terms with the foreign firms.

According to Stoever (1982) [1], in designing policies towards foreign investment, three steps are involved: (a) assess endowments; (b) decide priorities; and (c) formulate policies. In this scheme, Stoever argues, endowments are the advantages and attractions that a country possesses at a given time: its natural and human resources, finances, markets, political and economic environment, and all the other factors that determine how attractive the country is to foreign investors - location specific advantages. Priorities, he says, represent the host country's ranking or relative importance of the goals and objectives it hopes to obtain from foreign companies. Policies, according to him, are those factors which can be consciously and significantly influenced by the government's choice of

laws, regulations, procedures, priorities and actions. Thus policies are the discretionary choices a government can make regarding how it will use its endowments in the future. They are therefore constrained by the limitations of a country's endowments: the more richly endowed a country, the wider the range of options to its policy-makers. Similarly, policies are the ways a government attempts to obtain its priorities - the means to its ends.

A country might begin the process of formulating a policy toward foreign investment by assessing its endowments. The assessment could start with considering its list of endowments: natural resources, infrastructure, industrial base, population characteristics, proximity to markets, tourist potentials, government administrative resources and efficiency, political stability, etc. The assessment of endowments could then continue with considering the available statistical data on the country's output in different industrial sectors, its commercial patterns, imports and exports, etc. Data on physical infrastructure may be available: rail and road linkages, port capacities, etc. Such statistical data should be analyzed to reveal the opportunities and enticements the country can offer potential foreign investors. Human resource endowments may be inferred from such statistics as the number of university and secondary-school graduates, sociological studies on the characteristics of their own country, etc. Governments might utilize analyses of their

own country prepared in other countries. This task of assessing endowments may be simplified by concentrating on those endowments which are most abundant and most important to the country's likely foreign investors - a concept which is invaluable in understanding the response of firms to government policy, discussed in the next chapter.

Countries. that are endowed with these characteristics are in a better position to attract foreign investments. This is especially true in the case of developing countries. Guisinger (1985) alleges that the differences observed in the experiences of developed and developing countries with regard to performance requirements on MNCs can be traced to variations in these factors.

The second step in the formulation of government policy toward foreign investment is to decide on the country's objectives for foreign investments - i.e. what the country hopes to accomplish through attracting, screening and regulating foreign capital and expertise. As with the assessment of endowments, the country could start with a simple listing of possible benefits it hopes to obtain, but here it is necessary to rank or decide priorities among the objectives - i.e. to determine which are of greater or lesser importance. The priorities may change over the years, depending on, among other things, the country's changing economic and political needs, and may vary from one type of investment or geographic region to another. The rankings may also differ for investments

in the different industries. Country priorities may include: stimulating economic growth, capital formation, aid balance of payments, government revenues, technology transfer, employment creation, development of local resources, political benefits, increased local ownership, national defence, etc. It is impossible for countries to obtain all of these objectives from foreign investment, as some are mutually incompatible, and many demand scarce resources - money and trained manpower, etc. As these objectives place demands on foreign investors, investors cannot afford to expend too much of their own resources on these. Therefore host countries have to decide which of their objectives are most important to them - i.e. determination of priorities. The process of determining priorities and deciding which costs the host country is willing to pay is itself not easy. However, some of the factors that may influence a country's ranking of priorities are: the level of economic development, responsiveness to the country's most pressing needs and problems, appropriateness to the country's endowments, the country's bargaining power vis-a-vis foreign companies, etc.

The last step - policies - would consist of the ways in which the developing country attempts to use its endowments to enlist foreign companies' assistance in obtaining its priorities and objectives. A coherent policy should integrate the various competing interests, pressures, desires, and constraints of the host country's economic and political constituencies into the most

rational possible program for achieving its priorities. The policy should balance the interests of the host country and its foreign investors so that both obtain the largest possible surplus of benefits over costs. An effective policy should serve as a guide for handling the numerous small, separate questions and decisions in the government's day-to-day dealings with foreign investors. It should include measures to attract the most desirable investment projects and standards to screen out the less desirable proposals.

To devise policies, a country's objectives may be divided into: those that will be achieved without active government promotion; those whose success or failure may depend heavily on the government's choice of policies; and those that probably cannot be obtained regardless of how much stress the government puts on them. Host governments should decide or identify which of their objectives fit into the second category and concentrate their efforts on obtaining those benefits. Each country's actual choice of policies will be unique, of course, because every country's endowments, priorities, planning processes, regulatory philosophy, and administrative resources differ from every other country's. Policy options however would depend on: investment climate, administrative procedures, incentives, guarantees, promotion, import-export balance, forms of investment, technology transfer, infrastructure, local ownership requirements, protection of local businesses, etc.

The main areas of foreign investment policy in developing countries include entry procedure, ownership and control, foreign exchange control, and incentives. On entry procedure, many countries establish policy on how foreign firms could be allowed to invest in their country. This involves a process of screening and monitoring of foreign investments. Some countries require foreign investments to be registered and given prior governmental approval. Approval may be by government agencies established for such purposes or by government departments. The establishment of a screening process in a country does not, however, necessarily mean that all foreign investments are subject to such screening, or that the country is restrictive. Such agencies in some countries only screen foreign investment proposals which require incentives, or are established for the purpose of awarding such incentives. The strictness of the screening process varies from country to country, depending upon the objective of the government in screening.

Developing country policies on ownership, like on entry, vary from country to country. These range from permitting fully foreign-owned subsidiaries in all or most sectors to considerable restrictions on foreign ownership in certain sectors. Countries that adopt the latter, have as their objective, the securing of effective national participation and control in respect of the activities of foreign corporations with regard to both their existing

operations and new investment propositions.This often takes the form of acquisition of ownership, or regulatory measures to restrict foreign direct investment in certain fields and up to certain levels. Related to ownership policy, many countries divide their economy into two (closed and restricted) or three (closed, restricted, and free) sectors. Closed sectors are those in which no foreign investment is allowed. Restricted sectors are those where foreign investment could be allowed only after certain criteria have been met, e.g. being in a priority sector, creation of employment opportunities, etc. The free sector is that in which there are no restrictions on who and how much could be invested in them.

Many developing countries have policies regulating the outflow of foreign exchange. In most of these countries, the transactions involving foreign exchange are supervised by the Central Bank in conjuction with the Ministry of Finance (or in some countries, the bodies performing the roles of these two government bodies). Firms are often required to comply with certain procedures in order to make remittance abroad, such as the use of certain authorised banks, authorization from competent authorities, etc. There are, however, certain countries that make no laws or restrictions on when and how much firms could remit abroad.

Almost every developing country offers some form of incentives to foreign investors. The specific objectives of incentives may vary from country to country, even though the

general pattern tends to be similar in several countries. In addition to attracting foreign investors, most incentives are usually designed to achieve development goals. Incentives therefore, may be given to firms with preference status for the development of certain sectors of industry, for the development of certain regions, or for the development of exports and of export-oriented industries. The best way of classifying incentives therefore, is according to the purpose for which the incentive is given. Using this yardstick for classification, we could have export incentives, development incentives, promotional incentives, etc.

From the above, it is possible to classify host country policies according to the strictness, or laxity in the overall policy. Sachdev (1978) argues that in formulating foreign investment policies, host governments are influenced to a significant degree by the past performance of multinationals in absolute terms and by comparison with national enterprises, as much as by the country's colonial experience and current political ideology.[2] This agrees with Stoever's view mentioned earlier, that in the process of policy formulation in developing countries, final policies are influenced by the country's past experience with MNCs. It could be argued too that the choice of policy is a function of the country's perceived level of development and independence/dependence on foreign firms for development. A relationship could be found to exist between the policy

pursued by a country and its perceived strengths in dealing or bargaining with multinationals. The rest of this chapter is devoted to a discussion of the kinds of host country policies, and 'regulations' as an element of host country policy toward multinational corporations.

2.2 TYPES OF HOST COUNTRY POLICIES TOWARDS FDI

Host country policies may be classified in various ways. They could be classified ranging from various degrees of attractiveness to unattractiveness; according to various degrees of openness to restrictiveness; etc.

Berhman (1970) classifies host country policies into: (a) policies on entry, (b) those relating to behaviour once the affiliate is admitted, (c) those directed at reducing the control of the parent company, and (d) those aimed at preventing interference by the parent government.[3]

Boddewyn (1974) found it useful to conceptualize national policies according to the phases in which they have an impact on MNC operations.[4] Using this approach, he divided national policies into: entry policies, operations policies, and exit policies.

Entry policies according to him, screen out unwanted investments or help obtain a particular structure of investment. Such policies may close key sectors to foreign

investment; require the membership of nationals on boards of directors or as key officers; require local equity participation; regulate foreign takeovers of local companies, and so on.

Operation policies impose special requirements on the choice of a legal form of business organization; regulate the taxation of foreign firms; specify the eligibility of foreign firms for national incentive programmes; regulate work and residence permits for expatriate officers and staff; control the transfer of foreign licenses to the national subsidiary and the payment of royalties and other fees to the parent company; and so on.

Exit policies on the other hand centre for the most part on requirements or restrictions affecting the repatriation of capital. These policies also deal with disinvestment.

LaPalombara and Blank [5] argue that national legislation relating to multinational corporations focusses on four areas: (a) foreign investment decision-making - this includes procedures for the selection of foreign investment and the screening of foreign investment proposals, control of take-overs, establishment of sectors reserved for local firms or in which foreign participation is restricted, etc.; (b) foreign investment ownership, management and employment - this includes restrictions on foreign ownership involving other specific local

participation requirements or a requirement for eventual divestment, requirements regarding local participation in management, and restrictions relating to employment creation and the use of expatriates; (c) foreign investment taxation and financial transactions - this includes the determination of taxable income and the regulation of corporate financial transactions; (d) administration and supervision of national foreign investment legislation - the administration of legislation, increasingly by interministerial investment boards or commissions or by special agencies established for the purpose of coordinating all matters relating to foreign investment.

Black, Blank, and Hanson observe that host-country policies towards MNCs can be evaluated along three interrelated dimensions: the level of authority, the degree of compulsion, and the degree of specificity of policy.(6) The most important dimension according to them is the level of authority. Levels of authority range from individual firms through subnational governments, to national governments, regional organizations, and finally to international and intergovernmental bodies such as the United Nations. Each of these levels of authority is seen to be in a position and with some authority to make policies regarding MNCs within the level of authority; thus it is possible to categorize policies according to the levels of authority within which they were made.

The second according to them is the degree of compulsion of policy. Some policies are purely voluntary. Among these are most corporate codes. Other guidelines or codes have a very low level of compulsion, even though they may exert considerable moral pressure by setting standards for good behaviour; e.g. the OECD Guidelines. In contrast, the European Community "Regulations", for example, have the force of law in some areas of anti-trust, competition rules, etc. The compulsory character of policies is determined not only by their legal status but also by the ability of the governing agency to enforce them.

The third dimension of policies affecting multinationals is the degree of specificity. Policies may impose highly specific and detailed requirements on multinational firms. Some of these are rules relating to establishment in a host country, the constitution of corporate boards of directors, or tax policies. On the other hand, policies may be very vague; they may call for MNCs to obey the laws of the country in which they operate, to be good corporate citizens, and so on.

Another classification of policies is that by Hood and Young (1979). They classify host country policies into: (a) those relating to the degree of ownership, and (b) those relating to the behaviour of MNCs.[7] In the first category, they identify different kinds of arrangements that might exist in host countries, e.g. allowing

wholly-owned MNC subsidiaries, insistence on joint ventures, licensing agreements, technical assistance agreements, etc. They add that controls relating to the degree of ownership could take different dimensions, such as restrictions on the sectors in which foreigners may operate, provisions curtailing acquisition of locally-owned companies, etc. On controls relating to the behaviour of MNCs, they identify such areas of control to include: purchase of inputs locally, exports of final products and export market controls, transfer pricing, profit and capital repatriation, and so on.

The classification that has been adopted for this study is that proposed by Sachdev (1978) [8]. According to Sachdev, foreign investment policies can be viewed as a continuum ranging from expropriatary policies to open-door policies. In-between, are regulatory, receptive and promotional policies. The choice or leaning of a country's foreign investment policy is said to depend on the national needs and stage of general development reached at the time of formulating the policy by the country. A particular position of the policy continuum is said to represent the host nation's attitudes, from extremely unfriendly to highly liberal and inviting to foreign investors. It is also important to note that country policies towards foreign direct investments change over time. Therefore, the country examples used here are valid only for the period during which the policies discussed were operational.

Figure 2.1

Foreign Investment Policy Continuum

Source: SACHDEV, J.:

"Foreign investment policies of developing countries: Interactions and accommodation" in Management International Review; Vol.18 No.2, 1978. pp.33-43

2.2.1 Expropriatory Policies:

Expropriatory policies are said to vary widely according to the needs and priorities of different host countries. Countries that adopt such policies often reserve key industrial sectors to State undertakings and national enterprises. The governments often clearly specify the industrial sectors which are open to foreign investment and the extent to which companies are allowed to control or participate in ownership and the decision-making process. Governments that adopt expropriatory policies

often apply an elaborate screening and evaluation of all investment proposals made by foreign firms. In Sachdev's discussion of this category of policy, he was silent on whether an expropriatory policy also means the practice of expropriation. The distinction between countries with expropriatory policies and those with regulatory policies is said to be practically difficult and thus strictly theoretical and imaginary. Most people agree that there is some distinction between expropriatory policies and regulatory policies, but no two people are agreed on the list of countries that each is comprised of. Thus, the countries given as examples of either of the two are merely illustrative and not definitive. Examples of countries whose policies fall within expropriatory policies as defined by Sachdev include India and Tanzania. We shall discuss India's investment policy.

India's Investment Policy

Indian society knows both poverty, backwardness and traditionalism as well as wealth, modernity and progress. India's programme for industry, overall growth and economic independence emphasizes machines to make machines. Important investments continue to be made in major heavy industrial machinery establishments, some usually with foreign assistance. India has a system of market licensing, allocation, and price controls which serve to isolate producers from competitive pressures.[9] Because of the large domestic market, many industries are committed to satisfying domestic market demands rather than exports.

The government restricts exports in sectors like textiles and clothing in order to satisfy domestic market demand. Because of the dual nature of the economy (traditional and modern sectors) firms are often disallowed from the production of certain goods which the government reserves for the traditional sector. Politically, India faces increasing difficulties from two rival religious and political groups - the Sikhs and the Hindus. India is not a party to the "Convention on the Settlement of Investment Disputes between States and Nationals of other States". It is also a "non-aligned" nation.

To invest in India, application is filed with the Secretariat for Industrial Approvals (SIA) which passes the application to the appropriate department for comment. All applications are thereafter passed to the Foreign Investment Board, which is the central agency that screens foreign participation proposals. Foreign equity participation is said to be allowed in India only if it is part of a foreign technology acquisition proposal.[10] The requisites for foreign investment in India include: an industrial licence under the Industries Act of 1951 issued by SIA; and an approval by the Foreign Investment Board of the terms of the foreign investment. Other requisites include the Reserve Bank's approval, the consent of the Council of Capital Issues, etc.

On ownership, some industries are reserved for the State. Schedule A of the 1956 Industrial Policy Resolution lists the industries which may be established only by the State. This includes arms and amunition, atomic energy, iron and steel, aircraft, telephone cables and electricity, etc. Private foreign participation is said to be allowed through a technical assistance agreement with straight fees or royalties or through minority equity. Schedule B covers industries which the State and private enterprises may undertake together, such as the manufacture of aluminium, special steels, fertilizers, etc. All other industries not included in schedules A and B are said to be open to private enterprise, even though foreign companies are often excluded if industrial know-how and capital are available locally. Those industries that fall into the "core industries" category, are open to foreign investment, unless the products to be manufactured are among those reserved to the public sector or to the small-scale sector, or are restricted because foreign investment in them are no longer necessary. They include metallurgical industries, boilers and steam-generating plants, prime movers, electrical equipment, and so on.

India's Foreign Exchange Regulation Act (FERA) of 1973 was designed as a mandatory measure to achieve the indigenization of wholly-owned foreign companies with the government's policy of inducting domestic equity in foreign firms through industrial licensing. Section 29 of FERA provided among other things that foreign enterprises

operating in India as of 1 January 1974 could carry on their activities only after obtaining the approval of the Reserve Bank of India. The guidelines issued for the implementation of Section 29 provided for three levels of foreign equity - 74 percent, 51 percent, and 40 percent, depending on the nature of the activities of the foreign companies. Companies which operated in specified high priority industries, those whose activities involved sophisticated technology, and those that exported more than 60 percent of their own production were all allowed up to 74 percent or 51 percent of foreign equity. The FERA guidelines applied only to foreign firms operating in India as of 1 January 1974, and in which foreign ownership was more than 40 percent. The guidelines did not also apply to banks (except foreign banks) and insurance companies which had been nationalised. The guidelines provided an opportunity for companies to change the nature and character of their activities in order to qualify for higher levels of foreign equity. The employment of foreign personnel is not favoured by the government except when necessary.

The administration of exchange control in India is entrusted to the Reserve Bank. The general rule provides that there are no restrictions in the remittance of profits, dividends and interest to beneficiaries who reside permanently outside India. Repatriation of dividends is not restricted provided it is made through the Reserve Bank of India. Transfer of royalties and fees for technical

services in the currency of the foreign investor at the prevailing official rate may be made without limitation, subject to Reserve Bank approval and payment of tax liabilities.

India offers some investment incentives such as tax holidays for a period of five years from the start of production, reduction of tax base, concession for small-scale industrial undertakings, etc. subject upon satisfying laid-down conditions.

2.2.2 Regulatory Policies:

Sachdev(1978) argues that countries with regulatory foreign investment policies include those which in addition to emphasizing planned divestment, also require foreign companies to incorporate built-in divestment proposals. These countries require, through legislation, reduction or disinvestment of corporate ownership to a minority position over a specified period. Sachdev agrees that it is often difficult to distinguish some countries with regulatory policies from those with expropriatory policies. Examples of countries with regulatory policies include: the Andean Common Market countries in the late 1970s, the Philippines, etc. We shall discuss the investment policy of the Philippines.

The Philippines' Investment Policy

The dominant feature of Philippine economic life since 1945 is said to be that of intense nationalism. There are notable high tariff barriers in the country. It has a largely homogeneous and literate population, a broad resource base with modest mineral wealth. The country is said to experience chronic balance of payments difficulties as well as political instability. The balance of payments difficulties are said to be in part as a result of the failure of the traditional export crops to expand fast enough. Internal divisions tear the country apart. The problems in the country are attributed mainly to the structure of the society, and in particular, the concentration of land and political power in the hands of a few extremely wealthy families. The rate of savings is low, as the wealthy are unwilling to invest in other enterprises than real estate. About 60 percent of Filipino workforce is engaged in agricultural pursuits. Yet these generate only a little more than one-third of national product. Industrial crops (coconut products, sugar, etc.) account for about 30 percent of the cultivated area but produce some 40 - 60 percent of export earnings.[11]

Despite the professed adherence to the principle of free enterprise and capitalism, the government has involved itself in as wide a range of manufacturing and service industries as has any southeast Asian government whose economic policy is said to be socialist. Economic

nationalism in the Philippines involves not only reducing the sphere of operations of foreign-owned enterprises, but also those of local Chinese. Apart from direct participation in manufacturing and service industries, the State endeavours to enlarge the Filipino share by various fiscal and monetary devices such as tax remission, import duties and quotas, and allocation of foreign exchange. Production is directed at the heavily protected home market and there is little disposition to contest exports with powerful industrial adversaries like Hong Kong.

Large establishments in the Philippines tend to be mainly foreign-owned, but even these have a substantial Filipino-held equity, and the fact that a local majority holding is mandatory for new joint-ventures probably discourages many potential new foreign enterprises. There's substantial state assistance in the form of tariff protections, import quotas, dollar allocations, etc.. The Philippines is a member of the Association of South-East Asian Nations (ASEAN). It became a party to the Convention on the Settlement of Investment Disputes between States and Nationals of other States" since 1978.

The Philippines' Investment Incentives Act of 1967 created a Board of Investment whose functions include drawing up various priorities plans, discharging and cancellation of fiscal incentives, registering foreign companies, regulating the entry of foreign personnel, etc.

The screening powers granted the Board include periodic checks into the performance of companies to ascertain compliance with rules and regulations.

Enterprises listed under the Investment Priorities Plan under the preferred pioneer area may be 100 percent owned by foreign investors, provided that within 30 years, 60 percent of equity will be in the hands of Filipino nationals. Foreign enterprises that export at least 70 percent of total production are permitted to acquire Filipino status (60 percent Filipino ownership) over a period of 40 years. Those exporting 100 percent of their production need not acquire Filipino status.

Activities such as banking, financing companies, investment companies, investment houses, natural resources/minerals and mineral lands, etc. are subject to varying local equity participation and managerial limitations. Industries that are closed to foreign investors include the manufacture of armaments, amunitions and other defence and military products. Included in this category too are nuclear power, retail trade, rice and corn retailing, mass media, and rural banking. Certain industries that are designated 'overcrowded' are closed temporarily to foreign investors unless the products are exported or the industries are located in promoted regions. These include sewing-machine, leather tanning, beer brewing, non-integrated paper mills, etc.

Foreign exchange controls include that investments in export-oriented industries, and which are certified by the Central Bank, may be repatriated in full, but no annual instalment may exceed the investor's share of net foreign earnings in the preceding year. Investments registered with the Board of Investments and which contribute to import substitution or export may be repatriated in equal annual instalments commencing the year after liquidation of the investment, however, no annual instalments may exceed the total net foreign exchange earnings in the preceding year. Investments registered with the Board that do not fall under the above and do not utilize domestic credits may be repatriated in four equal instalments commencing the year following liquidation. For the remaining investments, repatriation is based on the amount of capital to be repatriated.

The fiscal incentives offered by the Philippines include Pioneer Companies' Incentives (foreign or Filipino) and various kinds of export incentives - export incentives to export trades, incentives for service exporters - and incentives for investment in less developed areas.

2.2.3 Receptive Policies

In Sachdev's policy continuum, he argues that the investment policy of some countries could be described as receptive. These countries, he argues, operate on clearly defined and selective policies both in the case of industries and nationality of foreign companies. The countries may be highly receptive or highly non-receptive to certain industries and foreign companies based on the ideologies of the business group or elites in the country. This group, he argues, relies on a wide range of assistance through foreign direct investment especially through joint ventures. The requirements of countries with receptive investment policies are said to be usually accompanied by evaluation of foreign investment projects according to national criteria which, over a period of time include an element of greater control over ownership.

While it is theoretically possible to identify a receptive stage or category in investment policies, practically, no country remains or could strictly be referred to as 'receptive' towards foreign investments, according to the definition adopted here - i.e. offering equal numbers (or degrees) of incentives as well as regulations. The general tendency is for countries to tilt either towards restrictiveness or towards liberalism in policies, with a receptive policy as the dividing line.

2.2.4 Promotional Policies:

Liberal foreign investment policies fall into two categories - the promotional and the open-door policies. Sachdev argues that countries with highly promotional policies tend not to differ significantly from from those with open-door policies. The main difference between the two can be seen only in the imposition of certain selected controls mainly through screening of individual projects in promotional policies. Promotional policies are also liberal in approving foreign investment projects by foreign companies in manufacturing sectors. However, some areas of economic activity, such as banking, public utilities, agriculture, etc. are reserved for national or public undertakings. The objectives behind the screening process of foreign projects are generally to encourage export oriented or high technology investments which may have to incorporate some local content in management as a preference. Examples of countries with promotional investment policies include Zambia, Singapore, Nigeria, Malaysia, etc. We shall discuss the policy of Malaysia towards foreign investments.

Malaysia's policy towards foreign investments

Malaysia is a country whose economic performance is often described as impressive. Until 1973 at least, government and a substantial proportion of the population felt that no major change was required from a policy of continuing to allow maximum freedom to the private sector

and restricting government activity in economic affairs largely to improvements in the infrastructure. Malaysia is not bogged down by an overpopulated outworn food-producing agriculture; it has not had a majority of its workforce engaged in food production; and the expansion of food output has been directed at meeting an increasing demand from the growing numbers engaged in export and non-agricultural industries. Even though religious and cultural differences among Malaysia's leading communities are large enough to constitute major sources of friction, it is the large inequality in the distribution of income between the main ethnic groups that is said to polarize these differences and precipitates them so forcibly into the political arena.

In Malaysia, more than in most developing countries, new manufacturing activities tend to be very capital-intensive from the start and to be sparing in their use of labour. High productivity is thus assured and the management has greater freedom of manoevre and is less likely to be impelled by organised labour. At the same time, the level of wages in such undertakings, which are usually local subsidiaries of great multinational corporations, is said to be far higher than in other industrial establishments.

Malaysia's well-developed infrastructure, its high per capita income, political and economic stability, and past record of good relations with the foreign company, have

proved highly attractive to the MNCs, not only to those seeking to meet the Malaysian market by local production, but also to those looking for a location for export to other parts of Asia. Malaysia is a member of ASEAN and has been a party to the Convention on the Settlement of Investment Disputes between States and Nationals of other States since 1966.

While policy formulation is the responsibility of the Ministry of Trade and Industry and the Ministry of Finance, the success of efforts to attract foreign investments depends very much on the policy-implementing agencies, especially the Malaysian Industrial Development Authority (MIDA). This organization is strongly represented in various international capitals and promotes Malaysia to foreign investors.

Malaysia has two basic legislations affecting foreign investments - the Investment Incentives Act, 1968, which has been amended six times up to 1980; and the Industrial Co-ordination Act, 1975 (as amended in 1977 and 1979). The Investment Incentives Act of 1968, apart from prescribing fiscal incentives for pioneer companies, also promotes certain industries according to labour utilization, exports and location. The amount of incentives enjoyed by firms in terms of year and fiscal exemptions is said to be directly proportional to the initial capital investment and employment of the firm.[12]

The application of a potential investor is checked and evaluated by the appropriate personnel of MIDA for qualification. Practically all industries are open to foreign capital except those reserved to the State such as defence and military products, public utilities, etc.[13] In some areas, the government enters into joint venture agreements with either a local or a foreign company. There is no legislation or regulation restricting foreign equity participation. However, Malaysia's New Economic Policy (NEP) requires that by 1990, ownership in the corporate sector will be 30 percent foreign, 30 percent Malay and 40 percent other Malaysians.

Apart from South Africa and Israel against which strict controls on remittances are applied, regulations are uniformly applied to all countries. In general, firms are allowed to remit between $M5,000 and $M2 million from any commercial bank, with a permission from the Controller of Foreign Exchange for amounts exceeding $M2 million. Capital could be repatriated upon sale of investments. Dividends, fees, and invisibles may further be remitted except for the above limitation on amounts for each repatriation. Borrowings from foreign sources may be freely repatriated up to $M100,000. Permission to remit amounts in excess of this is usually granted provided the terms and conditions are reasonable and acceptable.

2.2.5 Open-Door Policies:

At the other extreme of Sachdev's policy continuum is the second of the group of liberal policies - open-door policies. This, according to him, includes generous investment incentives and tariff protection for import substitution. These countries impose minimum restrictions and relax their investment codes in order to attract foreign companies, particularly in manufacturing sectors. They offer investment incentives such as tax holidays, lower corporate taxes, accelerated depreciation, land and buildings at low costs, and sometimes financial support at low interest rates. Foreign companies operating in these countries are facilitated to repatriate profits and capital. Their governments also give guarantees of various types against risks as nationalization or expropriation; and in the event of such incidence, adequate, effective and prompt compensation is promised by the government. Examples of countries whose policies qualify them to belong to this category include many South-East Asian countries (e.g. Hong Kong, Taiwan, South Korea, etc), Egypt, Brazil, etc. We shall discuss Brazil's policy towards foreign investments.

Brazilian policy towards foreign investments

Brazil is a large country, rich in natural resources and not overpopulated. Brazil's industrialization took the form of import substitution and since the seventies, has been able to produce virtually all final goods in addition to most processed inputs and components. Industrial growth was said to be so rapid and diversified that the absolute value of imports of manufactured goods remained roughly constant though incomes grew rapidly. As early as 1964 only 4 percent of the domestic consumption of manufactured goods was provided by imports, and these were largely restricted to investment goods and some chemicals.[14]

Since the mid-sixties, the stronger and more stable Brazilian economy is said to have stimulated foreign investment. When Brazil's political stability compared with other countries of Latin America, coupled with high industrial growth, expanding markets, and availability of skilled workforce, technicians and management personnel are considered, they have contributed significantly to satisfying the country's needs for foreign investments. MNCs are said to consider Brazil to be an excellent country for foreign investment, affording minimum risk, and ample opportunities for profits. The government's policy of devaluing Brazilian currency in line with inflation and indexing, to adjust salaries, interest rates, and costs with inflation is said to prove to be a successful policy in every practical term in attracting foreign investment.

Industrial policy in Brazil is carried out by a large number of institutions active in different fields. At the top of the hierarchy is the Council of Economic Development (CDE) whose members include all the Ministers in the economic area and the President of the Republic. Theoretically, the CDE establishes the general directives for the formulation and implementation of the country's overall economic policy. At the regional level, several agencies may grant fiscal incentives, such as exemption from the state taxes.

Brazil is noted as having provided quite a stable environment for the operation of MNCs. In the 1950s special incentives were granted to the entry of foreign companies. The basic legislation which covers the question of profit remittance was established in the early 1960s and has not been significantly changed since then. There is no official hostility toward the activities of foreign corporations in the country. Brazil was one of the original signatories to the General Agreement on Tariffs and Trade (GATT) and is still a member. It was also one of the seven countries that signed the Treaty of Montevideo in 1961 which established the Latin American Free Trade Association (LAFTA), now Latin American Integration Association (LAIA).

Brazil unless the company wants to take advantage of industrial incentives (which would require the project to be approved by the Industrial Development Council, CDI), or regional incentives (which would require approval from the corresponding regional agency). There is no formal screening process but companies must apply for registration with the Registry of Foreign Investment (FIRCE). Investments involving the transfer of technology and related agreements must be registered with the National Institute of Industrial Property (INPI) and with the Central Bank.

The federal constitution of Brazil excludes foreigners from some economic activities such as oil exploration and drilling, newspapers or television and radio stations. Foreign partnership in financial institutions is restricted to minority control and foreign banks intending to operate representative offices require prior approval from the Central Bank. Direct and indirect foreign ownership of rural real estate is strictly regulated. On managerial control, except for airlines, shipping lines, radio and telegraphic communications, which must be administered by Brazilians, and pharmaceuticals where technical directions must be in Brazilian hands, there are no specific requirements limiting managerial control to Brazilian nationals. With respect to the workforce of a company, at least two-thirds must be Brazilian.

Repatriation of profits, dividends, royalties and fees under licensing agreements and remittance of capital are guaranteed to foreign investors provided the foreign investment is registered with FIRCE or INPI as the case may be.

2.3 REGULATION OF FOREIGN DIRECT INVESTMENT

The two elements of any type of policy pursued by a government were identified in section 2.2 to be 'regulation' and 'incentives'. No matter the type of policy pursued, there are two policy objectives that governments often have towards foreign investments: to formulate and propagate those policies which either strictly control or accelerate the inflow of foreign investment; and to simultaneously maximise the net benefit accruing from such investment. To achieve such dual policy objectives requires the use of promotional measures to stimulate the inflow of foreign investment (incentives), and at the same time the imposition of control measures to maximise the conformity and respect for social, economic and cultural values of the host country.

In this section, as the remainder of the study, we shall consider the regulation of foreign direct investments - reasons for this, what aspects of a firm's investments are controlled, means of control, etc. (Regulation and control are used interchangeably throughout this study and are seen as synonymous).

2.3.1 Why Control?

There are many reasons why host countries control foreign investment or investors in their countries. There could be as many reasons as the countries. Berhman (1975) identifies the reasons for why countries would want to control the MNC to include the desire for: independence from outside influence - both actual and symptomatic; for independence from economic disturbances abroad; for an expanded national industrial base to improve bargaining positions with other countries; and for autonomy over their own national industrial development.[15]

The first two of Berhman's reasons for control suggest that there is a concern to separate the host country's economy from decisions made abroad. The other two reasons for control suggest that the host government does not feel that the criteria employed by others as to the location and growth of industry are appropriate to the pursuit of its own objectives. It therefore needs control over the selection of industrial sectors and their rate of development.

Hood and Young (1979) give three reasons why host governments intervene in the operations of MNCs in their countries. These are: the desire to redistribute income in accordance with some equity goal; the desire to remedy

imperfections in the market economy and thereby improve economic efficiency; and the desire to remedy stabilization problems.[16] These, however are purely economic reasons for government intervention. A study of the cases of control would reveal some non-economic reasons as well (such as those mentioned by Berhman) for government intervention.

De la Torre (1983) suggests two purposes for any control system. One (especially for control on entry) is to screen out undesirable investments, i.e. proposals that do not appear to make a significant contribution to the nation's expressed objectives. The second purpose he identifies as the manipulation of the policy variables available to the government in order to maximise the real returns to the nation of any given investment.[17]

What all the above suggest is that governments have various reasons for intervention. And the implications for MNCs is that they should adopt varying strategies (according to the host government's reasons for control) in response to any act of government intervention. It would be wrong for the MNC to respond to a government's act of intervention whose objective is non-economic with economic strategies for instance (except such economic strategies are capable of satisfying the non-economic objective). Similarly as reasons for intervention are liable to change over time, MNC response should change as reasons change.

2.4.2 Who Controls?

Most writers on control of MNC feel that there are three levels at which MNCs could be controlled (see Hood and Young, 1979; Sauvant and Lavipour, 1976 as examples). These three levels are: the international level; the multinational level; and the national level. The efficiency of control on MNCs at these levels is said to be in decreasing order while effectiveness is said to be in increasing order of the three levels accordingly.

Livingstone (1975) distinguishes between the control by developed countries and that by developing countries. The former, he argues, adopts remedies which follow the pattern of more effective regulation and public accountability rather than changing ownership patterns. In developing countries, this concept is said to be impractical. The administrative machinery to detect actions such as transfer pricing or tax avoidance is said to be insufficiently advanced enough to deal with sophisticated operations of the enterprise. To supervise and regulate the activities of the enterprise therefore, it is often necessary to have inside knowledge - to insist at least on partial local ownership - whether by the State or by private citizens. He adds that such governments would achieve their control objectives best only when such local owners are really ambassadors of the country.[18] To Livingstone, the most effective methods of control, as well

as the most acceptable, are those which involve a measure of local ownership in the developing host country.

Sauvant and Lavipour (1976) argue that host countries possess powerful sets of instruments to channel MNC activities in appropriate directions. However they warn that in the absence of a global approach to control, host governments or groups of host governments attempting to control MNCs have to be careful in striking an accepatable balance between what they have to offer to MNCs and the severity of their restrictions. And for developing countries, they add that too unfavourable a balance may lead to a decrease in investment flows.[19]

National controls, except in countries where the government's intention is to actively participate in industrial development and economic decision, often have the tendency of transferring decision-making from foreign private centres to local private centres. The requirement of local ownership, the development of local managers, and the selection of directors from among national citizens and the development of local technicians all lead toward increasing the control over economic development by private individuals rather than government. Even though this is the result of some of the national control systems, many of them also go further to inject the government into basic investment decisions and therefore to extend its control over the local private sector as well.

2.4.3 How to Control

Rugman et al (1985) categorize the means which host governments regulate MNCs along two dimensions: the instruments used to regulate MNCs; and the tightness of the regulation.[20] They identify the instruments that affect the 'macro-economic environment' to include such things as taxes, tariffs, capital costs, wages, exchange rates, and prices. And those that affect the MNC's 'micro-economic environment' to include local ownership requirements, local value added regulations, capital rationing, hiring quotas, export requirements, import licensing, controls on technology, foreign exchange controls, etc. They suggest that governments can use one or both types of regulatory instruments (macro- or micro-economic) to achieve their goals.

On the tightness of the regulatory environment, Rugman et al argue that it directly affects the operations of MNCs. The strictness of the enforcement of the laws concerning MNCs are seen to be capable of being independent of the type of regulatory method used by the government. They find that an important factor in the tightness of the regulatory environment of MNCs is the application of government regulation policy. Further, that often, there are differences between government policy statements, the embodiment of these policies in the laws and regulations,

and their application.

The national control mechanism has generally been through the issuance of regulations by an appropriate Ministry - finance, commerce and trade, industry, etc. - and the requirement that negotiations (where required or possible) be undertaken with this Ministry in compliance with the regulation. Alternatively, some incentive may be withheld from the foreign investors within the country until certain approvals are received from the appropriate Ministry or government agency. The mechanism therefore could involve a series of negotiations with appropriate government officials concerning a pending approval, or the private agreements with local partners.

2.4 C O N C L U S I O N : CHOICE OF POLICY

In concluding our discussion on developing country policies towards foreign direct investment, we consider the choice of policy by host countries. Guisinger (1985) [21] found that countries compete for foreign investment in much the same way that manufacturers compete for market shares. He and his study team found that countries compete in three separate "markets": one for investments oriented toward the domestic market of a single host country; one for investments oriented toward a common market; and one for investments to produce for the worldwide export market. A country's choice of policy towards MNCs, according to him

is shaped not only by the factors identified by Sachdev (1978) in sections 2.2 and 2.3 but also by the degree of competition for foreign investment faced by the country. He added that if a country competes in more than one of the three "markets", it may adopt different strategies in each. Figure 2.2 illustrates Guisinger's view of how country policies towards FDI are selected.

From figure 2.2, a small experienced, industrialized country, for example, active in an intensely competitive market for common market investments is likely to display a strategy (policy) composed of the following elements:

(a) Relatively high levels of incentives

(b) A great variety of incentive instruments

(c) Very active promotion

(d) A high degree of discrimination among firms

etc.

By contrast, a large, advanced and experienced country, for example, actively seeking foreign investments in the same market will make policies composed of the following elements:

(a) Relatively high levels of incentives

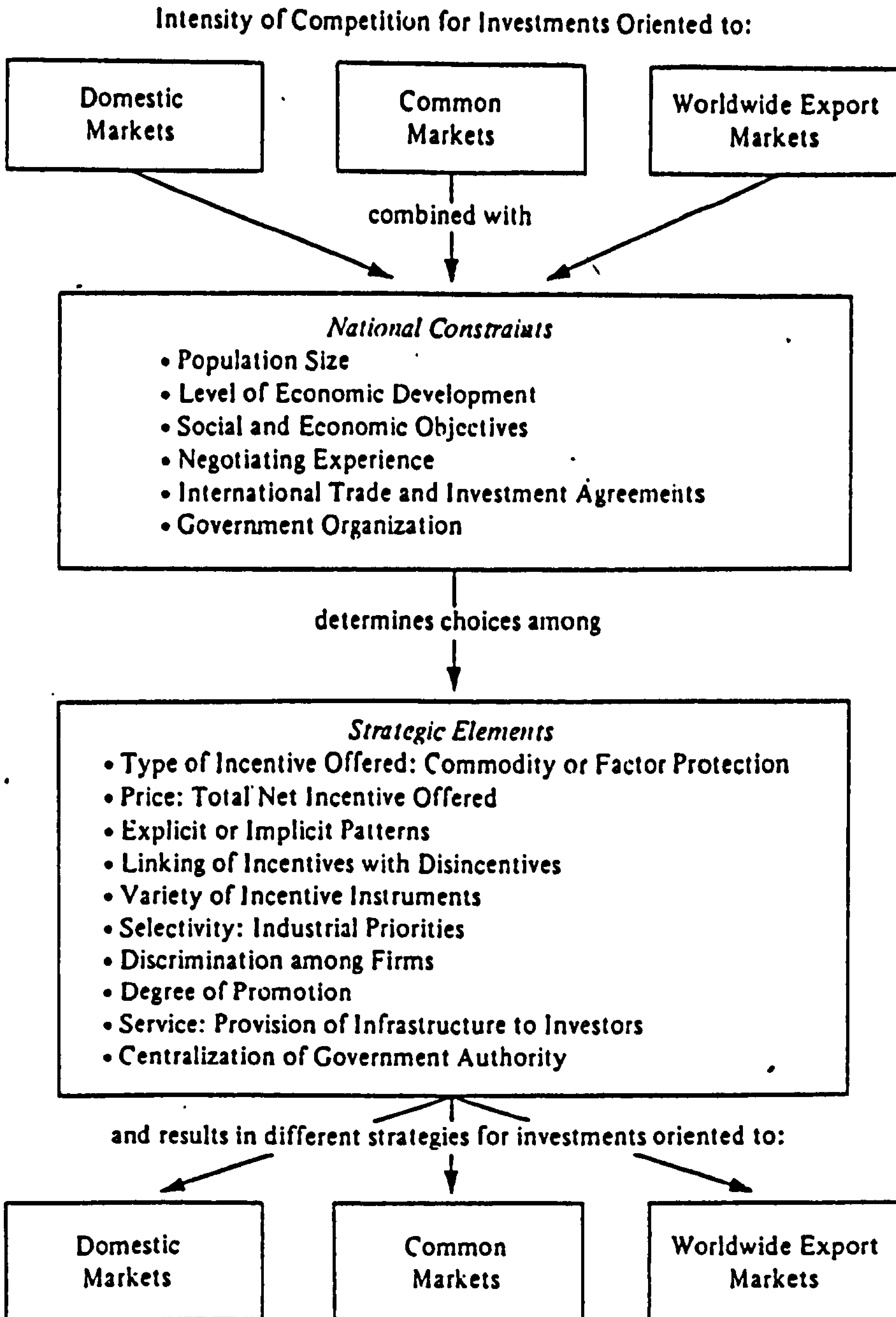
(b) Some performance requirements directly linked to incentives

(c) Moderate discrimination among firms

(d) Limited promotion

FIGURE 2.2

Determinants of a Country's Strategies to Attract and Control Foreign Investors



SOURCE: GUISINGER, Stephen E.: op. cit. p.316

Guisinger observed that: "In general, smaller countries have the advantage of centralized control over all aspects of foreign investment policy; as a result small countries are capable of much finer tuning and faster response to new opportunities, often adopting new instruments and new methods of promotion that larger countries subsequently emulate to some degree. But larger countries have the advantage of bargaining power, especially in the case of foreign investments oriented toward domestic import substitution. Control of commodity protection and access of investors to the domestic market permit larger countries to make greater use of linkages between performance requirements and incentives, cross-subsidizing exports from rents generated by protection to import-substituting investments".[22]

Black et al [23] felt that governments of developing countries deal with multinational corporations in a wide variety of ways to achieve different objectives. Some countries set up foreign investment boards or other coordinating agencies. Their functions vary, from a simple advisory role to supervising compliance with foreign investment laws and regulations.

Most developing country governments screen all proposed investments prior to entry. Screening criteria are not always precise and fixed standards for evaluating applications frequently do not exist. Criteria normally include such items as job creation, the establishment of

export-oriented industries, training of labour and management, and technology transfer. Emphasis differs among host countries; demands for a positive contribution to the balance of payments are less intense in countries that are major exporters of primary commodities, for example. Technology transfer and the training of indigenous manpower rank at the top of almost every list, however.

Screening is not always accomplished by a single agency (such as Nigeria's Nigerian Enterprises Promotion Board, NEPB), but is sometimes carried out by a number of ministries and through foreign exchange controls. Brazil, Colombia and Pakistan, for example, rely heavily on exchange controls to monitor incoming foreign investment.

Foreign MNC activities are also regulated through equity ownership rules. There is a growing tendency for developing host governments to seek joint ventures or require wholly-owned affiliates to include local ownership participation. Some of the cases discussed in section 2.2 indicate that this control mechanism will be used more and more by developing countries.

Another policy option for developing countries is the requirement for indigenous management of the subsidiary - or at least indigenous participation in management. Management as well as technical work-force structures in MNC affiliates are controlled by developing host governments through various labour laws. Often this is

expressed in terms of quotas of the subsidiary's work forces, but in some instances a share of the payroll may be specified. The purpose is to set aside some of the higher paying technical and administrative positions for indigenous citizens. Exemptions to these types of controls are often granted because of the scarcity of qualified locals. In these instances, the host government frequently requires that local individuals be trained to take over the job filled by the expatriate as quickly as possible. This is the Brazilian practice.

In many developing countries, host governments restrict or exclude MNC operations from "key sectors," such as public utilities, transportation, the media, etc. Some developing nations specify sectors open to foreign investment rather than those in which it is precluded or restricted. These usually coincide with incentive schemes and change according to changes in the particular country's development plans.

Many developing host governments, especially in Latin America, use special laws to limit the flexibility of multinational firms in intracompany financial transactions. The degrees of restriction and specificity vary from country to country. Brazil, and Colombia, for example, prohibit royalty payments by the MNC affiliate to the parent company. Algeria and Egypt negotiate the extent to which intracompany payments may be made at the time of the MNC affiliate's establishment. Criteria used in considering requests for such payments include the level of technology

to be transferred, the nature of the local projects, and potential benefit to the host country's interests.

Developing host country foreign investment policies are diverse and complex, and not conducive to generalizations or simple analysis. A study on national legislation carried on by the UN Centre on Transnational Corporations discerns three general patterns - one prevailing among most African and certain Asian nations; a second among Middle-Eastern and North African countries; a third among Latin American nations. These patterns are described in table 2.1.

Developing countries can adopt a variety of policies towards MNCs without significantly affecting their investment climates, according to Root and Ahmed (1978). [24] If foreign investors regard a country's investment climate as poor, then liberal policies on joint ventures, local content requirements, and limitations on foreign personnel are unlikely to improve it. On the other hand, if foreign investors regard a country's investment climate as good, then restrictive policies in these areas are unlikely to compromise it.

TABLE 2.1

Patterns of Foreign Direct Investment Regulation in Selected Developing Countries

Parameter	*Pattern I (mostly Asia—excluding India—Africa, CACM)*	*Pattern II (mostly Middle East, North Africa)*	*Pattern III (mostly South America)*
I. Administration	Case-by-case screening largely restricted to award of *incentives* (non-discriminatory).	Case-by-case screening at establishment (degree of discrimination varies).	Separate administration for foreign investment. Screening at establishment.
II. Investment screening criteria	Emphasis on functional contributions of investment. Little indication of extensive cost/benefit analysis. Screening largely for award of incentives.	Emphasis on functional contributions and conditions of investment. Little indication of extensive cost/benefit analysis.	Criteria formulated for cost/benefit analysis, often extensive. Includes social cost criteria in some cases.
III. Ownership	Few requirements. Few sectors closed to foreign investment.	Joint ventures prevalent.	Strict regulations on ownership and investment (exc. Brazil). A large number of closed sectors.
IV. Finance	Few repatriation limitations.	Few repatriation limitations.	Repatriation ceilings in most areas (exc. Mexico). Screening of foreign loans. Special control of payments to parent company.
V. Employment and training	Announced indigenization policies but little headway in practice.	Local quotas for work force. Few local quotas for management.	Specific across-the-board indigenization requirements.
VI. Technology transfer	No controls.	No controls.	Screening and registration of all technology imported.
VII. Investment incentives	Long-term tax incentives for establishment.	Establishment incentives limited to five years—in most cases non-renewable.	Incentives tied to specific contributions, but incentives may be curtailed for foreign-owned firms.
VIII. International dispute settlement	Adherence to international dispute regulation. Regional investment regulation: UDEAC, OCAM, EAC, OAMP.	Same as Pattern I. Regional investment regulation: Arab Economic Union.	Local adjudication and regional harmonization of investment regulation: ANCOM, CACM.

Source: U.N. Commision on Transnational corporations. "National Legislation and Requlations relating to TNCs" United Nations, 1976, pp 21 - 22

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CHAPTER THREE

CHAPTER THREE

RESPONSE OF FIRMS TO DEVELOPING COUNTRY POLICIES

3.1 INTRODUCTION

3.2 COMPANY BEHAVIOUR IN POLICY

3.3 ROLE OF OWNERSHIP/LOCATION ADVANTAGES IN RESPONSE

3.4 SUMMARY

RESPONSE OF FIRMS TO DEVELOPING COUNTRY POLICIES

3.1 INTRODUCTION

The relationship between foreign investors and developing countries has undergone significant changes over the years. Apart from the fact that the size of investment has grown remarkably, the number of investors has been increasing. Not only have the European and Japanese firms joined the U.S. firms in the race but the relatively more advanced developing countries have also joined. Following these trends has been a dramatic proliferation of 'new' forms of investment and conditions (e.g. turn-key projects, management and marketing contracts, fade-out agreements, etc.). The traditional bundle of production factors contained in a wholly-owned subsidiary of a foreign multinational - mainly capital, technology, management skills and market access - can now be obtained more readily from separate suppliers. In evaluating the relative advantage of alternative investment proposals, host country officials now find themselves choosing between varying packages with varying implications of control for each alternative. De la Torre (1981) argues that these changes have resulted in a relative shift in bargaining power over the years in favour of host countries.[1]

On the other hand, host countries (especially the developing countries) increasingly face confrontations from factions of their society, and national policies represent hard-fought compromises among competing interest groups. As a result, one finds that a government is often required to spend more time in sorting out internal conflict and in establishing a common negotiating position than in facing the "opponent" - the multinational company in this case. An example of this situation was in Mexico, which illustrated how different governmental agencies held conflicting views over time on development strategies and how this resulted in variable policies toward foreign direct investment (fdi), while ideology (and public expression of political will) remained outwardly constant. The imperative of a growth clashed with the relative priorities of different agencies and different regimes in power with probably debilitating effects on Mexico's bargaining strength in spite of its high power of attraction.[2] An obvious conclusion from this is that the outcome of any negotiations will depend not only on the relative strength of either party and how important each one is to the other's strategy, but also on how internal conflicts are resolved in arriving at such a strategy.

Government policies (especially control policies) on FDI have been observed to face numerous operational problems. Lombard (1978),[3] for example, notes that inspite of fairly clear objective criteria, the Colombian 'screeners' who actually performed the analysis showed

large variations in their subjective interpretations of weights which were appropriate to different components of the analysis. Also 'standard' procedures were circumvented in more than 25 percent of the cases. Such human factors as education and experience were often given as critical bottlenecks in the process of implementation. Faced with problems such as these - differences between government policy and its implementation - developing countries must strive to find a balance in terms of what to legislate, how rigidly to do so, and how much leeway to offer their representatives in negotiations with foreign investors. Some countries choose to legislate maximum levels of controls and waive them whenever they find it to be in the 'national interest'.

The operational difficulties faced in government policy are not only due to problems at the formulation stage of policy but also as a result of the responses of affected MNCs to the policy. MNC response is affected by the company's behaviour in (the) conflict, and an interplay of the MNC's characteristics and those of the host-country. This interplay of characteristics may be within a bargaining setting between the two parties or may only be salient in the MNC's response. This chapter discusses the possible behaviours of firms when in conflict with host countries, and the role of firm and host-country characteristics in influencing particularly firm response to conflicts arising from government policy.

3.2 COMPANY'S BEHAVIOUR IN POLICY

Response to policy, as seen above comprises of a company's attitude (either to conflict generally or to a specific conflict), and the influence of its characteristics. Company attitude (or behaviour) in conflict is that initial behaviour adopted when faced with a government policy. This is best illustrated using Gladwin and Walter's (1980) 'contingency model of behaviour in conflict'.[4]

This model, according to the authors suggests some working themes concerning the usefulness of different types of managerial behaviour under different conditions. They suggest a two-dimensional model of behaviour in conflict (e.g. the conflict in this case being the demand(s) placed on the MNC(s) by the host country through policy), viewed from the perspective of the multinational enterprise. The two dimensions are varying degrees of cooperativeness to uncooperativeness, and varying degrees of assertiveness to unassertiveness. 'Cooperativeness' is defined as "the extent to which management is willing to help satisfy the concerns or interests of the other party (or parties) with which it is in conflict". 'Assertiveness' on the other hand is defined as "the extent to which management is willing to take a high profile in order to satisfy its own concerns or interests in a conflict".[5] These two

dimensions are seen by the authors as behavioural options and not actions themselves.

They suggested five modes or styles of handling conflict. One is 'competing', with the hope of achieving domination, which they say is assertive and uncooperative. The second is 'accommodating', whose purpose is the appeasement of the other party, which they say is unassertive and cooperative. The third is 'collaborating', with the desire to fully integrate and satisfy the concerns of both parties, which they say is assertive and cooperative. The fourth is 'compromising', in order to split the difference in bargaining, is said to be intermediate in both assertiveness and cooperativeness. The fifth is 'avoidance', which is uncooperative and unassertive, and said to be aimed at steering clear of conflict.

The five conflict handling styles, the authors maintain, are ways of coping with conflict not necessarily ways of resolving conflict. Thus, there is no one-to-one corespondence between behavioural modes and the desired outcomes, according to them. Only collaboration and compromise are seen to represent conflict resolution processes in the sense of joint satisfaction of the opposing parties.

The competitive way of handling conflict, according to them is often exhibited by MNCs when the goal is to overpower or suppress their adversaries. The aim is said to be to dominate. The emphasis is on ending open conflict by creating a victor and a vanquished. Thus competition is seen as an attempt to control the open expression of conflict and not an attempt to resolve its underlying causes. Competition, according to them, is examplified by outright rejection of demands, appeal to higher authorities, etc.

The avoidance style of handling conflict is seen by Gladwin and Walter as generally employed by MNCs when they want to steer clear of something harmful or undesireable for the enterprise. The objective is said to be to refrain or retreat from involvement in conflicts and thereby direct organizational efforts to greener pastures. This orientation is said to often involve withdrawal, indifference, passivity, evasion, apathy, etc.

The collaborative style is said to be used by MNCs when the objective is to satisfy the concerns of both themselves and other parties. The aim is said to be to integrate all of the parties' respective concerns through collaborative efforts. Conflicting interests are directly confronted, and joint optimization of those interests is sought. This principle, they observe, leads to the harmonization or integration of interests along the lines of a 'positive-sum-game'.

Accommodation, according to them, as a style of coping with conflict tends to be exhibited by MNCs when their primary objective is to satisfy the concerns of other parties, but not necessarily their own, in a particular conflict situation. The aim is said to be to preserve, promote or re-establish accord, harmony, and acceptance within the relationship - to attain a state of peaceful coexistence. Conflicts are said to be smoothed over, even though they may remain beneath the surface at a reduced level of intensity.

Compromise is said to be used by MNCs when their objective is to settle what they and other parties must give and take, or perform and receive in a particular transaction. The aim is said to be to 'split the difference' and obtain moderate, albeit incomplete satisfaction for each side.

From the above, the important questions that face the MNC in a conflict are: how assertive or cooperative should it be? What should be the factors to take into consideration in determining the level of material and human resources to invest in the hope of obtaining a particular outcome? etc. The answers to these and similar questions, Gladwin and Walter see as resting on both the 'desirability and feasibility' of obtaining such a satisfactory outcome. Desirability is said to be a product of the 'stakes' the MNC

places on the outcome, while feasibility is principally a matter of the 'relative power' of the MNC to bring about the outcome.

The stakes of an MNC in a given conflict, according to the authors, depend on the amount of perceived gain or loss associated with particular results. Stakes are said to be high when a great deal can be won or lost. They identify the MNC's global strategy as the most important factor in determining stakes. Thus conflict outcomes which weaken the heart of a strategy - damaging the firm's distinctive competence, for example - are likely to be those which the MNC will most want to avoid. On the other hand, outcomes that greatly strengthen the essential requirements for satisfactory pursuit of its corporate strategy are likely to be those which the firm will most enthusiastically seek. Other determinants of stake according to the authors include the financial condition of the MNC, precedents that may be established, accountability to third parties, etc. Stakes according to them, are likely to be highest when the outcome of a conflict either threatens or severely erodes or promises to significantly bolster a multinational's advantages.

On relative power, the greater a multinational's power (the ability of the MNC to move the opponent through a range of outcomes), the broader the range of outcomes through which it can push another actor. The relative power of a multinational enterprise in a given conflict

situation is seen as a continuum extending from high at one end to equal at the centre, and low at the other end. The ingredients of power (to both the MNC and the opposition) according to them, include size, potential resources, management capacity, amount of cohesiveness and unity, knowledge, expertise, availability of options, indispensability, etc.

Cooperativeness, like assertiveness, according to the authors, is affected by the same factors - desirability, which in this case is a function of the 'interest interdependence' between the MNC and the other party; and feasibility, a matter of 'relationship quality' between the conflicting parties.

In a relationship between parties, their interests are described as either common, different, or both. Commonness or difference of interests is said to arise from interdependence of goals, means, or both. Gladwin and Walter argue that cooperativeness in conflict situations is encouraged or facilitated to the extent that goals and means are positively interdependent, while uncooperativeness is likely to emerge if goals and means are negatively interdependent.

The quality of a multinational's relations with an opposing party, according to them, will help determine the amount of cooperativeness that is useful or possible. A positive relationship is said to generally forster mutual

trust, recognition of the legitimacy of the other party's interests, etc. A negative relationship on the other hand is said to give rise to suspicion, a low level and quality of communications, increased sensitivity, etc.

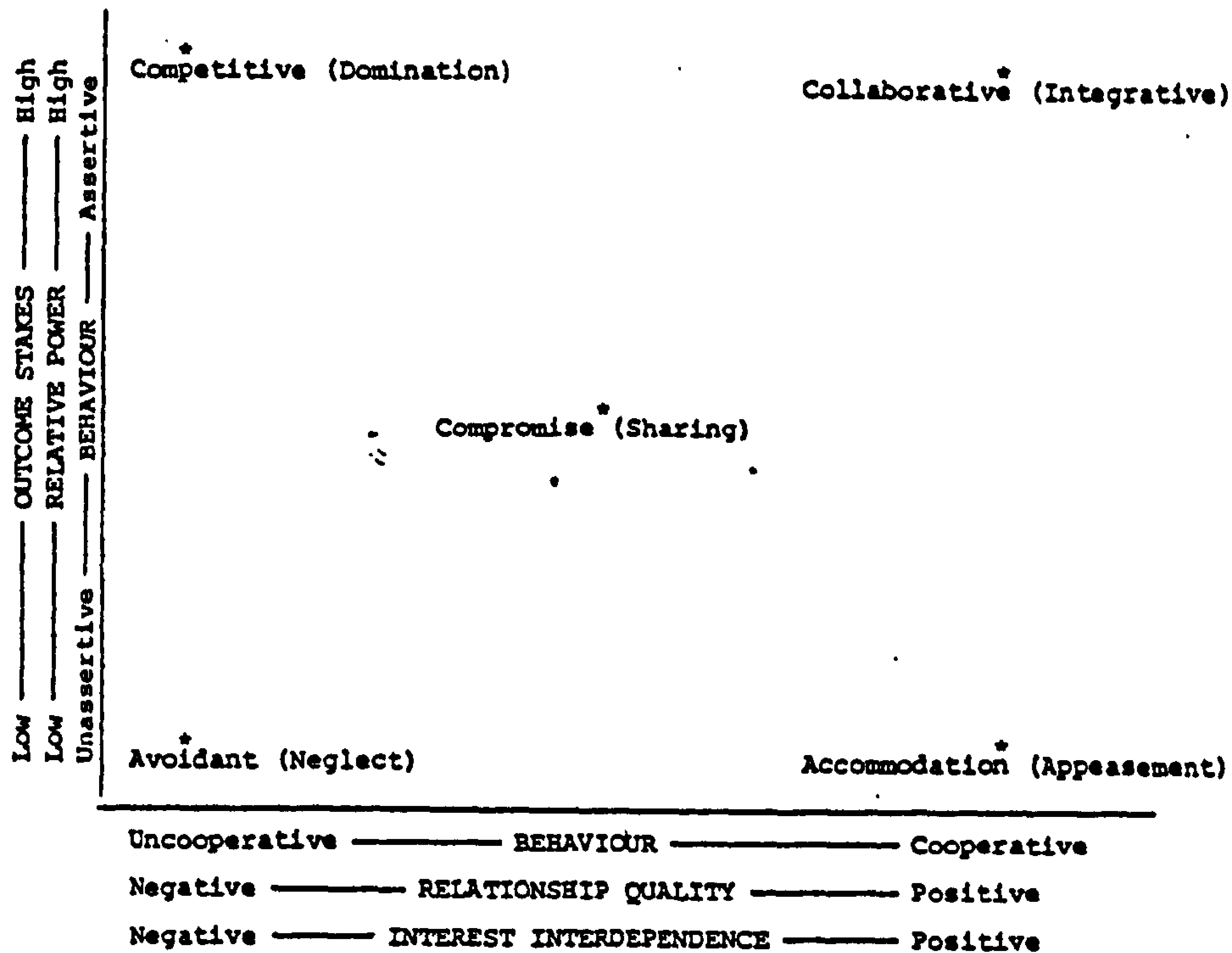
Based on the above discussion, they derived a contingency model of behaviour in multinational corporate conflicts. The model suggests that in any conflict, the behaviour likely to be most functional is a product of the interaction of four parameters: outcome stakes, relative power, interest interdependence, and relationship quality.

The suggestions made by the authors, based on the the model are:

(a) A competitive mode of handling conflict is likely to be appropriate for an MNC when its stakes and power are relatively high, and when interest interdependence and relationship quality are relatively negative.

FIGURE 3.1:

THE CONTINGENCY MODEL OF BEHAVIOUR IN CONFLICT



SOURCE: GLADWIN, and WALTER: "Multinationals Under Fire". op. cit. p.79

(b) An avoidance mode of handling conflict is likely to be appropriate for an MNC when its stakes and power are relatively low, and interest interdependence and relationship quality are relatively negative.

(c) A collaborative mode of handling conflict is likely to be appropriate for an MNC when its stakes and power are relatively high, and when interest interdependence and relations are relatively positive.

(d) An accommodative mode of handling conflict is likely to be appropriate for a multinational when its stakes and power are relatively low, and when interest interdependence and relations are relatively positive.

(e) A compromise mode of handling conflict is likely to be appropriate for an MNC when its stakes are moderate and its power advantage or disadvantage is slight, and when interest interdependence and relations are mixes of positive and negative elements.

In situations or countries where bargaining is possible on a policy, according to this model only such firms that were compromising or collaborative in their behaviour would be prepared to enter into bargaining with the host country. This is because, the model argues, they are the only two behaviours in which both parties are willing to resolve the conflict by the means of making and securing concessions (what bargaining entails).

3.3 THE ROLE OF OWNERSHIP/LOCATION ADVANTAGES IN RESPONSE

Ownership or location advantages (for the MNC or the host-country respectively) may be exploited, as earlier mentioned, in a bargaining or outwith a bargaining setting. Here, we will consider the first aspect (within bargaining), the second aspect will be discussed later.

The term 'bargaining' as used in international business is borrowed from social psychology and other related social sciences. Nicholson (1975) defines bargaining as "any process by which two (or more) parties come to some arrangement whereby their acts become

consistent, where this arrangement is brought about by the parties involved in the conflict alone, and where the parties involved do not follow some procedure which by itself will determine the results of the bargain".[6] This definition tends to be all-inclusive. To explain further, Nicholson lists what to him, does not represent bargaining, e.g. settlement by legal means, by an arbitrator, or by chance.

Morely and Stephenson (1977) see bargaining in a very general sense as any activity whereby parties with conflicting and common interests determine the terms of their interdependence. It is in a similar sense that Schelling used the term when pointing out that "the subject includes both explicit bargaining and the tacit kind in which adversaries watch and interpret each other's behaviour, each aware that his own actions are being interpreted and anticipated, each acting with a view to the expectation he creates".[7] Writers in international business like Doz and Prahalad, Poynter, etc. use the term in a similar sense.

Kapoor and Fayerweather (1976) define bargaining as "a use of common sense under pressure to achieve the objectives of one organization interacting with another organization".[8] Ikle (1964) defines it as "a process in which explicit proposals are put forward ostensibly for the purpose of reaching agreement on an exchange or on the realization of a common interest where conflicting

interests are present".[9] Rubin and Brown (1975) define it as "a process whereby two or more parties attempt to settle what each shall give and take, or perform and receive in a transaction between them".[10]

Since the definitions of bargaining suggest that the parties involved often have conflicting preferences, Pen (1975) sees the bargaining problem as a power problem. To him, the outcome of a bargain is a manifestation of the power possessed by each party; and the factors determining these outcomes are the factors that determine the bargaining power of each party.[11] This is very similar to the views of Gladwin and Walter who allege that the bargaining power of a party would depend on the relative power of the party and the outcome stakes involved on the one hand, and the party's relationship quality and its interest interdependence on the other.

In international business, the greatest progress in achieving more balanced settlement (bargaining) between developing host countries and the MNCs is seen in the field of natural resources.[12] Many host countries, large and small, have been able to build up a knowledge and capability that enables them to obtain a much more equitable share in the distribution of costs and benefits. The problem in bargaining for technology are said to be more complex than those that arise in the natural resource sector. Not only is much less known outside the big companies about the competitive performance of alternative

technologies and the cost effectiveness of each but there are immense conceptual as well as practical difficulties in determining appropriate trade-offs between various objectives. This continues to give the MNCs the upper hand in bargaining for technology with developing countries.

Doz and Prahalad (1980) describe bargaining in international business as "a careful use by an MNC, given its competitive position within its own industry, of its bargaining power vis-a-vis the host government in order to gain some competitive advantage against other multinationals".[13] This description suggests that the advantage gained by the MNC through the possession of a higher bargaining power than the host government is used in edging out the MNC's competitors. But bargaining itself is rarely prominent between MNCs directly (except in cases like negotiations for joint ventures, mergers, etc.). Many of the bargaining situations that MNCs face are with host governments. Bargaining in international business therefore should be described as a careful use by an MNC, given its competitive position within its own industry, of its important characteristics to influence host government policy formulation and/or implementation. This description makes the desire to secure influence over policy formulation and implementation the main goal for an MNC's search for higher bargaining power and not the desire to gain competitive advantage over other multinationals, even though it is important.

De la Torre (1981) [14] and Brandt (1981) [15] identify information as an essential instrument in bargaining. Corporate officials, according to them, need a good understanding of national priorities. Government officials on the other hand, must know the company, its industry, its pattern of investments and international activities, its product range and R&D interests, its accounting methods, transfer pricing, etc. Like De la Torre, Streeten (1976) observes that it is important for the host country to know about accounting methods, transfer pricing, etc. Knowledge of these areas, he argues, is needed in order to use effective bargaining power.[16]

Poynter (1982) is of the view that information gathering for the MNC may be easier than for the host country.[17] He argues that a subsidiary that initiates contacts with the government, keeps the government informed of its parent's contribution to the subsidiary both in terms of technology transfer and other resources, etc. would through this, influence the government's perception of its bargaining power in the firm's favour. Such frequent contacts, he continues, also enable the firm to know the sponsors of a particular interventionist activity (policy) and the extent the government intends to enforce specific policies.

Fagre and Wells (Jr) [1982] argue that the greater the competition between investors in a firm's industry, the weaker the bargaining power of the MNC.[18] But if the developing country is forced to choose among a small number of MNCs in a particular industry, its ability to play one firm off against another will be limited. In their work they found MNCs that were the sole members of their industries operating in Latin America with exceptional bargaining sucess. Paul Streeten (1976) is of the view that the host country's bargaining position will be weaker if either the MNC has a world monopoly or if the foreign companies collude for joint negotiations.[19]

3.3.1 Sources of Bargaining Power

Rugman et al (1985), De la Torre (1981) and Streeten (1976) contend that the MNC's relative bargaining power is usually greater prior to its initial investment and declines over time as well as a result of dissipation of its firm-specific advantages and an increased level of expertise in the host country. To Streeten, before the investment contract is signed the MNC will tend to be stronger, after factors of production have been committed locally and while the strength shifts to the host government. The amount of this shift, he continues, will depend upon whether it wishes the MNC to continue operations, to enlarge operations, and allowing other MNCs to come.

Streeten's argument suggests that the ability of an MNC to bargain with its host government (the bargaining power of the MNC) is negatively related to its age in the host country - the older the MNC, the lower (or less) its bargaining power. Also it suggests that capital intensity (by whatever measure) would be negatively related to the degree of bargaining power possessed by an MNC - the more capital intensive the MNC, the lower its bargaining power. But it could be argued that host governments possess higher bargaining power than MNCs up to when the contract for investment is signed (especially for unsolicited inward investments), but thereafter, depending on the firm-specific advantages of the MNC, its bargaining power would tend to be stronger than that of the host government. Or that the value of capital intensive activity is readily seen unlike the less capital intensive ones and so the more likely that the capital intensive MNC may be seen by the host government as possessing higher bargaining power than the less capital intensive one.

To Rugman et al, the bargaining power of the MNC is said to be high when its firm-specific advantages are valuable to the host country. This suggests that the possession of firm-specific advantages alone is not enough to guarantee high bargaining power unless it is accompanied by a recognition by the host government of these firm-specific advantages as important to it. The bargaining power of host countries on the other hand, is

said to increase when the value of its country-specific advantages to the MNC increases. Whatever these country-specific advantages are, the bargaining power of the host country is said to increase as its control over them rises especially if they are not available in the same degree to the MNC from other sources.

A: Sources of MNC bargaining power:

From preceding discussions, it is clear that most authors generally agree that the sources of MNC bargaining power are in the firm-specific advantages of the company These firm-specific advantages have been described as including many variables by different authors. The most common ones are technology, marketing skills, market accesss, capital, management techniques, size, etc. The major contributors in this area whose work would be referred to in this discussion are Lecraw, Rugman et al, Doz and Prahalad, Fagre and Wells (Jr), Poynter, Streeten, and De la Torre.

Technology

Lecraw (1984) argues that the possession of a proprietary product or technology may increase the bargaining position of an MNC over the host government, particularly if other MNCs or local investors cannot supply technology of the same type or level of advancement.[20] In a study conducted by Fagre and Wells (Jr) [1982], they

concluded that the bargaining power of a developing country is likely to be weak when it is faced with a high technology firm. In that study however, the level of technology available from a multinational enterprise was approximated by the percentage of sales revenue spent by the parent corporation on R&D activities in 1974. This is a poor measure of technology for this purpose, especially since it was based just on parent company expenditure on R&D. Unless there was evidence that the subsidiary benefitted directly from such R&D expenditure or that part of it was actually conducted or spent at the subsidiary, it is less likely that many host countries would regard that as a favourable bargaining chip for the MNC. However, they argue from their work that the more an industry is characterised by rapid innovation, the more difficult it is for a developing country to enter the industry without help of an established firm from an advanced nation. Conversely, that the older a given technology is, the more opportunity a developing country will have to acquire and utilize it without the involvement of a foreign firm, i.e. in the former, the MNC has a higher bargaining power vis-a-vis the host country, but the reverse is the case in the latter.

Rugman et al (1985) argue that an MNC's bargaining power is said to be very strong when it possesses a firm-specific advantage in product or process technology. The MNC is said to be able to bargain to operate on its own terms with the host country if the latter values access to

this technology. This position is said to be particularly strengthened if the MNC is a technology leader in its industry. To them, technology-intensive MNCs rarely need the contributions of local partners in such areas as management, market access, or local marketing skills since the products of these MNCs are sold on the basis of product quality and performance, not price or access to channels of distribution in host countries. Thus, they (the MNCs) set goals of complete ownership in their foreign subsidiaries and often possess the bargaining power to obtain them.

Sachdev (1977), like the above authors argues that where the foreign company is the sole owner of the technology in the host country, it retains a strong bargaining position. But once the comparable technological advantage becomes balanced between the foreign company and the host country, the company's strong bargaining position is eroded.[21]

Doz and Prahalad (1980) see technological power as the ability of an MNC to provide under competitive conditions, products or services not easily obtainable from another source. In such a situation, the government has to deal on the MNC's terms or look for costly and uncertain alternatives.[22]

From the above observations, there are different dimensions of technology that emerge which could constitute a bargaining strength or advantage for the MNC. Where the

MNC is in a high-technology industry, is in an innovative industry, has a technology which the host country values access to, or has 'unique' technology, etc. it is likely to have a bargaining advantage over the host country. In view of the fact that it is not so much of what the MNC thinks it possesses but more of what the host country thinks the MNC has, the most important determinant of technology as a source of MNC bargaining power therefore is that proposed by Rugman et al - the possession of a technology which the host country values access to. It is neither the possession of, or the belonging to a high-technology industry that gives the MNC bargaining power advantage but the value that the host country attaches to the kind of technology that the MNC has, no matter how simple, obsolete, or complex it may be. (See also John B. Holt, 1978). Afterall, many developing countries do not want high-technology investments because their people cannot manage it or it creates unemployment. Thus the ability of the MNC to convince the host country that it is selling/providing the latter with the technology it 'wants' is more important than trying to convince the host country to accept a technology the MNC thinks the host country 'needs'; if the MNC is to have an upper hand in the bargaining situation.

Marketing skills and Market access

On marketing skills, Rugman et al (1985) argue that MNCs that are marketing-intensive with branded quality products are often seen to follow a pattern of

international operations followed by technology-intensive MNCs. Their bargaining power is said to be high since, if the host country values their products, they are the sole suppliers. The firm-specific advantage of marketing-intensive MNCs is construed to be likely to dissipate if the product is not of uniform high quality.

In view of the lack of importance placed on the role of marketing in many developing countries, it is difficult to say whether firms whose major or only firm-specific advantage is in marketing would be seen by a developing host country as possessing any bargaining power.

Market access is often cited as source of MNC bargaining power. Lecraw (1984) argues that the ability of an MNC to sell the output of its subsidiary in the host country in export markets either to other units of the MNC, to independent firms, or through its own channels of distribution in markets in other countries, acts as a bargaining chip where the host country follows a development policy based on export-led growth.

In the work of Fagre and Wells (Jr) [1982], they discovered that the MNC's ability to rationalize production on a global scale and a capacity to acquire and utilize sophisticated knowledge of foreign markets, provided an important bargaining level for U.S. firms operating in Latin America. They found that in a situation where a large portion of a subsidiary's output is sold or transferred to

an affiliate of the same parent company, the parent controlled market access to a significant degree. But they also added that to obtain bargaining power, it was not necessary for the firm to export to affiliates only.

Rugman et al (1985) like Lecraw, observe that countries that have their development strategy based on exports tend to have a relatively weaker bargaining power compared with the MNCs that export their products. The ability of the MNC to export the products of the subsidiary could grant it a strong bargaining position over the equity ownership of its subsidiary in the export-dependent host country, according to Rugman et al.

In another work by Poynter (1982), he concluded, like Fagre and Wells (Jr) that not only exports to affiliated firms provide subsidiaries with an increase in effective bargaining power but also exports in general had a similar effect. He found that the more the firm exported, the more the intervention until exports exceeded 40 percent of sales before the firm enjoyed significantly less intervention than firms serving only the local market. The threat to export reduction, on the other hand, seemed to provide large exporters with a source of bargaining power.

From the above, one conclusion that can be arrived at as regards the relationship between exports (as a form of market access power possessed by an MNC) and bargaining power is that it is the development policy of the host

country that determines the value it attaches to exports, and hence the MNC's bargaining power: the more the host country's development policy is based on exports, the higher the value of exports to the host country and thus the MNC's bargaining power, and vice versa. Furthermore, the value a host country attaches to exports determines its reaction when faced with the threat of reduced exports as a means of boosting the MNC's bargaining power.

Capital

Another possible source of an MNC's bargaining power commonly referred to is capital. According to Lecraw (1984), if capital needed is a scarce resource that can best be provided by the MNC, the bargaining power of the MNC might increase with the size of the investment (in terms of assets) and the investment's capital intensity.

In Fagre and Wells (Jr) [1982] work, they found that for the Latin American countries in the work, financial resources held by the MNCs were not an important source of bargaining power. The explanation given for this was that it was probably due to the increasing number of alternative sources of capital available to the countries.

Rugman et al (1985) argue that especially for countries facing debt problems, MNCs with large amounts of capital to be invested in such countries often have a high bargaining power compared with the prospective host country. But they further observe that in view of the results of studies on

the long-run effects of FDI on host countries' balance of payments, it is difficult to assess whether existing subsidiaries of MNCs in host countries could have capital advantage as an additional leverage over the host country's bargaining power. However, they argue, accessibility to the world capital markets may be a source of MNC bargaining power over the host country.

From the above, certain issues have been raised as regards the role of capital as a source of MNC bargaining power. Fagre and Wells' (Jr) work contradicts Rugman's view that countries facing debt problems would tend to have a lower bargaining power than the MNCs. Latin America has been the most heavily indebted region of developing countries. Following Rugman's hypothesis, the countries in that region are expected to have lower bargaining power than the MNCs there, when capital is considered. But Fagre and Wells' (Jr) work showed that capital did not constitute a bargaining power advantage for the MNCs there.

From the available literature and research therefore, it is difficult to ascertain what aspect of capital - mere possession, the amount possessed, or the nature of capital - constitutes a source of bargaining power for the MNC; or even if capital can in any way constitute a source of bargaining power for the MNC. From available sources however, it might be correct to say that it is not the possession, the amount or nature that constitutes a source of bargaining power for the MNC but the absence of

alternative sources of required capital to the host country.

Management

Rugman et al (1985) argue that without the efficient use of modern management techniques and strategies, the MNC's firm-specific advantages in other ares (technology, marketing, etc.) may be of little value. They continue that the management capabilities of host country nationals have been increasing over the years, but the lack of sophisticated managerial capacity can still be a bottleneck for economic development, thus giving the MNC with a firm-specific advantage in management an edge in bargaining in the area of management. However, they caution that the value of a firm-specific advantage in management to the MNC as a bargaining chip may be constrained because of four reasons:

1. Management is intangible but unlike technology (another intangible firm-specific advantage), no product is yeilded as a direct result of this firm-specific advantage.

2. Foreign management can be equated with loss of control over the national economy.

3. Foreign management of local enterprises may have the effect of consigning local workers to uninteresting and unproductive tasks as a means for MNCs to continue their dominance, thus creating tension with local employees and host government.

4. Although host governments may accept the proposition that foreign enterprises possess superior technology, access to capital, etc., they resent the

proposition that foreigners per se are superior to their nationals in anything but training, experience, and education. Thus host governments believe that these qualities can and should be gradually transferred to nationals through in-house human resource development.

In agreement with the above observation on the difficulty of asserting managerial skills as a source of MNC bargaining power, Lecraw (1984) observes that quantifying the effect of management expertise on the bargaining power of the MNC is difficult; just as host governments may also have difficulty in assessing the value of this expertise for the local subsidiary and the host economy.

Poynter (1982) sees managerial and operational complexity, not just the expertise or skills, as a source of MNC bargaining power. In his work, he hypothesized that subsidiaries whose technical, operational and managerial requirements were within reach of the abilities of host groups, would, all things being equal, have little bargaining power. However, he could not find any accurate measure of technical complexity, so this issue was dropped in his hypotheses. But for operational and managerial complexity, he used four levels of complexity (1 to 4). Each firm's score was based on the abilities required to operate the enterprise in question, e.g. a biscuit factory was less complex than a chemical plant; the former may thus have a score of 1 and the latter a score of 4. And managerial complexity was considered e.g. an operation

which involved tight schedulling of incoming and outgoing components was rated as having additional complexity. The results showed that complexity gave firms an edge over host countries in bargaining against government intervention. It was also found that some firms concentrated on manipulating the host government's perception of their firm's complexity. An example was given where a firm that wished to maintain its near monopoly importation of assembly of a slightly complex but large item of machinery, which hired engineers who graduated only from Oxford or Cambridge University to maintain the image of a slightly sophisticated operation, while in fact, technicians with only basic training in the products were required.[23]

The ratio of foreign to host nationals in senior subsidiary positions is often cited as another aspect of management that can be a source of MNC bargaining power. The consideration of this as a source of bargaining power, is subject to the views of the host country. It is argued that a large proportion of host nationals reduces host government harrassment and provides various benefits to the MNC. On the other hand, it is likely that the government's perception of the subsidiary's bargaining power is likely influenced by the number of foreign staff used. A large proportion of foreigners would, all things being equal, suggest a greater need for foreign skills, in order to operate successfully. In Poynter's (1982) work, the relationship between the proportion of host nationals or foreign nationals to bargaining power was not clear. The

results of the study suggested that firms with between 50 and 89 percent of their management team consisting of host nationals enjoyed significantly less intervention. But he could not explain why firms with almost all local managers and those with a majority of foreign executives in his study had the same high intervention experience. Poynter's work therefore suggests that the degree to which the ratio of host to foreign nationals in management could constitute a source of bargaining power to the MNC would depend on the perception of the host government on either of them.

Size

An important but hitherto, less often cited firm-specific advantage that could play a role in the bargaining power of MNCs is their size. There are different dimensions of size. One could look at size as referring to the number of subsidiaries or associated companies the MNC has (in one country or in other parts of the world). Another dimension is the amount of capital the MNC took to the host country or the current amount reflected in the subsidiary's books. It might also refer to the workforce-size of the MNC in the host country especially, but also the world-over. Whichever of these (or the many other dimensions) is being considered, it is possible that it constitutes a source of bargaining strength to the MNC.

In developing countries (particularly the poor ones), they need the capital brought by the MNC, they cherish the boost in employment by the MNC and respect the number of

companies (or subsidiaries) associated with the MNC, and therefore, such an MNC is likely to have a negotiation advantage over the host country. Rugman et al (1985) hypothesize that a relatively 'large' firm has most or all of the firm-specific advantages others may possess and thus is in a higher bargaining position compared with small firms and the host country.

Production

Another alleged source of MNC bargaining power is the possession of a firm-specific advantage in production. Doz and Prahalad (1980) argue that product differentiation based on actual characteristics of product technology (not that created through marketing) may well prove to be a source of MNC bargaining power. But Fagre and Wells (Jr) [1982] suggest that even product differentiation created through marketing is capable of providing MNCs with a source of bargaining power. In their work, they found multinationals that spent more than 7 percent of total sales revenues on advertising to have attained a high level of ownership in Latin America. The primary source of their bargaining power appeared, according to them, to lie in the barriers to entry raised by the high degree of product differentiation. They also argue that the diversity of the product lines of the subsidiary is another source of bargaining power for the MNC. They found from their work that the greater the number of products, the greater the apparent bargaining power of the firm.

A summary of the possible sources of MNC negotiating strengths discussed here is shown in table 3.1

TABLE 3.1 SUMMARY OF SOURCES OF MNC NEGOTIATING STRENGTHS

OWNERSHIP ADVANTAGE	POSSIBLE ASPECT(S) AS SOURCES OF STRENGTHS
1. Technology	Technological advancement; the lack of similar tecnology in the host country; value attached to the technology by the host country.
2. Marketing skills and market access	Sale of branded goods; ability to export from the host country; value attached to these by the host country.
3. Capital	Provision of needed (financial) capital in the host country
4. Management	Complexity of the managerial requirements of the MNC subsidiary; host country's perception of this.
5. Size	Number of people employed by the subsidiary in the host country; amount of money invested in the subsidiary.
6. Production	Product differentiation through production rather than through marketing.

B: Sources of Host-Country bargaining power:

The sources of host country bargaining power, like those of the MNC are attributed to the country-specific advantages possessed by the host country. While relatively many researchers have considered the possible sources of MNC bargaining power, there are very few that have researched or discussed the possible sources of host country bargaining power. The country-specific advantages that serve as possible sources of host country bargaining power include market access, possession of (scarce) natural resource(s), human resources, availability of alternative sources/investors, and belonging to regional/product

economic associations.

Market access

Lecraw (1984) argues that with increasing attractiveness of a host country's local market and the degree to which the host country controls market access through tariffs, cutoms duties, etc., the bargaining power of the host country would increase. Rugman et al (1985) argue that the more attractive the market in the host country, the greater is the bargaining power of the host country. If host governments therefore can control access to their domestic markets through the use of tariff and non-tariff barriers, regulation on FDI, and the level of licensing fees, their bargaining power would increase.

However, there is some ambiguity that often arises in measuring the attractiveness of a market. Should one consider only the population as a measure of host country market attractiveness or income levels/buying power? There are cases where not the number of people that matters but their buying power (especially for durable consumer products). In other cases (for example, for non-durable consumer products) the income level does not necessarily attract the MNCs producing such products, but the number of people available in the market. But for industrial and/or durable consumer goods, it is more likely to be the public expenditure/buying power of the population that would attract the MNC. No matter the yardstick used in measuring

market attractiveness, countries which have both (relatively large population and high buying power) would tend to have a high bargaining power compared with the MNC. But depending on the nature of the industry a given MNC belongs, a less populous but high income developing country could equally have a high bargaining power compared with the MNC, or a low bargaining power.

<u>Natural resources</u>

The possession of (scarce) natural resources is another possible source of host country bargaining power. Rugman et al (1985) argue that if the host country has deposits of natural resources that are valuable to the MNC, its bargaining power increases. The host country is then in a position to use its control over access to the natural resource to bargain with the MNC and achieve some of its goals. The more attractive the natural resource(s), the higher the bargaining power of the country.

<u>Human resources</u>

MNCs (especially those in labour intensive industries) may seek to locate their subsidiaries in host countries where there is abundant inexpensive human resources. The possession of attractive human resources, according to Rugman et al (1985), as a result, is a pre-condition for attracting export platform investments. The more the MNC values the availability of inexpensive human resources, the

higher the bargaining power of the host country which possesses it.

However, there is always the issue of relating the 'cheapness' of labour with efficiency. It is therefore argued that 'cheap' labour in developing countries is actually not cheap afterall, and not the most effective even to the labour-intensive MNC when productivity and efficiency are measured. This would suggest that it is not just the availability of cheap labour that grants the host country a bargaining chip but it is more likely to be the quality of the labour-force available in the host country. Those host countries therefore that possess high quality cheap labour force would tend to have a higher bargaining power.

Another aspect of available human resources is the number of trained graduates in the required areas of management in the host country. The more the number of qualified host country nationals capable of replacing foreign nationals in the MNC subsidiary, the more likely that the bargaining power of the host country would be higher than that of the MNC especially in the area of management.

<u>Alternative sources</u>

The availability of alternative sources of a country's need in a given bargaining situation, is another possible source of the host country's negotiating strength. Rugman et al (1985) argue that the more alternative sources

available to the host country for capital, technology, management, access to export markets, etc., the greater its bargaining power over the MNC. Furthermore, they observe that an increase in the number of foreign direct investments in a host country reduces the overall bargaining power of the MNC, while increasing that of the host country.

Lecraw (1984) argues that the greater the diffusion of the expertise that the MNC can provide, the greater the opportunity for the host government to play MNCs off against one another in bargaining with them.

Regional associations

The last (but not necessarily the least) possible source of host country bargaining power is the membership of regional and/or product associations. Streeten (1976) and Lall and Streeten (1977) reckon that solidarity among countries is often difficult to achieve, however, where it is possible, it gives the countries within the region or association collective and often individual bargaining strengths.

Rugman et al (1985) are of the view that host countries may be able to increase their strengths if they can form regional associations with neighbouring countries. If such regional groups or associations are successful, they can, according to them, increase the attractiveness of their market for MNCs and hence their joint bargaining

power. Similarly, if a group of countries can jointly set incentives and regulations for MNCs, the ability of MNCs to play one country off against another would be reduced, thereby increasing the joint bargaining power of individual countries within the group.

A summary of the possible sources of host-country bargaining power discussed here is shown in table 3.2 below.

TABLE 3.2 SUMMARY OF SOURCES OF HOST-COUNTRY BARGAINING POWER

LOCATION ADVANTAGE	POSSIBLE ASPECT(S) AS SOURCES OF POWER
1. Market access	Difficulty for an MNC to service an attractive market through means other than direct foreign investment.
2. Natural resources	The desire by MNCs involved in exploiting such resources to do so in the country with the resources.
3. Human resources	The desire by an MNC to make use of locally available human resources.
4. Regional associations	The ability of countries in a region to come together and make common policies towards MNCs; product associations making common policies concerning the product, binding on firms.

3.3.2 RESPONSE OUTWITH BARGAINING

Apart from the above, where either the MNC or the host country or both choose to exploit their advantages in a bargaining setting, there are instances or situations where these advantages are not exploited within bargaining settings. These advantages therefore act or become salient influencers (or determinants) of a party's response, though not expressed visibly in formal bargaining.

Where the role played by the characteristics (or advantages) is salient, a consideration of these characteristics by either party is made and thereby response is influenced without necessarily entering into formal bargaining. This is important as in some countries and/or in some policies, negotiation or bargaining may not be allowed; or the MNC itself may choose not to enter into any formal bargaining with the host country. It would be wrong to assume that simply because there was no formal bargaining on a policy therefore, ownership/location advantages were not important considerations in a company's response to government policy.

However, even where the parties involved choose not to negotiate in settling their differences, there comes a point where bargaining can and should be used. This is discussed in chapter eleven section 11.5.

3.4 SUMMARY

This chapter has discussed the basic components of a firm's response to government policy. These were identified as company behaviour (or attitude) to policy, and the role of the characteristics of the MNC and the host country.

Company behaviour to policy was found to range from avoidance (neglect or running away from conflict) to competitiveness (desire to dominate). Other attitudes include compromise, collaboration, and accommodation. The particular attitude that a firm adopts in a conflict situation was seen to be determined by factors such as the degree of cooperativeness desired, the relationship quality between the firm and the other party in conflict (e.g host government), and interest interdependence between them, all on the one hand; and degree of assertiveness desired, relative power of the firm, and outcome stakes, on the other.

The second component of response - role of characteristics - was seen to be influenced by the value attached to each party's characteristics by the other. These 'valuable' characteristics may be exploited in a bargaining situation or otherwise, depending on whether bargaining is called for, worthwhile, etc. or not. The MNC characteristics that may be of importance to the host country include the firm's technology, exports, managerial competence, capital, etc. And the host country characteristics that may be of importance to the MNC include market attractiveness, available raw materials, available human resources, etc.

In our discussion in this chapter, as well as the entire thesis, emphasis is placed on the role of bargaining and in regulation and firm compliance with regulations.

However, there are other areas in the relationship between MNCs and host-countries where negotiation is applicable. These range from site selection in the host country, to size of plants, amount and degree of incentives, etc. In each of these areas, the MNC seeks to internalize its ownership advantages while exploiting them in the host country; and the host country on the other hand, probably conscious of its location advantages, seeks to get the most from the MNC. Thus negotiation becomes imminent.

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CHAPTER FOUR

CHAPTER FOUR

FOREIGN DIRECT INVESTMENT (FDI) IN NIGERIA

4.1 INTRODUCTION

4.2 INVESTORS IN NIGERIA

4.3 SECTORAL ANALYSIS

4.4 CONCLUSION

CHAPTER FOUR

FOREIGN DIRECT INVESTMENT IN NIGERIA

4.1 INTRODUCTION

Foreign Direct Investments (FDIs) have been in Nigeria since the colonial era, they have played an important role in the development of the rudiments of a modern economy. [1] According to Balabkins[2] foreign participation in independent Nigeria has taken two forms: direct investment, and portfolio investment. In the 1960s, the independent Nigerian government provided incentives to attract foreign businessmen to the country. The discovery of sizeable deposits of oil in Nigeria made her very attractive to the oil businesses of the industrialized countries.[3] Nigerians in early independence felt that direct foreign investment was the best way to overcome or at least minimize the consequences of the prevailing capital shortage.[4] As a result Nigeria used a "Pioneer Certificates" device which exempted foreign firms from payment of income taxes for a number of years, depending on the size of the investment made.[5] Foreigners responded favourably, made huge profits in the process, and so the Nigerian economists felt that the foreign investor became the most important source of finance for the country's economic development prior to the oil boom in the early 1970s.[6]

These early attempts at attracting foreign investors were geared to steering investment into producing locally the goods that were then being imported into the country. This was with a view to saving as much foreign exchange as the country could conserve, and to make the country less dependent on the importation of essential goods and ultimately self-sufficient in the production of such goods which could be produced from available local resources. The orientation of the development policy which served as guidelines to investors at that time was toward import substitution strategy and the protection of local industry and locally produced goods through import restriction and prohibition of the importation of certain goods. Investment, whether foreign or local, at this initial period of the country's government policy on industrial development, focussed on projects tailored to suit the production of simple import substitution consumer goods which required low level of technology and which could therefore be undertaken in Nigeria. Industrial projects for the production of beer, textiles, cement, beverages, soaps and detergents, etc. were consequently the first batch of projects in which foreign investments began in response to the dictate of the import substitution strategy.

As the economy grew and developed, diversification became inevitable. It was then felt that manufacturing activities had to be moved into the areas of intermediate goods production and basic industries as an extension of

the import substitution strategy in those areas. Since these sectors are relatively more capital intensive, investment promotion in them was spear-headed by the government while foreign investment in the areas largely took the form of contribution of plant, machinery, equipment, technology transfer, management expertise, and minor capital shares in the equity of the projects. Projects earmarked for the production of intermediate goods and which attracted such foreign investments included the machine tools industry, paper industry, fertilizer project, etc. Examples of basic industries to which such foreign investments were and are still being attracted include the iron and steel industry, petro-chemicals, etc.

4.2 INVESTORS IN NIGERIA

There has been a noticeable presence of foreign investors in Nigeria and the country has no expressed prejudice against investors from any part of the globe. However, for one reason or the other, Nigeria appears to be more appealing to investors from some countries than others.

Nigeria is a country where information on virtually everything is difficult to obtain. The obstacles range from obsoleteness through inaccuracies to blunt refusal to supply information. Commenting on this problem, Professor Alfred Opubor said: "basic information had become a commodity being hoarded by public officials to whom such

information had been entrusted".[7] A former minister of finance complained at one time that "scarcity of accurate economic and business information is one of the most frustrating obstacles encountered by those interested in investing in our development".[8] Problems of this nature do not make the task of foreign investors easy and in particluar, the task of this researcher. It is therefore very difficult to give an up-to-date account of the state of foreign investment in Nigeria. One could argue that such lack of information reduces the negotiating position of the host country as information is an important source of bargaining power. This subsection however, presents and discusses, within the highlighted limitations, data obtained from various sources on the state of foreign investment in Nigeria.

The most recent data supplied by the Central Bank of Nigeria [9], for 1982, suggest that foreign investment was valued at some N5.38 billion as at that year, of which British share was almost N2.0 billion, or 37 percent, (see table 4.1)

The table shows that the British share of foreign investment in Nigeria shrank from 44 percent in 1970 to 37 percent in 1982, while the U.S. share was effectively maintained. The shares of other Western European countries increased sharply from 23 percent in 1970 to 29 percent in 1982.

Table 4.1

Foreign Investment in Nigeria

	1982		1970	
	₦bn	%	₦bn	%
U.K	1.99	37	0.44	44
U.S.A.	1.17	22	0.23	23
Other Western Europe	1.56	29	0.23	23
Others	0.66	12	0.10	10
	5.38	100	1.00	100

Source: Central Bank of Nigeria

Generally however, the table shows growth of over 500% during the thirteen-year period (1970-1982). In a Financial Times survey on Nigeria, [10] it was shown that the bulk of the foreign investment in the 1982 Central Bank figures (shown in the table above) was in manufacturing (36 percent) and trading and business services (28 percent). The mining share (mainly oil) was just short of 20 percent. Investments in mining were said to have doubled between 1970 and 1977, when the figure reached N1.1 billion and when foreign investment in the petroleum industry accounted for 43 percent of the total. Subsequently the indigenization decrees reduced the foreign equity stake in the industry.

In a closer inspection of the figures, the Financial Times discovered that for the 1980 - 1982 period, net foreign investment over the three years was N2.2 billion, a

high proportion of which was in the form of short-run commitments, some of them essentially involuntary. The main source of new foreign investment during the period was said to be "other liabilities", valued at a net N875 million. Of this, more than N650 million took the form of short-term liabilities, raising questions as to whether this constituted direct investment in the normal sense of the term. Similar comments apply to other major components in the investment accumulation process: N677 million arose from unremitted profits retained within Nigeria as a result of tighter exchange control regulations and delays in remitting dividends; a further N523 million was derived from trade and supplier credits - again often reflecting delays in paying parent company suppliers. Therefore, out of net foreign investment of N2.2 billion, no less than N1.8 billion or 80 percent seems to have been either forced reinvestment (by way of unremitted profits) or short-run liabilities, much of which will eventually find its way back into the foreign payments pipeline.

In truth there is a great deal of variety in the estimates of foreign direct investment in Nigeria reflecting information deficiencies. This is shown in Tables 4.2a-d which provides figures from various sources on the net inflow, stock, etc of foreign direct investment in Nigeria.

TABLE 4.2: FDI IN NIGERIA

(a) Net Inflow of FDI in Nigeria, 1970-1977 (in millions of Naira)

Year	Net Inflow	Cumulative stock
1970	+ 121.6	N 1.0 bn
1971	+ 319.6	
1972	+ 248.3	
1973	+ 192.6	
1974	+ 48.3	
1975	+ 475.4	N 2.3 bn
1976	+ 46.3	
1977	+ 197.3	N 2.5 bn

Source: BALABKINS, N.: "Indigenization and Economic Development: The Nigerian Experience" Jai Press Inc. 1982 p.155

(b Net Inflow of FDI in Nigeria, 1970-1973 (in US $ m)

Year	Net Inflow
1970	351.4
1971	744.2
1972	657.9
1973	878.3

Source: BIERSTEKER, T. J.: "Distortion or development? Contending perspectives on the multinational corporation" MIT Press, 1978. p.77

(c) Cumulative stock of FDI in Nigeria, 1970 and 1982

Year	Amount
1970	N1.00 bn
1982	N5.38 bn

Source: Financial Times, 24th February, 1986 (Obtained from the Central Bank of Nigeria)

(d) Cumulative Stock of FDI in Nigeria, 1970 and 1976

Year	Amount
1970	N1.0 bn
1976	N2.3 bn

Source: UZOAGA, W. O.: "The MNC in the Nigerian economy" in A Multinational Outlook at the Multinational Corporation. M. T SKULLY (ED), Dryden Press p.154

Even though the figures on the level of foreign direct investment in Nigeria are scanty, most of them are agreed on the stock of foreign direct investment in Nigeria as at 1970 - one billion Naira. Furthermore, there is a close degree of consensus between Balabkins' and Uzoaga's figures on the stock of foreign direct investment in Nigeria in 1975 and 1976, respectively. It is difficult to interpret and/or reconcile Biersteker's figures with the others as, in the first place, they are in a different currency (American dollars); and secondly, he did not give the naira equivalent or approximate exchange rates used in obtaining the figures.

According to Balabkins,[11] in 1961, foreign direct investment in Nigeria reached N54.6 million or $87.4 million (one year after independence). In 1965, there was an increase in investment from the U.S and the total came to N110.4 million or $176.6 million. With the outbreak of the Nigerian civil war, the net inflow of capital declined and by 1969 they amounted to less than one-third of the 1965 level. In 1970, the net inflow of capital was almost N122 million (after the war) and in the next year it jumped to N320 million (see table 4.2a).

While there might be other explanations for the pattern observed in table 4.2a on the net inflow of foreign investment in Nigeria, a more realistic explanation is the effect of the indigenization decrees. In 1972, when the

Indigenization decree was first promulgated, the net inflow of capital was N248 million, having dropped from N320 million in 1971. In 1973, it dropped again to N193 million and, in 1974, to merely N48 million. By the time the first indigenization decree was just about implemented (1975), the net influx of private foreign capital rose sharply to N475 million. In 1976, due to uncertainty in the expatriate business community caused by the findings of the White Paper on the widespread evasion and fronting during the first indigenization process, the net inflow of funds from abroad dropped to roughly one-tenth the level of a year earlier. However, after the promulgation of the second indigenization decree, since the expatriates knew what was coming, the net inflow rose again to almost N200 million.

The value of the cumulative foreign private investment in Nigeria in 1970 according to Balabkins was slightly over N1.0 billion [12] (c.f. tables 4.2 c and d). This figure, according to him consisted of paid-up capital and reserves, trade and suppliers' credit, other foreign liabilities, and obligations to the Head Office abroad. In 1975, the figure had more than doubled, rising to N2.3 billion.[13] By 1977, the value of the cumulative foreign private investment had risen to N2.5 billion.[14] In 1977, the United Kingdom accounted for 42.4 percent of the total foreign private investment in Nigeria (down by 1.4 percent on the 1970 share earlier mentioned). Other Western European countries followed with a share of 29.2 percent (a rise of over 6%

over the 1970 share, which they maintained up to 1982 as mentioned earlier); whereas the United States accounted for 11.3 percent of the total in 1977.

The conclusion reached on the basis of these tables is that Nigeria has never enjoyed continuous increases in the inflow of foreign direct investments. The increase noted in the early 1970s was punctuated by the 1972 indigenization decree. By 1974 the rate of inflow picked up again only to be thwarted by the 1976 indigenization decree. By 1977 some increase in the amount of foreign direct investment was noted. But in the 1980s, the world economic depression together with some domestic economic problems halted this growth.

4.3 INDUSTRIAL CONCENTRATION OF FOREIGN INVESTMENT

Some sectors of the Nigerian economy (even before the indigenization decrees) proved to be more attractive than others to foreign investors. Such sectors were seen to account for a considerable part of total foreign capital in Nigeria. The indigenization policies however, resulted in the spread of foreign capital from low capital intensive and low technology resource extracting sectors to medium capital intensive and moderate technology sectors.

It is difficult to present a summary table of industrial or sectoral concentration of foreign firms in Nigeria as such figures (or data) are not readily available

even from the government agencies in any reliable or up-to-date form.

Until independence in 1960, the Nigerian economy was dominated by the giant European and British trading companies - especially the United African Company, a decendant of the Anglo-Dutch Unilever.[15] Because of the large oil reserves in Nigeria, and the government's interest in extracting the oil, the mining and other resource extracting industries have attracted the largest proportion of foreign investments (by capital outlay). However, in a paper presented by Professor G. O. Nwanko in 1980 (an executive director of the Central Bank of Nigeria), he gave figures suggesting that non-oil investments grew faster than those of oil companies between 1966 and 1977 - 14.3 percent for the former as against 11.7 percent for the latter per year. By 1977, oil investments represented 39 percent of the total as against more than 50 percent in 1966, while the non-oil share rose from just under half to over 60 percent.[17] Companies operating in the mining (and other) industries would be mentioned in the relevant subsections discussing the respective industries.

Before we discuss the extent of foreign investment in the different industries, we would consider more closely the industrial spread of British investments in Nigeria. Unfortunately, there are no similar data available elsewhere for comparison. The table below summarizes the data compiled by the researcher at the Nigeria Enterprises

Promotion Board.

Table 4.3

Industrial Spread of U.K. Investment in Nigeria, 1983

Industry	No. of firms	% of total
Manufacturing & processing	110	26.4
Food and beverages	5	1.2
Agro-allied	8	1.9
Textiles	19	4.6
Services	167	40.0
Building & construction	31	7.4
Vehicle assembly	3	0.7
Others (including mining)	74	17.8
Total	417	100.0

Source: Compiled by the researcher from: "Companies Affected by the Nigerian Enterprises Promotion Decree, 1977". NEPB, 1984.

British investments in Nigeria (by number), concentrate in services. These services range from consultancy to finance and insurance, and trading. This is closely followed (by number too) by manufacturing and processing. Apart from mining included in the 'others' category in the above table, British investments in other industries could be said to be negligible by number, except probably in textiles, and building and construction. It was not possible for the researcher to compile the total amounts invested in each industry. However, the ranking of the industries is unlikely to change significantly even if it was the amount invested that was considered and not the number of firms in the industry.

Over the years, there has been growing diversification of British investment in the different industries of the Nigerian economy. Initially, British investments were predominantly in trading of farm produce but with the discovery of oil, they diversified into oil prospecting and drilling (with firms such as B.P coming in), and later into manufacturing and processing (with firms such as Cadbury, ICI, etc.). Up to the present however, the presence of British firms in the electronics and machine-tools-making industries in Nigeria is not yet apparent (except the electronics division of U.A.C.).

However, in almost all the industries that British firms are found to operate, they are quite often the oldest if not the largest. Examples of this range from U.A.C. as the oldest and largest conglomerate; John Holt as the oldest and largest in the agro-allied industry; Cadbury as a leading confectionery manufacturer; CAPL, a subsidiary of ICI as a leading chemical and paints manufacturer, etc. [18] This position is largely as a result of the long contact that Nigeria has had with Britain as a colonial power in Nigeria.

One could probably find an easy explanation for the significant presence of British firms in services. Given that Nigeria is often ranked by many foreign investors as a relatively high-risk country, the explanation may be that it is wiser for the foreign investor to invest in those sectors requiring less fixed capital, and in the event of

expropriation, the repatriation of capital could be easier. Also by the nature of investments in services, in the event of any nationalization, the company has less to lose than in other industries with fixed capital.

In the following subsections, we shall discuss the extent of foreign direct investments in different sectors of the Nigerian economy.

4.3.1 The Extractive Industry:

The extractive industry and petroleum particularly, has been the largest foreign exchange earner for Nigeria since the 1970s. By 1976 the petroleum industry accounted for about 90 percent of Nigeria's foreign exchange earnings and about 95 percent of national revenue. It contributed 32 percent in 1979 - 1980, and 19.4 percent in 1984.[19] The successive fall in the contribution of petroleum to the GDP is mainly as a result of government policy to diversify the economy. As a consequence therefore, even though the petroleum industry has remained absolutely the highest contributor to Nigeria's GDP, its share has been falling to the advantage of other sectors such as agriculture and manufacturing.

The earliest recorded oil exploration activity in Nigeria was carried out by the German Bitumen Corporation in 1908 in the Lagos area. Fourteen shallow wells were

drilled, but the operation was abandoned on the outbreak of the First World War. In 1937, the Shell-D'Arch Exploration Parties, later known as Shell-BP Petroleum Company of Nigeria, was formed. It was granted oil prospecting licence in 1938 but its operation was hindered by the Second World War. In 1961 the Federal Government granted ten oil prospecting licences on the Continental Shelf to five companies: Shell-BP; Mobil Exploration Nigeria Inc.; American Overseas Petroleum Company; Texaco Mineral; and Nigerian Gulf Oil.[20]

By 1966 oil production had reached 152 million barrels or more than 400,000 barrels per day. Nearly all this production came from Shell-BP but mining had also begun offshore by Safrap (Elf), a consortium of French government and private interests. Concessions in the form of exploration or prospecting licences had been granted to several other companies.[21]

In May 1971 the Nigerian National Oil Corporation (NNOC) was set up as a government agency empowered to engage in all the same financial obligations as other oil companies. In 1972 it was declared that this public corporation would be the sole beneficiary of all future oil concessions, though it might make use of private companies as contractors or minority partners. In 1977 it was amalgamated with the Ministry of Petroleum to form the Nigerian National Petroleum Corporation (NNPC).

The first participation secured for NNOC were a 35 percent share in Safrap (the French oil company which took sides with the defeated Biafra during the Nigerian civil war) as a condition for allowing the company to resume operations after the civil war. Also a one-third share in Agips-Phillips, where an option in the original concession of 1964 was taken up. In 1971, option rights were reserved to 51 percent interests in five new concessionaires, in the event of their discovering oil in commercial quantity. A 35 percent share in the major producer, Shell-BP, was taken from April 1973, the agreement providing that this participation would be raised to 51 percent by 1982. But one year later, the government's share became 55 percent not only in Shell-BP but also in Gulf, Mobil, Agip-Phillips, and Safrap; and in 1975 the same proportion was acquired in Texaco-Chevron.[22]

The NNPC's stake in the oil producing companies was raised from 55 percent to 60 percent in 1979, and subsequently BP's remaining 20 percent share in Shell-BP was nationalised, thus raising the public share in the major producer to 80 percent. Reasons given for the nationalization of BP's share include "the removal of an anomaly in implementation of the business indigenization decree", and also, BP's involvement in the supply of oil to South Africa.[23]

Apart from oil production, the first functioning refinery in Nigeria, at Ememe near Port-Harcourt is jointly owned by the foreign firms that dominate oil distribution and the Federal and Rivers State Governments. The import of petroleum products in Nigeria has also been dominated by the marketing subsidiaries of the major foreign oil companies.

Other important minerals in Nigeria include tin, columbite, iron ore, limestone, coal, gold, etc. Nigeria's tin and columbite are dominated by foreign firms. They had been controlled by the British firm, Amalgamated Tin Mines (Nig.) Ltd. It was incorporated in 1939 with a registered capital of N4.0 million. In 1972 the Federal Government established its own Nigerian Mining Corporation as a joint-venture with the British company.

Limestone was exploited for cement production by West African Portland Cement Company, a joint-venture with a British firm, Associated International Cement, with 48 percent and 52 percent local (Nigerian) equity. However, many more cement companies have joined in the exploitation of Nigeria's limestone deposits, e.g Ashaka Cement Company, Benue Cement Company, Sokoto Cement Company, etc.

4.3.2 The Manufacturing Industry:

Investments in Nigeria's manufacturing industry concentrate on low-technology, labour intensive ventures. These include tobacco products, soap and cosmetics, etc. Investment in low technology industries is followed by agro-industrial investments. This includes investments in saw-milling, dairy processing, grain mill products, etc. There are growing investments in high-technology industries such as industrial chemicals, pharmaceuticals, machinery, and electronic equipment.

The manufacturing industry accounted for 3.6 percent of the GDP in 1974/75, 9.1 percent in 1979/80 as well as in 1984. Even though its share is relatively small, it is - with the exception of oil - the industry with the fastest and most stable growth rate. Since manufacturing is generally the high-technology and capital-intensive industry of an economy, it is understandable that in a developing country like Nigeria, it is dominated by foreign firms. Foreign companies that operate in manufacturing include: Paterson Zochonis (PZ) in toileteries; Lever Brothers in toileteries as well; Food Specialities in foods and beverages; Cadbury in foods and beverages; Nigerian Tobacco Company in cigarette manufacture; United Textiles Limited in textile manufacture; Phillips Nigeria Limited in electronics; etc.

Foreign ownership of paid-up capital in the industry was put at 70 percent in 1967 and in 1975 this proportion was about 45 percent. At constant prices, value added in manufacturing grew at an annual rate of 14 percent in 1970 - 1974 and, at 11 percent between 1973 and 1980. [24] The successive governments in Nigeria since 1980 have been pursuing a strategy of increased value-added in manufacturing through the policy of local sourcing of raw materials. This policy has affected firms significantly. In response, some firms have led in vertical integration attempts. The Leventis Group of Companies, a trading and manufacturing concern whose soft drinks affiliate, Nigerian Bottling Company Ltd., holds the Nigerian franchise for Coca-Cola, Fanta Orange and Sprite, embarked on a project which will provide maize fructose (industrial sugar) to replace some 30 percent of the company's imported sugar needs within seven years, saving an estimated N25 million in foreign exchange each year. Another company, Cadbury Nigeria Ltd. also began using local sorghum to partially replace imported barley malt in its Bournvita chocolate drink.[25]

As at 1972, low technology light industries predominated in the industrial structure. The two most elementary industries - foods, beverages and tobacco; and textiles, footwear and clothing - contributed just over half of the total value added in manufacturing, but by 1980 they contributed about 37 percent of the total value-added.

The total value-added in manufacturing in 1980 was N5,340 million, with 2,315 firms employing 453,632 people.[26] The production of intermediate goods was relatively weak and engineering, negligible, more especially in 'high-technology' areas. Intermediate production consisted largely of petroleum refining, sawmilling, tyre manufacture, and cement and concrete products. There was very little output of basic industrial chemicals, fertilizers, and pesticides. In the mechanical sub-sector, production was mainly of structural and fabricated metal products and metal furniture and fixtures.

Vehicle assembly in Nigeria began in the 1970s, being initially confined to commercial vehicles. Vehicle assembly started as part of the Government's strategy of import substitution. Following a United Nations' feasibility study in 1970 and subsequent advice concerning the necessity of assembly plants, two car- and four heavy vehicle-assembly plants were established. The two car assembly plants were: Volkswagen of Nigeria (VON), a subsidiary of Volkswagen AG of Germany; and Peugeot Automobile Nigeria Ltd. (PAN), a subsidiary of Peugeot Automobile, France. The four heavy vehicle assembly plants were: Leyland Nigeria, a subsidiary of British Leyland; Anambra Motor Company Ltd. (ANAMCO), a subsidiary of Daimler Benz AG of West Germany; Federated Motor Industries (FMI), a division of U.A.C. whose parent is U.A.C. International with Bedford as technical partners; and Societe Commerciale Ouest Africaine (SCOA), a subsidiary of

Societe Anonymo, France. Later Fiat (Trucks) and Steyr (Trucks) assembly plants were established.

Before assembly operations started in Nigeria's automobile industry, some firms did exist, engaged primarily in the .sale of imported cars and lorries in the domestic market. Such firms include SCOA, FMI, United Trading Company (UTC), Mandilas, and J. Allen.

The agreements reached between the investors and the government on these ventures (the assembly plants) include: (a) the assembly plants are to assemble/manufacture the companies' makes of vehicles under licence, from completely knocked down (CKD) components supplied by the foreign automobile companies subject to progressive replacements with such parts, components, and elements made under licence in Nigeria or purchased from Nigerian suppliers; (b) indigenous managerial and technical personnel are to be trained by the foreign automobile companies locally, in activities such as the designing and procurement of equipment, planning, installation and assembly of machinery, tools, and jigs; (c) in the first three years of the plants' existence, there was to be 30 percent local content by value of CKD (15 percent through inplant manufacture and 15 percent procurement from local manufacturers of parts and components); in five years 50 percent, and 100 percent local content-integration to be achieved in thirteen years (under which 30 percent manufactured in-plant and 70 percent from Nigerian

suppliers); etc.

On the aspect of local content, Landi (1985) reveals that the firms covered in his work have achieved varying degrees of local content (see table 4.4) in their operations.

Table 4.4

Vertical Corporate Linkages Developed in the Nigerian Automobile Industry, 1984

Company	Product	CKD source	L/content	Suppliers
PAN	Cars	France	35%	50
VON	Cars	Germany/ Brazil	30%	43
LEYLAND	Trucks	Britain	32%	41
ANAMCO	Trucks	Germany	9%	21
FMI	Trucks	Britain	45%	61
SCOA	Trucks	France	18%	36

Source: LANDI, James H.: "Vertical Corporate Linkages". University of Reading discussion papers in international investment and business studies, No. 94, 1986

These figures, Landi (1986) further revealed, were challenged by the Nigerian Institute for Social and Economic Research (NISER) which claimed that on average only 10 percent local content integration had been achieved. Further empirical evidence from Landi's work reveals that more than 37 firms supply the automobile industry with locally-assembled and manufactured components in Nigeria. Components purchased from local suppliers were said to be of low levels of technology; and that in most cases, the suppliers of these firms in Nigeria are affiliates of traditional suppliers of the parents of the

firms in their home markets. Examples were given, for instance, VON attracted its traditional clutch supplier to Nigeria and also encouraged an electronics company to produce/assemble car radios for her in Nigeria. Another is PAN which invited its traditional radiator supplier to enter into a licensing agreement with Radiators Nigeria Ltd., which supplied it with more than 350 units daily.[28]

4.3.3 The Banking and Insurance Industry:

In banking, there are two types of bank ownership in Nigeria. The most important banks in terms of asset-size and loan portfolios are the joint-venture commercial banks in which foreign ownership is limited to a maximum of 40 percent. This category includes the big three banks - First Bank (38 percent owned by Standard Chartered), Union Bank (20 percent owned by Barclays), and the United Bank for Africa (25 percent owned by Banque Nationale de Paris). The dominance of commercial banking by these three banks has been declining. By 1980 they were responsible for about 65 percent of all deposits and loans, but by mid-1984 these proportions had fallen to around 50 percent, reflecting growth in the number of banks and some market-share erosion as the newer smaller banks enjoyed faster expansion. The second type of Nigerian bank ownership is that of indigenous banks - banks owned either by a single State government or by several states.

By 1985 there were 27 commercial banks, of which 18 were indigenous and 5 merchant banks. Several new banks were in the process of setting up as at this time. The growth in banking since 1970 has been rapid with commercial banks increasing in number from 14 with 273 branches to the 1985 level of 27 banks with almost 1000 branches.[29] Government pressure on the commercial banks to open a targeted number of branches in rural areas has been greatly responsible for this expansion.

In the pre-1970 period, the government was not 'interfering' with the operations of commercial banks. This meant that they were free to lend to whoever they wanted, set interest rates at will, etc. This, the government observed, frequently resulted in some 'undesired' financial transactions at the detriment of the country. The government wanted to have a firm grip on the movement of capital by part-ownership of foreign banks and enabling Nigerians to own part of such foreign banks. By this, the government believed, it was going to be able to control capital movements into and out of the country.

The indigenization of banks began in 1973 when the government bought 40 percent interests in the big three banks. Further in 1976 the government raised its stake to 60 percent in all foreign-associated banks, but management and Board control then was still left with the foreigners.

The transition to Nigerian operating control in foreign banks was the next step in the indigenization process of banks. In this aspect, the civilian administration (from October 1979 to December, 1983) carried through the operation vigorously. Within less than six months from the order, dozens of expatriate directors were removed and new Nigerian directors installed (especially as the politicians sought all avenues to gratify political loyalists). At First Bank for example, there were three foreign executive directors in 1979 and one Nigerian. In 1980, there were four Nigerian executive directors and one expatriate.

The growth of banks has been phenomenal in the past few years. Total assets of commercial banks rose almost tenfold in the years to December 31, 1979 to N11.2 billion. Among the big three, First Bank's assets grew from N819 million as at March 31, 1976 to N2.1 billion as at March 31, 1980. Union Bank's assets grew from N674 million as at September 30, 1976 to N1.4 billion as at September 30, 1979 (despite the government's boycotting of the Bank for much of 1979). U.B.A.'s assets rose from N795 million as at March 31, 1976 to N1.7 billion as at March 31, 1980.[30]

Following the pattern set in the commercial banks, Nigeria has been indigenizing the foreign-owned insurance companies not only as to ownership but also with respect to management and operations.

Between 1979 and 1980, Nigerian executives took over at Royal Exchange Assurance (Nig.) Ltd. and at United Nigeria Insurance, an affiliate of Commercial Union. The foreign-controlled insurance companies are still smarting from what they consider as an unfair treatment by the government - i.e. the sale prices the government set for its initial purchase of up to 49 percent of their shares in 1976.

The indigenization of their operations began in earnest in 1977, when the government decreed that all imports had to be insured locally. Until that time, companies had been obliged to give 10 percent of all business they wrote to the National Insurance Company of Nigeria (NICON) by way of compulsory cession. But starting in 1977, the cession was transferred to Nigerian Reinsurance Corporation and raised to 40 percent.

While no statistics are available on the size of the Nigerian insurance market, the gross premium is believed to be in excess of N300 million a year, of which life insurance accounts for about N50 million, general accident N46 million, motor N90 million, fire N34 million, and marine N50 million. Foreign associated companies may account for 30 percent of the market, government companies 50 percent, and domestic private groups the rest.

4.3.4 The Distribution and Construction Industries:

The foreign trade subsector was the oldest foreign-dominated subsector in Nigeria's economy. The Royal Niger Company and later the U.A.C. are reminders of this past. Up to 1970, the distributive and commercial subsector was second only to mining and quarrying as the concentrates of foreign capital in Nigeria. Since independence, British firms have continued to dominate not only import-export trade but also internal wholesale distribution of foreign imports and domestic manufacturing by expatriate firms.

The leading foreign firms in the distribution industry as in manufacturing are the U.A.C., PZ, with their numerous branches. There are also the French-owned S.C.O.A. and C.F.A.O. Motors, which deal in vehicle sale, service and spare parts; R.T.Briscoe, a post-1960 motor and machinery selling company; Atlas Company which deals in machinery and equipment; British Equipment and Machinery (BEAM); Bata; UTC; A.G. Leventis Stores; etc. The publishing business in Nigeria is virtually controlled by such British firms as Oxford University Press (now African University Press), Macmillan, Longmans, Evans, Nelson, Heinemann, etc.

Building and construction is another rapidly growing industry that has been dominated by foreign firms. With the oil wealth in the early to mid-1970s, ultra-modern

construction and sophisticated engineering projects were undertaken which clearly attracted large numbers of foreign construction and engineering firms. However, since the military took over power from the civilians on 31st December, 1983, construction firms were among the first group to be affected by the Government's action to stop or suspend virtually all construction works in process. The industry has been rendered less attractive to foreign firms as a result of the government freeze of construction contracts and review of most of the contracts awarded during the civilian administration. The review exercise meant that construction firms were not paid for work which they had already completed but were yet to be paid for by the civilian administration, and for work in progress.

Construction companies are being forced to cut costs and sell off the plant and equipment accumulated during the boom years of the 1970s. Apart from cutting costs through retrenchment of workers, construction companies have been devising new strategies to survive the crisis by diversifying the range of their activities and seeking more private sector industrial projects.[31]

Among the leading foreign construction firms in Nigeria are Julius Berger, Dumez and Strabag of West Germany; Guffanti, Stirling, and Cappa and D'alberto of Italy; Tilbury, and Wimpey of Britain. The nature of the relationships under which these firms operate in Nigeria is not known. This may probably be due to a lack of interest

in this industry by academics.

4.3.5 Other Industries:

Foreign firms are involved in other activities such as communication, forestry, fishery, and agro-allied industries in Nigeria. Foreign firms have been engaged indirectly in produce buying and agro-allied industries, or directly in forestry and fishing. With each successive government's eminent encouragement to agriculture, foreign firms are expected to feature more prominently in agriculture through production of agricultural machinery, pesticides, fertilizers, seeds, etc. The leading foreign firms in the assembly of agricultural machinery include among others, John Holt Agricultural Ventures. Those in forestry include the African Timber and Plywood Co. (a division of U.A.C.), Hushin Estates Ltd., Swiss-Nigerian Wood Industries Ltd., and the Commonwealth Development Corporation. In agro-allied industries, one finds firms like Tate-and-Lyle, Savannah Sugar Company, etc. Fishing firms are confined to distant-water fishing by foreign trawlers under charter with Nigerian companies.

One form of foreign participation in agriculture is motivated by the government's firmness on local sourcing of raw materials by manufacturing firms whose raw materials could be obtained (bought or produced) locally, within the country. This has led many companies (foreign and local)

that use agricultural inputs as raw materials to integrate backwardly into producing these inputs themselves for their factories.

Ownership stakes in these and all other industries in Nigeria are determined by the government through the Nigerian Enterprises Promotion Decree, which outlines the extent of foreign equity participation allowed in every industry or business activity in Nigeria. This can be seen in exhibit 5.

4.4 CONCLUSION

This chapter has considered the inflow of private foreign investments into Nigeria, the involvement of these firms in different sectors of Nigerian economy, and how foreign firms have fared in their respective industries in Nigeria.

The major conclusions of this chapter are the following:

(a) that the major investors in Nigeria are Britain, the rest of Europe (mainly France and West Germany), and the United States. There is however a growing presence of investors from developing countries like India.

(b) that in almost all sectors of the Nigerian economy, there are foreign firms, usually in dominant positions. Furthermore, with the indigenization policy, there are attempts to shift the concentration of foreign investment into priority sectors of the economy.

(c) that Nigeria as a country is generally receptive to foreign investments, even though some groups may exist that are apprehensive towards foreign investments for varying reasons.

(d) that the rate of inflow of foreign investments into Nigeria and the cumulative stock of foreign investments have been declining in the 1980s.

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CHAPTER FIVE

CHAPTER FIVE

GOVERNMENT POLICIES AFFECTING FDI IN NIGERIA

5.1 INTRODUCTION

5.2 INVESTMENT-RELATED POLICY INSTRUMENTS

5.3 TRADE-RELATED POLICY INSTRUMENTS

5.4 CONCLUSION

CHAPTER FIVE

GOVERNMENT POLICIES AFFECTING FOREIGN DIRECT INVESTMENT IN NIGERIA

5.1 INTRODUCTION: General Background to Nigeria's Policies

Nigeria conceives indigenization as a method of enhancing the industrial development of the country by encouraging foreign investment in intermediate and capital goods production as against foreign concentration in the consumer non-durable goods and extractive industries.

The structure of the Nigerian economy in pre-independence and early independence era was described by Ogbuagu [1] and Rood [2] as likened to an 'hour-glass', where most foreign private investors and entrepreneurs (notably from Britain and other European industrialized countries) made up the highest echelon; other foreign nationals such as the Lebanese acted as middlemen, engaged primarily in distributive and export trade and other related services; and, at the bottom of the economic structure were a few privileged Nigerian elites who performed very peripheral economic roles. The latter group was said to function as commissioned agents for foreign industrialists and trading houses. In some ways, the few privileged wealthy Nigerians competed with the Lebanese businessmen for a higher share of the distributive and

service businesses in the country.

Raymond Vernon has explored the sources of tensions between MNCs and host countries in several studies. He suggests that they may be described in several ways: as a rivalry among local elites; as a clash of ideologies; or as a clash of cultures.[3] Vernon observes that the presence of MNC affiliates in significant numbers in a host country challenges the relationships among established national elites - government, business, labour and other major interest groups. Therefore, the presence of foreign investment strengthens the position of certain local elites and threatens others. Three other groups, Vernon observes, have been particularly affected by foreign investment: government officials seeking to maintain control over an expanding national economy; local businessmen trying to shift from a complementary role as suppliers to foreign firms to a competitive role; and intellectuals outside the local establishment trying to promote ideologies at odds with established beliefs. Government officials are caught between pressures to protect foreign firms from untenable demands on them and to squeeze additional benefits out of them.

The more critically minded Nigerians generally feel that their country cannot be truly independent as long as MNCs dominate. They fear that the presence of such extensive foreign involvement inhibits the exercise of national sovereignty and may well make it difficult, or even

impossible for the government to carry out its objectives and policies. Nigerians emphasize that they do not oppose foreign investment or business in their economy, but that they must create a better balance between local and expatriate involvement and, even more, that Nigerians must acquire the skills and knowledge to ensure that there can be no question as to who is the 'master of the house'.

This fear of imbalance and domination is not an exclusive preserve for Nigeria or developing countries alone, but shared by the developed countries too at one time or the other. For example, there were fears generated by the influx of American firms in Europe in the 1960s. American investments then were strongly attacked because of the feared potential of American monopolization of certain industries. And in the 1970s, with the influx of Japanese investments, European manufacturers' organizations vehemently opposed wholly-owned Japanese subsidiaries or European subsidiaries of Japanese firms engaged solely in assembly operations. As an example of these oppositions, Hitachi encountered considerable opposition from European electrical goods manufacturers to its plans to establish a wholly-owned subsidiary in the U.K. in 1977, and in the end, it agreed to set up a joint-venture with General Electric U.K. [4] Japan, on the other hand, feverish over the presence of foreign firms in the 1930s expelled General Motors and Ford vehicles from Japan for 'national security' reasons.[5] In the 1970s, American public opinion expressed dissent and concern over the 'invasion' of Arab

petro-dollars in industry and real estate. Similarly, America's northern neighbours - Canada - stirred with economic nationalism at one time and the Committee for an Independent Canada was set up which was annoying and scared away American investors.[6]

Of the groups identified by Vernon as affected by the existence/operations of foreign firms, the intellectuals, mainly the University community in Nigeria has been most vocal in criticizing the MNCs. An academic in the University of Benin, Mr. Osaheni Uzamere, felt that "it is better to mismanage our economy than for aliens to retain a lien on it".[7] Another academic, Dr. Ekundayo Akeredolu-Ale of the University of Ibadan argued that the expatriate business community in Nigeria must learn what was once called the "foreign-capital must rediscover how to die" process, i.e. the inevitability of indigenization.[8] Dr. Chukwuemeka Ebo of the University of Nigeria, Nsukka, wrote that indigenization is "excellent and indispensable", and that Nigeria must control "...the bulk of its economic life ... if not, political independence remains dubious".[9]

Summarizing the explanation for the attitude of Nigerian intellectuals, Balabkins (1982) wrote:

> "On the basis of my own obervations in Africa and my discussions with African students in the United States, I am inclined to believe that one of the main sources of support or advancement of the cause for indigenization was in the person of many Africans who, after studying in the West ... had become black racists. Many of them, after living for years in a white society

had found that as soon as they stepped outside the University campus limits they encountered resentment of their black skins. These experiences had generated frustration, bitterness and, in many cases, a lifelong hatred of the white man. ... When these young Africans had returned to their native countries only to be confronted with white men in both government offices and the private sector, they are tempted to say to these white men, '... I have suffered enough at your hands. You are here for profit and nothing else. Get out while you still can'..."[10]

A second group that shows its concern on the presence of foreign firms in Nigeria is the businessmen. Since independence, local businessmen have individually and collectively accused foreign firms for 'causing' them not to grow and/or expand. The tone of the parliamentary debates in the independent parliament shows the part that has been played by this group along with other groups in shaping Nigeria's government policy towards foreign direct investment. The resentment of this group towards foreign firms is seen more recently and currently on their interpretation of the Second-tier-foreign-exchange-market (SFEM), introduced in September 1986. This group, through their association - the Nigerian Small-scale Industrialists - has attacked multinationals and their home countries for trying to exterminate them by coercing the government to introduce the foreign exchange system from which only they the multinationals would be able to benefit. This is because, they argue, the multinational subsidiaries in Nigeria are rich enough, and even if not, their rich parents are able and would be willing to supply them the required raw materials at the market exchange rate, while they, the indigenous businesses would be unable to buy foreign exchange at the market rate to import required raw

materials and would thus be forced to wind up. It must be remembered that pressure from this group particularly, together with the academics contributed to the introduction of the indigenization decrees of the 1970s.

Ideological groups are another faction from which tensions arise against the multinationals in Nigeria. Led by academics, the socialist-minded individuals are of the opinion that multinationals contribute 'nothing' to Nigeria and that everything about multinationality of firms is bad. Academics like Dr. Bala Usman and Dr. P. F. Wilmot of Ahmadu Bello University in several of their writings accuse multinationals of creating what Biersteker called 'comprador groups and inequality' in Nigeria.[11] They cite multinationals like the U.A.C. whose managing director is almost second to none in the country on salary; ITT that has made Chief M.K.O. Abiola a multi-business millio naire; etc. This group strongly opposes the backward integration move of firms into agriculture. They see this as a move by the 'exploitative' multinationals to deprive the Nigerian peasants of the only means of their livelihood by forcefully (with the collaboration of the bought-over government officials) taking over their land for industrial farming. Furthermore, they argue that by integrating backwardly, the multinationals deprive the peasants of being able to sell to them by producing what they (the multinationals) need themselves.

The government in Nigeria acts more like an adjudicator of the other groups' various interests than as a tension group itself as seen by Vernon. Government policy in Nigeria therefore should be seen as an outcome of the pressures of the different groups on the government. An example of this is seen in the government's response to demands by Nigerian intellectuals, businessmen, and top politicians soon after independence to nationalize, indigenize or expropriate foreign firms. In response, the government chose a middle-line position of partial indigenization. There is no question about the fact that occasionally these policies reflect the biases of the government. Nevertheless, most of Nigeria's policy toward foreign firms is an outcome of pressures from the different groups within the country, bearing in mind the international community.

In Nigeria, probably unlike many other countries, groups in support of multinationals are never heard, if they exist. There's hardly any attempt made by any groups to publicise or emphasize on the benefits to be derived from multinational firms. It is either that Nigerians do not see anything good in multinationals or that proponents of multinationals are too scared by the size of opponents to speak up. This of course excludes the government, whose officials actually campaign for inward investments in certain areas, and the multinationals themselves. The MNCs on their part have tried to preach their gospel themselves

by engaging in 'good-citizenship' activities like sport sponsorships, university scholarships and prizes, development programmes, etc. As examples, Cadbury Nigeria Ltd. sponsors tennis tournaments in Nigeria; U.A.C. has scholarships for various disciplines in Nigerian universities; etc.

This chapter considers policies that have been introduced in Nigeria which affect foreign investment in one form or the other. These are divided into two major (though not exclusive) forms: investment policy instruments; and trade policy instruments. The first relates to direct investments, and the second, simply to trade.

5.2 INVESTMENT-RELATED POLICY INSTRUMENTS

5.2.1 Business Permit / Immigration Act, 1963

This policy, like most of Nigeria's investment-related policies, took its roots from the nationalism that followed independence. The nationalistic debates at the first parliament after independence were followed by swift Nigerianization of the civil service. Despite rapid nigerianization of the civil service, the country's industry and trade remained almost an exclusive preserve of the expatriates, and Nigerians did not like it.[12] As the Nigerian minister for Commerce and Industry in 1961, Zana

Bukar Dipchrima, said, "The economy of our country, strictly speaking, is not in our hands".[13] The manufacturing enterprises were partly owned and wholly managed by expatriates.[14] The first decisive move by the Nigerian government to grapple with the expatriate domination of the economy was in the Business Permit / Immigration Act, 1963. Its objective was to prevent the entry of expatriates with the intention of entering the retail trade in consumer goods or becoming middlemen. The Act stipulated that any corporate organization in which there is non-Nigerian equity interest, must clear immigration requirements at the Ministry of Internal Affairs; and that the authorization (by the Minister in charge of immigration matters) for the establishment of a profession, business or trade in Nigeria shall take the form of a business permit. In other words, foreign investment in any form of commercial activities in Nigeria has to be accorded with government permit before it could be established as such a business activity.

In implementing this provision, the Ministry eatablished an 'expatriate quota' system in 1966 under which employers must apply for a quota of foreign employees permitted into Nigeria. Once approved, a firm's authorised quota is valid for three years and must be reacquired when it expires if foreigners are still needed. In applying, the applicant lists all positions for which expatriates are required, their specializations, and curricula vitae. Normally a firm applies for its expatriate quota at the

same time it applies to establish a business, the first step in establishing operations in Nigeria. Upon application and with acceptable justification, a firm may increase the size of its quota.

5.2.2 The Companies Decree, 1968

Following the outbreak of the Nigerian civil war in 1967, there were problems of who had the right to royalty payments due from oil companies - the Federal government or the Eastern region government as demanded by the secessionist leader - as much of Nigeria's oil was and is still produced from the war-affected region. Companies were caught in-between. Given that it was difficult to predict at this early stage the side that would win the war, some companies paid dual royalties, i.e. to both governments; some paid their royalties to the federal government; and some paid theirs to the Eastern region government. However, the federal government (and certainly the eastern region government too) needed all the money it could get at this time - through royalties, dividends, public savings, etc. The government therefore adopted numerous measures designed to check the operations of foreign firms in Nigeria. It undertook stringent measures to curb imports and to husband as much convertible foreign exchange as possible, and enacted policies to halt the drain on domestic capital reserves and to exert some control on prices and dividends.[15]

The Companies Decree, 1968, was promulgated to achieve most of the above. The decree required, and still requires that:

> "Every foreign company ... shall in respect of its operations in Nigeria be deemed to have been incorporated under this decree as a seperate entity from the company incorporated outside Nigeria in whose name a place of business in Nigeria was established, and the company so deemed to have been incorporated in Nigeria shall have as part of its name (unless already therein) the word 'Nigeria'. ..."[16]

This decree established the permissible form of business organizations and the procedures to be followed for incorporation. Under this decree, companies may be "unlimited", "limited by guarantee", or "limited by share". A limited liability company may be incorporated either as a public or as a private company. A public company must have at least seven shareholders and must allow for transfer of shares and subscription from the public. A private company may have the right to transfer shares and may prohibit invitations to the public to subscribe for its shares or debentures.

An important provision for the 1968 decree states that no company will be allowed to carry on business in Nigeria without first going through the process of incorporation.

This decree was modified in 1973 under the 'Companies (special provisions) Decree' to exempt certain contractors, consultants, experts, and foreign state trade offices from incorporation requirements.

The Companies Decree, 1968 was aimed at bringing under the control of the Nigerian government subsidiaries of foreign firms (particularly the oil companies then) in Nigeria, and to secure the participation of Nigerians in such businesses. The decree outlawed any attempt by a company to give any form or manner of financial assistance (e.g. the granting of loans) to any Nigerian to help in the purchase of its shares.

5.2.3 The Nigerian Enterprises Promotion Decrees

The Nigerian civil war ended in 1970 and Nigerians once again turned their attention to what the war diverted them from - the domination of the economy by foreigners and foreign firms. Nigerian intellectuals, press, businessmen, etc. resumed their calls for greater control of the economy by locals. Examples of these renewed calls are contained earlier in section 5.1. While the calls were diverse - ranging from indigenization to nationalization - the government chose or preferred indigenization.

As a prelude to indigenization, in the second national development plan, the government declared that "... the government will seek to acquire, by law, if necessary, equity participation in a number of strategic industries that will be specified from time to time".[17] Following this declaration, came the Nigerian Enterprises Promotion Decree (NEPD) of 1972 (referred to as the indigenization

decree). The decree had five major sections. Section 1 established the Nigerian Enterprises Promotion Board (NEPB). The Board was empowered to advance and develop the promotion of enterprises in which citizens of Nigeria shall participate fully and play a dominant role. Sections 4 to 9 dealt with the promotion of Nigerian enterprises. Essentially there were two schedules of enterprises in the 1972 decree, Schedules I and II.

The decree allowed the Commission in charge of implementation, with the approval of the federal executive council, on application made to it, to grant exemptions conditionally or otherwise for an initial but renewable period of six months. The commission could, with the approval of the federal executive council, alter the list of the enterprises in the schedules or vary the amount of paid-up share capital or turnover specified in section 5 of the decree.

Sections 10, 11 and 12 provide penalties for various categories of offenders. Nigerians who act as fronts for foreign enterprises which are subjected to the provisions of the decrees or who operate any such enterprises on behalf of an alien will, if convicted, be liable to a fine of N15,000 or five years imprisonment or both.

The primary objectives of the 1972 indigenization policy were given in a government statement on 18th June 1971 as follows: (i) to create an economically independent

country with increased opportunities for indigenous Nigerian businessmen; (ii) to ensure greater retention of profits accruing from the economic sector; and (iii) to encourage further foreign investment in the sophisticated area of intermediate and capital goods production.[18]

The specific provisions of the 1972 decree stipulated that by the end of the first quarter of 1974 no foreigner (and/or foreign firm) could own or be a part-owner of enterprises in 22 selected industries (schedule 1 industries). These were mainly small, labour-intensive manufacturing and local service-related enterprises. Foreigners were also exempted from participation in 33 other industries (schedule II industries), where paid-up share capital of the enterprises was less than the equivalent of $304,000, or the turnover of the enterprise was less than the equivalent of $760,000, whichever the Nigerian Enterprises Promotion Board saw most appropriate. Enterprises that were exempted from indigenization on the basis of their size were required to make available to the Nigerian public up to 40 percent of their total equity. These were mainly construction firms, wholesale and retail distributors, etc. Because the 1972 decree subjected large-scale enterprises to the sale of only 40 percent of their equity, multinational firms were more or less unaffected by the policy.

The 1972 decree was seen to have fallen short of meeting the demands of the organized pressure groups. In addition, the military administration felt that the 1972 decree failed in many ways to actually reduce or eliminate foreign participation in the already specified sectors of the economy. A government white paper revealed that by the 1974 deadline only about one-third of the enterprises affected by the 1972 decree had actually complied fully with the letters of the law.[19] Thus the government responded by appointing an Industrial Promotion Panel in November, 1975 to make recommendations to the federal military government on how best to make the programme effective.

The Promotion Panel's report identified the various devices used in circumventing the provisions of the decree and admitted that its implementation as of mid-1975 "fell short of expectations".[20] Without counting the exemptions granted, of a total of 950 marked expatriate firms affected by the decree, 357 were subjected to 100 percent indigenization and 593 to 40 percent. Confirmed cases of compliance after proper inspection numbered only 314 as of June 30th, 1975, that is only about 33 percent.[21]

The report stated:

> "The main devices employed to circumvent the of the decree included fronting, application for naturalization, extended use of the definition of Nigerian citizenship, interpretational problems of classification of enterprises, the gentle approach to implementation of the decree and frequent amendments providing for exemptions on flimsy grounds. In almost all instances, the devices employed by the foreign owners could not have worked without the active support and

connivance of some misguided Nigerians".

Contributing also to the failure of the indigenization exercise were basic defects in the decree itself including:

(i) lack of power for NEPB to seal up defaulting enterprises

(ii) failure to make it obligatory for more companies to seek compliance by issuing their shares through the Lagos stock exchange

(iii) failure to match equity participation with management control

(iv) failure to provide for prior NEPB approval of all share prices sold;

(v) failure to lay down a basis for ensuring a wider spread of ownership of shares sold; and

(vi) weak and under-staffed administrative machinery for the implementation of the decree. [22]

The Nigerian federal military government accepted these explanations for the limited success of the indigenization effort and stressed the need for administrative revamping of the NEPB itself. More specifically, the Panel recommended that the NEPB should have the authority to seal-up defaulting enterprises, seize them, appoint caretaker managers and try to sell them to bona fide Nigerians as quickly as possible.

Following the government white paper on the report of the panel, was a mop-up operation of the defaulting schedule I enterprises in July and the low-key

investigation of schedule II defaulters. This set the stage for the "second phase" of the indigenization exercise. The suggested new indigenization decree was listed in outline form in the white paper.[23] The "new" decree was promulgated on January 12, 1977 (see exhibit 5).

Among the administrative refinements to ensure policy execution, 20 new industries were added to the list of schedule I industries to be completely indigenized in ownership. Thirty-three new industries were added to the second schedule and the compulsory sale of shares was raised from 40 percent to 60 percent. Added to this schedule II were banking, insurance, shipping agencies, food manufacture, basic iron and steel manufacture and petro-chemical industries. The minimum turnover required for exemption from 100 percent indigenization in the second schedule was also raised to the equivalent of $3.2 million.

The 1977 decree added a third schedule (schedule III). This consisted of all remaining industries and required that they make available 40 percent of their equity to indigenes. This included the large multinational tobacco firms, high technology enterprises and textile firms which were previously excluded from indigenization. Since the 1977 decree, every investment in Nigeria is faced with the sharing of ownership.

The decree established the following organs/instruments and utilized some existing institutions for the purpose of facilitating its effective implementation:

(a) the Nigerian Enterprises Promotion Board (NEPB), set-up since 1972, charged with the responsibility for the effective implementation of the decree.

(b) the Nigerian Enterprises Promotion Committees of the states: these are the state arms of the Board, and their principal function is to assist and advise the Board on the implementation of the decree and ensure that its provisions are complied with by any alien resident or carrying out business in the states, and in such other measures as they may consider necessary.

(c) the decree also confers definite functions on the Capital Issues Commission (CIC): these include powers to determine the prices at which all alien enterprises or shares of all alien enterprises affected by the decree are to be sold or transferred to Nigerians.

(d) the Allotment Committee of the CIC: this body, comprised of representatives of the Commission, the Board, the Lagos stock exchange and the appropriate Issuing House, is in charge with the responsibility for the allotment of shares in all public companies (both quoted and unquoted) selling shares for the purpose of complying with the provisions of the decree.

(e) Inspectors of Enterprises: the decree provides for the appointment of a corps of inspectors who are vested with inspectorate powers to function as the direct enforcement agents of the Board in relation to all

affected enterprises.

The first major preoccupation of the NEPB following the promulgation of the decree was to study carefully and clarify several aspects of the decree in order to ensure fairness, uniformity and equitable treatment and establish a smooth operation. The Board spelt out operational guidelines for certain provisions of the decree which are capable of multiple interpretations. It also worked out its procedures, strategy and modus operandi for the implementation of the decree. Under the definitions employed by the NEPB, the calculation of Nigerian ownership of a company owned jointly by a 100 percent Nigerian owned company and a company only partly Nigeria-owned does not allow including the Nigerian interest in the partly-owned company in establishing the proportion of Nigerian participation in the subsidiary of the firm. This is because, the Board argues, the partly Nigeria-owned parent company, not being exclusively owned by Nigerians, is considered 'alien' under the NEPD.

The NEPD was gladly received by Nigerians and they widely acclaimed it as a positive action on the part of the federal government to restructure the private sector of the national economy and to stimulate active participation of Nigerian citizens in the ownership of the multinational corporations that dominate it. Furthermore, it was seen as

an opportunity to foster employment and managerial responsibilities for Nigerians in their own country. With control, the barriers of technical training and staff development were supposed to be reduced.

In response, some foreign banks like the Citibank of New York left Nigeria rather than let the government acquire 60 percent of its shares even though it earned 46.4 percent return on average equity in 1975.[24] Bank of America on the other hand changed its local name to Savannah Bank of Nigeria Ltd. to reflect its new national status.

The growth in the number of indigenous entrepreneurs has not resulted in many Nigerians acquiring meaningful roles in the control and management of the economy. The Federal Government Report (referred to in [20]) showed that by 1976, Nigerians owned almost 42 percent of private sector capital as against 7 percent in 1966. The sector with most considerable advance of Nigerian ownership was found to be mining, including petroleum, which was wholly-owned by foreign firms up to 1972, but was 61 percent Nigerian owned in 1976. He added that the distribution of ownership in firms operating in Nigeria does not necessarily imply control. As the government's 1978 Economic statistical review notes: "regrettably, inspite of the indigeniztion decrees, the management of businesses is still firmly in the hands of foreigners".[26]

One reason for this, given in the report was that Nigerian shareholders appeared to be more interested in dividends than in who was running the company.

To remedy this situation, in 1980 the NEPB, apart from insisting on compliance with the share equity participation provisions of the decree, was directed to ask enterprises to have a certain minimum number of Nigerian executive directors in their board. It specifically directed enterprises complying in schedule II to have not less than two Nigerian executive directors and those complying in schedule III of the decree to have a minimum of one Nigerian executive director. This, the government and the Board thought will aid towards the much talked about control of enterprises by Nigerians. Quite a number of enterprises especially publicly quoted ones started to comply with this directive while others were hesitant until the Board was informed that the directive had no legal basis. From then the Board stopped insisting on this requirement but it still insists that the composition of the board of directors of any company should reflect the ratio of indigenous/alien equity participation in the company.

Since the NEPB cannot enforce the above requirement because it lacks the legal backing, the enforcement of this and other management-related requirements has been shifted to the federal ministries of Industries and Finance. Here, firms are made to comply with the requirement(s) not

because there are legal basis for them, but because they are made some of the major conditions for their securing approvals for expatriate quota, import licence, etc.

Faced with difficulty in getting Nigerians involved in some economic activities reserved exclusively for them or majority ownership for them, the government was forced to make certain changes in the 1977 NEPD in order to re-encourage more foreign investment and participation in the industrial sector. In 1981 a total of ten enterprises which were originally exclusively reserved for Nigerians or in which Nigerians were expected to have majority shares under the 1977 decree were reclassified to permit more foreign participation.

In the new reclassification, the manufacture of garments, jewelry and related articles, rice milling, and watch repair industries were transferred from schedule I to II. These industries which were formerly reserved exclusively for Nigerians have been allowed 40 percent foreign participation. Further, the production of metal containers, fertilizers and cement, sugar planting and processing, tree crops, grains and other cash crops were reclassified from schedule II to III, thus allowing 60 percent foreign ownership in them as against the 40 percent under the 1977 decree classification. However, in the tin smelting and processing industry, foreign participation was reduced from 60 percent to 40 percent, thus a

reclassification from schedule III to II.

Other incentives for the agricultural sector include tax relief where new agribusiness companies enjoy a three year tax holiday; all farm equipment imports are exempted from duty; agribusiness companies can depreciate their assets against profits at an accelerated rate; losses can be carried forward indefinitely and written off against eventual profits; and agribusiness companies are eligible for substantial concessions in excise duty payments if the Ministry of Industries is satisfied that they use the maximum amount of local raw materials.

The available progress reports on the implementation of the decree are as follows:

1981 Progress Report

The 1981 progress report shows that since the 1980 progress report (not available to the researcher), as at 30th April 1981, 908 old enterprises and 51 new enterprises complied with the decree and had been issued with temporary letters of compliance. By this time too, 657 new enterprises had been registered but they had a grace period of two years to finalise the processes of taking-off and compliance. 404 existing enterprises as at that time were still in the process of complying. The reasons given for this non-compliance included: (a) some had found it difficult to get buyers for their shares, while (b) some

waited for quite some time before their shares were valued by the Nigerian Securities Exchange Commission. There were 88 old enterprises that needed not sell more shares in compliance with the decree because they had achieved the required level of indigenous equity participation before the promulgation of the decree.

This progress report also revealed that 30 companies were suspected to be defaulting the 1977 decree. Thirteen companies were "sealed-up" or co-managed because they failed to comply with the Board's directives.

1982 Progress Report

The 1982 progress report revealed that between the 1981 progress report and this progress report, 46 existing and 16 new enterprises had in addition been issued with provisional letters of compliance with the decree, bringing the number of enterprises issued with provisional letters to 954 old and 67 new enterprises. In this 1982 report the Board decided to do a thorough exercise of cross-checking its records and ensuring that existing companies that were still in the process of complying, complied. It was discovered during that exercise that about 110 enterprises had gone into voluntary liquidation and did not need to sell shares in compliance with the decree. Subtracting this from the 1981 figure, left the number of companies yet to comply with the decree in 1982 at 247.

There were a few companies then which appeared to have deliberately refused to comply and were hoping that they would get away with it. There were others also which claimed to have complied by sending to the Board fraudulent papers. Such defaulting companies, once caught they were "sealed-up". By this year, 1982, there were 35 old companies in gross default of the decree which had either been sealed-up or co-managed.

1983 Progress Report

A review of the decree in the 1983 progress report showed that 1200 existing companies were affected by the NEPD of 1977. This meant that 1200 foreign companies were in active existence as at 29th June 1976 (when the decree became effective). Since then up till December 1983, about 800 new foreign enterprises had been registered with the Board. On the whole, 1150 old and new firms had been issued with provisional letters of compliance. About 1050 of these were old companies, leaving 150 old enterprises yet to comply. 15 companies were still under seal as at 21st May, 1984; 16 still under co-management as at the same date, and 19 "sealed-up" in 1983 to 1984 but released as at the date of the report.

1985 Progress Report

The 1985 progress report shows that 1327 enterprises had complied with the provisions of the decree while 347 had been issued with Certificates of Compliance. Although a few

companies were said not to have complied fully with the requisite provisions, many of such had already satisfied the more important provisions, of the decree and were also seen to be taking necessary steps to comply with the outstanding provisions.

It should be noted that whereas the Nigerian Enterprises Promotion Decree does not make provisions for the Nigerian Enterprises Promotions Board to co-manage defaulting companies, but to "seal-up", the Board decided to co-manage some of such companies to alleviate the unnecessary hardship a complete seal-up would inflict on the company's workers and the loss of production to the economy.

Below, is a summary of the above progress reports in a table.

TABLE 5.1

SUMMARY OF PROGRESS REPORTS ON IMPLEMENTATION OF NEPD

	1981	1982	1983	1985	TOTAL
No. complied:					
Old	908	46	96		
New	51 959	16 62	33 129	177*	1327
In process	404	247	150	n.a.	
Under grace	657				
Not affected	88				88
Defaulters	30	35			65
Under seal/ co-mangt			31		
Voluntary liquidation		110			110

Note: * = This is for both old and new
n.a.= Not available

Source: Compiled by the researcher from "Progress Reports on Implementation of the NEPD": NEPB

5.2.4 The Exchange Control Act, 1977

It was observed (by the government) that foreign firms generally preferred repatriating their earnings (profits) to reinvesting them in Nigeria. Also, due to an abuse of the 1972 indigenization policy, where some foreign firms used fronts in the sale of their shares, such firms therefore were able to repatriate proportions of profits/dividends higher than their legally approved equity proportions. Some critics argue that some companies, in response to the indigenization policy began charging their Nigerian subsidiaries 'exhorbitant' amounts as royalties.

The federal government therefore found it necessary as a measure of foreign exchange control, that foreign investment capital to be brought into Nigeria should be conferred with "Approved status" (a recognition that the original investment comes into the country from abroad in the form of equity either by way of cash and/or parts, equipment and machinery) by the Federal Ministry of Finance. Conferment of "Approved status" on such investors facilitates the repatriation, in the future, of the exact amount of the investment capital that was originally brought into the country.

The Federal Ministry of Finance's approval is also required when seeking loans, local or external for a joint venture. Moreover, in order to guarantee remittance of royalty in respect of technical agreement where issues

pertaining to transfer of technology, technical service and use of patents, trade marks, etc. are concerned, the approval is required. The approval of the Federal Ministry of Finance must be obtained after the agreement must have been registered with the National Office of Industrial Property in accordance with the National Office of Industrial Property Act No. 70 of 1979. In addition, the approval of the ministry is also required for capital-utilization of retained profits.

5.2.5 The Local Content Requirement

Another action of the government which affects foreign direct investment in Nigeria is the Local Content Requirement. It is difficult to assess whether this action was a premeditated economic strategy for the economic development of Nigeria or it was an impulsive reaction to a collapsing economy. While speeches by government officials encouraging the use of local raw materials in industries do not constitute a new phenomenon, the militant exercise aimed at getting firms to source their raw materials from within Nigeria began during the economic anaemia of the civilian administration in the early 1980s, and has been vigorously pursued by the successive military administrations. Figure 5.1 shows some of Nigeria's economic indicators, and looking at the balance of payments position of the country after 1980, the country was not doing well. This necessitated the introduction of this

policy, whose impact is evident in the figure as the balance of payments changed to the positive after 1982 (two years after the policy was introduced). The awkward financial position of the country was caused or worsened by civilian/political "squandermania". Political parties were importing vehicles of all sorts for campaign and "dashes"; high lifestyle of politicians, e.g. frequent oversea trips, etc. necessarily reduced or wiped out the country's reserves.

The civilian administration started with what they called "Austerity measures" which included among several other measures aimed at conserving foreign exchange, a reduction in the foreign exchange allowed for companies to import raw materials and parts; ban on importation of several items; etc. When the military administration of 1984 - 1985 took over (Buhari's government), they de-emphasized the term 'austerity' but continued the same trend for the reason of encouraging the use of local raw materials. And when the military admistration of 1985 to present (Babangida's government) took over, the trend continued, becoming even tighter for the companies, for the reasons of 'economic recovery and stabilization'.

The civilian administration felt that industries with low local inputs contribute minimally to national economic development. Considering that economic development is the cardinal goal of industrialization, industrial enterprises which explored the possibilities of increasing local inputs

were to be encouraged. The government stated that wherever possible, local materials must be used for production from the commencement of operations. Where there were acceptable reasons for a proposal excluding a firm at the commencement of operations the use of raw materials which could be obtained or developed locally, a time-bound plan for utilizing such materials must be submitted periodically. A constantly up-dated record of locally available raw materials for manufacturing industries was to be maintained in the Ministry of Industries. Exhibit 6 contains such a record.

In the industrial policy objectives of the present military administration, the following were clearly spelt out:

(i) agro-based industries , e.g. flour mills, feed mills etc. are to source their raw materials locally to the tune of at least 70-95%

(ii) petro-chemical industries are to source their raw materials locally to the tune of at least 50%

(iii) agro-allied industries, e.g. paper and pulp, textiles, etc. are to source their raw materials locally to the tune of at least 50 - 95%

(iv) chemical industries , e.g cement industries, are to source their raw materials locally to the tune of at least 30-80%.[28]

The government rules that no raw material that can be obtained through the processing of an annual agricultural crop will be allowed to be imported beyond a grace period of three years from 1st January 1986 for agricultural crops, and five years for tree crops.

The present military administration has also set up a Raw Materials Council consisting of representatives of government, the private sector, and the Nigerian Labour Congress to formulate and implement progressive policies on the local sourcing of raw materials. This council would evolve a package of reward and sanction for compliance or non-compliance.

5.3 TRADE POLICY INSTRUMENTS

Apart from the above investment-related policies, there are also trade-related policies which affect foreign direct investment in Nigeria. These include:

5.3.1 Customs Tariffs

The duty rates charged on import of various goods are adjusted in such a way as to provide trade protection for domestic producers, particularly the infant industries. In recent times the rates which initially varied from 0% to 500% across the sub-sectors of industry have now been

narrowed down to between 5% and 200% and its structure simplified and stabilised for at least a period of three years so as to encourage and make it easier for long term investment decisions to be made in manufacturing. Import duties are not levied on medical preparations, life-saving appliances, and medical equipment so as to promote investment in related areas. Similarly, duties in a wide range of agricultural implements, especially machinery, have been removed to encourage investment in agriculture for achieving the objective of self-sufficiency in food production.

5.3.2 Customs Duties (Dumped and Subsidized Goods Act)

This law, devised to restrain or forbid the 'dumping' of goods in Nigeria, allows the imposition of a special duty on any goods which are being 'dumped' in Nigeria or are subsidized by any government or authority outside Nigeria. The right to exercise this power is vested in the Federal Government of Nigeria which must be satisfied that material injury will be threatened or caused by the entry (into Nigeria) of such goods to a potential or established industry in Nigeria and that the imposition of a special duty will not conflict with Nigeria's obligations under the General Agreement on Trade and Tariffs (GATT).

5.3.3 Import Licensing and Prohibitions

Practically all forms of importation into Nigeria are subject to import licence. Together with selective prohibition of certain goods, they provide a check on the volume of importation and constitute an effective means of trade protection. As incentives, they guarantee sufficient demand at all times in the domestic market for local producers, and make the country an attractive market for foreign investment.

This scheme had been used to allocate the scarce foreign exchange reserves of the country in order of priority amongst firms that need to import raw materials and parts. But with the introduction of the Second Tier Foreign Exchange Market (SFEM) on 29th September, 1986, companies were free to import as much raw materials as their money could buy for them using the exchange rate to be determined from time to time by "free market forces"; provided local content requirements are not flouted. This is regarded as an improvement for the companies as the rich ones amongst them, formerly strangulated by governmental red-tape in processing applications for import licences, can now plan their materials management more easily and suffer less production stoppages arising from shortage of raw materials. However, in order to help achieve the local sourcing objectives of the government, the importation of certain raw materials believed to be available in sizeable (or sufficient) quantities, or whose local sources should be developed, are disallowed.

5.3.4 Export Incentives

These consist of measures adopted to encourage investment in the promotion of exports. They include among others, the Customs Drawback Regulation, 1959. In accordance with these regulations, importers may, in certain circumstances, claim repayment of import duty. Repayment would be made in full if:

(a) goods are exported in the same state as that in which they were imported;

(b) materials are imported for use in the manufacture of goods which are exported. [29]

5.4 CONCLUSION

This chapter has considered the policies that affect or influence the operations of foreign investments in Nigeria. Such policies were divided into two broad groups: investment-related; and trade-related policies. The investment-related policies were found to include the Business Permit / Immigration Act, 1963; the Companies Decree, 1968; the Nigerian Enterprises Promotion Decrees, 1972 and 1977; the Exchange Control Act, 1977; and the Local Content Requirement. Trade-related polices included Customs and Tariffs; Customs Duties (Dumped and Subsidized Goods) Act, 1958; Import Licensing and Prohibitions; and Export Incentives. Most of these policies were introduced shortly

after political independence, at a time when economic nationalism was foremost in the minds of Nigerians.

The Nigerian economy (see the indicators in table 5.2) has witnessed many changes since independence. Shortly after independence, was the civil war which not only devastated a section of the country but also absolved the nation's resources in funding the civil war. After the war, there was the task of national reconstruction. The 1970s were blessed years to the Nigerian economy as these were generally the oil boom years (see level of external reserves for the most part of the 1970s). It is ironical that it was at this time of 'plenty' that Nigeria introduced the most important policy - indigenization of ownership. The stringent policy of local sourcing resulting in serious curbs in foreign exchange approved for imports not surprisingly was introduced in the early 1980s by Shagari's civilian administration when almost all things were bad - high inflation, little external reserves, and awkward balance of payments situation. Notably too, is the fact that inspite of the changes in government, policies were still being pursued (even if only in writing).

One thing that is common to all the different policy measures that have been introduced in Nigeria is their goal of 'giving Nigerians greater control of the economy and making Nigeria an economically independent country'. To obtain an objective assessment of Nigeria's policy towards foreign direct investment therefore, one necessarily has to

evaluate such policy/policies with this in mind as the grand objective. Nigerians tend to be agreed on this objective and it probably explains why inspite of the 'frequent' and/or 'sudden' changes in government in Nigeria, policies are not changed, instead, they are strengthened and oftentimes made more effective.

TABLE 5.2:

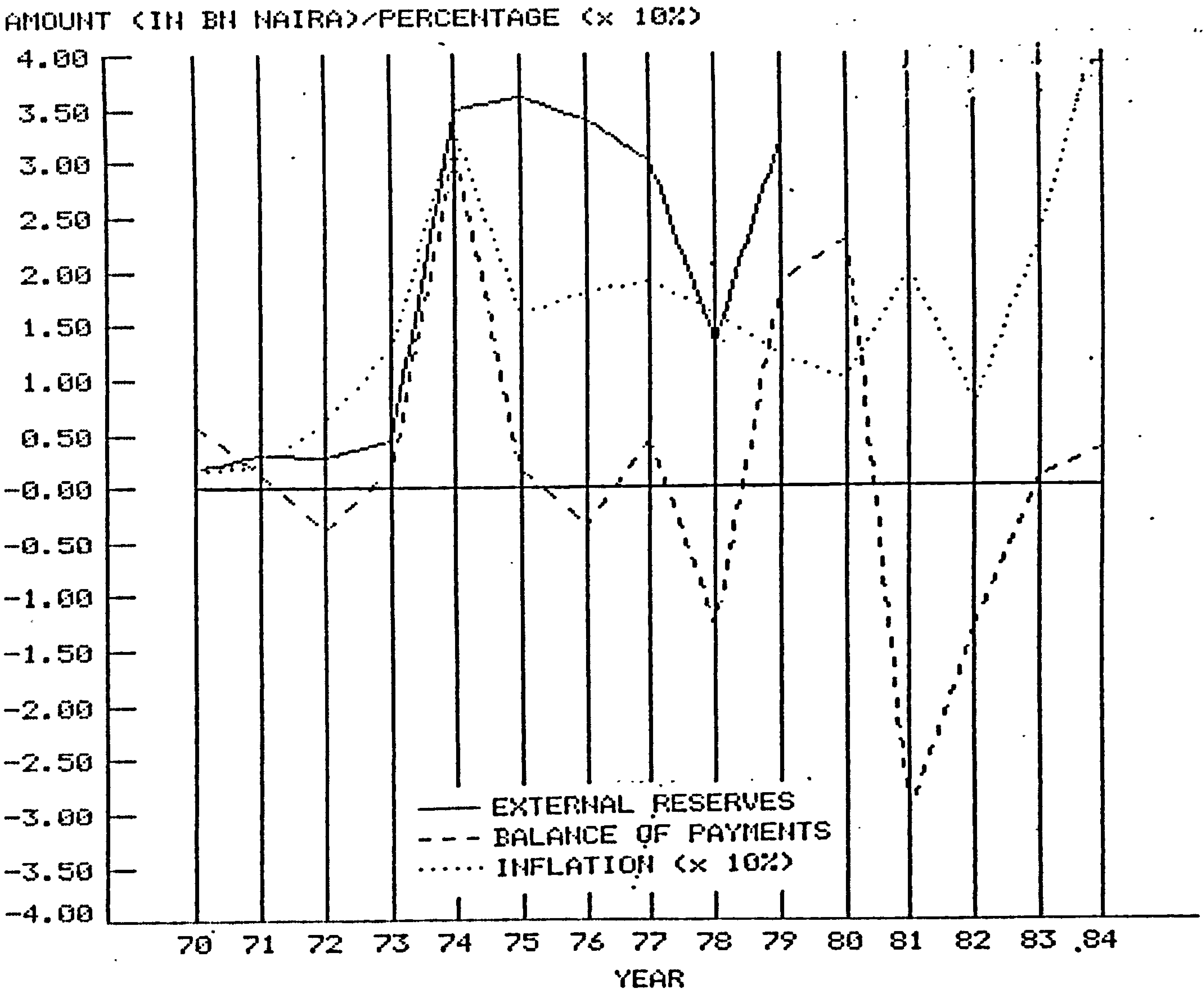
NIGERIA'S INVESTMENT POLICIES AND KEY ECONOMIC INDICATORS, 1970 - 1984

Year	GDP at 1978 prices	Balance of Payments	Inflation	External Reserves	Government	Policies
1970		+ N59m	1.5%	N177m	Yakubu Gowon's military administration (since 1966)	Immigration Act Companies Decree
1971		+ N129m	2.0%	N303m	"	"
1972		- N40m	6.0%	N271m	"	"
1973		+ N174m	13.0%	N438m		" Indigenisation policy
1974	24.3	+ N3102m	33.0%	N3541m	"	"
1975	27.1	+ N158m	16.0%	N3696m	Murtala Muhammed (military)	"
1976	26.2	- N340m	18.0%	N3483m	Olusegun Obasanjo (military)	"
1977	29.1	+ 447m	19.0%	N3040m	"	" (Indigenization policy reviewed)
1978	31.3	- N1296m	16.0%	N1349m	"	"
1979	29.2	+ N1.9bn	12.0%	N3270m	Shehu Shagari (Civil, from October)	"
1980	30.2	+ N2.3bn	10.0%		"	"
1981	29.4	- N3.0bn	20.8%		"	" Plus Local Sourcing policy
1982	28.9	- N1.3bn	7.7%		"	"
1983	27.0	+ N0.1bn	23.2%		Mohammed Buhari (in a coup, in Dec.)	"
1984	26.8	+ N0.36bn	43.0%		"	"
1985		- N0.3bn			Ibrahim Babangida (in a coup in August)	"

SOURCES:

1. GDP: Federal Office of Statistics, Lagos
2. Balance of Payments: Central Bank of Nigeria, Lagos
3. Inflation: Central Bank of Nigeria, Lagos
4. External Reserves: Central Bank of Nigeria's "Principal economic and financial indicators, 1970-1979

FIGURE 5.1



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CHAPTER SIX

CHAPTER SIX

RESEARCH METHODOLOGY

6.1 STATEMENT OF THE PROBLEM

6.2 RESEARCH OBJECTIVES

6.3 RESEARCH HYPOTHESES

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CHAPTER SIX

RESEARCH METHODOLOGY

6.1 STATEMENT OF THE PROBLEM

Multinational firms in Nigeria as in every other host country face the conflicts identified in the literature - the division of the perceived surplus from MNC operations, and control of the resources deployed by the MNC.

In the case of Nigeria, the government tries to achieve these and other objectives through the creation of policies which they believe are capable of yielding the desired results. Three of such policies which are to be considered in this study are: (a) the Nigerian Indigenization policy, (b) the Nigerianization of management policy and (c) the Local sourcing of Raw materials' policy. The Nigerian indigenization policy (known as the Nigerian Enterprises Promotion Decree, NEPD) is Nigeria's fundamental investment policy which has been made a law. The Nigerianization of management policy is an aspiration which took its roots from the independence struggles, and continued even after independence. Then, Nigerianization was limited to the public sector, until the early 1960s when it spread to the private sector (see 5.1). The premise of the policy is the 1962 Immigration Law which, among other things, specified the number or ratio of

Nigerians that could be employed by foreign firms established in the country in order to ensure greater involvement of Nigerians in industrial activities. Following the 1962 Law, as a post-script to the indigenization policy of 1977, requirements for Nigerianization were enlarged and vigorously pursued. The third policy - Local sourcing of raw materials - has not yet been made a law, but has been fervently pursued as from the beginning of the 1980s.

The implementation of the Nigerian Indigenization policy as seen in chapter five is entrusted with the Nigerian Enterprises Promotion Board (NEPB) which sends inspectors to companies to ensure that they comply with the provisions of the policy. The implementation of the second and third policies is jointly carried out by the Federal Ministries of Finance and Industries. While firms could know exactly where they belong in the case of the first policy, in the second and third, their position is deemed to be an outcome of negotiations between the firm and the concerned enforcing government agencies.

The assessment of government's success in implementing these policies varies from one assessor to another. The observations in chapter five by critics and government officials illustrate this. Some previous research and literature suggest that a government's degree of success in enforcing policy depends on the country's location-specific advantages as well as the government's skill in exploiting

these advantages in a negotiation atmosphere with MNCs.

Previous empirical works that have addressed the above subject either directly or partially include Hashemi (1982), Fagre and Wells (1982), Poynter (1982), Lecraw (1984), etc. The methodology adopted in each of these studies is summarized below. Their research findings were discussed earlier in chapter three and would not be repeated here.

Hashemi's work [1] addressed the relationship between developing countries' demands for joint-ventures from MNCs and the responses of MNCs to these demands. He developed a theoretical model which considered the interaction levels of bargaining power for both MNCs and host countries. Four bargaining settings were considered: (i) the case where the MNCs' bargaining power was higher than that of the host country; (ii) the case where MNCs were in a high and equal bargaining position with the host country; (iii) the case where MNCs had lower bargaining power; and (iv) the case where the MNCs and the host country were in a low and equal bargaining setting.

The proposed model predicted that (1) when the MNC was in a higher bargaining position it responded less positively to the developing country's demand for a joint venture and withdrew from the country; (2) if the MNC was in a lower bargaining position it responded positively and compromised with the demand; (3) when the MNC was in a high

and equal bargaining position it responded more positively and would collaborate with the host country; (4) if the MNC was in a low and equal bargaining position, neither the host country nor the MNC was in a position to demand for a joint venture. The proposed model was tested in an empirical study of thirty-seven cases of demand for joint ventures in eight MNCs.

Fagre and Wells' (Jr) work [2] was restricted to the application of the bargaining power theory in equity ownership in U.S. firms operating in Latin America. They made the following hypotheses: (1) that the level of technology supplied by the foreign investor is a source of its bargaining power. The measure used for the approximation of the level of technology available from an MNC was the percentage of sales revenues spent by the parent corporation on R&D activities.

(2) That the bargaining power of MNCs may increase when they are in an industry for which marketing skills are important. To measure the degree of product differentiation (which to them is the key marketing skill), they used the percentage of sales revenues spent on advertising.

(3) That the MNC's capacity to acquire and utilize sophisticated knowledge of foreign markets provides the MNC with important bargaining lever over the host country. This was measured by the percentage of the firm's products that were exported.

(4) That the financial resources that an MNC offers to bring into a developing country might be a source of its bargaining strength. Capital brought by an MNC was estimated in two ways: (i) the annual sales of the affiliate, and (ii) the assets of the affiliate. But they used the results of the affiliate's assets in their analysis.

(5) That the degree of competition in a firm's industry in a host country affects the bargaining power of the MNC: the higher the degree of competition, the lower the MNC's bargaining power; and the lower the degree of competition, the higher the MNC's bargaining power. They measured the degree of competition by calculating the number of U.S. MNCs operating in Latin America in each 3-digit sic industry.

Poynter's (1982) work [3] was on government intervention in MNCs in four developing host countries - Tanzania, Zambia, Indonesia, and Kenya. He proposed that the intervention experienced by subsidiaries can be explained in terms of the relative bargaining power of the company and host nation. He hypothesized that the sources of MNC subsidiaries' bargaining power include: (1) the operational and managerial complexity of the subsidiary; (2) the amount of sourcing with affiliated companies; (3) company exports; (4) the proportion of foreign nationals in managerial and technical positions. Each of these was

measured and compared with actual intervention experience of the MNCs in the study.

In measuring the operational and managerial complexity of a subsidiary, Poynter and two other independent researchers ranked the subsidiaries. Four levels of complexity were used: not complex; slightly complex, complex, very complex. Each firm's score was based on the abilities required to operate the enterprise in question (according to their judgements).

The degree of sourcing with affiliated companies was determined by calculating sourcing as a percentage of the average of all sales and purchases by the subsidiary.

For company exports, he divided company orientations into three: strong export orientation (with exports >40% of sales); export and local (with exports between 10 and 40% of sales); and predominantly local (with exports <10% of sales). Firms were then grouped into these three orientations for analysis.

For the last hypothesized source of MNC bargaining power, he classified the proportion of host nationals in management into: none; 1-49%; 50-89%; and >90%. Firms were then grouped into these classes for analysis.

Lecraw's work [4] was designed to test (using a regression equation) the assumptions underlying the determinants of the actual level of equity ownership (EO) in MNC subsidiaries in developing countries. He postulated that EO would be determined by: the MNC's bargaining power (BP^{MNC}), the host country's bargaining power (BP^{HC}), the MNC's desired level of equity ownership (DE^{MNC}), and the host country's desired level of equity ownership (DE^{HC});

$$\left[EO = f\,(BP^{MNC}, BP^{HC}, DE^{MNC}, DE^{HC})\right]$$

The following hypotheses were made on the sources of MNC bargaining power:

1. "The bargaining power of the MNC may increase as the technological intensity of the product and process technology it brings to the subsidiary increases". To measure technological intensity, he devised a measure which required the ranking on a scale of 1 to 10 of the technological leadership of the parent MNC as perceived by the firm's manager. The measure included not only the technology that could have been transferred with the initial investment, but also the potential for further transfer in the future.

2. "The bargaining power of the MNC may increase with the increasing advertising intensity of the MNC". To measure advertising intensity, he used the advertising to sales ratio of the subsidiary relative to other firms in the industry in the host country.

3. "The bargaining power of the parent MNC may increase as the capital requirements of the subsidiary increases". To measure this, he used total assets / output and total sales ratio.

4. "The bargaining power of the MNC may increase with the increasing dependence of the subsidiary on the MNC for export markets". Export intensity was measured as export/sales. The higher the export/sales ratio, the greater the bargaining power of the MNC was hypothesized to be.

5. For the host country, he hypothesized that its bargaining power may increase with increasing attractiveness of its local markets. As a proxy for 'attractiveness', the managers interviewed were asked to rank from low (1) to high (10) the attractiveness of the host country as an investment site at the time of the investment.

6.2 RESEARCH OBJECTIVES

Inspite of the relatively significant presence of MNCs in Nigeria, and the multiplicity of regulations 'controlling' them, no study similar to any of the above has been carried out in the country. The urge for this research emanates from this fact, and as a result, it tends to emphasize or concentrate on what the host-country stands

to benefit from the work. In addition, since the researcher was funded by the government (a host country) it is only fair to embark on something that they could also benefit from.

This study therefore is embarking on the mission of searching for possible answers to the following key questions, which are also the research's main objectives:

1. What host-country characteristics influenced the response of firms in each of the policies and to what extent? This is important in unveiling those host-country characteristics that MNCs value most significantly, so far as Nigeria is concerned.

2. What company characteristics are considered influential in the MNC's response to the policies and to what extent? The results obtained in this work may not provide conclusive evidence on the role of the respective variables in actually influencing government's ability to enforce any of the policies, but they would provide a basis for further research and government action.

Apart from these key questions, other subsidiary questions (or objectives) that this research seeks to provide answers to are:

3. What were the attitudes of firms in each of these policies? This requires the identification of the behavioural modes of MNCs in each of the policies.

4. How did MNCs actually respond to each of the policies? Was their response as required by the government in the policies or otherwise?

5. How relevant is the bargaining concept in analyzing the response of firms to government policies in Nigeria?

6.3 RESEARCH HYPOTHESES

The study considers the interplay of host-country and MNC characteristics in influencing MNC response to the three government policies. In the first policy (indigenization), the "equity shareholding of the foreign parent company" is defined as the dependent variable. In the second policy (Nigerianization of management), the "proportion of Nigerians in subsidiary top management" is the dependent variable. And in the third policy, the "proportion of raw materials bought from within Nigeria" is the dependent variable. In brief, they are as follows:

X1 = Parent equity ownership in subsidiary after indigenization policy

X2 = Proportion of Nigerians in subsidiary top management after the Nigerianization policy

X3 = Degree of local sourcing by subsidiary after the local sourcing policy.

The independent variables for this study (selected MNC and host-country characteristics) have been drawn from the literature (reviewed in chapter three) and previous empirical work (also reviewed in chapter three, and in section 6.1).

Four hypotheses have been derived (from theoretical work mainly) on the relationship between host-country characteristics and the response of MNCs to each of the selected policies. These are:

H1: The MNC's rating of the degree of importance of market attractiveness of a host country is inversely related to the first dependent variable (its equity ownership in its subsidiary), and positively related to the second (the proportion of host country nationals in top management) and third (the proportion of its raw materials procured from the host country) dependent variables.

H2: High ratings of the degree of importance of the availability of needed raw materials in a host country by an MNC, are inversely related to the first dependent variable, and positively related to the second and third dependent variables.

H3: The MNC's rating of the degree of importance of the availability of required human resources in a host country is inversely related to the first dependent variable and positively related to the second and third.

H4: High ratings of the degree of importance of competition in a host country by an MNC is inversely related to the first dependent variable and and positively related to the others.

In hypotheses 1-4 each of the hypotheses seeks to measure the extent to which the respective host-country characteristics influence the response of the MNCs to the government policies. Five levels (degrees) of importance were employed in measuring each of the host-country characteristics: very unimportant, fairly unimportant, neither, fairly important, and very important. Each respondent was required to rank each characteristic according to how it influenced their response to the policy in question. Such ratings by the MNCs are believed to be better reflections of the possible roles of the respective host-country characteristics in influencing firm's response to each of the policies.

The second part of the hypotheses relates to the MNC characteristics that influence firms' response in the selected government policies. These characteristics, derived from literature and previous research, include the MNC's technological intensity, export intensity of the subsidiary, complexity of the subsidiary's operations and management, the size of the subsidiary, and the age of the subsidiary. Five hypotheses therefore have been drawn, relating to the extent to which each of these MNC characteristics influenced their response in each of the selected policies.

H5: The technological intensity of the MNC subsidiary is positively related to the first dependent variable and negatively related to the others.

The estimate for a firm's technological intensity is the amount of technology-related payments by the Nigerian subsidiary to its parent company. This is considered an appropriate measure of a firm's technological intensity in the host country as it represents not only the contribution of the parent company to the subsidiary's technology as seen or argued by the parent company, but also an acknowledgement by the host country (especially in the case of Nigeria) of this contribution, through their approval of the amount.

H6: The export intensity of the MNC subsidiary is positively related to the first dependent variable and inversely related to the second and third dependent variables.

This hypothesis seeks to measure the proportion of export sales of an MNC subsidiary as an influencer of the MNC's response to government policy. Here, simply the proportion of sales that is exported that is used as the estimate for export intensity.

H7: The subsidiary's degree of operational and managerial complexity is positively related to the first dependent variable and negatively related to the other dependent variables.

To measure a subsidiary's operational and managerial complexity, the researcher ranked the subsidiaries using three levels of complexity - very complex, fairly complex, and less complex - based on information provided by the firms in the questionnaire and interviews. Each firm's rank was based on the managerial abilities required to operate the subsidiary in Nigeria. The degree of complexity of a firm was defined strictly within the limitations of the Nigerian environment.

H8: The size of the subsidiary is positively related to the first dependent variable and inversely related to the other two.

Two dimensions of size were considered: number of people employed in the subsidiary; and the subsidiary's capital. Each of these would be tested separately.

SUMMARY OF HYPOTHESES

Category	Variable	Description and measure
Dependent variables	1. Parent equity level	The equity percentage owned by the parent company in the subsidiary in Nigeria
	2. Host nationals in top management	The proportion of host country (Nigerian) nationals in the top management of the subsidiary
	3. Local sourcing	The proportion of raw materials bought from within the host country (Nigeria)
Independent Variables (a) Host country characteristics	1. Market attractiveness	The degree of importance of the variable is ranked and respondents choose from this
	2. Raw materials availability	"
	3. Availability of human resources	"
	4. Competition in a firm's industry	"
(b) MNC characteristics	5. Technological intensity	Approximated by amount of technology-related payments by subsidiary
	6. Export intensity	Subsidiary's export sales
	7. Complexity of subsidiary operations	Researcher ranked firms according to their complexity in Nigeria
	8. Subsidiary size	Number of people employed; and amount of capital invested in the subsidiary
	9. Subsidiary age	Number of years in business in Nigeria.

H9: The age of the subsidiary is positively related to the first dependent variable and negatively related to the second and third dependent variables.

In this hypothesis, the number of years that the subsidiary has existed in business in Nigeria is used as a measure of the firm's age in Nigeria.

A summary of these hypotheses is presented above

6.4 RESEARCH DESIGN

The research focusses on a number of related hypotheses on variables influencing the response of MNCs to selected government policies. The research hypotheses centred on the assumption that in an MNC-Host country 'conflict' arising from the latter's policy, the response of the MNC would be influenced by its characteristics as well as the host-country's characteristics. The research results therefore, are expected to identify those MNC and host-country characteristics that are so important in the response process.

In conducting the research, the personal interview technique was chosen. Reasons for choosing this technique include the following: (a) The research being exploratory in nature, requires so much information that other data collection techniques may not provide sufficiently; (b) The policies to be considered in the study were introduced some time ago, therefore, face-to-face conversation would be

more likely to reduce recall problems and response unreliability; (c) The technique makes it possible for the reaction of the respondent to each question to be observed and especially to enable the researcher to obtain such answers that the respondent would rather not write down. (d) It enables the researcher to ask the respondent to elaborate on such answers which may not be clear to him or insufficient information has been provided.

In the analysis of the data, the characteristics in the study were established through frequency, cross-tabulation, and correlation analysis. To throw more light on the analysis, six cases have been included, two for each of the three policies.

For this study, the manufacturing industry (including assembly operations, and processing) was chosen. Reasons for this choice include the fact that it is only the manufacturing industry that is directly affected by all the three policies involved in this study. The sampling frame used was Graham & Trotman's "Major companies of Nigeria, 1980/81". This directory, which was the most current with information on firms operating in Nigeria, contained a list (with financial and other information) of more than 1200 firms in Nigeria. From this, fifty companies were selected, using convenience standards, which should have their headquarters in one of three Nigerian cities - Lagos, Kaduna or Kano. Furthermore, they were required to either

employ at least 500 people or have capital investment of at least N1.0 million, in order to guarantee to some extent that the firms were existing, given that the sampling frame was five years old.

6.5 QUESTIONNAIRE DESIGN AND ADMINISTRATION

The questionnaire in an exploratory study should be used merely as a guide for the discussions between the interviewer and the interviewee. This is because flexibility is required to enable the respondent say as much as he has to say on any particular subject. Therefore, a questionnaire which compels respondents to choose from given possible alternative responses for each question is not the best. On the other hand, allowing respondents to answer questions freely without some measure of control makes it difficult for data compilation and analysis. As a remedy therefore, the researcher chose a combination of the two extremes - a combination of open-ended and structured questions - even though with more of the former.

The issues that the questionnaire brings out include: the general characteristics of the sample companies, their responses to the selected policies, and the impact(s) of these policies on their operations in Nigeria. The questionnaire (see exhibit 4) was divided into four sections: A, B, C, and D; the first section covering the

background of the company, and the others on each of the three policies.

Section A sought information on the company's foreign parent(s), home country(s), activity in Nigeria, competition, shareholding, size, sourcing, management, etc. This section provides the factual information useful in testing a number of the research hypotheses. Sections B, C, and D ask almost the same questions but in each section, the questions refer to the specific policy - B for Nigeria's indigenization policy; C for Nigerianization of management policy; and D for local sourcing policy. The information required from these sections include whether there was consultation and/or negotiation before and after the policies were introduced; responses of the company to each of these policies; the role played by ownership- and location-specific factors in determining (or influencing) their response to each of the policies; etc.

The choice of respondents for the study was based mainly on the capability of the respondent to participate (or be very close) in the decision-making of the firm in response to the selected policies. As a result, the Chief Executives of the sample firms (especially where they are nationals of the parent company) were chosen as the respondents. And in cases where the Chief Executive happened to be a Nigerian, permission was sought from the Chief Executive to interview the most senior foreign executive. The reason behind my preference for 'foreign

top executives' is mainly the fact that they are the most likely at the subsidiary to reflect the attitudes of the parent company itself, as they are representatives of the interests of the foreign parent. Thus, their response to the questions may be nearly the same (if not exactly the same) as the response likely to be obtained if the parent company was interviewed. The researcher succeeded in this as 50% of the respondents were the chief executives of their respective companies, and more, as foreign executives.

In addition, some parent company executives were interviewed in order to obtain further information on the complementing cases. All of such parents were in the U.K.

Five months before the scheduled date for the interviews to start, the researcher wrote an introductory letter (see exhibit 1) to the chosen respondents, briefing them about the choice of their companies to participate in the study and the choice of them as respondents. The letter was accompanied by a letter from my supervisor introducing me to the respondent (see exhibit 2). Three months later, the researcher wrote another letter to the respondents (see exhibit 3), this time informing them of the aspects to be covered in the interview and requesting them to make appointments with the researcher for the interview. Self-addressed and stamped envelopes were enclosed in this letter for respondents to return the appointment slips. The companies in Lagos were divided into three groups, according to their locations, to be visited in January, February, and

March 1986. The few firms in the sample located in Kaduna and Kano were to be visited sometime during this period.

The response of firms to the letter was disappointing. A good number of them did not respond to the letter - completing and returning the appointment slips to indicate their willingness to participate in the study. Only five made appointments against January out of an expected number of fifteen. This attitude disrupted the researcher's entire programme for the fieldwork. When the researcher visited Lagos for the January interviews, he followed up many other companies in the sample that had not responded to the letter soliciting for an interview. This yielded fruitful results as the researcher secured the participation of most of the companies in the study through these follow-up contacts. These subsequently arranged appointments resulted in the interviews extending well beyond March 1986.

Initially (during the first visit to Lagos) respondents were given the questionnaire at the time of the interview. This proved to be very time consuming, as the information required was much and diverse. The researcher decided to leave the questionnaire behind or post it to respondents so as to enable them study the questionnaire and prepare for the interview before the appointment date.

The average duration of the interviews was about 1.5 hours, with some extending to 2.5 hours. All the companies in the case studies were 'visited' twice, firstly like any other firm in the sample, then a second visit for the case study interviews after they agreed with the further interviews. Almost all the research interviews were tape-recorded (including all the case-study interviews), with the respondents' consent.

Respondents were not at any time told of the research hypotheses, so as not to give room for prejudiced responses by respondents trying to predict the outcomes of the research. Similarly, they were not told of what some of the questions seek to measure, e.g. amount of technology-related payments seeking to measure the subsidiary's technological intensity. This was done in order to guide against biased information.

In all, there were twenty-three (23) companies that participated in the research (46% of the sample). However, the questionnaires completed by three firms could not be used in the analysis because: (a) for one of the companies, it was discovered during the interview that it was owned by a foreign individual together with some Nigerian individuals. The foreign individual had no business or business relationship elsewhere and so does not fit into the parent-subsidiary relationship required in the questionnaire. (b) The second company was wholly-owned by another company in Nigeria (even though this parent is

itself a subsidiary of a multinational company in Nigeria).
(c) The third company could not complete all the sections of the questionnaire as the executive who was in the position to discuss the remaining sections could not be available. However, a case was written based on the discussions held with the executive the researcher interviewed on the specific policy.

6.6 CHARACTERISTICS OF COMPANIES IN THE SAMPLE

Some of the characteristics of the companies that participated in the study and whose questionnaires were used in the data analysis, are given in the tables below.

Table 6.1: Home Countries of Sample Firms

Country:	No.	% of total
U.K	12	60
U.S.A.	2	10
Germany (West)	4	20
Switzerland	2	10
Total	20	100

Table 6.2a: Size of Sample Firms - Workforce, 1981

No. of employees:	No.	% of total
Less that 501	6	30
501 - 1000	4	20
1001 - 1500	4	20
More than 1500	6	30
Total	20	100

Table 6.2b: Size of Sample Firms - Workforce, 1985

No. of employees:	No.	% of total
Less than 501	7	45
501 - 1000	6	30
More than 1000	7	35
Total	20	100

Table 6.3: Size of Sample Firms - Capital

Amount	1981 No.	1981 %	1985 No.	1985 %
Less than N2.0m	3	15	1	5
N2.0 - N5.0m	3	15	4	20
N5.1m - N10.0m	2	10	2	10
More than N10.0m	9	45	10	50
Don't know	3	15	3	15
Total	20	100	20	100

Table 6.4: Sectoral Distribution of Sample Firms

Sector:	No.	% of total
Brewing and foods	4	20
Building and construction	4	20
Chemicals & Pharmaceuticals	4	20
Conglomerates	3	15
Others	5	25
Total	20	100

Table 6.5: Sourcing from Nigeria, 1981 and 1985

Degree:	1981 No.	1981 %	1985 No.	1985 %
25% or less	6	30	4	20
26% - 50%	8	40	5	25
51% - 75%			6	30
More than 75%	3	15	3	15
Don't know	3	15	2	10
Total	20	100	20	100

Table 6.6: % of Nigerians in top management, 1985

Degree:	No.	% of total
25% or less	-	-
26% - 50%	3	15
51% - 75%	8	40
More than 75%	9	45
Total	20	100

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SECTION TWO

ANALYSIS OF RESULTS

INTRODUCTION

The coverage of this study is wider than that in previous studies in that it considers more variables as influencers of MNC response to government policy; and unlike previous studies that have concentrated only (or mainly) on demands for increased local equity ownership, this study considers this and two more - demands for increased host-country nationals in top management of subsidiaries; and for increased sourcing within the host country.

As earlier mentioned in 6.5, there were twenty firms that participated in the research interview whose results were usable in the analysis. Of these twenty firms, 60% of them had their parents from the United Kingdom (U.K.), the rest from West Germany, from the United States of America (USA), and Switzerland (see table 6.1). On the respondents, half of them were the Managing Directors or Chief Executives of their respective firms; 10% were the deputy managing directors or deputy chief executives of their respective firms; and the remaining 40% were top management executives of other designations, e.g. Corporate Affairs Directors, Company Secretaries/Legal

Advisers, etc. On the location of the headquarters of the firms in Nigeria, almost all of them (90%) were in Lagos, and only one each in Kaduna and Kano.

Thirty-five percent (35%) of the sample indicated that their parents' investment in them were less than 1% of their (parents') world investments; 30% accounted for between 1% and 10% of their parents' world investments. The remaining 35% of the sample could not ascertain the proportion of their parents' world investments accounted for by the Nigerian subsidiary. Most of the parent companies had investments in other African countries. Only one company had no investments in any other African country. Three quarters of the companies were older than twenty years in Nigeria; only 10% of the sample were 15 years old or less in Nigeria at the time the interview was conducted.

While all firms in the sample were in manufacturing (including assembly and processing), the industrial distribution of the sample was: 20% in brewing and foods (including cigarette production), 20% in building and construction materials, 20% in chemicals and pharmaceuticals, 15% as conglomerates, and 25% in other forms of manufacturing (see table 6.4). On competition, more than half of the sample (55%) had between 1 and 15 competitors in Nigeria.

Information on the parent equity ownership of the subsidiaries showed that in 10% of the sample, their parent companies had less than 21% equity stake in them; in 55% of them, the parent companies had between 21% and 40% equity stake in them; and in 35% of them, the parent companies had between 41% and 60% equity stake in them.

Further information gathered showed that in 1981, about a third of the sample employed less than 501 people; 20% employed between 501 and 1000 people; 20% employed between 1001 and 1500 people; and 30% employed more than 1500 people in Nigeria. But the 1985 figures showed a general decline in the number of people employed. This trend was alleged to be common to all industries. The explanations given for this decline ranged from fall in business due to the general world economic depression to company reorganization. Following the hard-times of the 1980s, many of them were forced to cut down costs, and many found reducing workforce-size an easier option. On the size of the subsidiaries in terms of amount of capital investment in 1981, 15% of the sample had capital investment of less than N2.0 million; 15% had investments between N2.0 and N5.0 million; 10% had investments between N5.1 and N10.0 million; and 45% of the sample had capital investment of more than ten million naira. The 1985 figures showed a general increase in the capital investment of the sample firms in the years considered, and the explanation given was business expansion. See tables 6.2a

and b, and table 6.3 for the tabular presentation of the workforce-size and capital investment of the sample firms.

On the sales of the firms, all firms in the sample sold 100% of their production locally (within Nigeria). Reasons given for non-exports included their inability to satisfy local demand, lack of encouragement by the government for them to export, insufficient knowledge of export marketing, etc. On the sourcing of raw materials in 1981, 30% of the sample indicated that they bought up to a quarter of their raw materials from Nigeria; 40% bought between 26 and 50% from Nigeria; and 15% bought more than half of their raw materials from Nigeria. The 1985 figures showed a general increase in local sourcing by the sample firms. The explanations given for this trend included the lack of foreign exchange approval for the importation of raw materials, deliberate import substitution of raw materials by the firms, and increase in the availability of raw materials locally. See table 6.5 for a tabular presentation of sourcing by the sample firms.

On the constitution of the top management of the sample firms in 1976, 1980 and 1985 the results showed a general trend towards increased Nigerianization of top management in the sample companies. And the explanations given for this included voluntary nigerianization by the companies (50% of the sample), reorganization (10% of the sample), expansion (10% of the sample), etc. See table 6.6 for a tabular presentation of the extent of Nigerianization

in the sample firms.

The analysis of the data collected will be in three levels. The first level of analysis is the presentation and discussion of frequencies. The second considers cross tabulations of variables in the study. And the third examines the relationship between variables in the study using multiple correlation analysis.

CHAPTER SEVEN

CHAPTER SEVEN

INDIGENIZATION POLICY

7.1 RESEARCH RESULTS

7.2 HOST-COUNTRY CHARACTERISITCS INFLUENCING RESPONSE

7.3 MNC CHARACTERISTICS INFLUENCING RESPONSE

7.4 SUMMARY

CHAPTER SEVEN

INDIGENIZATION POLICY

7.1 RESEARCH RESULTS

In this chapter we shall discuss the results and the findings of the study as they relate to the first dependent variable in the study - parent equity ownership in the subsidiary after the policy. As has earlier been mentioned (in 6.1) this part of the study concentrates on the Nigerian Indigenization policy through the Nigerian Enterprises Promotion Decree (1977). This subsection summarizes the results obtained from the questionnaire on the indigenization policy.

The research results showed that after the policy was introduced, majority of the subsidiaries in the sample (55%) had parent equity participation between 21 and 40%, and 35% of them had parent equity participation between 41 and 60%; (see table 7.1 below). No subsidiary had parent equity shareholding higher than 60%.

Table 7.1
Parent Equity ownership of firms in the sample

	Number	%
Less than 21%	2	10
21 - 40%	11	55
41 - 60%	7	35
	20	100

The policy requires that where there should/could be foreign participation, it should be to a maximum of 40% or 60% (depending on some characteristics discussed in chapter five). One quarter of the sample were legally allowed a maximum of 60% foreign participation and the rest - 75% of the sample - were legally allowed a maximum of 40% foreign participation in the policy. Only one of the firms in the sample had increased its parent equity level higher than the maximum allowed in the policy - from 40% maximum allowed to 51%. The explanation given from the company for this 'positive' change was attributed to "political" reasons. Some politicians, for reasons the respondent could not give, argued for the company's status to be changed to that of 60% foreign participation. They succeeded but the parent company decided to retain 51% rather than 60% equity in the subsidiary. Apart from this one exception, all others had either reduced the level of foreign participation in them or had remained at the maximum allowed in the policy.

Before the indigenization decrees were introduced, some (35%) of the firms in the sample were consulted; a few of them were consulted on both decrees but the majority were consulted only before the 1977 decree was introduced. People involved in the consultation included the managing directors and/or some top managers (in three of the seven cases of consultation), representatives of the manufacturers' association to which the firm(s) belonged (in two of the cases), and the parent company's

representative(s) sent either from the home country or working at the subsidiary (in the remaining two cases of consultation). The consultation involved meetings with government officials, presentation of circulars and even friendly advice by the subsidiary representatives to the government.

After the 1977 decree was promulgated, only three companies in the sample engaged in negotiation with the government. The issues considered then were the timing of the implementation of the policy and a change in the schedule(s) to which the policy categorized them. For the majority of the sample who did not engage in any form of negotiation before or after the 1977 decree was promulgated, some of the reasons given for this included the lack of option for the company (eleven cases), and that the policy was okay (two cases). The manner in which the government expected firms to comply with this policy is illustrated in the first case in chapter ten.

All the twenty firms in the sample were required under the policy to comply with the policy by 1979 at the latest. Most parents of the firms welcomed the indigenization idea of the policy, though a few were disappointed with the government on the policy. The latter category comprised mainly of MNCs with world-wide integration strategies, as examplified by the first of the two case studies on this policy in chapter ten. Those who welcomed the idea (mainly MNCs that dealt with their subsidiaries on arms-length

basis) indicated that they did so because their policy had always been to allow for subsidiary independence and local participation in their subsidiaries (see the second case on this policy in chapter ten). For those who expressed disappointment, the reasons related to their feeling that they already allowed a 'reasonable' degree of local participation, and to be forced to give more than what they had already initiated was unfair. Some felt that a higher than "agreeable" level of local participation threatened their proprietary technology, and so they were reluctant in allowing such levels of local participation.

Asked of the importance their parents attached to whole ownership (100%) of subsidiaries worldwide, only two respondents felt they attached high importance (very important) to this; half of the sample however indicated that it was fairly important. Asked of the importance of this (100% equity ownership of subsidiary) in the case of subsidiaries in Nigeria, 40% of them felt it was fairly important, and only 10% felt it was very important, (see table 7.2).

Table 7.2
Importance attached by parent to 100% equity ownership of subsidiary (in %)

	Worldwide	In Nigeria
Very unimportant	5	5
Fairly unimportant	-	10
Neither	35	35
Fairly important	50	40
Very important	10	10
	100	100

The explanation given for the importance attached to 100% parent equity ownership of the subsidiary (worldwide and in Nigeria) included the need to protect parent technology, and the fact that greater parent ownership of the subsidiary made it more possible or easier for the parent to exert control on the subsidiary.

All the firms in the sample indicated that they had complied with all the provisions and/or requirements of the policy, the proof being their being issued with the Certificate of Compliance (C of C). The majority of the firms in the sample (80%) said they encountered no problems in complying with the policy. Two however indicated that they encountered bureaucratic delays before they were issued with the Certificate of Compliance which was necessary for every dealing they had to have with the government. The remaining two encountered some delays but attributed this to the volume of applications that the Nigerian Enterprises Promotions Board had to cope with.

Following the policy, most of the firms in the sample (65%) said they did nothing in the form of new strategies to countervail the action of the government through the policy. Some however, said they became Nigerian companies when they complied with the policy. These group of firms did not approve the use of the term 'parent' because their companies became Nigerian companies since complying with the indigenization decrees and that the relationship

between the foreign firm and them became that of 'technical partner' and 'associate', respectively. Nevertheless, the researcher adopted the policy's definition for a 'foreign company' as contained in the decree that: "an enterprise shall be deemed to be an alien enterprise unless the entire capital or proprietary interest, whether financial or otherwise, in the enterprise in so far as it concerns any of the enterprises in Schedule I to this Decree (the 1977 indegenization decree) is also owned and controlled by Nigerian citizens or associations". This means, by implication, that the Nigerian government, through this policy describes all enterprises in Schedules II and III of the policy as foreign. Admittedly, Major-General Oluleye (then the Federal Commissioner for Finance) on April 1, 1978 gave a different definition as to what constituted a Nigerian company - "indigenous business in which Nigerians have up to 51% parent ownership" - but the relevant section of the policy has not been changed to reflect this new definition. On the whole, except in cases where the respondent was a Nigerian that this argument arose, otherwise, all the non-Nigerian respondents saw the Nigerian company as a subsidiary of the foreign company.

The respondents were asked to categorize their behaviour to the indigenization policy. None felt that they were 'avoidant' or 'competitive'. However, most (45%) felt they were 'collaborative' in their response, (see table 7.3 below).

Table 7.3

Categorization of Behaviour in Indigenization Policy

	Number	%
Avoidant	-	-
Collaborative	9	45
Accommodative	6	30
Compromising	5	25
Competitive	-	-
	20	100

One quarter of the firms indicated that they responded to the policy the way they did because they felt that that was the only option; 35% indicated that it was company policy to always respond to similar demands the way they did; and 20% indicated that they responded the way they did because they felt such a response was best for both parties. The rest gave other less important reasons for their behaviour. When asked to compare their response to this policy with their parents' responses to similar demands in other developing countries, 85% said their parent response was the same as this wherever a demand of this nature had been made in a developing country. The remaining respondents said their parents' response differed, because the prosperity of the particular country making the demand and the reasonableness of the demand (e.g. the proportion of equity required to be sold to locals, conditions for the sale, etc.) mattered.

On government ability to make companies comply with the indigenization policy, three quarters of the sample indicated that the government was totally capable of making them comply with the policy, and only 5% felt the government was less capable. This means the companies generally felt the government was capable to some extent of making them comply with the policy. With respect to the reasons given, more than half of the respondents felt the government had the weapon to force companies to comply - a choice between complying totally and leaving the Nigerian market completely.

Repondents were asked of the impacts that the 'frequent' changes in government in Nigeria have had on the indigenization policy. All the firms in the sample indicated that the changes in government had not affected the policy in any (significant) way. Also that all successive governments had upheld the policy and saw no reasons for any changes. On the impact of these changes on the implementation of the policy, more than half felt that the changes had had no impact on policy implementation at all; a few (25%) felt the changes had resulted in occasional delays in the implementation of the policy, as each new government took time to be acquainted with policy itself and its implementation procedures and mechanisms. On the impact of the changes on their response to the policy, all felt the changes had not influenced their approach to the policy, as the policy itself had remained unchanged despite the governmental changes.

The issues that the remaining part of this chapter address are the host-country specific and MNC specific variables that influence firm response to the indigenization policy.

7.2 HOST COUNTRY CHARACTERISTICS INFLUENCING RESPONSE

Four hypotheses were postulated on the possible host-country characteristics that influence firm response to this policy, based on the relationship between selected host-country characteristics and the predicted variable in this case - the parent equity proportion in the subsidiaries after the policy.

H1 "The MNC's rating of the importance of market attractiveness of a host country is inversely related to the parent company's equity stake in the subsidiary."

This hypothesis implies that the relationship between degree of market attractiveness and the amount of parent equity retained in the subsidiary is negative. Of the 20 firms in this study, half felt Nigeria's market attractiveness was very important in influencing their response to the indigenization policy. A further 30% felt the variable - market attractiveness - was fairly

important. This means 80% of the sample rated market attractiveness as an important variable in influencing their response to the policy, suggesting a very high possibility of its being a source of bargaining power to the host-country (see appendix 1).

Respondents who rated the variable 'very important' were asked to explain how it influenced their response to the policy. Most of the respondents in this category said because of Nigeria's market attractiveness, they wasted no time in complying with the policy. They added that the policy was introduced at a time when firms were still in 'honey-moon'. The economic boom of the 1970s resulted in a hyperbolic increase in the buying power of the country in general. To their parents and them at that time therefore, it would have been acute misjudgement to leave Nigeria because of demands for shared ownership. In the words of one of the respondents, "in those good '70s, a 10% equity stake in Nigeria was nearly as good or even better than 100% equity stake in many other developing countries in terms of returns. Government controls on profit repatriation were less and often not enforced and so shared ownership as required in the policy constituted little or no problem to us". No wonder some of the respondents indicated, as earlier shown, that their parents' response to such demands varied according to the prosperity of the respective countries. Because of the boom in business at the time the policy was introduced, many of the multinational firms were willing to remain in Nigeria even

if they were required to allow more than 60% Nigerian participation (see cases in chapter ten).

Asked of the likely rating of market attractiveness as an influencer of response to the policy if it (the policy) were introduced then (1986), many respondents still believed that inspite of the economic hardships then encountered, they would still have rated market attractiveness highly.

When the importance of market attractiveness is compared with their parents' equity ownerships, the result is shown in table 7.4 below.

Table 7.4
Relationship between foreign equity ownership and market attractiveness (in %)

	less than 21%	21 - 40%	41 - 60%	
V. unimportant	-	-	-	
F. unimportant	-	20	10	
Neither	10	10	15	
F. important	-	20	5	
V. important	-	5	5	
	10	55	35	100

n = 20

While most firms felt Nigeria's market attractiveness was a very important influencer of their response to the policy, no significant relationship was found to exist between market attractiveness and the degree of parent equity participation in the subsidiaries. See table 7.12 for the nature and extent of the relationship between these variables.

H2 "High ratings of the importance of the availability of needed raw materials in a host country by an MNC, are inversely related to the foreign parent's equity ownership in the subsidiary

This second hypothesis like the first, implies that the higher the rating by an MNC of the importance of 'availability of needed raw materials', the lower the equity shareholding of the parent company is likely to be in the subsidiary.

Of the 20 firms in the sample, only two felt this variable was very important in influencing their response to the policy. These firms were those whose primary raw materials were obtainable (and more economically) locally. A quarter of the sample felt the variable (availability of needed raw materials locally) was fairly important in influencing their response. For the rest of the firms in the sample, six felt the variable was fairly unimportant and seven felt it was neither important nor unimportant in influencing their response to the policy (see appendix 1).

From appendix 1, it is clear that most of the companies did not consider this variable - availability of raw materials locally - important in influencing their

response to the indigenization policy, and thus less likely to become a source of host-country bargaining power vis-a-vis the MNCs in this policy. This was supported by the many (65%) who felt the variable was either unimportant or neither important nor unimportant in influencing their response to the policy. The case studies also support this finding that availability of raw materials did not play any role in influencing their response to the policy.

All the respondents ranked this variable least among all the other host-country characteristics included in this study. Asked specifically why this variable was not as important as the other variables, most of the respondents said there was no pressure for them to buy only (or mainly) local raw materials at the time the policy was introduced. As a result, whether raw materials were available or not at the time, it was not important in influencing their response to the policy.

A cross-tabulation of the relationship between availability of raw materials in Nigeria and parent equity shareholding is shown in table 7.5 below.

Table 7.5

Relationship between foreign equity ownership and importance of availability of raw materials locally (in %)

	less than 21%	21 - 40%	41 - 60%	
V. unimportant	-	-	-	
F. unimportant	-	20	10	
Neither	10	10	15	
F. important	-	20	5	
V. important	-	5	5	
	10	55	35	100

n = 20

No significant relationship was found to exist between a firm's assessment (rating) of the importance of the variable and the foreign equity shareholding in the firm. See table 7.8 for the nature and extent of the relationship between the variables.

H3 "The MNC's rating of the importance of the availability of required human resources in a host country is inversely related to the foreign parent's equity participation in the subsidiary".

This hypothesis too, implies that the more important the availability of required human resources is in influencing the response of the MNC to the indigenization policy, the lower the MNC's parent equity participation in the subsidiary is likely to be.

The results of the research showed that 30% of the sample rated this variable 'very important' etc. No respondent felt the variable - local human resource consideration - was 'very unimportant' in influencing its response to the policy (see appendix 1).

In all, 70% of the sample rated this variable important to some degree in influencing their response to the policy, denoting a high likelihood of its being a source of bargaining power to the host country. The case

studies in chapter ten on this policy show that local human resource availability was not influential on their response to the policy.

Respondents who indicated that this variable was important to some degree were asked to explain how it influenced their response to the policy, and all in this category said it encouraged them to comply with the policy.

Comparing these ratings with the foreign equity ownerships of the firms in the sample produces the table below.

Table 7.6

Relationship between foreign equity and importance of availability of human resources (in %).

	less than 21%	21 - 40%	41 - 60%	
V. unimportant	-	-	-	
F. unimportant	-	5	5	
Neither	10	5	5	
F. important	-	30	10	
V. important	-	15	15	
	10	55	35	100

n = 20

No significant relationship was found to exist between the firm's rating of the importance of availability of human resources and the foreign equity ownership of the firm. Further analysis (not shown) revealed similarly that there was no significant relationship between foreign equity ownership and firm sector, origin, etc.

H4 "High ratings of the importance of competition as an influencer of an MNC's response to the indigenization policy is inversely related to the equity owned by the foreign parent of the subsidiary".

The results of the research on competition as a variable influencing the response of firms to the indigenization policy indicated that only 15% of the sample felt that this variable was 'very important' (see appendix 1)

Appendix 1 shows that more than half of the sample felt that this variable was important as an influencer of their response to the policy.

When asked to explain how competition in their sectors in Nigeria influenced their response to the policy, some of the respondents said most of their competitors in Nigeria were their main competitors in many other markets, as a result, they quickly complied with the policy so as to be able to compete well with their competitors, who they (their competitors) would not leave the Nigerian market because of the indigenization policy. A few of the respondents said there was very little competition if any in their sectors in Nigeria at the time the policy was introduced, nevertheless, they quickly complied with the policy in order to protect their 'large' share of the market so as not to

give room for competitors to access the market.

The relationship between the company's rating of this variable - competition in its sector - and equity shareholding of the subsidiary's parent is shown in table 7.7.

Table 7.7
Relationship between foreign equity ownership and importance of competition (in %)

	less than 21%	21 - 40%	41 - 60%	
V. unimportant	-	5	-	
F. unimportant	-	5	-	
Neither	5	15	15	
F. important	5	25	10	
V. important	-	5	10	
	10	55	35	100

n = 20

No significant relationship was found to exist between the firm's rating of the variable - competition in its sector in Nigeria - and the amount of equity owned by its parent.

The next level of the analysis is an examination of simple correlations between the outcome variable - foreign parent's equity stake in the subsidiary - and the hypothesized factors influencing the response of firms in this policy to enable us assess the nature and the extent of the relationship between the variables. These correlations are presented in table 7.8.

Table 7.8

Correlations between parent equity ownership in subsidiary and Host-country Characteristics

	X1	Y1	Y2	Y3	Y4
X1	1				
Y1	-0.127	1			
Y2	0.021	0.354	1		
Y3	0.213	0.732	0.512	1	
Y4	0.186	0.526	0.179	0.389	1

See appendix 2 for definition of variables used

The correlation matrix above reveals that parent equity stake in subsidiaries after the policy (X1) does not have the desired (or expected) relationship with any but one of the host country characteristics. The one exception - Nigeria's market attractiveness (Y1) - supports the research hypothesis that it is likely to make MNCs indigenize more of their equity. This point is clearly shown and admitted in the case studies in chapter ten.

The rest of the findings on the relationship between Y2, Y3, and Y4, and a foreign parent's equity stake in the subsidiary, cast doubts on the validity of the claim that the respective host country characteristics are capable of providing the host-country with bargaining power advantage vis-a-vis the MNC. They suggest that the relationship between the dependent variable (foreign equity ownership) and the three independent variables (three of the hypothesized factors influencing the response of firms in this policy) may even be positive and not negative as

hypothesized. And if this is true, then it means such host-country characteristics in the case of indigenization in Nigeria do not constitute sources of host-country bargaining power.

7.3 MNC CHARACTERISTICS INFLUENCING RESPONSE

The next set of hypotheses deal with the relationship between selected MNC characteristics and the level of parent equity participation in the subsidiaries after the policy.

> H5 "The technological intensity of the MNC subsidiary is positively related to the parent's equity ownership in the subsidiary".

The above hypothesis suggests that the more technologically intensive the MNC subsidiary (i.e. the higher the technology-related payments of the subsidiary), the higher the foreign ownership of the subsidiary is likely to be. The proxy for technological intensity used in this study as explained in 6.3, is 'technology-related payments', e.g. royalties, licensing fees, etc.

Respondents were asked to rank the extent to which they felt the level of their technological intensity influenced their response to the indigenization policy and 50% (of the twenty firms in the sample) felt it was very

important. There was no respondent that felt that this variable was 'very unimportant'. In all, 80% of the sample felt technological intensity was important to some degree in influencing their response to the policy, and only 5% felt it was not all that important (see appendix 1).

When asked why technological intensity was so important in influencing their response to the policy, most of the respondents said the government wanted the transfer of technology and they had some technology which over the years, they had transferred to Nigeria, therefore, there was need for them to remain in Nigeria in order to protect this technology which had been transferred (see more specific explanations from the first case in chapter ten).

On the manner in which their technological intensity influenced their response to the policy, most of them said it delayed their complying with the policy as their parents had to think of how best to protect their technology in the wake of increased indigenous participation. (The delay however was not such that led them into conflict with the government on when to comply with the policy. It only meant that they did not comply with the policy as quick as they would have done under normal circumstances). The resultant strategies, as earlier mentioned, were the resolve by some, to new arrangements where the parent licensed its technology to the subsidiary, and/or the introduction of royalty payments. Refer to case one in chapter ten for a more elaborate discussion of the

strategies adopted by one of the firms after "complying" with the policy.

The next level of analysis considers the relationship between technological intensity and the parent's equity ownership in the subsidiary. The crosstabulation of this relationship for technology-related payments is presented in table 7.9.

Table 7.9
Relationship between parent equity ownership and subsidiary technological intensity (in %)

	less than 21%	21 - 40%	41 - 60%	
None	5	35	25	
₦100,000 or less	5	-	5	
More than ₦100,000	-	-	5	
Not available	-	20	-	
	10	55	35	100

n = 20

The above crosstabulations, do not reveal any significant relationship between a firm's technology-related payments (technological intensity) and the amount of equity owned by the parent of the subsidiary.

H6 "The export intensity of the MNC subsidiary is positively related to the parent's equity stake ".

This hypothesis suggests that an MNC whose subsidiary is export intensive is likely to enjoy high equity stake in the subsidiary. The first part of the analysis - degree of influence of exports (or its potentials) on MNC response to the indigenization policy - reveals that 20% of the sample felt that company exports (or its potentials) was 'fairly important' in influencing their response to this policy. Only 20% of the sample felt exports were influential in some way as against more than half of the sample who felt exports were not influential at all. See appendix 1.

Asked why exports were not very important in influencing their response to the policy, most respondents said the government was not bothered about whether they exported or not at the time the policy was introduced, as a result there was no need for them to embark on exporting since it involved extra costs, which to them at the time, were not worth it. The result therefore, was that none of the firms in the sample exported its products.

The above findings cast doubts on whether there is any relationship between a firm's exports and the level of parent equity in it.

Since no firm was exporting its products, no further analysis of this variable will be conducted in this chapter.

Previous studies on the role of this variable in parent equity ownership ownership include Fagre and Wells (Jnr) (1982), and Poynter (1982). Fagre and Wells (Jnr) found that the higher the degree of intra-company sales and exports generally, the higher the bargaining power of the American firms in their sample operating in Latin America. Poynter too found that firms in which exports constituted more than 40% of their sales enjoyed significantly less intervention by the host-country; and that the threat to reduce exports also provided large exporters with a source of offsetting bargaining power. Unlike these results, the findings in this study lead the researcher to conclude that a subsidiary's exports (or export potentials) was of no influence on its response to Nigeria's indigenization policy.

H7 "The complexity of the subsidiary's managerial and operational tasks is positively related to the parent's equity stake".

A subsidiary's managerial and operational complexity was determined by the researcher. Using the completed questionnaire, companies in the sample were ranked using a three-point scale - 1. very complex 2. fairly complex 3. less complex - on the basis of the nature of products produced by the subsidiary, e.g. firms producing chemical and/or pharmaceutical products were considered very

complex; those manufacturing building products were condidered fairly complex; and those involved in food processing were considered less complex. Complexity was defined within the Nigerian context.

This approach is similar to Poynter's. In his work referred to above, he and two other independent researchers ranked the subsidiaries in the study according to managerial and operational complexity using data provided in a questionnaire completed by the subsidiaries' management. In their case, they used four levels of complexity - not complex, slightly complex, complex, and very complex.

This hypothesis (H7) suggests that the more complex the operational and managerial requirements of the subsidiary, the higher the parent's equity is likely to be in the subsidiary. The research results showed that 15% of the sample felt that managerial and operational complexity was a very important influencer of their response to the indigenization policy; and 15% felt it was fairly unimportant (see appendix 1).

Appendix 1 shows that 60% of the sample felt that managerial and operational complexity was an important influencer of their response to the policy. Respondents who indicated that the variable was very important were asked how it influenced their response. They said because of their operational and managerial complexity, they did

not fear the new ownership structures of the subsidiaries; and so, they were confident in themselves as they complied.

Next, we compare subsidiary's operational and managerial complexity with the parent's equity stake in it. This is presented in table 7.10 below.

Table 7.1Q

Relationship between parent equity ownership and operational and managerial complexity (in %)

	less than 21%	21 - 40%	41 - 60%	
Very complex	-	15	-	
Fairly complex	-	20	15	
Less complex	10	20	20	
	10	55	35	100

n = 20

Even though a sizeable number of the firms in the sample felt that this variable (operational and managerial complexity) was important in influencing their response to the policy, no significant relationship was found to exist between the variable and parent equity in the Nigerian subsidiaries in the sample.

H8 "The size of the subsidiary is positively related to its parent's equity stake".

The relationship hypothesized here is that the greater the size of the subsidiary, the higher the equity ownership of the subsidiary's parent is likely to be in it. To test

the hypothesis, two measures of size were used - number of people employed in the subsidiary, and capital investment of the subsidiary.

The results showed that only one of the sample firms felt that the size of the subsidiary in terms of number of people employed was 'very important' in influencing their response to the policy. A further eleven felt the variable in terms of number of people employed was important to some degree in influencing their response to the policy (see appendix 1).

Considering size in terms of amount of capital invested, four respondents felt it was very important; and only one felt it was fairly unimportant. In all, 65% of the sample felt that the amount of the subsidiary's capital investment was important in influencing their response to the indigenization policy, and only 5% felt it was not important (see appendix 1).

The crosstabulation in table 7.11 shows the relationship between firm-size (on the basis of number of people employed, and amount of capital invested in the subsidiary).

No significant relationship was found to exist between the foreign parent's equity stake in the subsidiary and any of the measures of size discussed above. The nature and extent of the relationship between these variables however,

is presented in table 7.13

Table 7.11

Relationship between parent equity ownership and subsidiary size

	less than 21%	21 - 40%	41 - 60%	
Workforce				
Less than 501	5	10	15	
501 - 1000	5	10	5	
1001 - 1500	-	10	10	
More than 1500	-	25	5	
	10	55	35	100
Capital				
Less than ₦2.0m	-	10	5	
₦2.0 - ₦5.0m	5	10	-	
₦5.01 - ₦10.0m	-	5	5	
More than ₦10.0m	5	25	15	
Don't Know	-	5	10	
	10	55	35	100

n = 20

H9 "The age of the subsidiary is positively related to its parent's equity stake".

Hypothesis nine postulates that the older the subsidiary in the host country, the higher the equity stake of its parent is likely to be. To test this relationship, subsidiaries were required to state when they were established in Nigeria.

On the importance of age as an influencer of response to the indigenization policy, three respondents indicated that this was very important; while only one indicated that it was very unimportant. In general, most of the firms in the sample felt "age" was important to some degree in influencing their response to the policy. (see appendix 1).

Asked to explain how age influenced their response where very important, all the respondents in this category said because of the long relationship they had had within and with Nigeria, a lot had been invested - human and material capital - and they felt pulling out of Nigeria because of the policy was not the best. As a result, they wasted no time in complying with the policy. Many respondents (including some of those who rated the variable fairly important) said, before the policy was introduced, they had either satisfied the equity requirements (i.e. having sold the required equity proportion to Nigerians) or were about to do so anyway through gradual indigenization as they had begun. To them, therefore, the policy did not constitute a threat (see case two in chapter ten).

A crosstabulation of the relationship between the subsidiary's age and parent equity is shown below in table 7.12.

Table 7.12
Relationship between parent equity ownership and subsidiary age

	less than 21%	21 - 40%	41 - 60%	
15 Years or less	-	10	-	
16 - 20 years	5	-	10	
More than 20 years	5	45	25	
	10	55	35	100

n = 20

No significant relationship was found to exist between the subsidiary's age and its parent's equity.

The next and final level of the analysis examines the extent of the relationship between these MNC characteristics and foreign equity ownership in the subsidiaries (correlation) and the nature of the relationship (positive or negative), and compares these with the hypothesized relationship(s). Company exports have been excluded from this analysis for reasons already given.

Table 7.13
Correlations between parent equity ownership and MNC Characteristics

	X1	Y5	Y7	Y8a	Y8b	Y9
X1	1					
Y5	-0.278	1				
Y7	0.028	0.090	1			
Y8a	-0.033	0.256	0.086	1		
Y8b	0.215	-0.071	0.469	0.349	1	
Y9	0.092	0.371	0.363	0.222	0.123	1

See appendix 2 for definition of variables used

From the above, three variables supported some of the hypothesized relationships even though not strongly - they are managerial and operational complexity of the subsidiary (Y7); amount of capital invested in subsidiary (Y8b); and subsidiary age (Y9). The interpretation of these therefore

is that the more complex the subsidiary is, the higher the tendency for the parent company to own more of the subsidiary's equity; and so on.

Some of the other variables in the matrix had relationships opposed to the hypothesized relationships. These are: technology-related payments (Y5), and workforce size (Y8a). All these had negative relationships with the predicted variable.

7.4 SUMMARY

A summary of the findings related to the respective hypotheses in the first policy (Nigerian Indigenization Policy) is presented below in table 7.14. The dependent variable in all cases is the parent equity stake in the subsidiary.

Table 7.14

Summary of Research findings on Indigenization

	Independent Variable	E/R	A/R	Hypothesis Test
H1	Host country market attractiveness	-	-	Supported
H2	Raw materials in the host country	-	+	Not supported
H3	Human resources in host country	-	+	Not supported
H4	Competition in the host country	-	+	Not supported
H5	Technological intensity	+	-	Not supported
H6	Subsidiary exports	+	nil	Not tested
H7	Operational and managerial complexity	+	+	Supported
H8	Subsidiary size	+	±	Partially supported
H9	Subsidiary age	+	+	Supported

Note: E/R = Expected relationship
A/R = Relationship found after analysis

The findings in this study especially on the relationship between MNC characteristics and the predicted variable here vary slightly from results of previous research. Fagre and Wells (Jnr) [1982] found that a firm's technological intensity provided the MNC with a higher bargaining power vi-a-vis the host country by enjoying higher equity stakes in their subsidiaries than the less intensive MNCs. Poynter, in his own work found that operational and managerial complexity of the subsidiary, and some degree of exports provided the MNC with offsetting bargaining advantage over the host-country by enjoying significantly less government intervention.

Contrary to Fagre and Wells (Jnr) [1982] findings, for instance, the findings here suggest that there was an inverse relationship between the firm's technological intensity and the actual amount of equity owned by the parent in the subsidiary. In other words, technologically intensive firms were more readily Nigerianized than the less intensive ones.

No easy explanation could be found for the lack of relationship between subsidiary exports and parent equity stake. However, even in Poynter's work, the relationship between exports and government intervention was not quite clear or obvious.

The relationship between operational and managerial complexity supports Poynter's findings that the more complex firms enjoyed higher bargaining advantages over the host country and therefore, in his study were found to suffer less intervention. Here, the findings suggest that parents of more complex subsidiaries tend to enjoy higher equity stakes in the subsidiaries than those with less complex subsidiaries (even though the relationship was not significant).

Similarly, size in terms of capital investment, and subsidiary age were found to have positive relationships with parent equity ownership. Even though no previous work has considered these variables, these results suggest that size in terms of amount of capital invested in the subsidiary and subsidiary age are possible influencers of firm response to government policy on ownership.

On the sources of host-country bargaining power, no previous work has been done in this area. However, the findings in this research suggest that in the case of Nigeria, only its market attractiveness possibly constituted an important influence on firms' response to this policy.

CHAPTER EIGHT

CHAPTER EIGHT

NIGERIANIZATION POLICY

8.1 RESEARCH RESULTS

8.2 HOST-COUNTRY CHARACTERISTICS INFLUENCING RESPONSE

8.3 MNC CHARACTERISTICS INFLUENCING RESPONSE

8.4 SUMMARY

CHAPTER EIGHT

NIGERIANIZATION OF MANAGEMENT POLICY

8.1 THE RESULTS

This chapter discusses the results and findings of the study on the Nigerianization of Management in MNC subsidiaries in Nigeria - the second policy in the study. In this study a very flexible definition of top management is used. Sample firms were allowed to define "top management" as used within their context. But the guideline given was that these should be the people that decide with the chief executive, on the company's future.

The analysis in this chapter follows the pattern in chapter seven. For each variable, we shall start with an assessment of the ratings of its importance followed by crosstabulation of the variable with the dependent variable (degree of Nigerianization of management after the policy), and then conclude analysis with an examination of the correlations between the dependent variable and the independent variables. Two cases on the response of firms to this policy are discussed in chapter ten.

In this chapter, and for the most part of this study, the term "Nigerianization" is used when referring to this policy, which, in Nigeria and in this study generally refers to indigenizing management. It is different from the term

"Indigenization" which refers to indigenizing ownership.

Respondents were required to provide information on the degree of Nigerianization in their respective companies in three selected years - 1976 (just before the second indigenization decree), 1980 (when the local sourcing policy was introduced), and 1985 (the most recent year before the interview). The objective of this is to identify the trend, if any, in the degree of Nigerianization in the companies. The table below highlights this.

Table 8.1

Percentage of Nigerians in top management (in %)

	1976	1980	1985
25% or less	15	5	-
26 - 50%	30	20	15
51 - 75%	15	40	40
- 75%	10	20	45
Don't know	30	15	-
	100	100	100

n = 20

Table 8.1 above clearly reveals that there has been a 'gradual' process of Nigerianization in the sample firms. In 1976, only 10% of the sample had Nigerianized more than three quarters of their top management positions. By this time the findings (not presented here) show that none of the firms in the sample had reached a Nigerianization level of 90%. By 1980, the percentage of firms with higher than 75% level of Nigerianization had doubled to 20%. And by 1985, the 1980 figure had more than doubled to 45%. The

survey findings also showed that by this time (1985) two firms in the sample had achieved 100% level of Nigerianization.

The spirit of Nigerianization moved strongly in Nigeria at the same time with that of indigenization. Therefore, as firms were required to indigenize ownership, they were also required to Nigerianize their management. The Nigerianization policy in some cases specified proportions of top management that should be nigerianized, and in many others it specified this as well as the particular positions that should be nigerianized (mainly top marketing and finance positions; and the managing directorship of the company in the exception of which there must be a Nigerian deputy managing director understudying the foreigner in the position with the view of taking over after some time). Positions that were, and to some extent are still immuned from being nigerianized were the technical positions. Table 8.2 shows the level of Nigerianization required of the firms in the sample.

Table 8.2
Level of Nigerianization required in the policy and percentage of sample firms affected (in %)

100%	5
50% or more	35
Less than 50%	20
None	15
Not applicable	10
Don't know	15
	100

n = 20

Even though only one firm in the sample was required to nigerianize 100% of its management, two were found to have achieved this level as earlier mentioned. Also, though only 35% of the sample was required to nigerianize 50% or more of their management, more than 70% of the sample had achieved this level. This shows that most of the firms in the sample have done much better than they were required by the policy. It is important to note too that though 15% of the sample was not required to nigerianize, by 1985, all the firms in the sample had nigerianized their top management to at least 25% level. Furthermore, 10% of the sample was not affected (not applicable) by the policy because they had nigerianized beyond the level required of them in the policy.

Asked whether firms were consulted before the policy was introduced, only 20% indicated they were consulted. The consultation was said to be between the government officials and mainly the top management of the firms (specifically the managing director). After the policy was introduced, only 15% of the sample entered into negotiations with the government (not necessarily those that were earlier consulted). The issues covered in their negotiations were identical with those in the indigenization policy - mainly timing of implementation and specific positions affected. The majority of the sample who did not enter into any negotiations with the government

after the policy was introduced gave their main reason as the lack of options for them, but also that the policy was okay. Two of the respondents however said there was no need to negotiate anything as they had already complied with the policy.

On the response of their parents to the policy, a good number (40%) of the respondents indicated that their parents welcomed the idea of the policy; some said their parents were indifferent and three respondents said their parents were disappointed. The parents of the rest had varying other responses. Those who said their parents were disappointed said it was because they felt they had already allowed enough nigerianization, and to be required to nigerianize beyond such levels would likely affect their interests. Furthermore, some expressed the feeling that indigenizing management in addition to surrendering ownership was catastrophic to their survival. One of the respondents lamented that the parent company which had a lot of interests in the subsidiary was inadequately represented at the subsidiary as there was only one such representative, the managing director.

Asked of the importance attached to the nationality of top management by the parents in their worldwide operations, majority of them said it was fairly important. Asked of the importance attached to nationality of top management in the Nigerian subsidiary, 35% felt it was very important (see table 8.3)

Table 8.3

Importance attached by parent company to nationality of management (%)

	Worldwide	In Nigeria
Very unimportant	10	10
Fairly unimportant	10	-
Neither	15	10
Fairly important	50	45
Very important	15	35
	100	100

n = 20

Table 8.3 shows that more parent companies attached importance to the nationality of the top management of their subsidiaries in Nigeria than in their worldwide operations generally. Again, comparing this with the importance attached to 100% equity ownership of subsidiaries the point that MNCs are more concerned about the management of their subsidiaries than their ownership in Nigeria is butressed, (50% rating the latter important as against 80% for the former).

The explanations given for this overwhelming importance attached to nationality of the top management of their subsidiaries in Nigeria included the belief that Nigeria was a volatile market. And since top management are parents' agents and on-the-spot representatives of the parents, there was need to have such representatives from the home country preferably, to safeguard their interests. For the few who felt their parents did not consider the nationality of their management in Nigeria important, explained that their parents were more concerned about

competence than nationality, and would not mind employing whoever was competent irrespective of where he comes from.

All the firms in the sample had complied with the provisions of the policy. Asked of the problems encountered in the process of complying, 50% of the sample indicated that they encountered no problems; a few said they encountered problems in finding qualified Nigerians to take over the affected positions; some said they encountered training problems; and the remaining respondents encountered varying less significant problems. Most of the respondents said they did not adopt any new strategies to counter the effect of the policy itself on them. But as the facts contained in the cases in chapter ten show, some firms actually adopted strategies that abused the policy requirements. However, a few of them indicated that they changed the designations of some jobs leaving the expatriate executive(s) to perform the same responsibilities after the policy as before; and either discontinued the use of the old designations or placed Nigerians in them but performing functions different from those performed by the expatriate in the position(s) before. In response to an aspect of the policy which required them to nigerianize their "Business manager" position, they redesigned the job description of the "Works manager" to include the responsibilities formerly performed by the "Business manager"; and because the position of "Works manager" was allowed in the policy to be occupied by an expatriate, they were able to place an expatriate to

perform the two functions - works management and business management - though as a Works manager.

The respondents were asked to categorize their behaviour in this policy, and half of the respondents said they were collaborative; and the others said it was accommodative, or compromizing. This shows that the firms were generally collaborative in their response to both indigenization and nigerianization (c.f similar results in Chapter seven). It is difficult however, to agree with most of these firms who indicated that they were collaborative in their behaviour, given that some of them made organizational changes that were injurious to the policy if not the host country (refer to the cases in chapter ten). Asked to compare their behaviour in Nigeria with their parents' behaviour to similar demands in other developing countries, all but one of the respondents said it was the same. The exceptional case (whose response was collaborative) said the parent responded this way to the Nigerian policy because the demand was reasonable. In countries where their demand was considered unreasonable, the respondent said the parent's response would be different.

On the rating of the ability of the government to make them comply with the policy, a significant proportion (70%) of the respondents said the government was very capable; the rest said the government was either fairly capable, neither capable nor incapable or fairly less capable. Most

of them therefore, rated the government as quite capable of making them comply with the policy. Three quarters of the respondents felt the government was so capable because it had the weapon to ensure that they complied - the expatriate quota devise discussed in chapter five. Three respondents explained that they rated the government so capable because they (the government) had the institutional expertise to ensure that they complied with the policy.

On the impact of changes in government in Nigeria on the policy, almost all the respondents (90%) said the changes had had no impact on the policy. A few others said the changes had resulted in the policy being refined. On the impact of the changes on policy implementation, 85% of them felt the changes have had no impact on this; the others felt the changes had resulted in sharpened enforcement; or the changes had resulted in drawbacks in implementation. As for the impact of the changes on their response to the policy, all said the changes had not affected their response to the policy.

8.2 HOST COUNTRY CHARACTERISTICS INFLUENCING RESPONSE

As earlier mentioned, no previous work has been done on host-country characteristics likely to influence firm response to government policy requiring indigenizing management. However, our approach in the analysis here replicates that done in the previous chapter on

indigenization of ownership.

H1 "The MNC's rating of the importance of market attractiveness of a host country is positively related to the proportion of host-country nationals in subsidiary top management".

The expected relationship between market attractiveness and the proportion of host country nationals in top management from this hypothesis is positive. That is, the more important market attractiveness is to the MNC, the higher the proportion of host country nationals in subsidiary top management is expected to be.

The research results showed that 40% of the sample rated market attractiveness very important in influencing their response to the Nigerianization policy; and only 5% rated it fairly unimportant. These ratings are quite comparable with those of the variable on the indigenization policy. See table 8.4.

Table 8.4
Importance of market attractiveness in response to policies (in %)

	Nigerianization	Indigenization
Very unimportant	-	5
Fairly unimportant	5	5
Neither	20	10
Fairly important	35	30
Very important	40	50
	100	100

n = 20

Reasons given for the importance attached to Nigeria's market attractiveness in influencing their response to the nigerianization policy were the same as those given for their rating of the variable - market attractiveness - in the indigenization policy.

Next, we compare the ratings of this variable with the proportion of Nigerians in the top management of the subsidiaries in the sample in crosstabulations. This is shown in table 8.5.

Table 8.5

Relationship between Nigerianization and market attractiveness (in %)

	≤ 25%	26 -50%	51 - 75%	> 75%	N.A.
Very unimportant	-	-	-	-	-
Fairly unimportant	-	-	5	-	-
Neither	-	10	5	5	-
Fairly important	5	-	15	5	10
Very important	-	10	15	10	5
	5	20	40	20	15

n = 20

No significant relationship was found to exist between a firm's level of Nigerianization and its rating of the importance of market attractiveness in influencing its response to the policy.

H2 "High ratings of the importance of the availability of needed raw materials in a host country by an MNC are positively related to the proportion of host country nationals in subsidiary top management".

The above hypothesis implies that the more important the variable - availability of needed raw materials - to the MNC, the higher its level of Nigerianization is likely to be. The importance of availability of needed raw materials to firms' response in this policy is shown in appendix 1.

Appendix 1 shows that this variable was a less important influencer of company response to the policy, and thus, less likely to become a source of bargaining power for the host-country.

Respondents were required to explain why they felt the variable was not quite important, and most of them said there was no attempt by the government to relate sourcing with nigerianization. As a result, they were not concerned about the availability or not of raw materials they needed, locally; and especially since it was 'more economical' to buy from their established foreign suppliers, they never bothered about local suppliers even if there were. The ratings for this variable in this policy are identical with those on the same variable in the last policy in chapter 7.

When the above results are tabulated against the level of Nigerianization in the firms, the result is as shown in table 8.6 below.

Table 8.6

Relationship between Nigerianization and local availability of raw materials (in %)

	≤ 25%	26 - 50%	51 - 75%	> 75%	N.A.
Very unimportant	-	-	-	-	-
Fairly unimportant	5	-	20	5	-
Neither	-	10	10	10	5
Fairly important	-	10	10	5	5
Very important	-	-	-	-	5
	5	20	40	20	15

n = 20

No significant relationship was found to exist between the importance of this variable and the firms' level of Nigerianization. This means that a company's rating of the importance of this variable did not necessarily influence its placement of Nigerians in subsidiary top management.

H3 "The MNC's rating of the importance of the availability of required human resources in a host country is positively related to the proportion of host-country nationals in its top management".

This hypothesis implies that the higher the MNC's rating of the importance of this variable in influencing its response to this policy, the higher the likelihood for the subsidiary to nigerianize its top management.

The results showed that 40% of the sample rated the variable very important; and only one respondent felt it was very unimportant. Most of the firms in the sample

(80%) claimed that this variable - availability of required human resources in Nigeria - was important to some extent in influencing their response to the policy (appendix 1).

The respondents explained that this variable was important because there were a lot of qualified Nigerians to manage the subsidiaries, as a result, it was easier for them to nigerianize. Many of the respondents said 100% Nigerianization was possible when available human resources was considered, except that the parent companies needed to have at least someone from the home country to represent their interests, as they could not entrust their interests entirely in the hands of Nigerians.

The importance of this variable in influencing firms' response to Nigerianization compares well with the rating of the variable in the last policy. All the firms that rated this variable important said, because of the importance of the variable, they did not hesitate in complying with the policy. Table 8.7 shows the relationship between the level of nigerianization and this variable.

Table 8.7

Relationship between Nigerianization and importance of availability of local human resources (in %)

	≤ 25%	26 - 50%	51 - 75%	> 75%	N.A.
Very unimportant	-	-	-	5	-
Fairly unimportant	-	-	-	-	-
Neither	-	5	15	-	5
Fairly important	5	10	10	5	-
Very important	-	5	15	10	10
	5	20	40	20	15

n = 20

No significant relationship was found to exist between the importance attached to availability of required human resources and the level of Nigerianization in the firms.

H4 "An MNC's rating of the importance of competition in a host country in influencing its response to policy is positively related to the proportion of host-country nationals in subsidiary top management"

This hypothesis implies that where an MNC rates competition in its sector as a very important influencer of its response, the likelihood is that it would place more host country nationals in its subsidiary top management.

The research results showed that one quarter of the sample felt this variable - competition in their sector(s) in Nigeria - was very important in influencing their response to the policy; and 10% felt it was very unimportant (see appendix 1). This shows therefore, that this variable was not quite as important in influencing their response to this policy as in indigenization.

These ratings were found to cut across firms with varying numbers of competitors. In a separate analysis (not shown here) no relationship was found to exist between the firms' ratings of this variable and the degree of competition faced by the firms in the sample. Firms that controlled less than 5% of their total market, as well as

some who dominated their market rated the variable the same.

Crosstabulations of the levels of Nigerianization and these ratings are presented in table 8.8 to show the relationship between them.

Table 8.8
Relationship between Nigerianization and importance of competition (%)

	≤ 25%	26 - 50%	51 - 75%	> 75%	N.A.
Very unimportant	-	-	5	5	-
Fairly unimportant	-	-	10	5	5
Neither	5	20	5	5	-
Fairly important	-	-	5	-	5
Very important	-	-	15	5	5
	5	20	40	20	15

n = 20

No significant relationship was found to exist between the level of Nigerianization and the ratings of the importance of competition. The nature of the relationship would be examined in the correlation analysis below.

To obtain a clearer picture of the extent and nature of the relationship that existed between the levels of Nigerianization and the independent variables - hypothesized variables influencing firm response in this policy - the correlations between them are examined. These are shown in table 8.9

Table 8.9
Correlations between Nigerianization and Host-country Characteristics

	X2	Y1	Y2	Y3	Y4
X2	1				
Y1	0.136	1			
Y2	0.292	-0.008	1		
Y3	0.044	0.483	-0.107	1	
Y4	0.079	0.550	0.114	0.333	1

See Appendix 2 for definition of variables used.

The expected (hypothesized) relationship between the dependent and independent variables (level of Nigerianization and the host country characteristics, respectively) is positive. This relationship was supported in all cases.

These results therefore suggest that where the MNC attaches high importance to the selected host-country characteristics, the tendency would be for it to place more host country nationals in its subsidiary top management.

Unlike in the case of indigenization, here, all of the hypothesized host-country variables influencing the response of MNCs in this policy were supported by the results. In the case studies that follow (in chapter ten) however, only market attractiveness was noted as an important host country characteristic that influenced firms' response to the policy.

8.3 MNC CHARACTERISTICS INFLUENCING RESPONSE

Section 8.2 examined the role played by certain host country characteristics in influencing MNC response to the Nigerianization policy. This section considers the role played by selected MNC characteristics in influencing their response to the policy. The analysis to be made here would be similar to those done in preceding sections.

H5 "The techonological intensity of the MNC subsidiary is negatively related to the proportion of host-country nationals in its top management".

The relationship hypothesized here between the level of Nigerianization and the independent variable - technological intensity - is negative. That is, a highly technologically intensive subsidiary would tend to place fewer host country nationals in its top management. We begin the analysis by examining the extent of importance attached to technological intensity by the firms in influencing their response to the policy.

Appendix 1 contains the summary of the ratings for this variable. It shows that 55% of the sample rated it very important. Technological intensity therefore was an important influencer of the firms' response to the policy. Significant too, is the consensus among the firms that technological intensity could not be considered an unimportant variable in their response to the policy (indicated by their not rating this variable unimportant), and butressed by the case studies in chapter ten.

Some of the respondents who rated this variable 'very important' said it was so because they were in the Nigerian subsidiaries as representatives of their parent companies to protect their parents' technologies in Nigeria. The Nigerianization policy was a threat to this, and therefore, their technologies were given foremost considerations in

their response to the policy. This led to some of the manoeuvres earlier mentioned in section 8.1 and discussed at length in the case studies. Some firms embarked on intensive technical training of the Nigerian staff to prepare them to take over from the expatriates.

Most of the respondents saw their parent technologies as important determinants of their continuous operation in Nigeria; but many said the host government clearly never considered this as important, instead the government valued the continuous availability or supply of their products in the market more important than their technologies. The relationship between the level of Nigerianization and this variable is examined in a crosstabulation in table 8.10

Table 8.10
Relationship between Nigerianization and technological intensity (%)

	≤ 25%	26 - 50%	51 - 75%	> 75%	N.A.
None	-	15	20	15	15
≤₦100,000	5	-	5	-	-
>₦100,000	-	-	5	-	-
Not available	-	-	5	10	5
	5	15	35	25	20

n = 20

Table 8.10 above shows the relationship between technology-related payments to the parent company and the levels of Nigerianization after the policy. To know whether the hypothesized relationship was supported or not, we would need to consider the correlation between the two variables. This is contained in table 8.14.

H6 "The export intensity of the MNC subsidiary is negatively related to the proportion of host country nationals in its top management".

The relationship implied in this hypothesis is that the more export intensive the MNC subsidiary, the lesser the proportion of host-country nationals is likely to be in its top management. The importance of exports in influencing company response to this policy is shown in appendix 1.

Appendix 1 shows that the respondents generally did not consider exports as an influencer of their response to the policy. This is shown in the above result, that only one respondent considered it important, and the fact that none of the firms was or had exported its products or was preparing to.

Since no firm in the sample was exporting its products, we cannot test the hypothesized relationship between company exports and their level of nigerianization.

H7 "The subsidiary's degree of managerial and operational complexity is negatively related to the proportion of host country nationals in its top management".

One expects, from this hypothesis, that firms whose degree of managerial complexity is considered very high would have fewer host country nationals in their top management.

The research results showed that . 70% of the sample rated this variable important in influencing their response to the policy. This suggests that this variable was influential to a considerable extent on firms' response to this policy. See appendix 1.

It was not surprising that almost all the respondents felt their managerial and operational tasks were complex. It was in attempt to minimize such prejudicial self-assessments that the researcher decided to rate the firms' complexity using information supplied in the questionnaire. Table 8.11 below contains a crosstabulation of the relationship between Nigerianization and this variable.

Table 8.11
Relationship between Nigerianization and MNCs' managerial and operational complexity (in %)

	< 25%	25 - 50%	51 - 75%	> 75%	Dont Know
Very complex	-	-	5	5	5
Fairly complex	5	10	5	10	5
Less complex	-	10	30	5	5
	5	20	40	20	15

n = 20

None of the relationships in the above was found to be significant. This means that the complexity of a firm's operational and managerial tasks had no significant

relationship with the firm's level of nigerianization. To know if the hypothesized relationship between the variables was supported or not, we shall examine the correlation between them in table 8.14.

H8 "The size of the subsidiary is negatively related to the proportion of host-country nationals in its top management".

Two measures of company size were used in this study - number of people employed and amount of capital invested - and this hypothesis would be tested on each of these.

The research results showed that three respondents felt that size in terms of number employed was very important in influencing their response to the policy, and eight felt it was fairly important. On size in terms of capital investment, six of them felt this was very important in influencing their response, and ten felt it was fairly important. See appendix 1.

The results in the appendix reveal that size in terms of amount of capital invested at the subsidiary was a more important influencer of the firms' response to the policy than the number of people employed in the subsidiary. As the cases further reveal, firms generally tend to be more concerned about their investments (as profit-making entities) than about workforce. But also, the government

neither gave credit nor showed any recognition of firms with large workforce-sizes. Furthermore, when the above results are compared with similar results on indigenization, it shows that capital investment was more important in influencing the firms' response in the Nigerianization than in the indigenization policy. See table 8.12.

Table 8.12
Relationship between Nigerianization and company size (in %)

	< 25%	25 -50%	51 - 75%	> 75%
Workforce				
Less than 501	-	-	15	15
501 - 1000	-	5	5	10
1001 - 1500	-	5	5	10
More than 1500	-	5	15	10
	-	15	40	45
Capital				
Less than ₦2.0m	-	5	5	5
₦2.0 - ₦5.0m	-	-	10	5
₦5.01 - ₦10.0m	-	-	10	-
More than ₦10.0m	-	10	10	25
Don't know	-	-	5	10
	-	15	40	45

n = 20

No significant relationship was found to exist in the above. The extent and nature of the relationship between the variables is presented in table 8.14.

H9 "The age of the subsidiary is negatively related to the proportion of host-country nationals in its top management".

The relationship hypothesized here is that the older the subsidiary in the host country the lesser the tendency might be for it to place host country nationals in its top management.

The results obtained showed that one quarter of the sample considered their age in Nigeria very important in influencing their response to the policy, with a further 35% who felt that age was fairly important. See appendix 1.

Comparing the response here and the one on indigenization it shows that age was more influential in the firms' response to this policy than in indigenization. The explanation given for the importance of age in influencing their response to this policy was that Nigerianization should be gradual and it was only because they had been in Nigeria for relatively long periods that they had been able to achieve their levels of nigerianization.

Having considered the importance of age in influencing response to this policy, we shall examine the relationship between levels of nigerianization and company age. See the crosstabulation in table 8.13.

Table 8.13
Relationship between Nigerianization and company age (in %)

	<25%	25 - 50%	51 - 75%	> 75%	Don't know
15 years or less	-	-	-	5	5
16 - 20 years	-	15	-	-	-
More than 20 Yrs.	5	5	40	15	10
	5	20	40	20	15

n = 20

The nature and extent of this relationship would be examined in the correlation matrix in table 8.14.

The last level of analysis is an examination of the correlations between these variables so as to be able to assess the nature and extent of the relationship between them. This is presented in table 8.14.

Table 8.14
Correlations between Nigerianization and MNC Characteristics

	X2	Y5	Y7	Y8a	Y8b	Y9
X2	1					
Y5	-0.200	1				
Y7	-0.217	0.090	1			
Y8a	-0.174	0.256	0.086	1		
Y8b	0.225	-0.071	0.469	0.349	1	
Y9	-0.114	0.371	0.363	0.222	0.123	1

See Appendix 2 for definition of variables.

From the above correlation matrix, the hypothesized negative relationship between the level of nigerianization (X2) and firm technological intensity (approximated by technology related payments, Y5) was supported. That is, the more technologically intensive the MNC, the lower the level of host country nationals is likely to be in their top management. Similarly, the relationships hypothesized

in all the other MNC characteristics were supported except in one case - size, in terms of capital investment, Y8b. However, none of these relationships was strong, even though the desired (hypothesized) signs were obtained in almost all. Nevertheless, these results are pointers to the role of these MNC characteristics in influencing firms' response to the policy.

8.4 SUMMARY

A summary of all the findings on the different hypotheses is presented below in table 8.23. The dependent variable in all cases is the level of Nigerianization.

Table 8.15
Summary of research findings on Nigerianization

	Independent Variable	E/R	A/R	Hypothesis Test
H1	Host country market attractiveness	+	+	Supported
H2.	Raw materials in host country	+	+	Supported
H3	Human resources in host country	+	+	Supported
H4	Competition in host country	+	+	Supported
H5	Technological intensity of subsidiary	-	-	Supported
H6	Subsidiary exports	-	nil	Not tested
H7	Operational and managerial complexity	-	-	Supported
H8	Company size	-	±	Partially supported
H9	Company age	-	-	Supported

E/R = Expected relationship
A/R = Relationship found after analysis

CHAPTER NINE

CHAPTER NINE

LOCAL SOURCING POLICY

9.1 RESEARCH RESULTS

9.2 HOST-COUNTRY CHARACTERISTICS INFLUENCING RESPONSE

9.3 MNC CHARACTERISTICS INFLUENCING RESPONSE

9.4 SUMMARY

CHAPTER NINE

LOCAL SOURCING OF RAW MATERIALS POLICY

9.1 INTRODUCTION

This chapter discusses results of the research on the policy requiring firms to procure their raw materials from within Nigeria. In this chapter as in the preceding two, our analysis would be in three levels: firstly, a discussion of the frequencies, followed by an examination of variables' crosstabulations, and lastly a consideration of the correlations between the variables.

The results showed that unlike in the case of the previous policies (discussed in chapters 7 and 8), there was some consultation between the government and firms before this policy was introduced. More than half of the sample indicated that they were consulted by the government before the policy was introduced. The remaining 45% said they were not consulted. People involved in the consultation with the government were mainly top management executives of the respective companies (30% of the sample), and industrial associations to which the companies belonged (20% of the sample). In one case, the consultation was between government representatives and representative(s) of the parent company sent from the home country. The issues

discussed during negotiations were mainly timing for implementation and industrial coverage of the policy. After the policy was introduced, 45% of the sample went into further negotiation with the government. This time most of the firms involved felt that the policy was harsh on them on either the time period during which they were required to comply, or that the proportion or particular raw material(s) they were required to source locally was not feasible. To boost their negotiation strengths at this time, most of the firms gathered statistics and presented to the government to convince them of the unavailability or insufficiency of the disputed raw materials; and some made pledges, e.g. requesting for more time for compliance and pledging to fully comply by the expiration of the time, etc. Those firms that did not enter into any further negotiation with the government explained that there was no need for this as the government was determined (35% of the sample). Some, because they were working towards the target set for them by the government (15% of the sample), and one indicated that it was because they had already complied with the requirement.

One tenth of the sample indicated that they were required to procure all their raw materials (100%) from Nigeria; 30% said the proportion varied as they produced more than one product or used more than one major raw material; more than half said a specified proportion was not stated even though a deadline for compliance was given to them (mostly 100% or at least 75% local sourcing by

1990).

On the response of parents, four respondents said their parents were disappointed with the policy because the quality of the Nigerian product was going to fall below their world standards; and the majority (70%) were cooperative with the policy.

Most of the respondents indicated that their parents attached high importance to where they bought their raw materials from in their worldwide operations. 45% showed that this was very important, and 40% indicated that it was fairly important. On the importance of where the Nigerian subsidiary bought its raw materials from, half of the respondents (50%) felt this was equally highly important to their parents. See table 9.1 below.

Table 9.1
Importance attached by parent to sources of raw materials (%)

	Worldwide	In Nigeria
Very unimportant	-	-
Fairly unimportant	5	-
Neither	10	20
Fairly important	40	30
Very important	45	50
	100	100

n = 20

Explanations given for the importance attached to where their raw materials came from in the Nigerian as well as worldwide operations included: source having direct effect on company profiatability (45% of the sample); and

it affects product quality (25% of the sample).

All respondents indicated that the policy had not changed since it was introduced. Reasons given for this included the feeling that the policy was still evolving (20% of the sample), the government was adamant and would not succumb to pressures (20% of the sample), there was no need as the policy was realistic and fair (25% of the sample), etc.

The results showed that some firms had not complied with some of the provisions (or requirements) of the policy. The reasons given by such companies can be categorized into two: the fact that compliance with such aspects was not yet mandatory on them; and that compliance was not yet feasible for them. In each of the provisions of the policy, there was at least one firm which had not yet fully complied, for either or both of the aforementioned reasons. The managing director of a wire-cables manufacturing firm, for example, revealed that they had not yet fully complied with the policy because their raw materials' requirements could not be met locally, and that there was nothing the government could do. However, none of the firms in the sample refused to comply with all provisions of the policy.

In complying with the provisions of the policy, 15% encountered no problems; 35% encountered problems of insufficient quantities; three encountered problems of

finding suitable local sources; and two faced the problem of excessively high costs of the local raw materials. Despite the problems faced, majority of the respondents (60%) did not alter their strategy. However, strategic changes that took place in the case of certain companies could be seen from the case studies in chapter ten. Three introduced new products using the local raw materials; and one denied the Nigerian subsidiary the use of its international brand name (see case one).

Asked to rate the ability of the government to make them comply with the policy, most (60%) felt the government was very capable. Table 9.2 below presents the ratings of government ability to make the firms comply with each of the three policies.

Table 9.2
Ability of Government to make firms comply with policies (in %)

	Indigenization	Nigerianization	Local Sourcing
Very incapable	-	-	5
Fairly incapable	5	5	5
Neither	20	5	5
Fairly capable	-	20	25
Very capable	75	70	60
	100	100	100

n = 20

The table above shows that according to the firms' ratings of government ability to make them comply with the policies, government ability was highest in Nigerianization (90% of the firms rating government ability in this policy as capable); followed by the local sourcing policy (85% of

the firms rating government ability in this policy as capable); and least of the three was in indigenization (in which 75% of the sample rated its ability as capable).

Certain facts emerged from the study (through the interviews) supporting the above assessments of government ability on each of the policies. Firstly, the government had no specific weapon to make sure that firms complied with the indigenization policy. To make it more difficult for the government, individual Nigerians were willing to collaborate with the firms to circumvent the policy [see Balabkins (1982) pp 213 - 214]. Unlike the indigenization policy, the local sourcing of raw materials' policy had a specific mechanism which compelled firms to a large extent to comply with the policy - the import licence scheme. For any firm to import anything, it had to obtain import licence from the government. And to import raw materials, the scheme required firms to state among many other things, their production forecasts, total raw material requirements, the proportion to be obtained locally, and that to be obtained through imports and why. With this, the government keeps a record of the firm's performance on its efforts to source locally. All these are put into consideration before a licence of a specific amount is approved for the firm for imports. This made it difficult for the firms to evade the policy or to import such raw materials that could be gotten locally, especially that the government often approved only about 30% of company request.

The Nigerianization policy emerged as the one the government was most capable of making firms comply with. The weapon used by the government to get firms to comply with this policy is the 'expatriate quota' scheme (discussed in chapter 5 earlier). This scheme requires companies from time to time (mostly three-yearly) to apply for government approval for them to employ expatriate staff in Nigeria. In forwarding this application, a list of all top executives of the company (foreign and indigenous) must be submitted, including the curriculum vitae (CV) of each executive; and their respective posts and job descriptions. Then the company should state all the positions that it wants expatriates to (come and) occupy. The CV of the expatriate staff (if not yet in Nigeria) should be presented along with the application. The company is required to prove or convince the government that there is/are no Nigerian(s) capable of executing such responsibilities required of the expatriate. If the expatriate has been in Nigeria (in that case an extension was being sought), the company is required to explain why it had not trained a Nigerian to take over from the expatriate. The policy provides that an expatriate quota could not be extended for the same position for a firm for more than three times. Thus the expatriate quota weapon tends to be more effective than the other weapons in ensuring that companies complied with this policy as there is little room for firms to fake their level of Nigerianization.

The local sourcing of raw materials' policy has some loopholes which enabled some firms to evade the policy. Importation of raw materials in the policy was not restricted to manufacturers. Merchants were allowed to import raw materials as well. As a result, some firms connived with some importers to forward applications for huge amounts of import licence in the name of the merchant (apart from the application that the firm would forward for their own licence), knowing too well that only small proportions of both applications would be approved. At the end, the company imports more than what was approved for it but records only imports of the sum approved by the government as 'imported raw materials'. The portion that 'belonged' to the merchant is recorded as sourced locally. This leaves the government with wrong figures of local content of the firms' product(s).

Critics of this policy (with some element of truth as supported by many of the respondents in the interviews) argue that the policy was simply a change in who was allowed to import raw materials into Nigeria - from the manufacturer to the merchant. The managing director of a confectionery manufacturing firm, for instance, lamented that the government (through the policy) had denied them the right to import raw materials directly from their suppliers, and instead allowed merchants to import the raw materials from whom they are compelled to buy and at exhorbitant prices. Even though such local purchases of

raw materials are classified as "local" raw materials, they are actually imported raw materials. They argue that the increases shown in firms' local sourcing are accounted for by such purchases - buying the same (amount of) imported raw materials from merchants who imported them. Such, they say leads to high prices of finished goods as manufacturers no longer bought directly from their traditional suppliers, thus elongating the supply process. Most of the firms agreed with the critics.

When asked to categorize their behaviour to the policy, more than half of the sample indicated that they were collaborative; 20% said they were accommodative; and a quarter said they were compromising. The explanations for their attitudes included the feeling that the way they responded was best for their growth and development in Nigeria (30% of the sample); that that was the only wise option (20% of the sample); that it was the company's policy to respond the way they did (20% of the sample); etc. 95% of the sample indicated that their parents would have behaved the same way in other developing countries that made similar demands. This response pattern was similar to those in the other policies.

On the impact of changes in government on policy, 65% felt the changes had had no impacts on the policy; 30% indicated that the changes in government had increasingly reinforced the policy, etc. On the impact of the changes on policy implementation, 60% felt the changes had had no

impact on policy implementation; two respondents said the changes led to more rationality in implementation; five were of the opinion that the changes led to more militant implementation; etc. All the firms in the sample said the changes had had no impact on their response to the policy.

9.2 HOST COUNTRY CHARACTERISTICS INFLUENCING RESPONSE

In discussing the possible host-country characteristics that influenced the response of firms in this policy like in the preceding two, we would examine the assessment of the selected host-country characteristics by the firms in the sample and then relate their assessment to the degree of sourcing done locally.

H1 "The MNC's rating of the importance of market attractiveness of a host country is positively related to the proportion of its raw materials procured from the host country".

The relationship claimed between market attractiveness and local sourcing in the above hypothesis is positive, i.e. the more attractive the market, the more the firm would source its raw materials from the host country.

The research results indicated that 65% of the sample felt that market attractiveness played a very important role in influencing their response to this policy; while 15% felt it played a fairly important role; etc. See appendix 1.

The result in the appendix shows that 80% of the sample felt that market attractiveness was important to some degree in influencing their response to the policy. Asked of how this affected their response to the policy, the respondents indicated that it encouraged them to seek to comply with the policy without entering into unnecessary time-consuming renegotiations with the government. The rating of this variable as important in influencing their response to the policy is identical in the three policies considered in this study (80% in indigenization, 75% in nigerianization, and 80% in this policy).

To examine whether these ratings had any relationship with the proportion of raw materials that the firms procured from Nigeria, we consider a crosstabulation of the two variables. This is shown in table 9.3.

Table 9.3
Relationship between local sourcing and market attractiveness (in %)

	≤ 25%	26 -50%	> 50%	Don't know
Very unimportant	10	-	-	-
Fairly unimportant	-	-	-	-
Neither	5	5	-	-
Fairly important	-	5	10	-
Very important	15	30	5	15
	30	40	15	15

n = 20

No significant relationship was found to exist between the variables. Therefore, despite the high rating of market attractiveness as an influencer of their response to the policy, the evidence suggests that a firm's local sourcing was not significantly related to its rating of Nigeria's market attractiveness as an influencer of its response.

H2 "High ratings of the importance of the availability of needed raw materials in a host country by an MNC, is positively related to the proportion of the subsidiary's raw materials sourced in the host country".

The assumption in the above hypothesis is that where an MNC values the availability of raw materials within the host country, a host country that has such raw materials available therefore, enjoys a bargaining power advantage over the MNC, and could in a situation of government policy demanding firms to source locally, succeed in getting the firms to comply with the policy. A measure of this value attached to the availability of raw materials in the host country in this study is the ranking by firms of the importance of availability of needed raw materials in Nigeria in influencing their response to the policy. From the hypothesis, one expects that the more important the variable, the higher the degree of local sourcing is likely to be and vice-versa.

The research results showed that 40% of the sample felt that this variable - the availability of needed raw materials - was very important in influencing their response to the policy; and 45% felt the variable was fairly important (See appendix 1).

Appendix 1 shows that 85% of the sample rated this variable important to some degree in influencing their response to the policy. However, this result should be interpreted with caution. Some respondents said their raw materials (or sufficient quantities of them) were not available in Nigeria. Therefore their ratings of this variable were based on "if" the raw materials were available in Nigeria. There were however, those who rated the variable based on the extent of the availability of their raw materials in Nigeria. The results do not differentiate between these two categories of reponse. Nevertheless, this does not create any problems in our analysis.

To examine whether the above ratings have any relationship with the degree of local sourcing, we shall consider the crosstabulation of these ratings with the level of local sourcing by the firms in the sample (see table 9.4).

Table 9.4
Relationship between local sourcing and importance of availability of needed raw materials locally (in %)

	≤ 25%	26 - 50%	> 50%	Don't know
Very unimportant	10	-	-	-
Fairly unimportant	-	5	-	-
Neither	-	-	-	-
Fairly important	15	15	10	5
Very important	5	20	5	10
	30	40	15	15

n = 20

In the above, no significant relationship was found to exist between the degree of local sourcing by the MNCs in the sample and their rating of the importance of the variable in influencing their response to the policy.

H3 "The MNC's rating of the importance of the availability of required human resources in the host country is positively related to the proportion of its raw materials sourced from the host country.

The relationship hypothesized in above is that the more important the availability of required human resources is to an MNC, the more would be its degree of sourcing from the host country. To measure the importance of availability of human resources to this policy, respondents were required to rank the variable - availability of required human resources - according to how it influenced their response to the policy.

The results showed that a quarter of the sample rated the variable very important in influencing their response; 40% rated it fairly important; etc. See appendix 1.

The appendix shows that this variable was important in influencing the response of 65% of the sample to the policy. The importance of this variable here therefore, is not as high as in the preceding policies (where 70% of the sample rated this variable important in influencing their response to both indigenization and nigerianization policies). To assess the relationship between these ratings and the degree of local sourcing by the firms in the sample, we shall consider a crosstabulation of the two variables (see table 9.5).

Table 9.5
Relationship between degree of local sourcing and the importance of availability of required human resources locally (in %)

	≤ 25%	26 - 50%	≥ 50%	Don't know
Very unimportant	10	-	-	-
Fairly unimportant	5	5	-	-
Neither	10	-	-	5
Fairly important	5	15	15	5
Very important	-	20	-	5
	30	40	15	15

n = 20

The relationship between the two variables was insignificant. That is, no strong relationship was found to exist between the the degree of local sourcing and the importance of the availability of human resources in the host country. To assess the nature and extent of the relationship that exists however, a correlation analysis

will be conducted at the end of this subsection on host country sources of bargaining power.

> H4 "High ratings of the importance of competition as an influencer of an MNC's response to policy in the host country is positively related to the proportion of the subsidiary's raw materials sourced locally"

The relationship claimed in this hypothesis is that the higher the rating of competition as an influencer of company response to this policy, the higher the subsidiary's level of local sourcing is likely to be. The results of the research indicated that only 15% of the sample regarded this variable - competition in their sectors - very important in their response to the policy (see appendix 1).

The role of this variable in influencing firm response to policy was substantial only in the case of the indigenization policy, where a little more than half of the sample indicated that it was important to some extent in influencing their response. But in this policy as well as in the nigerianization policy, most of the respondents did not consider the variable important in influencing their response.

Next, we examine the relationship that exists between the variable and the degree of local sourcing by the sample firms. (See table 9.6).

Table 9.6
Relationship between local sourcing and competition (in %)

	≤ 25%	26 - 50%	> 50%	Don't know
Very unimportant	10	5	-	-
Fairly unimportant	-	10	5	5
Neither	10	10	-	-
Fairly important	10	-	10	10
Very important	-	15	-	-
	30	40	15	15

n = 20

It is worth noting from the above table that all the firms that rated the variable very important bought between 26 and 50% of their raw materials from Nigeria after the policy; and in 1985 two of the three bought the same quantity from Nigeria and one increased the proportion to between 51 and 75%. No significant relationship was found to exist between degree of local sourcing and the variable.

Having considered the ratings of the respective host country advantages and the extent to which they influenced firms' response to this policy, the next step is the examination of the relationship between these variable and the dependent variable. The correlations between these is presented in table 9.7.

Table 9.7
Correlations between local sourcing and Host-country Characteristics

	X3	Y1	Y2	Y3	Y4
X3	1				
Y1	0.401	1			
Y2	0.403	0.421	1		
Y3	0.445	0.767	0.658	1	
Y4	0.178	0.565	0.251	0.428	1

See Appendix 2 for definition of the variables used

The (positive) relationships hypothesized in all the four hypotheses in this policy have been supported - all correlation coefficients being positive, even though none of the relationships was strong. These results by being positively related with the firms' degree of local sourcing suggest that the more important they (the host-country characteristics) become, the more the MNC sources locally. Unfortunately, no previous study has investigated this which we could use for reference and/or comparison.

9.3 MNC CHARACTERISTICS INFLUENCING FIRM RESPONSE TO POLICY

In this subsection, we would consider the MNC characteristics influencing the response of firms to the local sourcing policy.

H5 "The technological intensity of the MNC subsidiary is negatively related to the proportion of its raw materials procured from the host country".

This hypothesis is alleging that the higher the technology-related payments of the subsidiary to its parent (the measure for technological intensity) the lower the degree to which the subsidiary procures its raw materials from the host country is likely to be. Before considering this, it is important to consider the importance attached to technological intensity as an MNC characteristic in influencing response to this policy.

The results showed that almost all the firms in the sample (95%) regarded this variable important in influencing their response to the policy (with 60% regarding it very important). See appendix 1.

Asked why this variable was regarded important to them, most of the respondents indicated that their technology and the raw materials used were related and/or dependent on each other, therefore a change in one, would affect the other directly. Thus, to be required to use or buy raw materials other than those obtained from the traditional suppliers, would affect product quality standards and therefore, technology too would be affected. Many of the respondents argued that for them to use local raw materials, such raw materials would have to undergo further processing or refining, which would not only raise

production costs but imperatively raising the consumer prices for finished goods using such raw materials. A cigarette manufacturer added that the company's installed technology in the factory then was only capable of packing tobacco in imported cigarette paper, the only imported component of the company's raw materials as Nigeria was not yet able (capable?) to produce such paper. To be able to source 100% of its raw materials locally therefore, would involve the creation of a plant to process paper specially for cigarette packing, or to replace such machines using imported packing paper with those that were capable of using locally available paper. To choose the second option may mean disaster for the company as it would mean a complete change in product appearance which would lead consumers to buy the smuggled cigarettes at whatever price rather than theirs.

Many of the respondents also said that local sourcing requires backward integration, and the extent of backward integration they would undertake, would partly (or mainly) be determined by the nature of their current technology (parent and subsidiary alike).

Next we examine the relationship that exists between the degree of local sourcing and firm technological intensity (see table 9.8).

Table 9.8
Relationship between local sourcing and technological intensity (%)

	≤ 25%	26 - 50%	> 50%	Don't know
None	30	20	-	15
≤N100,000	-	5	5	-
More than N100,000	-	-	5	-
Not available	-	15	5	-
	30	40	15	15

n = 20

Here, as in the preceding cases, no pattern emerged from the distribution of sample firms according to their degrees of local sourcing and technological intensity.

H6 "The export intensity of the MNC subsidiary is negatively related to the proportion of its raw materials procured from the host country".

The research results on the importance of this variable - subsidiary export intensity - in influencing firm response showed that only a quarter of the sample considered the variable important in influencing their response to this policy, with only 5% (one company) of this regarding it very important (see appendix 1). This company, a textile manufacturer, said it attempted exporting some of its products to some west-African countries sometime in the past (mid-70s). It stopped after a short period of time because of high demand locally. As at the time of the interview the respondent indicated that they were prepared to export their products whenever they had enough raw materials to produce enough for the local

and export markets. It was because of this past experience and the potentials to export their products that the respondent rated this variable very important.

As for the majority of the sample who did not consider this variable influential in their response to the policy, explanations given include the fact that the government had not been concerned about whether they exported their products or not, until very recently. Such disregard for exports by the government, coupled with the fact that exporting was riskier than domestic sales, according to the respondents, led to their being content with domestic sales especially that they had been unable to satisfy local demand.

The fact that none of the firms in the sample exported its products makes further analysis of this variable here impossible as in the previous policies.

H7 "The subsidiary's degree of managerial and operational complexity is negatively related to the proportion of its raw materials procured from the host country".

The research results showed that more than half of the sample (65%) indicated that managerial and operational complexity was important to some extent in influencing their response to the policy (20% rated it very important).

See appendix 1

The assessment of this variable in this policy compares well with the assessments in the other policies (70% rated it important in influencing their response in nigerianization, and 60% in indigenization).

Table 9.9 presents a crosstabulation of the relationship between the degree of local sourcing and the variable.

Table 9.9
Relationship between local sourcing and operational and managerial complexity (in %)

	≤ 25%	26 - 50%	> 50%	Don't know
Very complex	-	10	-	5
Fairly complex	10	20	-	5
Less complex	20	10	15	5
	30	40	15	15

n = 20

A significant relationship was found to exist between the degree of local sourcing and the subsidiary's managerial and operational complexity. The extent and nature of the relationship here shall be determined in a correlation analysis in table 9.12.

H8 "The size of the subsidiary is negatively related to the proportion of its raw materials procured

from the host country".

The above hypothesis predicts that the larger the size of the subsidiary (whether by number of people employed or by amount of capital invested) the lesser its raw materials would be procured from the host country.

The results showed that size in terms of amount of capital invested was more important than number of people employed, in influencing firms' response to the policy. The explanation for this was similar to those given in the other policies, that the economic depression of the recent past led to a diminishing importance of size in terms of number of people employed, as companies, without exceptions had to lay-off some employees. On the other hand, increased capital expenditures and sophistication led to greater importance for capital in the firm as firms reinvested earnings for one reason or the other (especially in Nigeria, where, as mentioned in chapter four, a lot of the increase in the value of foreign capital in the recent past was accounted for by withheld payments due to parents and foreign shareholders).

A little less than half (45%) of the sample considered size in terms of number of people employed important in influencing their response to the policy, compared with the 70% for size in terms of amount of capital invested. (see appendix 1).

Next, we examine the relationship that existed between subsidiary size and the degree of local sourcing by the firms. This is presented in table 9.10.

Table 9.10
Relationship between local sourcing and company size (in %)

	≤ 25%	26 - 50%	> 50%	Don't know
Workforce				
<501	10	15	-	5
501 - 1000	5	10	5	-
1001 - 1500	15	5	-	-
More than 1500	-	10	10	10
	30	40	15	15
Capital				
<₦2.0m	5	10	-	-
₦2.0 - ₦5.0m	5	10	-	-
₦5.01 - ₦10.0m	5	5	-	-
More than ₦10m	15	5	15	10
Don't know	-	10	-	5
	30	40	15	15

n = 20

No significant relationship was found to exist between the variables in table 9.10. The nature of the relationship between them however, is shown in table 9.12.

H9 "The age of the subsidiary is negatively related to the proportion of its raw materials procured from the host country".

The above hypothesis implies that the older the subsidiary, the lesser its degree of local sourcing is likely to be, and the younger the subsidiary, the more it is likely to source locally. While this hypothesis may

sound preposterous, the substance it seeks to test is the assumption that generally, older firms are more capable of manipulating government in the enforcement of policy than younger ones. If this is true then in this case one expects that because younger firms could not manipulate government, they would be found to be complying with the policy much more than their older counterparts.

The research results showed that only 45% of the sample rated this variable - subsidiary age - important in influencing their response to the policy (see appendix 1). This means that subsidiary age was not as important in influencing the response of the firms in this policy as it was in the previous policies (65% rated it important in indigenization, and 60% in nigerianization).

An examination of these responses (not shown here) according to the ages of the firms in the sample did not reveal any significant relationship between the importance of this variable to the firms and their age. Neither did any clear relationship emerge between the ratings and any other variables - parent home-country, sector, etc.

Next we examine the relationship that existed between the degree of local sourcing and subsidiary age (see table 9.11).

Table 9.11
Relationship between local sourcing and firm's age (in %)

	≤ 25%	26 - 50%	> 50%	Don't know
15 years or less	-	5	-	5
16 - 20 years	10	5	-	-
More than 20 years	20	30	15	10
	30	40	15	15

n = 20

The relationship above was not significant. The nature of the relationship that exists between these two variables is shown in table 9.12.

This subsection (9.3) has discussed the MNC characteristics that influence the response of firms to the local sourcing policy. The analysis this far has shown which characteristics were regarded by the firms as influential in their response to the policy. Now we shall examine the nature and extent of the relationship between the degree of local sourcing and the different MNC characteristics. Table 9.12 presents the correlations between the dependent variable (level of local sourcing) and the independent variables (the respective MNC characteristics).

Table 9.12
Correlations between Local sourcing and MNC Characteristics

	X3	Y5	Y7	Y8a	Y8b	Y9
X3	1					
Y5	0.201	1				
Y7	-0.139	0.090	1			
Y8a	0.307	0.256	0.086	1		
Y8b	0.381	-0.071	0.469	0.349	1	
Y9	-0.072	0.371	0.363	0.222	0.123	1

See Appendix 2 for definition of variables.

The above matrix reveals that the hypothesized (negative) relationship was supported in the case of managerial and operational complexity (Y7), and subsidiary age (Y9). However, none of these relationships supporting the hypotheses was found to be strong.

For the other independent variables, the hypothesized negative relationships were not supported. In such cases, this would suggest, instead of MNCs using their firm-specific advantages (no matter how strong or weak) to fight against local sourcing as hypothesized, they might have been used to enhance local sourcing.

9.4 SUMMARY

This chapter, like the previous ones, is best summarized by presenting a table showing the results of each of the research hypotheses on this policy. This is presented in table 9.13. The dependent variable in all the cases here is "proportion of subsidiary's raw materials sourced within Nigeria" after the policy.

All the hypothesized relationships between the degree of local sourcing and host-country characteristics were supported and most, at insignificant levels. What this suggests is that the exploitation of these host-country characteristics by Nigeria was capable of granting the country bargaining power advantage over the MNCs. On the other hand, no clear conclusion could be arrived at on the relationship between most MNC characteristics and the degree of local sourcing, as shown in the summarized table below. The relationship between many of the MNC characteristics and the degree of local sourcing did not support the hypothesized relationships.

Table 9.13
Summary of Research findings on local sourcing

	Independent variable	E/R	A/R	Hypothesis Test
H1	Host country market attractiveness	+	+	Supported
H2	Raw materials in host country	+	+	Supported
H3	Human resources in the host country	+	+	Supported
H4	Competition in the host country	+	+	Supported
H5	Technological intensity of subsidiary	-	+	Not supported
H6	Subsidiary exports	-	nil	Not tested
H7	Operational and managerial complexity	-	-	Supported
H8	Subsidiary size	-	+	Not supported
H9	Subsidiary age	-	-	Supported

E/R = Expected relationship
A/R = Relationship found after analysis

CHAPTER TEN

CHAPTER TEN

CASES

INTRODUCTION

The case study method of research focusses attention not on the total population but on an individual unit (or a few individual units) in that population. The intention is to study the unit(s) in question in some depth and to seek to establish generalizations about the wider population from which the unit(s) is/are drawn.

The case study as a method of research has its weaknesses. Firstly, the selected unit(s) may not be representative or typical in which case it is misleading to generalize. However, in this research, it was established in the survey results (chapters seven, eight, and nine) that the sample firms were common in many respects, particularly in their response to the policies, irrespective of their origin or characteristics, thus allaying the fears of unrepresentativeness.

The second limitation of the method is researcher bias. While this is difficult to eliminate, the researcher has tried to be as objective as possible, both in the questions asked and in the way findings are reported.

Thirdly, one has to ensure the confidentiality of the unit under study. In this regard, firms studied were asked if they would prefer to remain anonymous or some information not disclosed. The one which wanted to be anonymous was treated so.

Nevertheless, case studies generate hypotheses for further research, they provide indepth descriptions of the unit under consideration, etc. These advantages make this method, if not independently, then in conjunction with the survey method a very useful technique in social science research.

Six of the "twenty-three" companies in the sample have been studied in greater detail in order to provide materials for the case study section. All the interviews were recorded with respondents'permission. For each of the three policies in the study, two cases were considered. The information sought for and thus contained in each of the cases relate primarily to the specific policy under which the case is being discussed. The companies and the policies under which they were studied are as follows:

1. Indigenization: Case one - Chemical and Allied Products (Nig.) Ltd.

   Case two - United African Company (Nig.) Ltd.

2. Nigerianization: Case three - Turner's Building Products (Arewa) Ltd.

Case four - XYZ (Nig.) Ltd. [Anonymous]

3. Local sourcing: Case five - United Nigerian Textile Limited

Case six - Cadbury Nigeria Limited.

CASE ONE

CHEMICAL AND ALLIED PRODUCTS (NIGERIA) LTD.

THE COMPANY:

Chemical and Allied Products (Nigeria) Ltd. (CAPL) is a subsidiary of Imperial Chemical Industries PLC., U.K. CAPL deals in paints, agro-chemicals, medicated soap and antiseptics. The company was established in Nigeria in 1965. ICI holds 40 percent of CAPL's equity, with the remaining 60 percent held by hundreds of the Nigerian public. The workforce of the company was fairly stable between 1981 and 1985 (the period considered), with 760 employees in 1981 and 750 in 1985.

Like almost every other Nigerian company, CAPL sells all its products locally as production was only sufficient for local demand. CAPL sourced 30 percent of its raw materials from local sources in 1981 and 43 percent in 1985. The increase was attributed to increased local availability of raw materials between 1982 and 1985. The remaining raw materials requirement for CAPL came mainly from the parent company, 55 percent in 1981, and 50 percent in 1985. The increase in locally sourced raw materials therefore substituted mainly supplies from affiliated and unaffiliated companies outside Nigeria whose combined contribution to CAPL's raw materials sourcing declined from

15 percent in 1981 to 7 percent in 1985.

The materials for this case were obtained from both the subsidiary and the parent company. At the subsidiary, Mr. Tappin, the Managing Director of CAPL was interviewed; and at the parent headquarters, Mr. Hamilton was interviewed. Mr. Hamilton is an Executive Director of CAPL based at the ICI Headquarters, London.

ICI's INVESTMENT POLICY:

ICI's preferred investment areas were given as North America, Western Europe, and the Far East. And several reasons were given for this. Firstly, that in every investment, ICI prefers 100 percent equity ownership because this gives the company total control over financial policy and technology, some of which may be very sensitive; and that such gives ICI the total profit margin that they require. ICI, according to Mr. Hamilton, would go into joint venture provided the other parties have something very specific to contribute. Generally, by joint ventures, ICI refers to joint ventures with other companies in the chemical or bio-genetics field. Whenever and wherever ICI feels the other partners have something to contribute and provided they (ICI) have explored in advance and accepted that there will be a synergy on financial policies, they would not hesitate to enter into such an agreement.

ICI does not like joint ventures with the general public in any host country in which they (ICI) have a minority holding, because, Mr. Hamilton added, very often there is a different perception of the way the company should develop between the shareholders and the company (ICI). Also ICI, according to him, does not like joint ventures with governments, for such joint ventures are said to be extremely difficult to work with, and the government usually dictates the terms, which is not acceptable to ICI.

What makes ICI head for the earlier stated markets? Mr. Hamilton explained that reasons for this include the total open market conditions - the stable taxation regime, knowledge of the employment policies, freedom to have as many expatriate employees as the company wants with ease in obtaining work permits. Furthermore, he continued, there is the total absence of foreign exchange control in North America and Western Europe. This means free remittability of funds in either direction, and that the investment regime allows the company to remit funds as they like, e.g. in respect of expatriate pension fund; these markets allow the company to expatriate fresh investment which they know at a certain date if they wished, etc. With all these advantages in these markets therefore, the only parameter ICI needed to consider for investment in these areas is the commercial viability of it.

THE INDIGENIZATION POLICY:

The 1976 indigenization decree required that ICI should divest itself of a total of 60 percent of its equity to Nigerians. This was including the 40 percent divestment earlier required in the 1972 decree.

ICI had a corporate policy stance that if an indigenization programme takes effect, they always yield gracefully. What they then do is to try and seek a more sensible distribution of the shares at a reasonable price. In Nigeria, the main consideration was the distribution of shares in the three major parts of the country - North, West, and East - as the company did not want to be associated with any one part of the country but with the whole country. Also ICI was resolved that the shares would be sold to the genuine public, i.e. hundreds of shareholders not just a group of few shareholders. All of these have been achieved, with 1400 shareholders spread all over the country.

When the 1976 decree was introduced, ICI accepted that they were in the category (the schedule) that had to revert to 40 percent and in conversation with all major MNCs in the same position as ICI they did as well. No special dispensation was said to be sought for by ICI.

IMPACTS OF POLICY AND COMPANY RESPONSE:

ICI has discovered that the shareholders have different expectations from the company than ICI does, e.g. in a case of a wholly-owned subsidiary, ICI would be quite happy to forego a dividend to grow the capital base of the company and provide the company with working capital on which they may expand. ICI, wherever it operates, according to Mr. Hamilton, takes an extremely long-term view - in decades - and immediate requirement for dividend, although it is a good discipline, is not essential. Shareholders on the contrary, always want a dividend and in Nigerian terms, the company (ICI) is now pleased that the government has imposed a restriction of the maximum of 50 percent of after-tax profits to be declared as dividends because otherwise, the shareholders would demand more. In the U.K. for instance, ICI is not accustomed to this - declaring 50 percent of after-tax profits as dividends. This is therefore a constraint in which ICI finds itself in Nigeria.

Also, there is the problem of the safety of ICI's technology now that they retain only a minority shareholding in the local company because some of it is proprietary ("secret") technology. ICI has for ten years been trying to negotiate with the Nigerian Office for Industrial Property (NOIP), royalty and technical service

agreements on which ICI would receive an annual payment, and the company (ICI) has only just succeeded in the case of one area of business - paints. Therefore, there is no encouragement to ICI to supply CAPL with technology because they (ICI) are not rewarded for this, and the technology has cost ICI so much to produce. There is that barrier therefore to the introduction of new technology in the subsidiary. An example was given where the Nigerian government was interested in ICI's FM11-Chlorine cells, the up-front fee of which would be about five million pounds. If the negotiation had proceeded, Mr. Hamilton said ICI would have insisted on an up-front payment for the purchase of the technology; whereas elsewhere, like in North America or Western Europe, the up-front fee would have been lower, but there would have been an absolute assurance that there would be continuous remittability of royalties, expressed in hard currency terms, which is not available in Nigeria.

Furthermore, Mr. Hamilton continued, with a 40 percent shareholding, ICI would have expected a 40 percent membership of the Board and a reasonable number of U.K. employees with the requisite technical skills to be in place to pass on these skills to Nigerians. Also, there is the need to recognize the skill of general management which also needs to be passed on. One of the problems in Nigeria, according to him, is a recognition of the former (technical) skills, but no recognition that management skills themselves are a factor that need to be taught. This is shown by the continuous depletion of general

management staff in the Nigerian subsidiary. In the opinion of Mr. Hamilton, the expatriate managers are withdrawn too early before the relevant skills are passed on to Nigerians. In contrast, in Kenya for example, ICI is said to have a higher level of expatriates there and the Kenyan government does not appear to be unduly fussy about it as the Nigerian government does.

Mr. Hamilton added that apart from the ownership-related difficulties experienced by ICI in Nigeria, another unfavourable environmental factor is the requirement for local sourcing of raw materials. He said ICI has carried out thorough tests in paints for example, to test for local solvents and pigments, but they don't have the quality which ICI requires to manufacture the Dulux brand, which is a world leader. Therefore, ICI has required CAPL to invent their own brand name for the paint that would be produced using local raw materials, which they have done and is called Caplex. This paint does not reach the quality level that ICI would call Dulux.

Two years ago (1985), CAPL wanted to revert to the use of the name 'ICI Nigeria', and this was encouraged by the government then, but ICI said they do not allow the name 'ICI' to be used by any company other than a wholly-owned subsidiary. An example was given of a Canadian company in which ICI has 75 percent equity stake in it, but did not allow the use of the name 'ICI' in the company.

Asked of the significance of the 60 percent equity ownership of CAPL by Nigerians, given that none had more than 5 percent equity stake and that they were generally more concerned about dividends than anything else, Mr. Hamilton said that this had some significant implications for ICI. With the indigenization policy, Nigerian directors were appointed into the CAPL Board, many, if not all, of whom are substantial shareholders of CAPL. In the Board debate, they have a personal vested interest for instance in raising the dividend level higher. In 1986 CAPL had to declare the highest dividend it could (against the wish of Mr. Hamilton, as a member of the CAPL Board representing the interests of ICI), because the Nigerian directors pressed for this. As a representative of ICI in the Board, he could easily be outvoted by the Nigerian directors, who represented the Nigerian shareholders and themselves. The managing director of CAPL, Mr. Tappin, though British, is expected, according to Mr. Hamilton, to be objective (which he has often been, according to Mr. Hamilton) as he represents both ICI and CAPL. He noted that there has never been an instance anyway in the company's (CAPL) decision-making that they had resorted to voting. That it had always been a proper discussion and concensus.

The change in ownership therefore, said Mr. Hamilton, effectively affects the control of the subsidiary. He said, "I think it would be a false view to assume that a 40

percent minority shareholding even in a case like the one in Nigeria in our case, can manipulate the situation, it is most certainly impossible. CAPL is undoubtedly Nigerian in every sense of the term; the Nigerian directors make it Nigerian. ICI has power because it is a supplier, but also the Nigerian directors also have power as they can buy elsewhere. But this sort of interplay has never occurred but if there was a vote, I will lose."

Asked of the impacts that the change in the equity ownership of CAPL have had on the relationship between ICI and CAPL, Mr. Hamilton said the impacts were limited. The most significant change following the first indigenization decree, according to him, was disallowing the use of the ICI name in the Nigerian subsidiary. This he said was because there was no longer freedom for ICI to operate on the financial bases which they judge as sensible to the development of the company, etc. Nevertheless, the ownership change then did not affect other relationships between ICI and the subsidiary - number of expatriates in the subsidiary remained the same at the time, ICI continued to trade with the subsidiary without inhibitions, technology was passed to the subsidiary continuously, etc. If the change in ownership had been at the 1972 level (i.e 40 percent local participation), he thinks the effect would not have been that dramatic, as ICI in some cases in some countries had surrendered shareholding, not as a result of government decree but because they considered it sensible to do so in conjunction with local people. But when

ownership depleted from 60 percent to 40 percent in 1976, it (ownership) then became a significant factor in determining ICI's policies towards the subsidiary.

As a result, the application for royalty by ICI began to date from this time, because as from this time, ICI began to treat CAPL as an arms-length company, as no longer an ICI subsidiary but a Nigerian company. This according to Mr. Hamilton, was the most significant change in ICI's policy towards CAPL as a result of the indigenization policy.

Asked how ICI's response to indigenization in Nigeria compared with their response to similar demands elsewhere, he said it was the same.

CHARACTERISTICS THAT INFLUENCED RESPONSE TO POLICY:

Both Mr. Tappin and Mr. Hamilton were asked to give those characteristics of Nigeria that influenced ICI's response to the indigenization policy (more directly, what in Nigeria that held them from deciding to quit), they said it was undoubtedly Nigeria's attractive market. "Had Nigeria not been an attractive market," said Mr. Tappin, "ICI might have pulled out of Nigeria, but it remained an attractive market worth going for and ICI would not like to give it up". Because of ICI's technology and the high standards that ICI require for their products, all the raw

materials then were imported. As a result there were no local raw materials which could have played a role in influencing the response of ICI to the policy. Furthermore, even though ICI had very strong competition in Nigeria from companies like Berger Paints, International Paints, on the paints side; Lever Brothers on the soap side, etc., competition did not influence ICI's response to the policy.

On the possible company characteristics that influenced ICI's response to the policy, Mr. Tappin said ICI was nervous that it became a minority shareholder in a company that had their technology. He continued: "The country had already accessed ICI's technology and so therefore, there was nothing ICI could do. We could not leave. We never take an attitude of burning our boats, we never 'raised two fingers' at anybody. You will never know when or where you may meet in the future. We take a very long-term view, we don't start adopting negotiating stance for instance, at every juncture, we make a reassessment of what the value of the investment is to us and continue to balance the value of the investment against any disability we may suffer. We have never threatened to withdraw technology. It would not be sensible".

Another company characteristic that was important in ICI's response to the policy was the complexity of managerial requirements and tasks for the subsidiary. According to Mr. Tappin, managing a chemical plant is very

complex. No chemical company, not ICI in the least, would like to be associated in anyway with disasters such as the one in Bhopal, India; or any environmental pollution problem, he continued. To manage a chemical company requires considerable skills and technological understanding. Any ownership policy that would equally affect the management of the subsidiary is likely to pose dangers for the subsidiary. Nevertheless, as earlier mentioned, rather than pulling out as a result of this, ICI intensifies the training of its Nigerian employees in the required managerial fields.

THE FUTURE:

The two interviewees were of the view that if CAPL had remained an 100 percent subsidiary of ICI, ICI might have been more pro-active in trying to grow with the company and in trying to make it expand by introducing a wide range of products. The indigenization policy was seen as a severe blow to ICI, because they then saw CAPL as a Nigerian company in which ICI was a participant, and so it is treated as an arms-length business with whom ICI had dealings, and specific judgements were made on the profitability of the various aspects of ICI's dealings with it. Had it remained an ICI's wholly-owned subsidiary, ICI, in the opinion of the interviewees, would have felt they have a responsibility for the company. And so ICI would have thought seriously about how to expand CAPL's present

line of business in order to save the subsidiary from its current financial difficulties.

ICI, according to them, have no plans of any further investments in the foreseeable future because they have got plants and machinery at three sites in Nigeria, which on the average are only about 15 percent utilized of their installed capacities. Substantial investments were made in CAPL in 1982/83 in expectation that the boom years of Shagari's government would continue, as every overseas company generally, did not want to be left out in the development of what looked to be a very good market, which has now gone into recession. What ICI has to do now, according to them, is to have patience and make use of the resources that CAPL has got.

They added: "ICI would never pull out of Nigeria, but what we see is a progressive erosion of our position. Over ten years ago we had an 100 percent subsidiary and many expatriates and we determined what financial policies were and then progressively we lost shareholding control, now the expatriate management is being eroded; the next significant stage for us would be the loss of management control. What ICI would do when they reach this final stage would be to continue to trade".

CASE TWO

UNITED AFRICAN COMPANY (NIGERIA) LIMITED

THE COMPANY:

The United African Company (Nig.) Limited, UACN, is a subsidiary of UAC International (hereafter UAC), which itself is a division of British-Dutch Unilever. The company has had business contacts with Nigeria for about a century. Until the 1960s, UAC was the largest and most profitable foreign investor in Nigeria, as well as being the oldest. The entry of oil companies and strong competitors in each of UAC's business areas in Nigeria relieved UAC of the title of the largest and most profitable foreign company in Nigeria. UAC nevertheless, through its subsidiary, UACN, remains the only foreign company in Nigeria that operates in almost every sector of Nigeria's economy. Its subsidiary, UACN, has more than twenty divisions in unrelated businesses with manufacturing plants spread across the country and sales offices in almost every Nigerian city.

Characteristics like these make UACN an interesting company to study. Therefore, in order to amplify the findings of the research on the ownership policy, UACN was

chosen as one of the companies whose response to the indigenization policy would be investigated in more detail. In doing this, the managing director of UACN, Mr. Shonekan, and an executive director of UACN representing the interests of UAC International, Mr. Reeves, were interviewed.

UAC International owns 40 percent of UACN. The remaining equity of UACN is owned by a few Nigerian institutional shareholders - Kaduna Investment Company Ltd.; Investment Trust Company Ltd., and the Bendel State Ministry of Finance - with 2.1 percent each, and the rest by the Nigerian public. The average number of people employed by UACN in 1981 was 19,200 and in 1985 this was 11,300. UACN's capital investment at book value in 1981 was N314 million, and by 1985 it was N406 million. The fall in the number of people employed was said to be due to shortage of raw materials which led to retrenchments. The increase in the book value of capital investment was attributed to revaluation of assets and some new investments.

All of UACN's total production in all its divisions are sold locally. The managing director explains that this was due mainly to lack of encouragement by the government for exports, and an overvaluation of the Nigerian currency, the Naira. It was difficult to establish how much of UACN's raw materials were sourced locally as there were many divisions producing hundreds of products and using

thousands of pieces or parts of raw materials. The company's deliberate policy on this however, the managing director explains, has been to source materials locally if they are available.

Virtually all decisions in UACN are taken at the local (Subsidiary) level, according to Mr. Shonekan.

UAC's POLICY ON OWNERSHIP:

UAC, like most other companies, according to Mr. Reeves, would always prefer 100 percent equity ownership of its subsidiaries. However, they also accept that it has been almost inevitable as well that in many countries around the world, there is going to be a necessity to sell some shares to indigenous shareholders.

To UAC, if they are going to have any shareholding at all, they would expect to have a major influence on the management of the business. If UAC is not going to have a major influence in the management of the business, they would prefer not to have any shareholding at all, said Mr. Reeves. This would mean to the observer therefore, that irrespective of the equity ownership level of UAC in a subsidiary, the fact that UAC remains a partner in the subsidiary is an indication that they have significant influence in the management of the subsidiary.

UAC, as a matter of policy, has always maintained an arms-length relationship with its overseas subsidiaries according to Mr. Reeves. Asked why UAC preferred this sort of relationship with their subsidiaries, Mr. Reeves explained that "Really you can't expect to manage a business in the Far East from London, can you? Although Nigeria or Africa is nearer, our view always has been that businesses have to manage themselves locally and the sooner they can do that competently, the better we like it. That in fact is our belief worldwide". He added that particularly with the size of Unilever, it has a remarkably small headquarters and the headquarter is really a series of functional departments that would provide the central theme in financial matters, legal matters, etc. The role of London basically is said to be to provide a linkage between the different subsidiaries.

THE POLICY AND ITS IMPACTS ON THE COMPANY:

The 1972 indigenization decree required UAC to sell 40 percent of its equity to Nigerians; and the 1976 decree required the sale of a further 20 percent to indigenes, thus demanding a total of 60 percent local participation in the equity ownership of UACN.

UAC, like most foreign firms in Nigeria at the time, expected the 1976 indigenization decree once the 1972 decree was introduced, even though the date was not

obvious. Mr. Reeves said he was not in a position to say what UAC's awareness of the first decree (the 1972 decree) was, as he was in Ghana then.

Mr. Reeves observed that the policy had no significant impact on the subsidiary except the major structural change of re-merging the different UAC companies in Nigeria into one and making them divisions of the one company. This meant a change in the way the business was managed. The UACN headquarters in Nigeria suddenly became much more important. Instead of having about twenty-one general managers running seperate companies which were loose confederations of UAC, suddenly there had to be central control and the whole corporate structure had to be created.

The policy was said not to have any significant impact on the relationship between UAC and the Nigerian subsidiary as their relationship had always been on arms-length basis. Over the years, according to Mr. Reeves, their arms-length management got to be even longer because as UAC's overseas companies develop their ability, the parent is happy to let them do their own things their own way. He continued that UAC since 1950 has been reducing the level of parent activities in the oversea company as the ability of the local businesses increase.

On the impact of the policy on the relationship between the divisions in Nigeria and the divisions in the U.K., he said they continued in much the same way, in terms

of the U.K. divisions providing service in the form of buying, linkage with Unilever or with other companies, etc.

Indigenization as seen by Mr. Reeves from Nigeria's point of view and from their experiences round the world, is understood as something that was going to happen; it was seen as inevitable. As. a result UAC was said to have adjusted to working within that framework. The major adjustment had to be to remember that the subsidiary has a large indigenous shareholding and that they cannot dictate to the local company because the board of the local company represents these majority local shareholders. So UAC is said to encourage the local Board to run the business as they should do and bear in mind the shareholding.

The major concern for UAC over the indigenization policy was about the undervaluation of their shares by the Capital Issues Commission in order to satisfy the indigenization requirement. Mr. Reeves asserted that there was no way that the Commission could have accurately assessed the value of their shares as a stock-market was virtually non-existent. He added, "and even if such a market was available and I was in the position of the government, I would have done what they did, to ensure that as many people as possible could afford the shares". However, he was worried about the failure of the government to ensure that an effective and efficient stock-market was created where shares could be traded and a more realistic value of company shares be determined.

RESPONSE TO POLICY:

UAC's response to the indigenization policy was mild, mainly as a result of the ever-existing arms-length relationship with its subsidiaries, including those in Nigeria at the time. As earlier pointed out, this relationship is perfectly conscious of the fact that someday, ownership and management of the subsidiaries would be transferred to locals. In the case of Nigeria therefore, since that day turned up to be in the 1970s, UAC welcomed it especially for the fact that they have been in Nigeria for a considerably long time.

There was one 'special' request however, that UAC made of the Nigerian government, following the indigenization policy, and that was to be allowed to merge the twenty-one companies into one. UAC felt that to treat every one of these companies as a separate company would be an administrative night-mare. In any case, some of the companies were making good profits and some were not at all. So unless they were merged together, UAC felt they might have found it difficult to sell shares to Nigerians in the unprofitable ones. Also that although they were technically seperate companies, they operated as one group. This was said to be the major thing that UAC did in response to the indigenization policy in Nigeria. The companies retained their names as prior to the policy, but

they stand as divisions of UACN, meaning that a UACN shareholder is in effect a shareholder of each of the twenty-one divisions of UACN.

CHARACTERISTICS THAT INFLUENCED RESPONSE:

Mr. Reeves observed that UAC had been doing business in Nigeria for about a century, but there was no denying the fact that at the time the indigenization policy was introduced, there was good long term future for business in Nigeria, and it was sufficiently attractive that a dividend based on 40 percent equity was still an attractive business proposition. So Nigeria according to him, was and still is an attractive market. And for that reason, UAC is still in Nigeria. This was the only characteristic of Nigeria, according to Mr. Reeves, that encouraged UAC to remain in Nigeria even after the policy was introduced.

On the firm's characteristics that possibly influenced the company's response to the policy or their decision whether to remain or not to remain after the policy, Mr. Reeves felt that neither UAC's technology, size, managerial skills nor any other characteristics influenced this decision or their response in general. Asked therefore what the 'pride' of the company is in Nigeria (what UAC feels Nigeria would lose if they decided to pull out), he replied that it had to be the statement which was always made in the statement of account of the local company, that

"UACN is a company managed by its team of management in Nigeria and it is managed for the shareholders and by them".

CASE THREE

TURNERS BUILDING PRODUCTS (AREWA) LTD

Turners Building Products (Arewa) [TBP(A)] was established in 1965 by Turners & Newall Plc (T & N) U.K. in Kaduna, northern Nigeria. The intention then was for her to be used as a depot for a sister company in Enugu - Turners Building Products Emele, TBP(E) - in eastern Nigeria. As a sales depot, it was managed by a sales manager. Up to the civil war time, 1967, this was the arrangement. Production was at the Enugu plant. The onset of the war left the Kaduna subsidiary as a depot with nothing to sell.

The parent company, T&N, thought of converting the Kaduna depot to a full-fledged production plant since the war did not affect Kaduna. So they discussed with an indigenous company - Northern Nigeria Development Company, NNDC - and the then North Central State Government (the government of the state in which the depot was established), and these two readily agreed to be partners. However, it was not until 1972 (after the war) that a machine was installed to produce asbestos cement roofing sheets and domestic building pipes for domestic use. The machine started production in 1973 with 20,000 tonnes capacity and since that time it had been producing asbestos

cement roofing sheets, ceilings and accessories.

Growth and Expansion

Since establishment in 1965 as a sales depot, and conversion in 1972 into a production plant, the company never thought of expansion until in 1975. This year, they decided they should build another factory in Kano (another major commercial centre in northern Nigeria). The Kano State Government was brought in (just as the North Central State Government was brought in in converting the Kaduna sales depot to a production plant). However due to bureaucratic delays encountered with the state government, another company, a competitor to TBP(A) - Nigerite Ltd. - met a private businessman in Kano through whom they easily got land, as the businessman had land already, and they immediately erected a factory and started production while the state government was still looking for land to give TBP(A).

Nigerite Ltd. called the Kano plant Giwarite Ltd. and it produces two profiles - 'flat sheets' and 'big sheets'. Giwarite entered the market with modern machines when TBP(A) was suffering from overcapacity, and thus easily snatched a significant share of TBP(A)'s market.

TBP(A) felt that the Kano market was already congested, with the entry of this competitor so they decided to drop their plan to set-up in Kano, and instead, another factory was built in Kaduna. However this took a long time to hatch. By the time the factory was completed in 1978/79, the recession had already started. The machine which was installed at 28,000 tonnes capacity was to produce mainly the profile that they thought was common to 'everybody' - standard sheets - which was near galvanized iron roofing sheets in price, so that people could have an alternative to galvanized sheets. Again this profile was then used mainly by the governments (federal and states) in roofing "low-cost houses" (housing scheme for low income earners). But because the governments could not continue the projects due to funding difficulties, the installed machine lay idle and registered the begining of the pthe expansion.

Apart from Giwarite Ltd. and Nigerite Ltd. there was another major competitor with TBP(A) in Bauchi - Bauchi Asbestos - which produces pressure pipes and roofing sheets (high-class roofing sheets).

Management

The management of the subsidiary since it became an independent production plant started with Mr. Rosling as the chief executive. He came in at a time when it was very

good economically. As a result, he was unable to change direction as the wind of the economy changed direction. When the recession of the late 1970s set-in, he was taken unawares, just like many other companies in Nigeria at the time. He was unable to find explanations for what was happening, he, as the many that time, even thought that it was to be momentary. This, in the view of the interviewee must have been Mr. Rosling's error. Neither he could cope with the changes nor the parent company with him, as a result, he was changed by Mr. Ogden in 1978. On going back to the U.K. he resigned from T&N after some years and joined John Holt Ltd. and was sent to Nigeria to set-up an independent subsidiary called Kaduna Polyfiber Ltd. He died in 1985.

Mr. Ogden who took over from Mr. Rosling came in with the intention of reorganizing the whole company management-wise. An assessment of the entire management team was carried out, redefining job descriptions, etc. On the labour side, conscious of the over-manning of the machines and with little working capital, he decided to trim down the labour force to the little capacity that could be used of the machines installed. He was not called back to the parent headquarters but he felt there was no immediate future when the Nigerian economy could improve, so he left, and he was sent to another subsidiary of the parent company in the U.S.

Mr. Ogden was succeeded by Mr. Rankin in 1982. For ten months, Mr. Rankin could not do anything to alleviate the problems of the company. He felt the task was too difficult for him, and he was replaced by Mr. Iyer.

Mr. Iyer took over in September, 1984. He focussed on the the problem of working capital, and did what this interviewee called brilliant. He suggested to T&N to allow both TBP(A) and TBP(E) (the two subsidiaries of the parent in Nigeria) to work very closely together to produce profiles which each of them had higher comparative advantage, given the different types of machines installed in each plant. He suggested the arrangement whereby the company produced its best and sends such to the other plant and vice versa. Some quantities of such profiles could be sold locally but more are sent to the other plant where possibly there is a larger market for the particular profile. This helped to create the much needed working capital for the company.

This was invaluable to the company as it could not raise funds from external sources. Financial institutions were unwilling to lend to the company and the Nigerian shareholders were not prepared to invest more.

The working capital problems of the company were compounded by the bad management practices of other managers in the company. When the recession started, the

man in charge of the sales unit was allocating products to distributors taking some of the biggest distributors on one month credit. The products were not selling fast, but in order to meet his sales targets, the sales manager was despatching to the distributors on allocation basis. Gradually, the distributors realised that they could not be able to pay for their allocations. Also, most of the contractors that were sold to directly, because their money was tied down in work not yet paid, could not pay for what they had collected from the company.

In response to this, Mr. Ogden introduced a system of internal control between the accounts and sales units. A document - the Authority to Despatch - was introduced. In the new system, when a customer purchases goods and payment was by cash, such a customer would be issued with a receipt and the Authority to Despatch (ATD) (the latter only if credit purchase). The two (or one) are taken to the accounts units where the customer's credit limit, credit age and credit worthiness are examined, before advising the stock room to or not to despatch goods.

Nigerian Management

The Nigerianization policy was introduced at a time when the company was already facing financial problems. The parent company was said to be willing and cooperative with the policy but could not Nigerianize the chief executive

position of the subsidiary because of these problems. The parent believed that only expatriate (home-country) managers were capable of pulling the subsidiary out of it doldrums. As a result, the positions of Chief Executive (General manager) and Works manager were reserved for the parent company or the decision on who occupied the positions (recruitment) was taken by them.

At a time there was no Nigerian Production or Maintenance manager. But when reorganization (following the policy) took place, a Nigerian was appointed to the position of Assistant Maintenance manager - late in 1978. Then Nigerians were recruited as Production and Assistant Production managers to understudy the Works manager. The Nigerians in these positions were supposed to take-over from the expatriates in the positions later.

The expatriate chief executives were unable to salvage the company. T&N learnt from the case of its subsidiary in India where under Indian management it became one of the best T&N subsidiaries in the world. This encouraged T&N to use local management. However, it retained its authority on TBP(A) in the the area of planning.

The first Nigerian Chief executive for the company was Mr. Ajulo (the interviewee). An accountant by training, and who had been with the company since the beginning of its problems, took over from Mr. Iyer in 1985.

On his assumption of General manager (Chief executive) position of the company, Mr. Ajulo was faced with two main problems. One was the working capital problem and the second was the 'market culture' of the company, concentration of efforts wholly in the northern market.

He considered the declining market of the North and the culture of the market and discovered that southern Nigeria was economically more advanced and therefore a better market for their products than the north "who depended almost entirely on their governments for projects" (e.g. building projects, the sector that the company served).

Nigerite Ltd., TBP(A)'s major competitor, is based in Lagos with much more advantages than the company; at the port where raw materials arrive, where it is cheaper to set up, etc. This placed TBP(A) at a competitive disadvantage with its major competitor.

Despite the upheaval in competition, Mr. Ajulo felt they should compete with Nigerite in the southern market. So they started selling to the south. His assessment of their performance in this market was "impressive". As at the date of the interview, he said they were selling 70% of their products in the southern market.

Within the company, he had introduced flexibility into management through interpersonal relationships. By this managers at the same organizational level are encouraged to communicate with each other and learn each others' roles without necessarily being linked by their superiors. This system of improved communication between managers he said, was aiding the company very well in its drive towards efficiency.

Because of the inability of the company to repay the overdraft it took to build the new factory in Kaduna, it was placed under receivership management in August 1985. This, according to the interviewee, meant company management could no longer embark on management risk decisions or ventures, unnecessary reporting of decisions (those which under normal circumstances were within their discretion), etc.

Mr. Ajulo said his company and even their bankers believed that the situation of their company did not call for receivership, but because of obsolete information passed to the Bank head-office, the bank could not decide otherwise.

Before the decision of the bank, the parent company was contacted on the debt problems of the subsidiary. The parent company approached the two Nigerian partners (Northern Nigeria Development Company, NNDC; and Kaduna

Investment Company Limited, KICL, the company owning the state government's share), explaining that they (T&N) could not bring in money from oversea to salvage the company. T&N suggested that NNDC should buy up its remaining equity stake at a very low cost so that they (T&N) would remain technical partners only to the subsidiary, but NNDC replied by saying that they too were contemplating selling their own stake in the company. The third partner, KICL, felt that if NNDC, owned by ten state governments hadn't the money to buy T&N's shares, where would they, owned by one state government get the money to buy?

A man came and said he was interested in buying NNDC's shares. T&N said if the buyer was strong enough, he should buy their own shares as well. T&N applied to the Securities Exchange Commission for the valuation of their shares for sale to the man. Meanwhile NNDC decided it was not going to sell its shares again afterall. So T&N was going to sell its shares to this buyer and remain a technical partner to the company.

The Future

The company's future was seen by the interviewee as bright, but that it depended on how long the 'receiver manager' was going to remain. He added that if the company's shareholders left the settlement of the loan entirely to the company, then it was going to take the company a longer time to be free from receivership. But if

the shareholders were willing to inject more money, then it was not going to be long before their freedom. With profits of 1.5 million naira in 1985 after five years of loss-making, and with impressive results in 1986 up to the time of the interview (August), the company's future was believed to be promising.

CASE FOUR

XYZ NIGERIA LIMITED

[This company preferred to remain anonymous, as a result, neither the subsidiary's name, the parent's name, nor actual names (including product brand names) are used in the case. Apart from these, every other material in the case is as contained here, including names of places.]

THE COMPANY:

XYZ is a subsidiary of a British company. It was established in Nigeria in 1961. XYZ accounts for less than one percent of the parent's total world investment. The parent's other investments in Africa are in central and east Africa. XYZ manufactures two main products - cans and corks. There are said to be about 19 other companies producing these products in Nigeria. XYZ controls 5 percent of the market, while the major competitor, Crown Cork and Seal (Nigeria) Ltd., has 10 percent of the share of the market; and Crown Products (Nigeria) Ltd. has 8 percent share of the market.

XYZ's parent company owns 51.09 percent of its equity. The other major shareholders include Nigerian Industrial Development Bank (with 3.62 percent); New Nigerian

Development Company Ltd. (with 2.45 percent) and Aideolu Estates Ltd. (with 0.75 percent). Apart from these, the remainder of XYZ's equity capital is held by the Nigerian public with none holding up to one percent of the company's equity.

The average number of people employed by XYZ in 1981 was 1442, but in 1985 the number of people employed by the company stood at 624. The only explanation for this drastic decline in the number of people employed by the company was diminishing business due to shortage of raw materials which led to retrenchments. And as for the amount of capital invested in the subsidiary (at book value), it was N12.07 million in 1981, and N20.0 million in 1985. The change was attributed to increase in the capital employed at the subsidiary.

XYZ like the other companies in Nigeria, sold all its products locally, within Nigeria. The explanation for this being that the company was yet to satisfy local demand for its products, and would rather not think of embarking on the adventure of exports. On sourcing, the company maintained a 20 percent level of local sourcing in 1981 and 1985. Similarly, a stable level of 65 percent sourcing from the parent company was maintained in 1981 and 1985. The remainder (15 percent) of the firm's raw materials came from affiliates of the parent company outside Nigeria.

The top management team of XYZ in 1976 was made up of six executives, two of which were Nigerians. By 1980 the top management team of the company consisted of ten executives, with six Nigerians. And by 1985 there were twelve executives in the top management team of the company with ten of them being Nigerians. The twelve members of the top management team had the minimum qualifications of first degrees. Three of them had post-graduate qualifications.

On decision-making, most decisions in XYZ were said to be taken locally, at the subsidiary level, on such issues as the appointment of functional or departmental heads, sourcing of raw materials, etc. Decisions on issues such as the appointment of executive directors of the subsidiary, are taken jointly with the parent company, similarly the decision on the level of parent equity to be maintained in the subsidiary (given that the parent had the choice of selling more of its equity to locals) is taken jointly with the parent.

THE NIGERIANIZATION POLICY:

XYZ was not consulted before the policy requiring the indigenization of management was introduced, and the company did not seek for any favours (i.e. negotiations) even after the policy was introduced. The interviewee

explained that generally, indigenization of management was an obvious process of natural progression in the company.

In the case of XYZ, the policy required that the positions of Business manager, Sales (or Marketing) director, Finance controller, Chief executive or deputy Chief executive, must be occupied by Nigerians. The response of XYZ's parent to this demand was said to be that of complete acceptance.

In order to achieve the objectives of the policy, the Nigerian government became stricter in the enforcement of the expatriate quota scheme, thereby strictly regulating the entry of expatriates to work in Nigeria.

In complying with this policy, the major problem encountered was finding the right Nigerians for the posts. In some cases, the interviewee added, this was due to human feelings rather than functional ability.

IMPACT OF POLICY AND COMPANY RESPONSE:

Before the Nigerianization policy, the Chief executive of XYZ was British. Also, the Board of XYZ then comprised of a majority of British directors. The top management team similarly was with a foreign majority.

However, the process of change in XYZ following the policy was not drastic or sudden, but well managed in such a way that the parent could cope with, said the interviewee. He added that XYZ's parent had always perceived that indigenization of management in Nigeria would be required. As a result, they started preparing for this by appointing an influential Nigerian, a one-time top civil servant, as an executive of the company. By 1976, this Nigerian was already the Deputy chief executive of XYZ. When the Nigerianization policy was introduced (or intensified), the interviewee, a Briton, stepped down as the Chief executive and the Nigerian, then the Deputy chief executive was appointed as the company's chief executive.

Also following the policy, from a top management team of six in 1976 with four expatriates, the number was raised to ten, just to create a feeling of indigenous majority in the top management, while allowing the expatriates who had been there before to retain their posts. This remained unchanged until 1979 before a Nigerian actually replaced an expatriate in the top management of the company.

In the Board of XYZ, there remains a significant parent representation. Of the nine members of the Board, four were representatives of the parent company, with one owning shares in the Nigerian subsidiary.

Apart from the above, other strategies resorted to by XYZ's parent in one case included job redesignation. This was in relation to the post of the Business manager that was required in the policy to be Nigerianized. Instead of doing just that, the company redesigned the job description of the "Works manager" to include the responsibilities and functions formerly performed by the "Business manager", and because the position of Works manager was allowed in the policy to be occupied by an expatriate, they were able to place an expatriate to perform the two functions - works management and business management - though as a "Works manager".

The interviewee expressed disappointment over the number of U.K. employees with the requisite technical skills allowed in the Nigerian subsidiary to pass on those skills to Nigerians. While not disputing that there is a desire to transfer technological and managerial skills to Nigerians, there is only a certain pace at which that can proceed and in the view of the interviewee, the Nigerian officials were overambitious in their concept of how quickly these skills are being passed, especially if new technology is being introduced. The interviewee felt that in many cases, the expatriates are being withdrawn too quickly before the skills are being passed to Nigerians to carry on. He did not deny that the people (Nigerians) may have the ability but that there is quite a learning period for this.

Another disturbing phenomenon for the expatriate manager in the view of the interviewee is the great deal of envy by Nigerians about expatriate living conditions. But he argued that if an expatriate is required to pass on a technology or skill, the only way to induce him to leave the U.K. to live overseas was by giving such an individual adequate living conditions and additional premium for the dislocation.

If Nigerians took over completely from foreign mangement, what happens to the introduction of new technology? asked the interviewee. He felt it was not sufficient for someone to come in, put up a plant, give a year or two years' training and walk away. It is important for the company to be sure that local management are capable of carrying on before they are left on their own.

What the company then resolved to doing was an effort to make sure that they had people in training in all sectors of their business, a forward plan of who will succeed who at certain junctures, from the Board level down; and an effort to give such people not only technical skills but managerial skills as well.

In pursuance of the manpower development objectives of the company, for example in 1984, a total of 987 employees attended courses during the year, compared with 648 in 1983, and despite the obvious problems of foreign exchange.

This figure included some managers who travelled for training overseas as well.

The company was said to have maintained their commitment to, and investment in manpower training and development throughout 1985, when 594 staff attended on-site company operated courses and seminars, with a further 159 attending external courses within Nigeria. Although there were obvious constraints on foreign exchange, eight members of the management team travelled overseas for courses operated by the parent company, and various professional organizations.

The interviewee added that the parent company was ever mindful of the need to ensure that the subsidiary continues to be in good hands and expertly managed in the long term, by providing the requisite qualifications for the indigenes to be appointed for various posts in the subsidiary. In addition, ten graduates were recruited as management trainees, and they commenced their duties with the company in October 1985. These Nigerian 'managers' were described as "all talented young people and those that are able to harness their natural abilities to managerial skills and determination to succeed, and will doubtlessly form part of a verile senior management in the next decade or two".

CHARACTERISTICS THAT INFLUENCED RESPONSE:

Asked of the characteristics of the Nigerian market that influenced the response of XYZ or its parent to the indigenization of management policy, the interviewee said that it was a consideration of the human resources available in Nigeria that was most important in their response to the policy. No other host country characteristic was considered influential in the company's response to the policy. "We make sure that the person appointed to a job being Nigerianized is qualified, experienced,and given the adequate training to do the job at least as well as it was being done before. And so far, we have not lacked such men in Nigeria".

No MNC characteristic was considered very important in influencing the company's response to the policy, especially in the manner of making them contemplate leaving Nigeria. "If any characteristic played a role at all, it was probably our technology, which the parent company could not leave, since it could not be removed from the subsidiary; so therefore, we had to remain to protect it".

THE FUTURE:

In the aspect of management, the company was said not to be very worried about the future. The only concern for the company regarding the future in this aspect stems from

management-staff conflict which often arises from events and influences which neither management nor staff had control over. An example was given that "1984 was a year when relationships between management and staff were put fully to the test, as for much of the time the materials supply position made it impossible to plan the production programme for more than a day ot two ahead. 1985 presented even more difficulties and challenges than 1984. Normal business planning, other than on a strictly short-term basis, was virtually impossible, and such a situation can and did impose quite severe strains in the relationships between management and staff". The interviewee assesses that unless there were sufficient raw materials to guarantee full capacity utilization in the company and full employment for employees, these problems were expected to persist in the company.

CASE FIVE

UNITED NIGERIAN TEXTILES LIMITED (UNTL)

United Nigerian Textiles Limited (UNTL) is a large textile company, with head-office in Kaduna and regional offices in Lagos (western Nigeria), Kano (Northern Nigeria) and Onitsha (eastern Nigeria). It is one of the oldest textile companies in Kaduna (established in the first half of the 1950s). It employed around two-thousand people until recently when the workforce-size fell to above one-thousand due to shortage of raw materials. The company has established itself over the years as a force to be reckoned with within the industry due to product quality and business success. As a subsidiary of a Japanese company, it has a significant number of Japanese and "Chinese" management staff.

As a sign of the size of the company, it is a parent to four other Nigerian companies within the textile industry. These are: Zamfara Textiles Ltd., Unitex Ltd., and Supertex Ltd., all in Kaduna, where UNTL is located; and Funtua Textiles Ltd., located in Funtua.

This case is specifically on how the company has responded to the local sourcing policy. The interview was with Mr. C. S. Yeung, the General manager of two of the UNTL companies (Unitex and Supertex), and the Deputy

Managing Director of UNTL. Mr. Yeung who has a post-graduate degree in engineering was partly educated in the U.K.

The Industry

Cotton is the main raw material in the textile indusrty. Other raw materials include polyester fibre, synthetics, manmade fibres and chemical dyestuffs, petroleum oil, and starch. These other raw materials apart from cotton are minor raw materials in the industry in Nigeria.

The total cotton requirement for the industry in Nigeria is put at about 108,600 tonnes of cotton. By 1974 the cotton requirement of the industry was satisfied by local production. UNTL, as an example, used totally locally produced cotton as at this time, and imported only chemical dyestuffs which could not be be produced in Nigeria. Then, starch used was obtained from locally produced sources from cassava starch; oil too was obtained from the Nigerian National Petroleum Company (NNPC); and spare-parts were imported. From this period of self-sufficiency in cotton and (partly starch) production, Nigeria slumped into importation of these raw materials.

The reasons for the fall in local production of cotton were described by Mr. Yeung as two-fold. "Firstly, Nigeria in the early '70s was still a predominantly

agricultural country. But with industrial development and petroleum earnings, people who were previously engaged in cotton farming left the rural farm-lands for the cities, resulting in the sharp decline in cotton production". "Secondly", he continues, the establishment of the Nigerian Cotton Board by the Federal government contributed to the decline in cotton production. The Cotton Board was to ensure that commensurate prices were paid to the farmer by the industry, to guide against ill-treatment by the latter. Also it was to ensure that seeds were available to the farmer. But the Cotton Board was not very effective, particularly the activities of the 'licensed buying agents'. Some of them were crooks, they cheated the farmers. Instead of making cotton-seeds available to the farmers at the right time, they purposely delayed in supplying the seeds. The farmers on the other hand could not wait because of the imminence of the rainy-season. At this time of anxiety, the farmers were often prepared to spend any amount to buy seeds, then the agents would sell to them at exhorbitant rates. Since cotton is not a food-crop but a cash-crop, farmers resorted to a change in attitude, from farming cotton and other cash crops to farming food-crops or food- and cash-crops."

The worst year in local production of cotton in Nigeria was said to be 1985, when Only 53,000 bales (about 8% of the industry requirement) was produced locally. The industry therefore, had to rely on importation for the remaining 92%. And because of the import restrictions,

capacity utilization in the industry was said to drop to around 50% and in some cases even as low as 30%.

The government, aware of the mismanagement of the Cotton Board, decided to wind up the entire organization, and introduced a free market situation where the firm or individual that had the money could buy cotton directly from the farmer(s); and also made it possible for the textile industry to give more incentives to the farmers. (Formerly, the industry was silent as it was the Cotton Board that decided everything). While the interviewee applauded this development by the government, he cautioned that the disadvantage of the "new" arrangement was the resultant price fluctuation. With such fluctuations, he said, it was only the middleman that was disadvantaged in the free market situation.

Following this development, the entire industry decided to join hands together and to adopt a direct purchase system of cotton from the farmers. The industry as at the time of the interview was planning to set up a limited company to purchase cotton for them.

Mr. Yeung added that the industry never encountered any problems with regards to raw materials in the past, prior to the shortage in domestic production of cotton, partly because there was enough cotton; and also because the government had enough foreign exchange and so they never bothered about controlling imports of the raw

materials and so there were no hardships in this aspect.

The 'Local Sourcing Policy' and UNTL

Mr. Yeung was asked of the impacts that the local sourcing policy has had on the company and the company's response to the policy. He said because of the age of the company in Nigeria, they felt obliged to comply with the policy and to try to help the government through every available means. He added that this was also the feeling and approach of the entire industry. In pursuance of this, UNTL was first in the industry to embrace the export promotion programme of the government. At the time of the interview, the company was in the process of improving pforeign exchange which was the principal objective of the government. The shipment of materials was to be available by July-ending, 1986, to U.S.A. and Europe.

A year earlier, in 1985, Mr. Yeung continued, the company perceived the future direction of government policy (the likelihood of industrial policy being export oriented) and prepared itself by ensuring technological capability (mainly through machine quality), ready for exports.

The absence of other less important raw materials such as chemicals and dyestuffs, according to Mr. Yeung, resulted in change (or fall) in product quality, for example, fewer colours/designs being used, lighter dyes, etc. This fall in

quality, he added, affected the entire industry, not only UNTL, and that at this fallen level of quality, UNTL's product quality was still highest in the industry.

For other raw materials like spare-parts, UNTL was trying to make its own. Even though the per unit cost of spare-part, for instance, was higher than the one imported, the company felt they had to try to get this made locally. This was done by the engineering department of the company.

The policy was said to have affected the production levels of the company also. Because the company could not get local substitutes (or sufficient quantities) for the imported raw materials, the company was faced with the choice between deleting products lines requiring imported raw materials and using whatever was available and risk quality. One of such raw materials was polyester fibre. Because the company could not secure import licence to import it, they stopped the production of textile materials using/requiring polyester fibre.

On the impact of the policy on the company's (and industry's) major raw material (cotton), and UNTL's response, Mr. Yeung said neither of the two could be considered on a company basis. The policy meant that the industry would collapse completely without any survivor, as the entire domestic cotton production was not enough for one of the big firms in the industry. Firm survival therefore, according to Mr. Yeung, could not be isolated

from industry survival. In recognition of this fact, he continued, the industry took a collective approach in responding to the policy, through the Nigerian Textile Manufacturer's Association (NTMA).

The NTMA, made up of eighty textiles and allied manufacturing enterprises were sympathetic with the government on its economic predicaments leading to the policy. They, therefore, understood the basis of the shift in government policy away from encouraging import-based industries to one of emphasising the development of local raw materials. In response to the policy, the assoiciation decided to establish a "Raw Materials Committee" in order to seriously look into how government could be given necessary support and assistance to actualise their intentions.

After a thorough examination of all the inputs being imported by the industry for productive operations, the Committee reached the following conclusions:

1. Machineries and spare-parts:

That nothing could be done about importing machinery and spare-parts until the country established an engineering and machine tools base.

2. Chemicals and dyestuff:

That until the petro-chemical project was on-stream, dependence on imported chemicals and dyestuff seemed necessary.

3. Fuels and lubricants:

That luckily, expansion in the activities of the Nigerian National Petroleum Corporation had provided more output of fuels and lubricants, and that the industry was not importing these.

4. Power and energy:

That the country's power and energy base had been improving. And that as the trend continued, there was going to be less and less importation of generators and allied equipment.

5. Yarn:

That the ban on the importation of cotton yarn, limited foreign exchange was still needed to import types of yarn not locally manufactured to take care of the needs of embroiders, finishing nets, blanket, thread and similar manufacturers.

6. Starch:

That they had commissioned the study of the capacities of starch manufacturers in order to establish whether their output could provide the needs of the industry. If the result of the enquiry showed inadequate capacity, a few more starch plants should be established. But until that was done, small quantities of starch and synthetic size agents should continue to be imported.

7. Cotton:

They remarked that Nigeria used to be a net exporter of cotton and could restore that status in due course. This being the industry's primary raw material, was the area in which their effort was going to be concentrated.

The association's decision based on the above assessment and recommendations of the Committee were as follows:

1. Short-term:

(a) The industry, through the association was going to give encouragement to any member with access to capital and land to proceed with cotton cultivation.

(b) The association established a "Raw Materials' Fund to which every member would be contributing twenty five thousand naira (based on gross turn-over of five million naira and below), or fifty thousand naira (based on gross turn-over above five million naira) annually for the next ten years (beginning from from 1986). This was forecasted to be about three million naira annually. The contribution would be mandatory to all including enterprises who were not members of the association but in the industry. To help involve every firm in the industry, the government

was requested to make payment of this contribution conditional to being granted import licence.

Initially, it was resolved that the amount collected would be given to the Cotton Board, but with the dissolution of the Board, the amount would be given to the NTMA company which would use the money to provide inputs to the farmers

The association also started making contributions to States for the production of cotton. The major cotton producing states received N250,00 each in 1986. Those next to them received N100,000 each and the least producers received N58,000 each.

(c) They decided they would support the Institute of Agricultural Research of Ahmadu Bello University to meet some of their logistical needs and researches including those pertaining to large-scale mechanised cotton cultivation, intercropping, etc.

(d) They decided they would commission studies for determining the feasibility and viability of large-scale mechanised cultivation.

2. Long Term

In the medium and long terms, the objective of going into large-scale mechanised cotton cultivation once the result of research proved favourable and fertile land became available was being considered. They also considered establishing a public quoted company to to into the development of cotton plantations.

Mr. Yeung was asked the impact that the local sourcing had on the relationship between UNTL and its parent company. He said the policy had little or no impact on their parent company or foreign suppliers. He added that the company was not buying its raw materials through the parent or any associated company of the parent. The relationship between the parent company and UNTL in this aspect was that the parent sends samples of current quality levels of export materials so that the company would try to match. UNTL then produces its own export samples and sends to the parent for quality and for marketability. What UNTL does is to try and match the parent's quality specifications.

UNTL's future and strategy for survival

Mr. Yeung assessed that the efforts to boost cotton production would mature in a year's time. And so, according to him, by 1987, the industry and the company particularly should be able to source all its cotton locally. As a

result his company was not particularly worried about the prevailing shortage at the time.

On the company's future, he said their strategic advantage over other firms in the industry was in their forward planning. Perceiving the imminent government policy of backward integration (the possibility of a ban on the importation of yarn) as echoed in 1979, the company thought of having a company to produce their yarn locally instead of relying on imported yarn which could be banned at anytime.

During their deliberations on the strategy, the company thought of setting up a new company for this, fully automated and advanced in technology. Later they realised that this would involve a lot of foreign exchange and the time factor for start-up too was going to be prohibitive. Incidentally, United African Company (U.A.C.), the owners of a textile company - Norspin - which had folded up approached UNTL to buy the plant. This other company was situated in Kaduna as well, within the same industrial area. UNTL inspected the machines of the plant and felt the spinning facilities were okay and could be reactivated, so they dropped the idea of a green-field venture and decided to buy-up Norspin in 1981. By 1982 the "new" spinning mill was already in full production, while most of the other firms in the industry were still importing yarn. The "new" spinning mill, standing as an independent subsidiary of UNTL (like Zamfara Textiles and Funtua

Textiles) was named Unitex.

At the time of purchase of Norspin, UNTL intended to use only its spinning mill. But later they felt the entire company could be fully reactivated. As a result, UNTL decided to introduce a new product line (the super-wax) which could not be produced in the mother company, and used the remaining facilities of Norspin for this. This venture was also undertaken by a seperate (new) company called Supertex.

In summing up, Mr. Yeung said he believed his company had no fear for the future and the problems caused by the local sourcing policy would soon be in the company's past.

CASE SIX

CADBURY NIGERIA LIMITED

THE COMPANY:

Cadbury Nigeria Limited (CNL) is a subsidiary of Cadbury Schweppes Plc., U.K. It was established in Nigeria in 1965. CNL accounts for about 1.5 percent of Cadbury Schweppes' total world investment. The parent has investments in many other African countries, except in North Africa. The major product lines of CNL are beverages and confectionery. In the former, CNL faces competition from three other producers in Nigeria, and in the latter, they have ten competitors in Nigeria. Generally however, CNL controls 70 percent of the beverages market in Nigeria with the two major competitors sharing 14 percent and 13 percent respectively.

As at 31st December, 1986, CNL's parent held 11,270,082 ordinary shares of 50 kobo each, representing 40 percent of the company's issued and fully paid ordinary share capital. The remaining 60 percent of CNL's share capital is owned by the Nigerian public with none holding more than 5 percent of the issued shares of the company. Most of the Nigerian directors of CNL own some shares in the company.

The average number of people employed by CNL in 1981 was 2416 and in 1985, this number was 1950. The fall in the number of people employed was attributed to the shortage of raw materials for production due to government policy, but also as a result of improved efficiency through introduction of new plants. CNL's average capital investment (at book value) in 1981 was N59.7 million and N60.1 million in 1985. All of CNL's production has been sold within Nigeria. The explanation given for this being that the company has been unable to satisfy local demand for its product due mainly to insufficient raw materials which also led to under-capacity utilization.

On sourcing, CNL sourced 30 percent of its raw materials from within Nigeria in 1981 and in 1985 this figure was 55 percent. No raw materials are procured directly from the parent company in the U.K., and only 5 percent of their raw materials were procured from other affiliates of the parent company in 1981, and 10 percent from this source in 1985. The other important source of CNL's raw materials other than from within Nigeria are unrelated, independent suppliers, mainly from the U.K, U.S. and other countries in Western Europe; who supplied 65 percent of the company's raw materials' requirement in 1981 and 35 percent in 1985. Three explanations were given for the increase in amount of raw materials procured from Nigeria: (a) the local purchase of packaging materials, (b) the local purchase of sugar and glucose; even though some

of these were themselves imported; and (c) the local purchase and processing of sorghum as substitute for imported malted barley.

CNL was not required by the parent company to pay any royalties prior to the indigenization policy. But following the policy, technical assistance agreements between CNL and the parent were entered into which required the payment of royalties. In 1980 for example, royalties paid by CNL amounted to N720,000; and N1.036 million in 1985.

The materials for this case were obtained through an interview with Mr. C. R. Clarke, the Deputy Executive Chairman of CNL.

THE SOURCING POLICY AND ITS IMPACT ON THE COMPANY:

As could be implied from above, there are very thin (if any) strings tying CNL and the parent company on the aspect of sourcing raw materials. CNL's parent, as a matter of policy, has always allowed CNL to source its raw materials wherever they could be economically obtained, provided they meet the quality specifications for the company as a whole. However, CNL may choose to use the parent to procure raw materials on their behalf from independent sources.

Before the local sourcing policy was introduced, CNL was consulted. The consultation was between the government representatives and directors of CNL, the Chamber of Commerce, and the Manufacturers' Association of Nigeria (MAN). The process was said to involve meetings with officials from the Federal Ministry of Agriculture to identify agricultural priorities, define objectives and prepare implementation plans. After the policy was introduced, no further negotiations (direct or indirect) took place. The explanation given for the non-negotiation was that having formulated the company's sourcing policy after the initial consultations, the company was already actively pusuing it by the time the policy was introduced.

The policy required that local substitutes for imported malt, sugar and glucose should be obtained; malt by 1990, and the others by 1989. The parent company was said to be generally supportive to the policy. The major problem encountered by CNL in complying with the policy was said to have been difficulty in securing land acquisitions.

Of all the many disppointing impacts of the policy on the company, one of the saddest according to Mr. Clarke, was to see many of the company's brands forced into a state of temporary decline because of the shortage of material .that allocation of CNL's brands was never sufficient to meet demand in any part of the country, thus resulting in inflated prices. This situation, he added, will not change

until the supply gets closer to equating with demand and some real brand competition returns to the market place. He asserted that the established consumer goods manufacturing industries, particularly the foods sector, have been poorly treated as far as import licences were concerned. He cited an example of the company's output capacity at the Ikeja factory which was only 33 percent utilised in 1985.

Of the company's established range, only Pronto and Parozone were said to be able to record a respectable increase in ouput in 1984. Interestingly, both products were said to be packed in plastic containers, and of all the packaging material supplies the company received from third party manufacturers, there were fewer interruptions to plastic bottle supplies than any other category of packaging material.

Confectionery was said to be particularly badly hit by material supplies and sales was said to have fallen by over 30 percent in 1984 compared with 1983. The demand for the company's Tom Tom, Buttermint, Malta Sweet, Bon Bon and Bazooka Bubble Gum was said to be at unprecedented levels but the scale of shortage of stock meant that consumers had to pay three or four times the recommended retail prices for their sweets. In 1985 however, the boiled sweets department had a record year, benefiting from the substantial local purchases of its two main ingredients, sugar and liquid glucose, which ensured that productivity

could be sustained at satisfactory levels throughout the year.

Tomapep production was halted at the end of July, 1984. None of the company's brands was seen to have suffered more from shortage of material supplies than Tomapep since the sourcing policy was introduced. At no time since 1980 had the plant (for Tomapep) worked in excess of 25 percent of its capacity. Mr. Clarke lamented that this continues to be a source of great regret for the company's management that the Nigerian consumer was regularly able to purchase imported tomato puree, but was denied the choice and opportunity of buying locally manufactured Tomapep. For the whole of 1985, Tomapep was not produced and although it was re-introduced around mid-1986, it was by then out of production for two years.

Knorr Seasoning Cubes was another of the company's brands that was badly hit by the policy. Production was said to have been pegged at 50 percent of targeted output since the policy was introduced due to the shortage of import licence for buying raw materials. Mr. Clarke had a special feeling of regret for Knorr Seasoning Cubes which was introduced into Northern markets in 1980. Six years later (in 1985) and after a factory investment of N5.0 million, output was restricted by the inadequacy of import licences and distribution was still confined to those markets. In 1985, the Knorr plant was said to be barely 10 percent utilised, a sad state of affairs for an investment

which embraced plant which the company considers to be the best of its kind available anywhere in the world today, and in training Nigerian technicians on whom much foreign exchange was expended to enable them to produce first class seasoning cubes at over ten times the volume that the company was constrained to achieve in 1985.

Bournvita was noted as the company's flagship brand, and the company had been determined to keep it in production, though circumstances beyond the company's control thwarted these efforts and caused the Bournvita department to closed down for a period of eight weeks from 19th November, 1984, to 14th January 1985. Mr. Clarke observed that: "In the end, it is invariably the consumer who bears the brunt when popular branded goods and commodities diappear from the market-place and I am genuinely sorry that the shortage of supplies caused the retail price of a tin of Bournvita to double within two or three weeks of the enforced shut down of the department".

RESPONSE TO POLICY:

Asked what the parent company did following this policy, Mr. Clarke said they did nothing really. He reminded the researcher of the parent's policy on sourcing and said despite the fact that the quality of the products might be affected by the use of local raw materials, the parent was not particularly worried about this as virtually

all of CNL's production would be sold within Nigeria anyway.

For CNL, with so little of the available capacity being used, expansion of the ongoing business was not practicable, according to Mr. Clarke. All plans for the development of the proposed new confectionery factory at Ilorin were therefore suspended until there were clear indications of genuine and permanent recovery in the economy, and the firm assurance that any new production unit would have continuity of material supplies. Without this sort of guarantee, he added, it would be commercial nonsense to go ahead with the construction and equipping of the Ilorin factory.

1984 saw a great deal of activity by the company in certain specific areas of agro-allied development. Promising work was carried out on sorghum. Though there was much research and development work ahead of the company, Mr. Clarke observed that there were real prospects that locally grown sorghum, in terms of quality and yields of syrups that are able to be extracted from it, will represent a major foreign exchange saving on raw materials being imported, used in Bournvita and confectionery manufacture. He remarked: "I am particularly happy that the work on sorghum, carried out in conjunction with the Federal Institute of Industrial Research, Oshodi, has now resulted in a direct link being established between the company and the Institute of Agricultural Research, Ahmadu Bello University, Zaria, wherein lies a great deal of expertise on grains, and sorghum in particular. The

programme agreed will ensure that the skills of the Institute in raising the optimum varieties of sorghum will be harnessed to the company's plans for seed production and the processing technology on starch conversion and syrup extraction that we are rapidly building up".

There were other areas of development related to agriculture in which the company was already actively engaged in. Mr. Clarke added: "The Board of CNL have made the decision in principle that they can best serve the the joint interests of the nation and the company by investing, wherever it is feasible to do so, in the efficient local sourcing of raw materials required for the company's existing brands, and through development of a range of new products which will be largely based on materials which are already grown or produced locally on a commercial scale, or hold out the promise that this objective could be quickly achieved".

In 1985, the company's main thrust of development activities was to accelerate the programme on local sourcing of sweeteners. This was because the company has been a major user of malt extract, which is processed from imported malted barley, as well as liquid glucose and dextrose monohydrate, both of which were still 100 percent imported.

The company made a direct equity investment in a farming venture in Kwara State in 1985, in an area which is well suited to the growing of sorghum. This, the company hopes, will enable a proportion of their supplies from end 1986 onwards to be self sourced, and would also provide an opportunity for them to have direct control over a programme of work in developing new improved varieties.

Furthermore, the company's agricultural development programme in 1985 focussed on sweet potatoes and yams. They sponsored a programme of growing trials at the International Institute of Tropical Agriculture, Ibadan. The results were said to be extremely satisfactory and were being followed-up with an enhanced series of trials in 1986. The sweet potato, though not a major food crop in Nigeria, is said to be capable of producing very high yields under Nigerian climatic and soil conditions. Its interest to CNL is said to be as a bearer of starch which can be converted into syrup extract similar to standard liquid glucose. In this respect, it can be regarded as a rival to sorghum, therefore the company considered it necessary to develop both sweet potato and sorghum in parallel in order to evaluate and identify optimum source in terms of cost and quality.

The company was also involved in other agro-allied ventures, included amongst which were firm plans to return to the processing of yams and tomatoes.

Asked of the host country characteristics that most influenced the firm's response to the local sourcing policy, Mr. Clarke said there was nothing in the host country that significantly influenced the company's response to the policy, apart from the company's desire to remain in Nigeria and to help the government in achieving their desired objectives in the policy. This, he explained was mainly because the company had adopted the attitude that whatever raw material obtainable locally, would be used. And on the company characteristics that influenced CNL's response to the policy, he said it was only the firm's technology that was important. He explained that this was because the processing or conversion of local agricultural products into raw materials for CNL involves sophisticated plant and high levels of technology. This consideration led to their improving the technological base of the company through management and staff training, acquisition of new machinery capable of processing the locally produced raw materials, and consultations with the parent company.

THE FUTURE:

Mr. Clarke concluded that much of the company's future would depend on how well the government managed the extremely limited resources it then had at its disposal. He said: "It seems certain that the lean and hungry days of

the past are going to be with us for a lot longer yet. If austerity and its influences on people and practices are sustained over the next two or three years, during which time economic growth is likely to be at a low level, then there is surely a better chance that the excesses and generally poor management of past years will be avoided when the economy becomes strong again".

CASE CONCLUSIONS

FINDINGS OF THE CASE EXAMPLES:

This section tries to harmonize the results of the case examples on the response of MNCs to the three government policies in Nigeria. A summary of the main findings on this issue is presented below.

1. Generally, the firms "complied" with the policies.
2. Explicit negotiation was absent in the firms' response to the policies
3. Nigeria's market attractiveness was the most important host-country characteristic that influenced firms' response to the policies.
4. MNC technology was the most important MNC characteristic that influenced the response of firms to the policies.
5. Even though virtually all the firms complied with all the policies, their reactions varied.

Compliance:

The case materials reveal that the firms studied complied with the three policies. Compliance with the indigenization policy generally means selling the required minimum equity proportion to indigenes. And compliance with the nigerianization policy means placing Nigerians in the

required/stated (number of) positions. Lastly, compliance with the local sourcing policy means buying the required proportion of raw materials from within Nigeria for the time.

In the two cases studied, as well as in the rest of the sample, the firms indicated that they had complied with the indigenization policy. Both ICI and U.A.C. International sold the required local equity proportions to Nigerians only after the policy was introduced. However, U.A.C. indicated that they complied with the policy without any worries; that Nigerians would have been given the required equity proportion eventually even without the policy. ICI on the other hand was "compelled" to sell the required equity proportion to indigenes. Given a choice, they would have preferred to own much more of the subsidiary's equity, or at least not sell so much at the time they were required to.

The attitudes of these two companies to the policy was representative of the general attitude of the firms in the sample and MNCs in Nigeria. There were those that complied but only through compulsion as well as some who complied knowing that they had such plans in the pipeline anyway. But in most cases, both categories chose to "comply" and remain in Nigeria rather than to quit.

On the second policy, Nigerianization, the two cases studied indicated that they had complied with the policy. But unlike compliance with the indigenization policy, here, compliance was gradual, and thus less of a problem. For instance, Turner's Building Products decided on its own to transfer management to Nigerians after a period of "trial" with home country (expatriate) managers. Similarly, in the case of XYZ, there were no serious resentments following this policy. The possible explanation for this could be the less precise nature of the policy as it concerned individual firms; e.g. "Nigerianize most of your top management in future".

The firms' compliance with the third policy - local sourcing - was remarkable. The firms studied did not only reason with the government on the policy, but appeared to be enthusiastic in helping both themselves and the government by doing all they could to comply with the policy. It must be pointed out however that this was not a common phenomenon with all the firms in the sample or in the country. It is very likely that these two companies complied with the policy the way they did because they belong to industries where backward integration was easy and less costly.

Bargaining:

The cases reveal that explicit bargaining did not take place in the firms' response in any of the policies. The two companies whose responses to the indigenization policy

were studied, indicated that there was no formal process of negotiation in their response to the policy. Even ICI who were particularly unhappy with the policy, did not enter into any form of negotiation with the government. A similar pattern was observed in all the firms in the sample. Similarly, the four companies whose responses to the second and third policies were examined (and the remaining firms in the sample) did not enter into any negotiations with the government on the policies.

It is interesting to note that in some cases, e.g. ICI, the adoption of a negotiation stance was considered counter-productive. Thus in many cases, even where explicit negotiation was possible, it was not adopted.

The possible explanations for the lack of negotiation in firms' response to these policies are discussed later in chapter eleven, section 11.4.

Importance of Host-Country Characteristics:

All the cases support the survey results that market attractiveness was the all-important host country characteristic that influenced the response of firms to the policies. This was found to be the major, if not the only host country characteristic that influenced them.

Despite ICI's displeasure with the indigenization as well as the other policies, for instance, they did not leave Nigeria, partly because they considered, and still

consider Nigeria an attractive market. Similarly, a foresight of the increasing market attractiveness of Nigeria made UNTL and Cadbury to seek ways of increasing the local content of their products in order to remain and benefit from this.

Importance of MNC Characteristics:

On the MNC characteristics that influenced firms' response to the policies, the cases support the survey results that only the firm's technology was considered an important characteristic in that respect. And even where this characteristic was considered very important, the effect was contrary to popular belief that the firm might become "arrogant" and quit, rather, it made them to remain in the host country.

A firm's technology was considered very crucial in response to the policies. Many firms, like ICI, could not leave Nigeria despite their unhappiness with the policies because of their technology which they had already committed in Nigeria and with some Nigerians.

It emerged from the case studies that because the firms had already committed non-retrievable assets in Nigeria (particularly their proprietary technology), the only wise thing for them to do was to remain and protect these assets. This revelation supports Rugman's hypothesis that the negotiating strengths of the MNC deplete vis-a-vis those of the host country once the former has committed resources in

the host country (see chapter three).

Company Actions following Response:

Even though all the firms in the cases studied (and the rest of the sample in general) indicated that they complied with the policy, the actions of the individual companies following their response varied to some extent.

ICI for example, complied with the indigenization as well as the other policies. But following their compliance, they stopped the Nigerian subsidiary from using the "ICI" name in Nigeria as company name. Furthermore, having given 60 percent of the subsidiary's equity to locals, they felt their proprietary technology could no longer be protected (worsened also by the nigerianization of management policy), therefore, they stopped the flow of "new" technology to the Nigerian subsidiary. And following their compliance with the local sourcing policy in their paints business, the Nigerian subsidiary was required to invent new brand name(s) for their paints produced from local raw materials. Lastly, ICI's general reaction to these policies, particularly the indigenization policy, was a change in the relationship between the parent and the Nigerian subsidiary - from a wholly integrated relationship between the two to that of an arms-length. The effect of the policies on ICI and the Nigerian subsidiary therefore was that of alienating the two entities.

U.A.C. International on the other hand, because of their fundamental belief on the independence of subsidiaries and operating on arms-length basis, perceived the introduction of the policies and welcomed them when they came. No significant reaction was noted after the company's compliance with each of the policies.

On the other hand, though XYZ is reported as having complied with the Nigerianization policy, they actually flouted the policy by making some internal reorganizations which made the policy of no impact on them.

In many cases e.g. ICI, Cadbury, and others in the study, new charges/fees were introduced that had to be paid to the parent companies by the Nigerian subsidiaries following the indigenization policy. These were in the form of royalties, licensing fees, etc., most of which were not chargeable to the subsidiaries before the introduction of the policy.

Finally, a summary of conclusions from the cases is presented below in table 10.1.

TABLE 10.1: SUMMARY OF CASE CONCLUSIONS

CASE	STATED RESPONSE TO POLICY	REACTION FOLLOWING RESPONSE
1. ICI	Complied unwillingly; No negotiation	Disallowed the use of "ICI" name by subsidiary; stopped the flow of "new" technology to subsidiary; introduction of royalties payable to the parent company; treatment of subsidiary as an arms-length company; requirement for subsidiary to create its own brand name(s) in some businesses (*).
2. U.A.C.	Complied willingly; No negotiation	No further reaction following compliance
3. TBP(A)	Complied willingly; No negotiation	Sale of remaining parent equity ownership in subsidiary in preference for a licensing agreement between the subsidiary and the parent (**).
4. XYZ	"Complied" reluctantly; No negotiation	Internal re-organization to avoid realistic compliance; introduction of royalties payable to the parent (***).
5. UNTL	Complied willingly; No negotiation	Serious industry-wide efforts to produce locally all obtainable raw materials, pioneered by the case company; stoppage of the production of lines which use predominantly imported raw materials.
6. CADBURY	Complied reluctantly; No negotiation	Efforts made to produce or source those raw materials that could be produced or sourced locally in some businesses; stoppage of production of some lines which use only or mainly imported raw materials; introduction of royalties, licensing fees, etc. payable to the parent (****).

NOTE: 1. (*) : Not directly a reaction following the indigenization policy but the local sourcing policy
2. (**) : " " " " " " nigerianization policy but management-related problems
3. (***) : Not directly a reaction to nigerianization policy but to the indigenization policy
4. (****) : " " " " " local sourcing policy " " " " "

CHAPTER ELEVEN

CHAPTER ELEVEN

REVIEW, RECONCILIATION AND RECOMMENDATIONS

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CHAPTER ELEVEN

REVIEW, RECONCILIATION AND RECOMMENDATIONS

11.1 INTRODUCTION

The first two literature review chapters (chapters two and three) considered developing country policies towards foreign direct investment, and the bargaining power theory as it related to the contingency model. Chapter five of the study considered Nigeria's policies that affect (or affected) foreign investments. In the analysis of the research results, the extent of influence of selected host-country and MNC characteristics on firms' response to selected government policies was examined. The cases in chapter ten provided additional information on the response of firms to the policies. This chapter reviews the theoretical and empirical issues raised in the literature and tries to reconcile these with the results of this work, also providing alternative explanations for the results obtained.

The next subsection in this chapter summarizes the results on the behaviour of the sample firms in the 'conflict' in each of the policies; the results obtained in this work are compared with results of previous work in the

second subsection; possible explanations for any variations between results obtained here and of previous work are discussed in the third subsection; the relevance of the bargaining concept in Nigeria and developing countries generally is discussed in the fourth subsection. The last subsection comments on policy formulation and implementation in Nigeria.

11.2 SUMMARY OF RESULTS AGAINST THE CONTINGENCY MODEL

The contingency model (earlier discussed in chapter three) suggests that a firm is likely to be 'competitive' in handling conflict when its stakes and power are relatively high, and when interest interdependence and relationship quality are relatively negative. An 'avoidance' mode of handling conflict is likely to be appropriate for an MNC when its stakes and power are relatively low, and interest interdependence and relationship quality are relatively negative. Furthermore, a 'collaborative' mode of handling conflict, according to the model, is likely to be appropriate for an MNC when its stakes and power are relatively high, and when interest interdependence and relationship quality are relatively positive. An 'accommodative' mode of handling conflict, the model suggests, is likely to be appropriate for an MNC when its stakes and power are relatively low, and when interest interdependence and relationship quality are relatively positive. Lastly, that a 'compromise' mode of handling

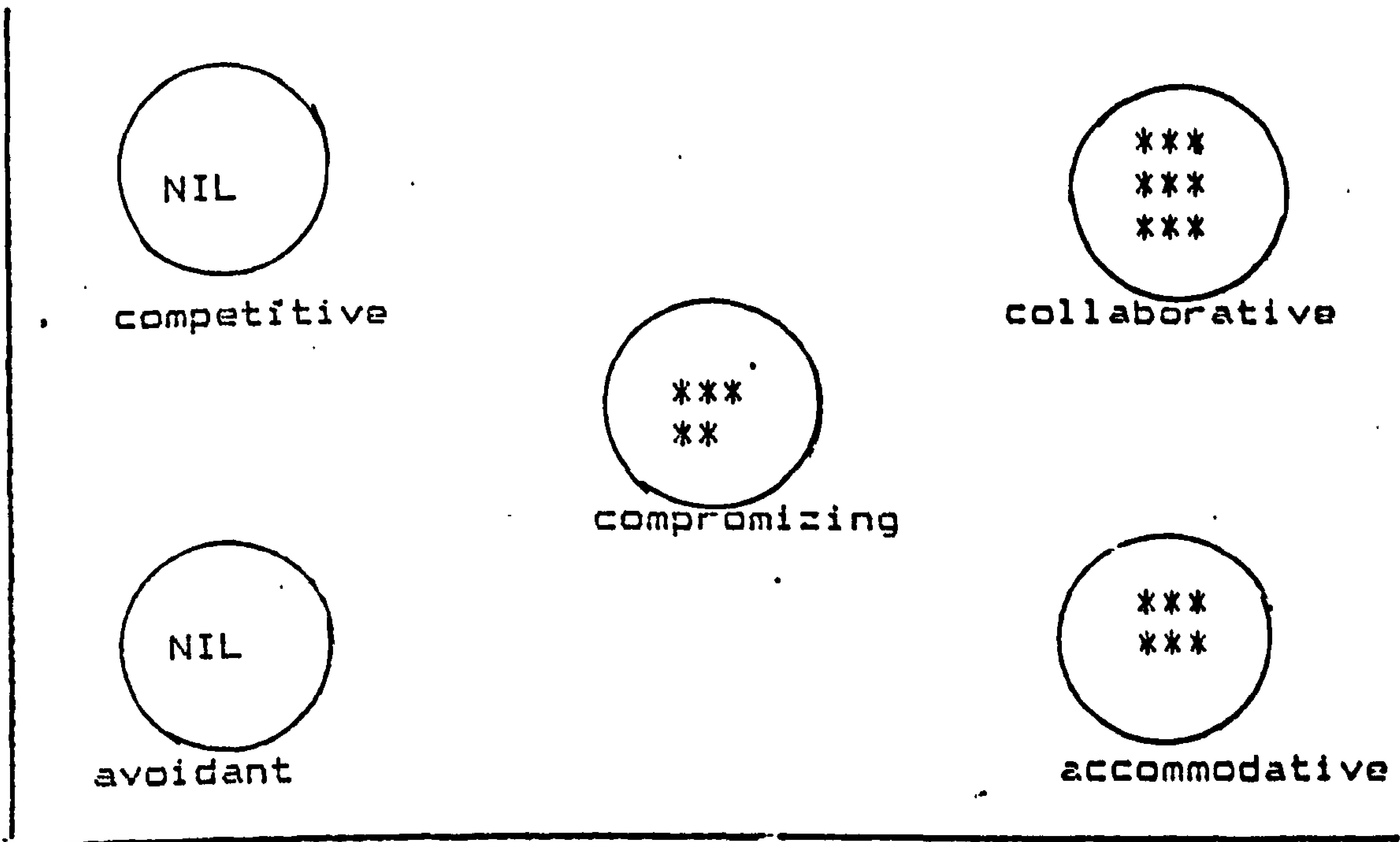
conflict is likely to be appropriate for an MNC when its stakes are moderate and its power advantage is slight; and when interest interdependence and relations are mixes of positive and negative elements.

From an understanding of the behavioural modes in conflict, it is implied that an MNC that chose to be 'competitive' in its handling the conflict(s) that arose from any of the policies would ultimately disinvest from the host country as such a firm would be too 'arrogant' to succumb to the demand(s) of the government. Similarly, a firm that adopted an 'avoidant' behaviour would withdraw from the host country because of its 'fear' of facing or entering into conflict with the host country. Effectively therefore, one expects that in this study, none of the firms in the sample could have adopted either competitive or avoidant behaviours in their handling the conflict(s) that arose from any of the policies.

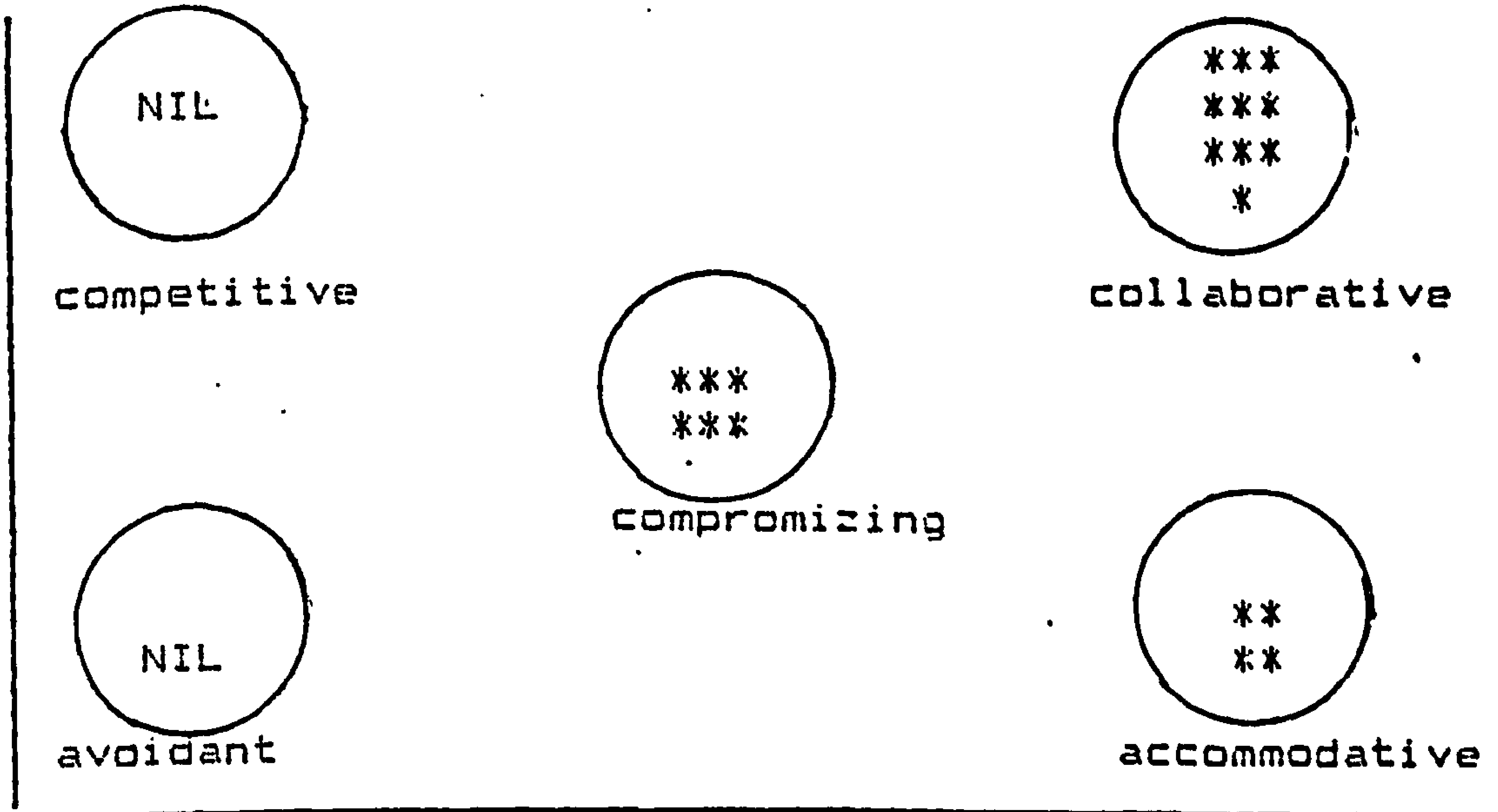
Figures 11.1a, b, and c present the summarized results of the behavioural modes adopted by the sample firms in each of the three policies (indigenization, nigerianization of management, and local sourcing).

FIGURE 11.1

(a) DISTRIBUTION OF SAMPLE FIRMS ACCORDING TO BEHAVIOURAL MODES IN INDIGENIZATION POLICY



(b) DISTRIBUTION OF SAMPLE FIRMS ACCORDING TO BEHAVIOURAL MODES IN NIGERIANIZATION POLICY



(c) DISTRIBUTION OF SAMPLE FIRMS ACCORDING TO BEHAVIOURAL MODES IN LOCAL SOURCING POLICY

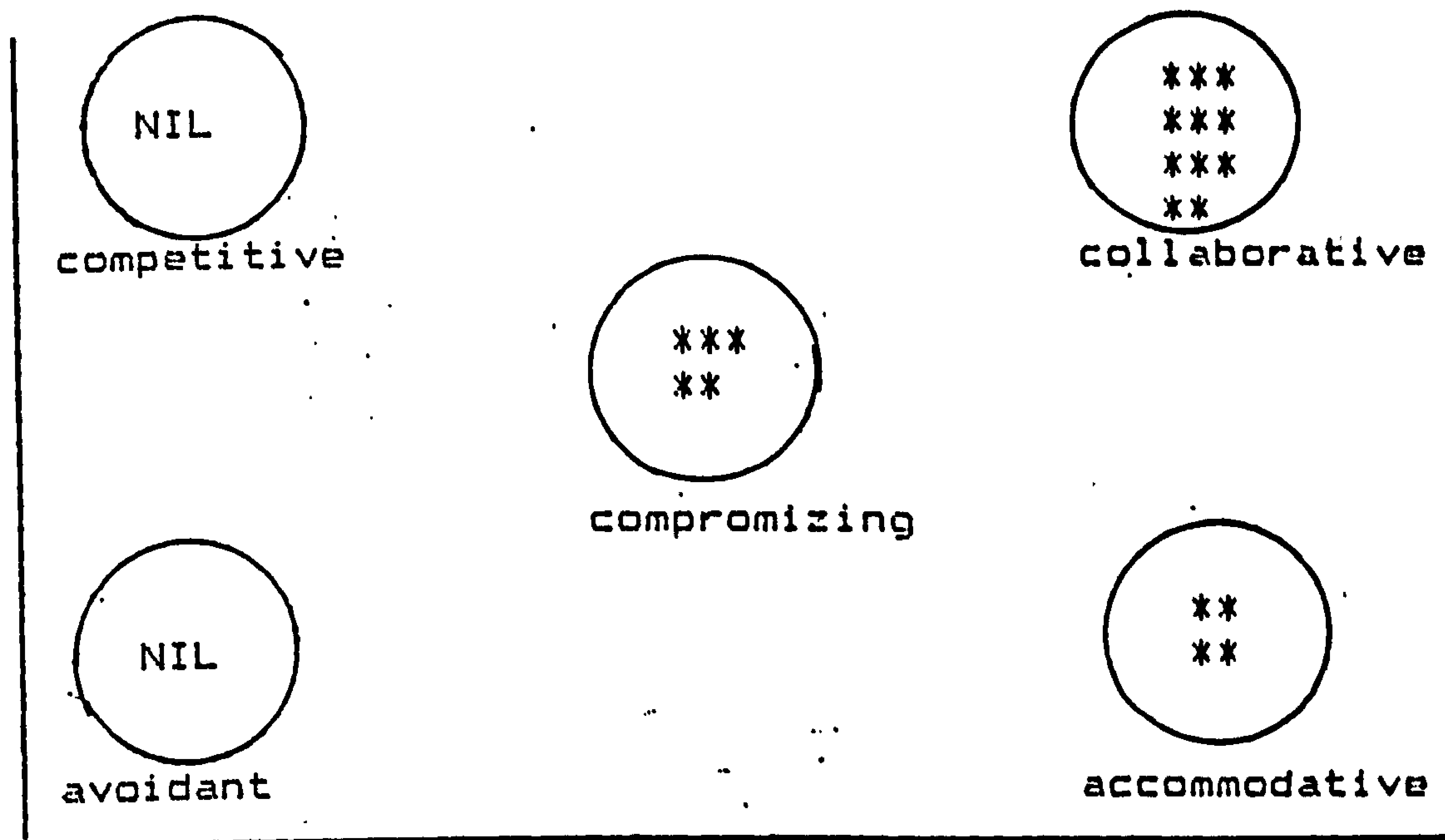


Figure 11.1a shows that in the indigenization policy, nine of the firms (45%) were collaborative in their behaviour, six were accommodative, and five were compromising. None was either competitive or avoidant. The results that no firm in the sample was competitive or avoidant in its behaviour in this policy support one of the implicit assumptions or predictions derived from an understanding of the model as earlier highlighted. However, in the model, the nine firms that were collaborative in behaviour in the policy are expected to be firms with very high relative power and outcome stakes; as well as with highly positive relationship quality and interest interdependence with the host country. Similarly, the six firms that were accommodative in their behaviour in this policy are expected to have had very low relative power and outcome stakes on the one hand; but with highly positive relationship quality and interest interdependece

with the host country on the other; etc. Unfortunately, these were not true of the results. The firms in each of the behavioural modes in this policy were with assorted combinations of power and stakes on the one hand; and their relationship quality and interest interdependece with Nigeria varied, on the other. For instance, the three firms regarded very complex in the sample, which would normally be regarded as having high stakes and relative power, were not all collaborative in their behaviour (the only other option to them other than competition). Only one of them was collaborative, the rest were accommodative.

Similarly, figures 11.1b and 11.1c show that the predictions derived from the model that none of the firms in the study was expected to be competitive or avoidant in their behaviour in the respective policies for reasons earlier given, was supported. In the nigerianization policy, the number of firms that were collaborative in their behaviour increased to ten; and those that were accommodative fell to four; and those that were compromizing increased to six. However, apart from the firms that were originally collaborative in their behaviour in the indigenization policy, some of the others changed their behaviours in this policy either from accommodation to compromise or vice-versa, and one which was accommodative became collaborative in this policy.

In local sourcing, eleven firms in the sample (55%) were collaborative in their behaviour, four were accommodative, and five were compromising. Like in the second policy, here too, some firms altered their behaviour from the previous behaviour(s), except those that had been collaborative from the first policy.

In the second and third policies as in the first, firms in each behavioural mode were with assorted characteristics - power, stakes, relationship quality, and interest interdependence; contrary to predictions from the model. The inevitable conclusion from this therefore is that "the choice of behaviour by an MNC in the 'conflict(s)' that arose from the introduction of government policies in Nigeria was not determined by the relationship between the MNC's power and stakes; and relationship quality and interest interdependence with the host country".

The firms that were predominantly collaborative in their behaviour to these policies were made up of seven British firms, and the rest from the U.S. and Switzerland. These firms belonged to diverse sectors of the Nigerian economy. Of those that were accommodative in their behaviour, most of them were German, even though they were in different industries. And of those that were generally compromising in their behaviour, most of them were U.K.-owned, but they also belonged to different industries. There were no (other) common characteristics that firms in

each behavioural mode shared.

11.3 COMPARISON OF RESULTS WITH PREVIOUS WORK

In comparing the results of this research with results of previous work on the subject, we are limited by the scope of previous research. All previous work has been limited to host country policy(s) on ownership. None has considered or applied the bargaining theory in other areas such as localizing management and sourcing as done in this research. As a result, we shall compare the research results on the ownership policy with results of previous work on this subject.

In Fagre and Wells (Jnr) [1982] work on the bargaining power of U.S. firms operating in Latin America, they found that technological intensity (measured by the MNC's percentage of sales revenue spent on research and development, R&D, activities in 1974) was a source of bargaining power to the MNCs. They concluded that the bargaining power of a developing country was likely to be weak when faced with a high-technology firm. Contrary to the above, results of this research suggest that though technological intensity (measured by average amount of technology-related payments by the subsidiary to the parent between 1970 and 1980) was considered by most respondents as an important MNC characteristic, it did not result or contribute to the acquisition of (or being able to acquire)

as much equity in the subsidiary as wanted by the technologically intensive MNCs. That is, technological intensity, though important to the MNC, was not influential on the degree of the parent's equity participation in the subsidiary. No other empirical work has tested this variable.

In the above work, Fagre and Wells (Jnr) also considered the role of export capability (market access) in influencing the bargaining power of the American firms in Latin America in the study. The result of the work on this variable was that where a large proportion of a subsidiary's output was exported, this provided an important bargaining lever for the U.S. firm in Latin America. In another work by Poynter (1982) on the intervention experiences of MNCs in four developing countries, he found, like Fagre and Wells (Jnr) that exports constituted a source of bargaining power to the MNCs, even though the relationship between exports and government interventionist policies was not clear. Unlike in these previous works, here, the role of exports in influencing MNCs' response to the policies could not be tested as none of the firms was exporting.

On operational and managerial complexity, Poynter's (1982) work referred to above, found that complexity gave firms an edge over host countries in bargaining against government intervention. The results obtained from this research supported Poynter's results except that it was not

significant.

On subsidiary size, no empirical work has been done on size in terms of number of people employed in the MNC subsidiary. However, on size in terms of amount of capital possessed and/or invested by/in the subsidiary, Fagre and Wells (Jnr) in their work found that the financial resources held by the American MNCs were not an important source of bargaining power in the Latin American countries. In this research, the amount of capital invested in the subsidiary influenced the degree of parent equity participation in the subsidiary.

No previous work has considered subsidiary age as an influencer of a firm's response to policy or a possible source of MNC bargaining power. On the possible host-country characteristics that would influence the response of MNCs to host-country policies or that are sources of host-country bargaining power, Lecraw's (1982) work, (which tested the role of market attractiveness as a source of host-country bargaining power) found that this was an important and significant source of host country bargaining power, as the findings in this research suggest.

Further results of this work on this policy as well as the other two showed that all the firms complied with virtually all the requirements of the policies by the stipulated dates; and that most of the firms did not seek to negotiate with the government on any of the policies.

11.4 POSSIBLE EXPLANATIONS FOR FIRMS' BEHAVIOUR TO POLICIES

Despite the fact that the statistical analyses support many of the hypothesized relationships in this study, the case studies suggest that some gaps exist between firms' confessions of behaviour and/or compliance with the policies, and what they actually did. From the researcher's conversations with the respondents, it was apparent that there were other explanations (apart from bargaining power) for why many of them behaved or responded the way they did to the policies. Some of these reasons had to do with the policies themselves, while others with the implementation of the policies. The reasons include:

Protection of investment:

One possible explanation for the the collaborative behaviour of firms and/or the 'absence' of explicit bargaining in most of the policies could be the intention to protect company assets already invested in Nigeria. The response of many of the firms suggests this possibility. Many of them indicated that they complied with the policies the way they did in order to protect or reap the proceeds of their investments in capital, technology, human resource development, etc. This supports Rugman's (and other writers) argument that the bargaining power of an MNC is higher than that of the host country before assets are

committed in the host country, but once this has taken place, the bargaining power of the MNC tends to decline vis-a-vis that of the host country.

Possibility of policies being circumvented:

The feeling or belief that government policies could be circumvented was important to a large extent in determining the firms' behaviour as well as their response to the policies. While most firms would not openly subscribe to this as an explanation for their behaviour or response to any of the policies, it still remains an important explanation.

In the indigenization policy for example, fronting was the common circumvention technique adopted by foreign firms when the 1973 indigenization policy was introduced. But even after fronting was declared illegal in the 1977 revised policy, it could not be exterminated completely as a few Nigerians considered the benefits to be derived from such illegal dealings much more than the possible risks of being caught. No firm admitted (or would admit) or discussed this.

In the nigerianization of management policy, the most common circumvention technique employed was redefinition of job descriptions and job titles. An example of this was a firm which was required in the policy to nigerianize its

"Business manager" position, and they responded by redesigning the job description of the "Works manager" to include all the responsibilities and functions formerly performed by the "Business manager", and because the position of "Works manager" was allowed in the policy to be occupied by an expatriate, they were able to place an expatriate to perform the two functions - works management and business management - though as a "Works manager".

In the local sourcing policy, the most common circumvention technique was similar to the fronting in the indigenization policy. Here, merchants (especially those that had not the money to fund huge import bills) were engaged by firms wishing to circumvent the policy, to apply for import licence. Whatever proportion of the applied amount was approved for the merchant, the firm would fund the merchant to procure the raw material(s), which, on arrival, would be taken by the firm, but declared as "local raw material(s)" because "it was bought from a merchant in Nigeria". What the merchant gains from the firm is commission for the use of its name to procure the raw materials. An example of a similar situation, told by a respondent, was that he (as the managing director of his firm) was approached by a merchant who had secured import licence and imported a ship-load of raw materials but hadn't the funds to clear the consignment and was looking for a willing manufacturer to clear the consignment for itself and pay him (the merchant) commission. This M.D. declined the offer but that his competitor took it.

These cicumvention techniques therefore, do not only result in a false degree of compliance, but likely to influence the firm's overall response to the policy, conscious of the fact that there are other ways round the policy afterall. Similarly, the firms are unlikely to give much thought as to whether their initial behaviour in the policy should be collaborative, accommodative, or compromizing for the same reasons. No wonder therefore, that firms in any one mode of behaviour did not all possess the characteristics suggested in the contingency model.

Possibility of policy changes in future:

The possibility that policies could be changed in future, either bacause the firms would work for this or the government would effect the changes themselves, could be another reason for the results obtained in this research. Nigeria has often been described by foreigners (and foreign businessmen) as not only politically unpredictable but also unstable in its policies towards foreign firms. Some of its policies are described as overlapping, contradictory, too broad, etc. On this general note, one of the respondents, a British managing director of a Swiss firm emphatically highlighted frequent policy changes in Nigeria as the cause of not only poor business performance but also the government's inability to achieve its stated objectives. He continued that "often-times new policies

are introduced so often that firms can do nothing but wait". On the other hand, many foreign firms relied on their ability to influence influential Nigerians to change policies in their favour.

In the indigenization policy for instance, the first decree was introduced in 1973 which took effect from 1974, and by 1977 (barely three years later) this was replaced with another decree - the 1977 indigenization decree. While no firm in the sample indicated that it bahaved or responded the way it did because of its feeling that the indigenization policy was going to be changed in future, it does not rule out the fact that some must have taken this into consideration in their behaviour and response to the policy. On firm-accountable changes, a British firm succeeded in convincing some influential politicians to argue in its favour for increased foreign equity participation and in 1980, it was reclassified from schedule II to schedule III (from 40% maximum foreign equity participation allowed to 60%).

In the Nigerianization of management policy, some firms felt that by arguing that there were not enough or capable management personnel in Nigeria, the government was going to change the policy eventually. Unfortunately, there have been no evidences of changes introduced willingly by the government or firm-inspired changes in this policy.

In the local sourcing policy, when the civilian administration introduced the policy in 1981, most firms felt that the government (especially the civilian administration that introduced the policy) was not serious about the requirements in the policy, and that the policy would either not be implemented or that it would be changed soon after introduction (the comment by Mr. C. S. Yeung in the second case study on the seriousness of this policy and how some firms suffered due to their wrong perceptions confirms this). Many firms adopted a relaxed approach due to this perception in their response to the policy. But when the policy lingered through the civilian administration and all succeeding military administrations were increasingly more serious on the policy, many firms suffered as a result.

The anticipation of policy changes (whether inspired by the firms or willingly by the government) therefore, is another possible explanation for the results obtained in this work - why firms did not exploit the influence of their characteristics, why they complied without hesitation, why they did not enter into further negotiations on the policies, etc.

Possibility that policy is unimportant:

The possibility that the given policy was not important to the firm's success or operations is another possible explanation for the results obtained in this work. Of the three policies in this study, the most important or most influential on firm success and operations was the local sourcing policy, followed by the nigerianization of management policy. The indigenization policy was considered by a mojority of the respondents as the least important of the three.

Many of the respondents in the study indicated that they did not consider indigenization very important in influencing their success or operations especially as the parent company still remained the largest single shareholder in the subsidiary. Furthermore, the respondents generally felt that control was more important to them than ownership (though a few of them were of the view that there could be no effective control without substantial ownership), and since the government had no effective means of transferring control as well as ownership to indigenes, ownership therefore was considered to be less important (or unimportant).

An example of this attitude was shown by a German company producing matches, which decided to give up 85% of the subsidiary's equity to Nigerians (even though it was required to surrender only 60%), but to retain strategic control. To this company, parent equity ownership in the

subsidiary was not particularly important, therefore, their response to the indigenization policy was expected to defy the predictions of the contingency model of behaviour in conflict, and the bargaining power theory.

The policy might have been unimportant to some companies because they had already met the requirements of the policy before it was introduced. An example of this was a partly-British and partly-American cigarette-making firm which indigenized more than 60% of its equity before the indigenization policy requiring them to surrender 60% of their equity was introduced. Another, was a German company which indigenized 70% of its equity before the introduction of the indigenization policy. To these firms (and others like them), the indigenization policy was not important to them. As a result, their behaviours or responses could not be expected to be strictly functions of power, stakes, relationship quality and interest interdependence; or bargaining powers.

Possibility of divestment:

The possibility that a firm could divest part of its investment in order to remedy the impact(s) of policy is another possible explanation for the results of this work. This however was more applicable in the indigenization and local sourcing policies. There were no attempts by firms to divest solely in response to the nigerianization of

management policy. But in the indigenization of ownership, some firms divested schedule II activities (giving up participation in sectors requiring 60% indigenous participation for those requiring 40%). In the local sourcing policy, divestment was widely practised by most firms in Nigeria, though not as a way of frustrating policy but as the only strategy to ensure future survival.

Examples of firms that divested in response to the indigenization policy include a British conglomerate which closed down two of its plants following the 1977 decree, one manufacturing biscuits, and the other manufacturing textiles; both of which were classified in schedule II. Another firm which earlier diversified into the manufacture of rubber products (a schedule II activity) divested this in response to the 1977 decree and concentrated in its manufacture of glass and glass products (a schedule III activity).

<u>Prevalence of government weapon:</u>

Of all the possible explanations for the results in this research, the most extensive is that of the weapon(s) possessed and employed by the government to make firms comply with the policies whether they wanted or not, so long as they wished to remain in Nigeria. Nigeria enjoyed (and still enjoys) the benefits of its attractive market to the MNCs. It is difficult to say whether it was the

consciousness of this importance of the Nigerian market that inspired the government to introduce the strict measures to ensure compliance with the policies or not. Whatever the inspiring factor(s), all but one of the respondents in this study indicated that they complied with the policies because they had no other option if they wanted to remain in Nigeria. And since they wanted to remain, it should not be surprising therefore that majority of them indicated that their behaviour in each of the three policies was collaborative; an acknowledgement, according to the contingency model, that their relative power and outcome stakes were high, and that their relationship quality and interest interdependence with the host country were highly positive.

In the indigenization policy, all foreign firms were required to comply with the policy otherwise they faced "seal-ups", "co-management", or expropriation in the worst. This left the foreign firm no option but to comply if it wished to remain in Nigeria. Most firms therefore, irrespective of their characteristics, were collaborative in their behaviour in the policy, and complied with it without seeking any negotiations so as not to delay compliance and stand the risk of a "seal-up", etc. The response of the firms to the questions on why they behaved and/or responded the way they did to the policy confirms this - no choice.

In the Nigerianization of management policy, the weapon employed was (and still is) the expatriate quota. The government stipulated that firms which failed to Nigerianize the stated position(s) or proportions of their management would not be given approval for their expatriate quota. This means the government reserves the right in a situation of a company defaulting, to disallow the entry of foreigners to work for the company and/or to refuse all foreigners in the company the right to remain in Nigeria and work for the company. To ensure that this was strictly complied with, the government made it mandatory for firms to show evidence of having complied with this policy whenever the firm had anything to do with the government e.g. when applying for foreign exchange approval, extension of visa of expatriate personnel, etc. With such strictness therefore, firms had (and still have) little or no option but to comply with the policy regardless of their characteristics so long as they wished to have some expatriate personnel in the Nigerian subsidiary. All the firms in this study acknowledged this as the explanation for their behaviour and response to the policy.

In the local sourcing policy, the weapon employed by the government was the import licence application. The government defined its priority sectors and adopted an import licence management scheme which gave higher preference to priority sectors and less consideration for 'less important' sectors. For some sectors, like brewing, the government made it clear that no import licence would

be approved for them to procure raw materials therefore they were required to source locally or close down. Unfortunately (or fortunately) for the firms in this industry, the industry was (and still is) rich and enjoying high growth. As a result of this, all the firms had to look for alternative raw materials locally since they could not wait to see themselves booted out of the lucrative Nigerian market. Similarly, firms in other industries had to 'increase' the local content of their final products so as not to be refused any approvals for import licence completely. Whatever the behaviour or response of the firm in the study therefore, it is more likely to be accurately explained by this threat than any combination of characteristics or bargaining power.

11.5 RELEVANCE OF THE BARGAINING CONCEPT

The inevitable conclusion that one would arrive at after going through chapters seven, eight, nine, and ten is that the bargaining concept has little or no relevance in the case of MNCs' response to government policies in Nigeria. But the researcher's opinion is that the concept, to some extent, is useful even though it might not be completely relevant.

From the standpoint of Nigeria as a host-country, the concept is useful especially in identifying which of its (host-country) characteristics are highly valued by MNCs so as to be able to capitalize on such characteristics to get the best out of MNCs in or through government policies. For example, the concept is useful in identifying Nigeria's market attractiveness for instance, as a highly valued characteristic by MNCs. Whether this (the value attached to Nigeria's market attractiveness by the MNCs) was known and put into consideration in all of Nigeria's policies is not known since government were not interviewed; but such a knowledge would be invaluable to the host-country.

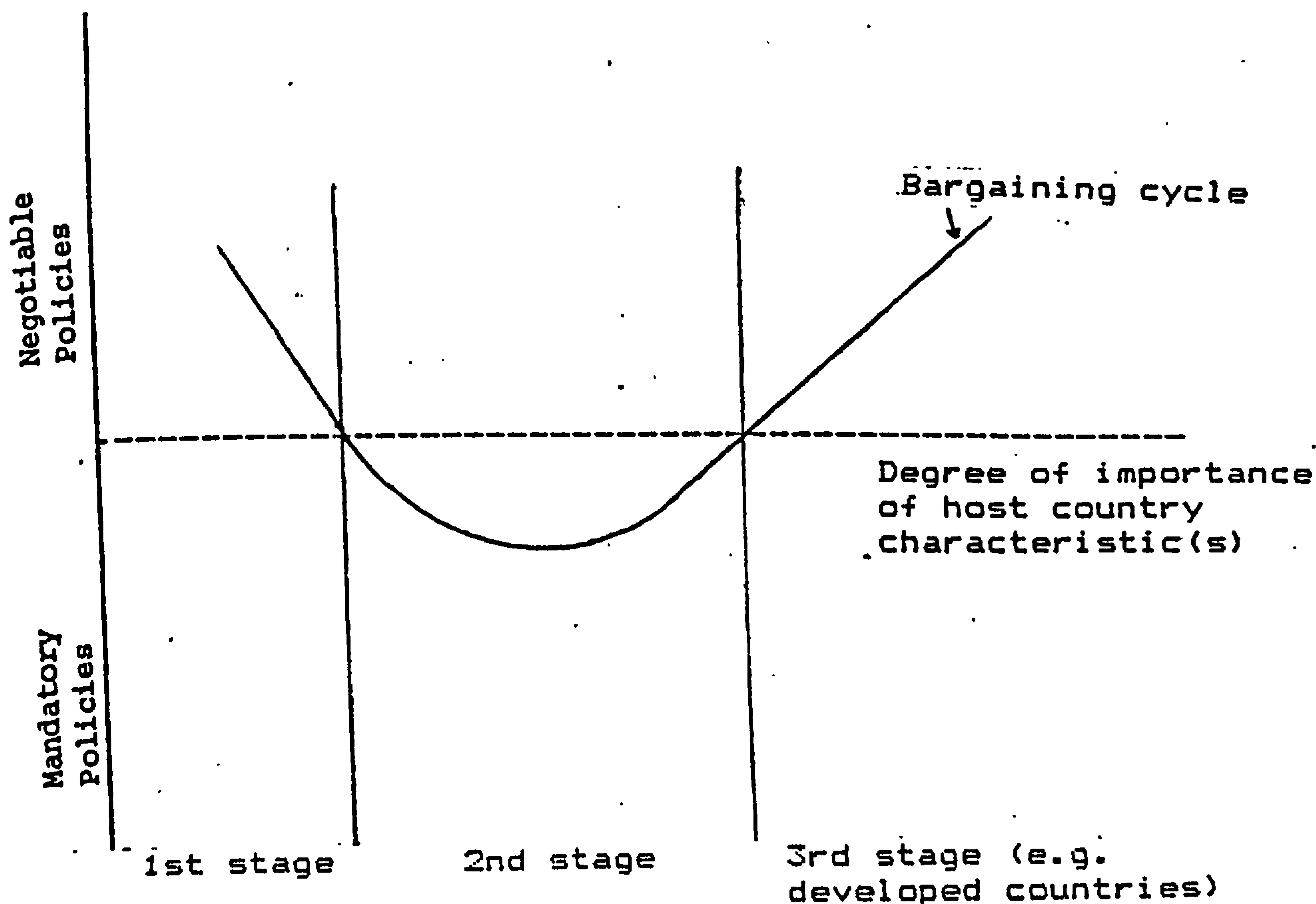
However, in view of the fact that all Nigerian policies (except the local sourcing policy) were introduced without consultation with the MNCs, (and there are neither evidences nor commitments to change this) the bargaining concept generally should be regarded as irrelevant in Nigeria. Firms are not given the room to employ their bargaining skills, or exploit their ownership advantages in times of new policies. Policies are introduced and accompanied with sanctions for non-compliance. Firms are made to become 'prisoners of their attraction(s)'. Within such an atmosphere, no rational behaviour or bargaining is possible or allowed; therefore, the concept is irrelevant in the case of Nigeria.

In developing countries generally, the relevance of the concept would vary from one country to the other. The choice between bargaining or not bargaining with multinationals by a developing host country is synonymous with the choice between a free economy or a government controlled economy. It is fair to say that most developing countries fear the MNCs for what they can do, and would rather not be deceived into thinking that they can share benefits equitably with the MNCs around a bargaining table. This is because the MNCs (or their representatives) are more exposed, oftentimes more certain of what they want and how to get it, unlike the developing countries whose objectives may be ambiguous. The knowledge of these facts in some developing countries (especially by those possessing characteristics attractive to the MNCs) leads to their introducing policies in the manner that Nigeria did - without consultation or room for negotiation, and with sanctions for non-compliance. Examples of countries that have followed this trend include India in her FIRA, Malaysia in her NEP, etc.

However, for developing countries whose characteristics are less attractive to the MNCs, there is need for them to negotiate with the MNCs in order to derive or achieve minimal benefits through their existence in their country. This is examplified by some developing countries in this category who allow free participation of firms in their industries, and whenever policies would be

introduced, they are most likely to be discussed and negotiated with the MNCs so as not to drive them out of the host country as there may be very little to remain for. This applies to developing countries that have no natural resources or markets, such as Chad, Niger, Mali, etc. But as the presence of foreign firms grows, and the host country begins to build up some important advantages, it would tend to introduce mandatory policies similar to the category of developing countries earlier discussed, in order to derive the most from the MNCs who will, if left on their own, not share their proceeds equitably with the developing host country. This gives rise to the bargaining cycle below.

FIGURE 11.2 A HYPOTHETICAL BARGAINING MODEL



What the above cycle describes is that countries whose degree of importance of their characteristics is very low, are forced to introduce only such policies that are agreeable to the MNCs. But the higher this degree of importance, the lesser such policies are introduced. This would continue up to a stage when the host country begins to introduce mandatory policies, and get MNCs to comply with them because of the value of the country's characteristic(s) to them (the MNCs). After some time (or stage), the number of mandatory policies starts to decline until the host-country begins and continues to introduce negotiable policies (when the host-country is certain to some extent that it is capable of bargaining with the MNCs, e.g. the developed countries).

Using Nigeria for an illustration, in the years up to the late 1960s, Nigeria was in the first stage of the cycle, introducing only such policies that were agreeable to the foreign firms present. During this period, Nigeria's oil had not been discovered or exploited at the commercial quantities of the 1970s, therefore its market potentials were low and there were few other resources to boast about. But with the commercialization of Nigeria's oil and the ensuing wealth of the country, its market potentials leaped, the degree of importance of the country's characteristic(s) to the MNCs sky-rocketed. Conscious of this through the influx of foreign firms during the period, the government started introducing mandatory policies, beginning with the 1973 indigenization

policy. Until such a time that Nigeria is convinced to be capable of bargaining with MNCs, or its important characteristics eroded, it is expected that it would continue to introduce mandatory policies. But given that Nigeria's most valued characteristic is its market, it would take a little longer time before it is completely eroded (especially when Africa is the MNC's focal market). The likelihood therefore is for Nigeria to grow into stage three and start adopting negotiable policies rather than fall back to stage one to do the same.

Therefore, the relevance of this concept, not only in developing countries but in all host countries depends on the extent to which the host-country is capable of bargaining with the MNCs. Mandatory policies are confessions by fairly attractive countries that they are not competent to bargain with the MNCs. When this competence is attained, the tendency would be for them to graduate to stage three where most of their policies would be negotiable with the MNCs.

11.6 REALITY OF POLICY FORMULATION AND IMPLEMENTATION IN NIGERIA

With the knowledge derived from the contacts made in the process of this study, the researcher is able to make some comment on policy formulation and implementation in

Nigeria.

In the literature review, policy formulation was identified to be comprised of the assessment of endowments, determination of priorities (from the MNCs), and then the actual policy making, in that order. In the case of Nigeria, endowments are often not considered, and where considered, they are second to priorities. The effect or the result of such inverse consideration is the attempt to justify priorities with endowments, rather than the more appropriate approach of pursuing those objectives (priorities) that can be supported by the the country's means (endowments). An example of this was in the local sourcing policy. The policy was introduced almost two years before the government produced a list of what it considered available raw materials in Nigeria, where they could be found, and possible uses that could be made of them. And in the Nigerianization of management policy, at the time the policy was introduced (1977), and even up to now, the government has no reliable statistics on the stock and quality of managerial personnel in the country, yet, the objective of indigenizing management is vigorously pursued. In the indigenization of ownership policy, a similar inverse approach was adopted which led to the ambitious categorization of some activities e.g. production of metal containers, fertilizer, cement, etc. into schedule II; until it was clear that this could not be achieved before they were reclassified into schedule III, allowing for 60% foreign participation in 1981.

Because of the initial problems created at the formulation stage of policy, they inevitably suffered from chronic implementation hiccups and truncations, as can be deduced from the above. For example, the different interpretations of a 'Nigerian company' as originally held by the Nigerian Enterprises Promotions Board (NEPB), and the Minister's interpretation (the Minister for Industries in 1978), thwarted the Board's implementation efforts; and provided the MNCs a loophole for circumvention.

However, the policy-making ability of the government, especially in the present military administration has greatly improved as the government places mainly specialists to handle respective matters. This approach is proving to pay off beautifully as even the business community applauses the government's approach to policy making. The improvement in policy formulation also means better and easier implementation by the organs vested with the responsibility of executing the policy. Evidence of this is the number of respondents in this research who felt that the present administration had refined the sourcing policy making it more realistic and easier to comply with.

11.7 CONCLUSIONS, RECOMMENDATIONS, AND SUGGESTIONS FOR FURTHER RESEARCH

Conclusions:

The conclusions arrived at, based on the findings (in the analysis chapters and case studies) relating to the major objectives of this research - the role of the respective host-country and MNC characteristics in influencing the response of firms to the government policies - are as follows:

Host-country characteristics

1. That market attractiveness emerged as the most influential host-country characteristic in all the policies considered. The influence of 'availability of needed raw materials' and 'availability of required human resources' on firm response to the three policies was negligible.

2. From Appendix 1, Nigeria's market attractiveness as an host country characteristic was most influential in the local sourcing policy, followed by the indigenization policy, and then the nigerianization policy. Availability of needed raw materials in Nigeria, though of negligible influence overall, was most influential in

the local sourcing policy. Similarly, availability of required human resources was most influential in the nigerianization policy. And lastly, competition in a firm's industry in Nigeria was most influential in the nigerianization policy.

MNC characteristics

3. In the three policies, company technology was the most influential MNC characteristic on the response of the firms.

4. Company technology was most influential MNC characteristic on firms' response to Local Sourcing. The other characteristics played less prominent roles in influencing their response in the policies.

5. Those firm-specific characteristics that were identified as crucial or very important in their response to the policies, influenced the firms in a direction contrary to earlier predictions - that because of the importance of such characteristics, firms would tend to flout government policies. In the study, all characteristics noted by firms as very important considerations to them concerning any of the policies, encouraged the firms generally to speedily comply with the policies rather than delaying compliance.

Recommendations:

Based on the research findings and conclusions, the following recommendations have been made:

1. Most firms did not think that the indigenization or the nigerianization policies (though more of the first) had had significant impact on them, because the foreign parents still remained the largest single shareholders in almost all the subsidiaries and reserved the right to appoint executives into the most sensitive positions in the subsidiaries though they may be Nigerians. The government therefore should rethink whether the struggle against foreign domination of the economy should be sacrificed for "equitable distribution of wealth" within the country, whose success is very doubtful.

2. There is substantial evidence to convince one that much of the increases in local sourcing was artificial. Most firms, as a result of the policy were buying from merchants who were themselves importing the raw materials from foreign suppliers. This means the government's primary objective(s) in the policy - the encouragement for backward integration in order to conserve foreign exchange - was being defeated since little or no raw materials were procured from truly

local sources. The researcher recommends that merchants should not be allowed (whether through issuance of import licence or government permission) to import raw materials for sale to manufacturers in the country. Where imports should/would be allowed, such licences or permission should be given only to the manufacturers that need the raw materials.

3. Sequel to the above recommendation, manufacturers should be given all the necessary assistance to help them integrate backwardly within the economy - for instance providing land for manufacturers using farm produce as raw materials; financial assistance for research and development of products using locally available raw materials; etc. Other measures may include tax concessions for appreciable use of truly local raw materials.

4. Bureaucratic red-tapism was noted by most respondents as detrimental to their success. Too much time was often spent by executives trying to settle unwarranted misunderstandings with government officials; and delay on the part of the government in providing necessary materials or documents (e.g. application forms for import licence) for compliance with policy, and in processing such documents. If bureaucracy could be reduced in dealing with company executives, it would not only improve industrial productivity and efficiency but would contribute to the achievement of stated objectives in policy.

5. The rate at which policies (minor and major) are introduced in Nigeria is rapid. Oftentimes this left not only comapny executives confused, but even officials charged with the responsibility of enforcing the policies were left with different interpretations of the same policy, thus providing easy loopholes for willing companies to abuse or avoid the policy. The government therefore, should reduce the rate at which they introduce new or additional policies.

6. Firms should at all times capitalize on prevailing government objectives to boost their negotiation positions. For instance, at the present, local sourcing is the government's prime industrial objective, MNCs should strive to source their raw materials from truly indigenous sources so as not only to be seen to be complying with government policy, but to boost their bargaining power in this or other matters.

7. Firms should cultivate the habit of environmental scanning so as to predict and plan in anticipation of government policy well before its introduction. This would help firms not to be taken by surprise by government policy. An extension of this would be to assess the government's perception of the firm's respective ownership advantages and identify which ones the government values and capitalize on such in the event of "conflict".

Suggestions for further research:

This study has proposed (from the hypothetical model) that the applicability of the bargaining concept is limited. Further research could develop on or test this model.

Secondly, the policies selected for the study turned out to be such that bargaining was decisively not allowed. It would be interesting to test these hypotheses on the response of firms to a policy in which bargaining between the host country and the MNCs was allowed.

Also further research could investigate what MNC characteristics are valued by the host government, such that possessors of such advantages enjoy significant bargaining power advantages. This would help firms in their planning so as not to waste resources developing such characteristics that are not valued by the host country.

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APPENDICES

EXHIBITS

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APPENDIX 1

Importance of Host-country and MNC Characteristics in influencing Firms' Response to Policies (in %)

	INDIGENIZATION						NIGERIANIZATION						LOCAL SOURCING					
	V. Unimp.	F. Unimp.	Neither	F. Import.	V. Imp.	Total	V. Unimp.	F. Unimp	Neither	F. Import.	V. Imp.	Total	V. Unimp	F. Unimp.	Neither	F. Import.	V. Import	Total
Host Country Characteristics																		
Market Attractiveness	5	5	10	30	50	100	-	5	20	35	40	100	10	-	10	15	65	100
Raw Materials	-	30	35	25	10	100	-	30	35	30	5	100	10	5	-	45	40	100
Human Resources	-	10	20	40	30	100	5	-	25	30	40	100	10	10	15	40	25	100
Competition	5	5	35	40	15	100	10	20	35	10	25	100	15	20	20	30	15	100
MNC Characteristics																		
Company Technology	-	5	15	30	50	100	-	-	15	30	55	100	5	-	-	35	60	100
Subsidiary Exports	20	40	20	20	-	100	20	25	50	5	-	100	15	20	40	20	5	100
Operational Complexity	-	15	25	45	15	100	-	5	25	55	15	100	10	10	15	45	20	100
Subsidiary size:																		
Workforce	-	15	30	50	5	100	-	5	40	40	15	100	15	10	25	35	15	100
Capital	-	5	30	45	20	100	-	5	15	50	30	100	10	10	10	30	40	100
Subsidiary Age	5	-	30	50	15	100	-	10	30	35	25	100	20	10	25	20	25	100

Note: n = 20

APPENDIX 2

VARIABLES USED IN THE CORRELATION TABLES

X1 - Parent equity ownership in subsidiary after policy

X2 - Host-country nationals in top management after policy

X3 - Degree of local sourcing in subsidiary after policy

Y1 - Nigeria's market attractiveness

Y2 - Availability of needed raw materials in Nigeria

Y3 - Availability of required human resources in Nigeria

Y4 - Competition in the firm's industry in Nigeria

Y5 - Subsidiary's technology-related payments to parent (1970 - 1980 average)

Y6 - Subsidiary's export sales

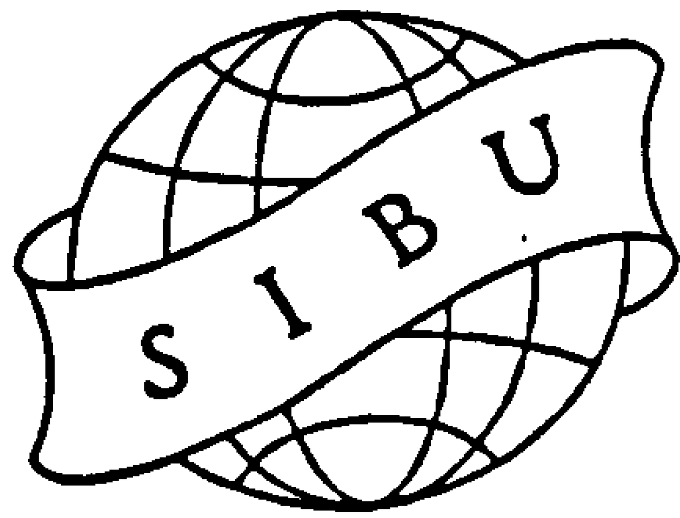
Y7 - Subsidiary's operational and managerial complexity

Y8a - Number of people employed in the subsidiary (1975 - 1980 average)

Y8b - Subsidiary's capital (1975 - 1980 average)

Y9 - Subsidiary's age in Nigeria

EXHIBIT 1



Strathclyde International Business Unit

Directors: Professor Neil Hood, Mr Stephen Young

University of Strathclyde

Strathclyde Business School
Stenhouse Building, 173 Cathedral Street,
Glasgow G4 0RQ Tel: 041-552 4400 Ext. 3146

DN/SCW

23rd August, 1985.

Dear Sir,

I am a PhD research student in International Business at the University of Strathclyde, Glasgow. As a requirement of the PhD degree, I am preparing a thesis on the topic: "The Implementation of Government Policy Towards Foreign Direct Investment in Nigeria: The Bargaining Power Model".

I have been undertaking the background work on this project here at Strathclyde University and am now ready to begin the fieldwork in Nigeria. As part of the latter I would like to visit your company to talk about your firm's response to the following Government policies:

(1) The Indigenization Policy of 1977,
(2) The Nigerianization of Management Policy,
(3) The Local Sourcing of Raw Materials' Policy.

Assuming you are agreeable the interview will be conducted sometime between January and June 1986 and I will telephone or write nearer the time to arrange an appointment. The length of the interview will not exceed 1 hour, and I will let you have a list of the specific points for discussion prior to the meeting.

I hope very much that you will be agreeable to see me. I am returning to Nigeria specifically to undertake visits to companies and the success of my PhD work depends very much on the goodwill and cooperation of companies.

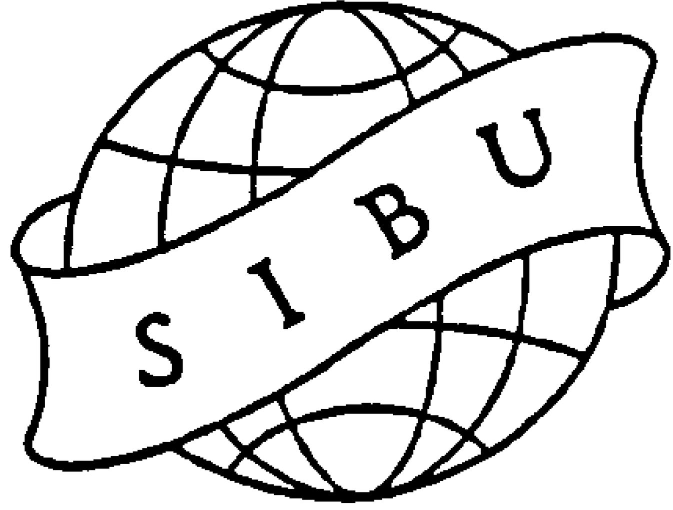
Enclosed is an introductory letter from my Research Supervisor. I look forward to contacting you again and meeting with you.

Yours faithfully,

DANJUMA NDACKSON.

Encl.

EXHIBIT 2



Strathclyde International Business Unit

Director: Mr Stephen Young

Department of Marketing

Strathclyde Business School
University of Strathclyde, Stenhouse Building.
Glasgow G4 ORQ Tel: 041-552 4400 Ext. 3146

SY/em
17 March 1987

Dear Sir,

Mr. Danjuma Ndackson

I am writing to introduce Mr. Ndackson who successfully obtained an MBA degree at this University in 1984, and is now studying for a PhD under my supervision with Strathclyde International Business Unit. As a Business School our interests concern the behaviour of international companies and the work of Mr. Ndackson fits within this. I hope that you will be prepared to meet and talk to him about government policies towards foreign direct investment in Nigeria, and specifically about your company's response.

For your interest I enclose a copy of our brochure and a list of Working Papers published by the Unit.

Yours faithfully,

STEPHEN YOUNG

EXHIBIT 3

Department of Business Administration,
Institute of Administration,
Ahmadu Bello University,
Zaria.

27th November, 1985.

Dear Sir,

Ph.D. RESEARCH INTERVIEW

I am a Ph.D. research student in International Business at Strathclyde University, GLASGOW, U.K.

Subsequent to my last letter of 23rd August, 1985 to you in which I mentioned that I would communicate with you again in order to intimate you about the scope of my planned interview with you and to arrange when the interview would take place, I am writing this letter.

The interview (which also involves the filling of a questionnaire) would cover four different though related aspects:

SECTION I: Background information concerning your company: type of business, competition and market share, shareholders, size of company - employees and capital investment - , your company's markets, your suppliers, composition of your top management, and decision-making within your company.

SECTION II: The indigenization Policy - the 1977 Indigenization Decree: the part played by your company in the creation of that policy, your company's response to the policy, the extent to which your company has complied with certain requirements of the policy e.g. the time for compliance, etc.; the importance of certain locational factors e.g. Nigeria's market attractiveness, human resources, etc., and some of your company's ownership specific factors, e.g. your technology, exports, size, etc. on your negotiation with the Government on this policy.

SECTIONS III & IV: The Nigerianization of Management Policy and the Local Sourcing of Raw Materials' Policy, respectively: these sections seek identical information with section II, adjusted to the specific policy in focus in each case.

In view of the time pressure and the inefficiency of the Nigerian mailing system, I would request that you please make a selection of Three Hours in Three Days (one hour each day) that are most suitable for you during which the interview could take place on any of the days from the given times in the detached sheet of paper. I would be most delighted if you could return that sheet of paper to reach me in good time before the selected dates using the enclosed self-addressed and stamped envelope.

Should none of the times would be suitable for you, then please suggest three alternative days (and the specific hour each day) when I could visit you for the interview on any.

I look forward to receiving the appointment slip from you and seeing you for the interview.

Yours faithfully,

Danjuma Ndackson.

INTERVIEW APPOINTMENT SLIP

Name of Company ....

Location Address ....

....

Officer to be interviewed and Rank: ....

....

CHOICE OF DATE AND TIME

MON.	27/1/86	10.00 - 11.00 a.m.	11.30-12.30 p.m.	1 - 2 p.m.	2.30-3.30pm.
TUES.	28/1/86	"	"	"	"
WED.	29/1/86	"	"	"	"
THURS.	30/1/86	"	"	"	"
FRID.	31/1/86	"	"	"	"

(Select a minimum of three days (and hour) during which you could be interview).

Where the above is unsuitable, please suggest any other three days (and the specific hour each day).

1. ___________________________
2. ___________________________
3. ___________________________

Could you please indicate your willingness or otherwise to allow me record the interview on cassette to facilitate the compilation of my interview results

WILLING [ ] (please tick one)
NOT WILLING [ ]

[Return this slip using the enclosed self-addressed - and stamped envelope]

EXHIBIT 4

QUESTIONNAIRE

This questionnaire is designed for 'foreign-owned' 'manufacturing' companies in Nigeria. Foreign ownership is defined as the case where a foreign company has some degree of equity ownership in a company registered in Nigeria. Manufacturing is used here in a broad sense to include actual manufacturing activities, processing, or assembly operations. The questionnaire is divided into four sections (A - D).

LEAVE BLANK
1 2
....

SECTION A: SUBSIDIARY BACKGROUND AND CHARACTERISTICS

This section seeks factual information concerning the Nigerian subsidiary and the scope of its activities in Nigeria.

3
....

I. Company name (as registered in Nigeria):

2. Name and position of interviewee:

3. Date of interview:

4
....

4. Location of H.Q. (in Nigeria):

5 6
....

5. Name(s) of foreign parent company(ies):

7
....

6. Country(ies) of origin of foreign parent company(ies):

8 9

7. What proportion of your parent company's total world investment is accounted for by the Nigerian subsidiary?

10 11 12 13
.. ..

8. How many manufacturing subsidiaries does your foreign parent company have in other African countries (specify country and number of subsidiaries)?

14 15 16 17
.. ..

9. Date of establishment of company in Nigeria:

18
..

10. What are the main products manufactured in the Nigerian subsidiary?

19
..

II. (a) How many companies (foreign and indigenous) manufacture products similar to yours in Nigeria?

20 21
... ...

(b) What are the market shares held by this company and other top-three companies in your major products?

22 23
... ...

i. This company: ________%

24 25
... ...

ii. .... ________%

26 27
... ...

iii. .... ________%

28 29
... ...

iv. .... ________%

I2. Who are your top-four shareholders (in order of quantity held)

i. ....

ii. ....

iii. ....

iv. ....

I3. What are the equity percentages owned by each (in I2 above) in the following categories of shares:

(a) Voting Shares

i. .... ______%

ii. .... ______%

iii. .... ______%

iv. .... ______%

(b) Non-Voting Shares

i. .... ______%

ii. .... ______%

iii. .... ______%

iv. .... ______%

I4. Size of your company:

(a) (i) The average number of employees in I98I and I985:

(ii) Average capital investment (at book value) in I98I and I985:

(b) Could you please describe the reasons for any changes that took place during the period in employment and capital investment

I5. (a) What percentage of your sales (finished goods and processed raw materials) went to the following markets in I98I and I985?

	I98I	I985
(i) Host country (Nigeria)	______%	______%
(ii) Foreign parent's home country or affiliated companies	______%	______%
(iii) Others	______%	______%

30 ... 31 ... 32 ... 33 ...

34 35 ... ... 36 37 ... ... 38 39 ... ... 40 41 ... ... 42 43 ... ... 44 45 ... ... 46 47 ... ... 48 49 ... ...

50 ... 51 ...

52 53 ... ... 54 55 ... ... 56 57 ... ... 58 59 ... ...

60 61 62 63 .. .. 64 65 66 67 .. .. 68 69 70 71 .. ..

(b) Could you please describe how this has changed during the period between these years and why.

I6. (a) What percentage of your Naira volume of raw materials and/or supplies was purchased from the following sources in I98I and I985:

Source:	I98I	I985
(i) Local sources (within Nigeria)	____%	____%
(ii) The parent company	____%	____%
(iii) Other affiliates of the parent company outside Nigeria	____%	____%
(iv) Others (specify)	____%	____%

(b) Could you please describe how this has changed during the period and why.

I7. (a) How many executives constituted your top management (defined as executives from the positions of functional heads and above) in the following years:

I976 ________

I980 ________

I985 ________

(b) How many of them were Nigerians in each of these years?

I976 ________

I980 ________

I985 ________

(c) Could you please explain any variations in (a) and (b) above.

I8. Decision-making:

While we appreciate that decision-making is a process and it involves many people in the organization, here we are interested in identifying the principal source of decision-making (e.g. the parent company with or without consultation with the subsidiary or vice versa) with respect to the following areas:

72 73 ... ... 74 75 ... ... 76 77 ... ...

1 2 3 ... ... 4 5 6 ... 8 9 10 1 ... 2 13 14 1 ... 6 17 18 1 ... 20 21 ... ... 22 23 ... ... 24 25 ... ... 26 27 ... ... 28 29 ... ... 30 31 ... ... 32 33 34 35 ... ... 36 37 ... ... 38 39 ... ... 40 41 ... ... 42 43 ... ...

(a) The appointment of the functional heads of the Nigerian subsidiary: 44 ...

(b) The appointment of the executive directors of the Nigerian subsidiary: 45 ...

(c) Decision on the amount of equity to be held in the Nigerian subsidiary: 46 ...

(d) Decision on where you should procure raw materials or supplies from: 47 ...

(e) Decision on who you should procure raw materials or supplies from: 48 ...

I9. How many of your top management (as defined above) have attained each of the following qualifications as their highest academic qualifications?

(i) Post-Graduate: 49 50

(ii) Graduate: 51 52

(iii) Diploma: 53 54 ... ...

(iv) Less than Diploma: 55 56 ... ...

20. How much (on the average) has your company paid as royalties and/or licensing fees to your foreign parent in the following years?

(i) I970: 57 58 ... ...

(ii) I975: 59 60 ... ...

(iii) I980: 61 62 ... ...

(iv) I985: 63 64 ... ...

Sections B to D deal with your company's response to specific government policies.

SECTION B: THE NIGERIAN INDIGENIZATION POLICY

In this section, we are interested in your company's response to the Nigerian Indigenization Policy through the Nigerian Enterprises Promotion Decree (NEPD) of I977.

I. (a) Was your company consulted (directly or indirectly through associations, etc.) before the I973 and/or I977 indigenization policies were introduced? 65 ...

YES	NO
I	2

(b) If YES, (i) Which of the decrees? 66 ...

(ii) Who in your company was/were involved in these consultations (distinguish between Nigerian and parent company executives)? 67 ...

(iii) Please describe any consultations which took place 68 69 ... ...

2. (a) Was there any process of negotiation between the Government and your company (directly or indirectly) concerning this policy after its introduction?

YES	NO
I	2

70 ... 71

(b) If YES, (i) When did the negotiation take place (Explain)?

... 72

(ii) Who was involved in the negotiation in or on behalf of your company?

... 73 74

(iii) Please describe the negotiation which took place

... ...

(iv) What did your company do to improve its negotiation position on this policy (e.g. more direct communication with Government officials; employing more people, etc)

75 76 ... ... 77 78

(c) If NO, Why?

... ... 79 80 ... ... 1 2 3

3. (a) How much of your equity is required by the Government under the 1977 Decree to be owned by Nigerians?

... ... 4 5 ... ...

(b) When were you required to comply with this policy?

6 7 ... ...

4. In general, what was your parent company's reaction to this policy?

8 9 ... ...

5. (a) Generally, how important is 100% equity ownership to your parent company(ies) given their experience elsewhere in the world?

very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
I	2	3	4	5

10 ...

(b) How important is 100% equity ownership in the Nigerian subsidiary to your parent company?

very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
I	2	3	4	5

11 ...

(c) Please explain why your answers in (a) and (b) above.

12 13 ... ... 14 15 ... ...

6. (a) Has the percentage of your equity that should be owned by Nigerians changed since the Decree was introduced?

YES	NO
I	2

16 ...

(b) If YES, (i) From ______% to ______%

(ii) When was the change?

(iii) Why the change?

(c) If NO, Why?

7. (a) Has your company complied with the following aspects of the indigenization policy?

	YES	NO
(i) The equity percentage that should be owned by Nigerians	1	2
(ii) The diversification of equity amongst Nigerians	1	2
(iii) The date for compliance with the policy	1	2
(iv) The sale of 10% of your equity to company staff	1	2
(v) Reconstitution of your Board of Directors to reflect the new equity participation between Nigerians and foreigners	1	2
(vi) Submission of elaborate documentation regarding all the above	1	2

(b) Where YES, (i) What problems have you encountered in complying with such aspects?

(ii) What adjustments to strategy (e.g. reorganization in the company in the responsibilities of executives, etc.) has your company made on the basis of these aspects?

(c) Where NO, Why have you not complied?

8. (a) How do you rate the ability of the Government to make your company comply with the indigenization policy?

very less capable	fairly less capable	neither capable nor incapable	fairly capable	very capable
1	2	3	4	5

(b) Explain why (differentiate between bargaining power and expertise)

9. (a) How important is each of the following host country characteristics in determining your company's compliance or not with the indigenization policy:

17 18 ... ... 19 20 ... ... 21 22 ... ... 23 24 ... ... 25 26 ... ...

27 ... 28 ... 29 30 ... 31 ... 32 ... 33 34 ... ... 35 36 ... ... 37 38 ... ... 39 40 ... ... 41 42 ... ...

43 ... 44 45 ... ...

	very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.	
(i) Nigeria's market attractiveness	I	2	3	4	5	46 ...
(ii) The availability of raw materials/supplies in Nigeria	I	2	3	4	5	47 ...
(iii) The human resources in Nigeria	I	2	3	4	5	48 ...
(iv) The degree of competition between investors in your sector in Nigeria	I	2	3	4	5	49 ...

(b) Where very important, please explain how this has influenced your company's compliance with this policy.

50 51 ... ... 52 53 ... ... 54 55 ... ... 56 57 ... ...

IO. (a) How important is each of the following company characteristics in determining your compliance or not with the indigenization policy?

	very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.	
(i) Your technology	I	2	3	4	5	58 ...
(ii) Your exports (actual/potential)	I	2	3	4	5	59 ...
(iii) The complexity of your managerial tasks	I	2	3	4	5	60 ...
(iv) The size of your company:						
Numb. of employees	I	2	3	4	5	61 ...
Amount of capital invested	I	2	3	4	5	62 ...
(v) The percentage of Nigerians in your top mangt.	I	2	3	4	5	63 ...
(vi) Age of your operations in Nigeria	I	2	3	4	5	64 ...

65 66
... ...
67 68
... ...
69 70
... ...
71 72
... ...
73 74
... ...
75 76
... ...
77 78
... ...
1 2
.. .. .
4
...
5 6
... ...

(b) Where very important, please explain how this has influenced your company's compliance with the policy.

(c) i. In general, how would you categorize your company's response to this policy?

Avoidant (refraining from conflict e.g. by withdrawing)	Collaborative (seeking to satisfy both your concerns and those of the Government)	Accommodative (seeking to satisfy the concerns of the Govern.)	Compromising (trying to reach a mutually satisfactory agreement)	Competitive (seeking to over-power or suppress the Govt.)
1	2	3	4	5

ii. Please explain why

(d) i. How does your response in (c) above compare with your parent company's overall bahaviour in such circumstances in other developing host countries?

7 8
... ...

ii. If Different, why the difference in this case?

9 10
... ...

II. What impacts have changes in Government in Nigeria had on the following:

i. The policy itself?

11 12
... ...

ii. The implementation of the policy?

13 14
... ...

iii. Your response to the policy?

15 16
... ...

SECTION C: THE NIGERIANIZATION OF MANAGEMENT POLICY

In Section C like in B, we are interested in your company's response to the policy requiring the Nigerianization of your management .

I. (a) Was your company consulted (directly or indirectly) before the policy requiring the Nigerianization of your management was introduced? — 17 ...

YES	NO
I	2

(b) If YES, i. Who in your company was/were involved in these consultations (distinguish between Nigerian and parent company executives)? — 18 ...

ii. Please describe any consultations which took place — 19 ... 20 ...

2. (a) Was there any process of negotiation between the Government and your company (directly or indirectly) concerning this policy after its introduction? — 21 ...

YES	NO
I	2

(b) If YES, i. When did the negotiation take place (Explain)? — 22 ...

ii. Who was involved in the negotiation in or on behalf of your company? — 23 ...

iii. Please describe the negotiation which took place — 24 ... 25 ...

iv. What did your company do to improve its negotiation position on this policy (e.g. raising the minimum requirements of applicants for positions in your company, etc) — 26 ... 27 ...

(c) If NO, Why? — 28 ... 29 ... 30 ... 31 ...

3. (a) What (or how many) positions in your top management are required by the Government under this policy to be occupied by Nigerians? — 32 ... 33 ...

(b) When were you required to comply with this policy — 34 ... 35 ...

4. In general, what was your parent company's reaction to this policy? — 36 ... 37 ...

5. (a) Generally, how important is the constitution (by nationality) of your top management (as previously defined) to your parent company(ies) given their experience elsewhere in the world? — 38 ...

very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
I	2	3	4	5

	Col.
I. (a) Was your company consulted (directly or indirectly) before the policy requiring the Nigerianization of your management was introduced? YES I / NO 2	17 ...
(b) If YES, i. Who in your company was/were involved in these consultations (distinguish between Nigerian and parent company executives)?	18 ...
ii. Please describe any consultations which took place	19 ... 20 ...
2. (a) Was there any process of negotiation between the Government and your company (directly or indirectly) concerning this policy after its introduction? YES I / NO 2	21 ...
(b) If YES, i. When did the negotiation take place (Explain)?	22 ...
ii. Who was involved in the negotiation in or on behalf of your company?	23 ...
iii. Please describe the negotiation which took place	24 ... 25 ...
iv. What did your company do to improve its negotiation position on this policy (e.g. raising the minimum requirements of applicants for positions in your company, etc)	26 ... 27 ...
(c) If NO, Why?	28 ... 29 ... 30 ... 31 ...
3. (a) What (or how many) positions in your top management are required by the Government under this policy to be occupied by Nigerians?	32 ... 33 ...
(b) When were you required to comply with this policy	34 ... 35 ...
4. In general, what was your parent company's reaction to this policy?	36 ... 37 ...
5. (a) Generally, how important is the constitution (by nationality) of your top management (as previously defined) to your parent company(ies) given their experience elsewhere in the world? very unimport. I / fairly unimport. 2 / neither import. nor unimport. 3 / fairly import. 4 / very import. 5	38 ...

(b) How important is the constitution of your top management in Nigeria to your parent company?

very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
1	2	3	4	5

39 ...

(c) Please explain why your answers in (a) and (b) above.

40 ... 41 ...
42 ... 43 ...

6. (a) Have there been any changes in this policy since it was introduced?

YES 1 NO 2

44 ...

(b) If YES, i. What are these changes?

45 ... 46 ...
47 ... 48 ...

ii. When were the changes?

iii. Why were the changes?

49 ... 50 ...

(c) If NO, Why?

51 ... 52 ...

7. (a) Has your company complied with the following aspects of the policy:

	YES	NO	
i. The number of Nigerians as Executive Directors in the company	1	2	53 ...
ii. The required proportion of Nigerians in your top management	1	2	54 ...
iii. The positions that should be occupied by Nigerians in your top management	1	2	55 ...
iv. The training of Nigerians for managerial positions within and outside the company	1	2	56 ...

(b) Where YES, i. What problems have you encountered in complying with the respective aspects?

57 ... 58 ...
59 ... 60 ...

ii. What adjustments to strategy (e.g. redesigning job descriptions, reduced subsidiary autonomy, etc.) has your company made on the basis of these aspects?

61 ... 62 ...
63 ... 64 ...

(c) Where No, Why have you not complied?

65 ... 66 ...

8. (a) How do you rate the ability of the Government to make your company comply with this policy?

very less capable	fairly less capable	neither capable nor incapable	fairly capable	very capable
I	2	3	4	5

67 ...

(b) Please explain why

68 69 ... ...

9. (a) How important is each of the following host country characteristics in determining your company's compliance or not with the Nigerianization of management policy?

	very unimport.	fairly unimport	neither import. nor unimport.	fairly import.	very import.	
(i) Nigeria's market attractiveness	I	2	3	4	5	70 ...
(ii) The availability of raw materials/supplies in Nigeria	I	2	3	4	5	71 ...
(iii) The human resources in Nigeria	I	2	3	4	5	72 ...
(iv) The degree of competition between investors in your sector in Nigeria	I	2	3	4	5	73 ...

1 2 3 .. .. ..

(b) Where very important, please explain how this has influnced your company's compliance with this policy.

4 5 .. .. 6 7 .. .. 8 9 .. .. 10 11 .. ..

10. (a) How important is each of the following company characteristics in determining your compliance or not with this policy?

	very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
(i) Your technology	I	2	3	4	5
(ii) Your exports (actual/potential)	I	2	3	4	5
(iii) The complexity of your managerial tasks	I	2	3	4	5
(iv) The size of your company:					
Number of employees	I	2	3	4	5
Amount of capital invested	I	2	3	4	5
(v) The percentage of Nigerians in your top mangt.	I	2	3	4	5
(vi) The age of your operations in Nigeria	I	2	3	4	5

12 ... 13 ... 14 ... 15 ... 16 ... 17 ... 18 ...

(b) Where very important, please explain how this has influenced your company's compliance with this policy.

19 20 21 22 .. ..
23 24 25 26 .. ..
27 28 29 30 .. ..
31 32 .. ..

(c) i. In general, how would you categorize your company's response to this policy?

Avoidant (refraining from conflict e.g. by withdrawing)	Collaborative (seeking to satisfy both your concerns and those of the Government)	Accommodative (seeking to satisfy the concerns of the Government)	Compromising (trying to reach a mutually satisfactory agreement)	Competitive (seeking to overpower or suppress the Govt.)
I	2	3	4	5

33 ...

ii. Please explain why

34 35 ... ...

(d) i. How does your response in (c) above compare with your parent company's overall behaviour in such circumstances in other developing host countries?

36 37 ... ...

	38	39
ii. If Different, why the difference in this case?	...	...

II. What impacts have changes in Government in Nigeria had on the following:

i. The policy itself?	40	41
	...	...
ii. The implementation of the policy?	42	43
	...	...
iii. Your response to the policy?	44	45
	...	...

SECTION D: THE LOCAL SOURCING OF RAW MATERIALS' POLICY

In Section D, like in sections B and C, we are interested in your company's response to the Government policy which requires that companies should procure their raw materials/supplies (or a great proportion of this) from Nigeria.

I. (a) Was your company consulted (directly or indirectly) before this policy was introduced?

YES 1   NO 2   46 ...

(b) If YES, i. Who in your company was/were involved in these consultations (distinguish between Nigerian and parent company executives)   47 ...

ii. Please describe any consultations which took place   48 49 ... ...

2. (a) Was there any process of negotiation between the Government and your company (directly or indirectly) concerning this policy after its introduction?

YES 1   NO 2   50 ...

(b) If YES, i. When did the negotiation take place (Explain)   51 ...

ii. Who was involved in the negotiation in or on behalf of your company?   52 ...

iii. Please describe the negotiation which took place | 53 54 ... ...

iv. What did your company do to improve its negotiation position on this policy (e.g. exporting more of your products, etc.) | 55 56 ... ...

(c) If NO, Why? | 57 58 ... ... 59 60 ... ...

3. (a) How much of your Naira volume of raw materials/supplies is required by the Government in this policy to be procured within Nigeria? | 61 62 ... ...

(b) When were you required to comply with this policy? | 63 64 ... ...

4. In general, what was your parent company's reaction to this policy? | 65 66 ... ...

5. (a) Generally, how important is the source of your raw materials/supplies to your parent company(ies) given their experience elsewhere in the world?

very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
1	2	3	4	5

67 ...

(b) How important is the source of your raw materials/supplies in Nigeria to your parent company?

very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.
1	2	3	4	5

68 ...

(c) Please explain why your answers in (a) and (b) above. | 69 70 ... ... 71 72 ... ...

6. (a) Have there been any changes in this policy since it was introduced?

YES	NO
1	2

73 ...

(b) If YES, i. What are these changes? | 74 75 ... ...

ii. When were the changes? | 76 77 ... ...

78	79
...	...

iii. Why were the changes?

1	2	3
..	..	..

(c) If NO, Why?

4	5
...	...

7. (a) Has your company complied with the following aspects of this policy?

	YES	NO	
i. Procuring the required volume of raw materials/ supplies from Nigeria	1	2	6 ...
ii. Diversification of your sources of raw materials/ supplies	1	2	7 ...
iii. Contracting the production of your raw materials/ supplies to local firms (firms within Nigeria)	1	2	8 ...
iv. Increasing the value-added to your 'manufacturing' activities in Nigeria	1	2	9 ...
v. The date for compliance with the policy	1	2	10 ...

(b) Where YES, i. What problems have you encountered in complying with the respective aspects?

11 12 ... ...

13 14 ... ...

ii. What adjustments to strategy (e.g. greater dependence on licensing and other forms of foreign involvement, etc.) has your company made on the basis of these aspects of policy?

15 16 ... ...

17 18 ... ...

(c) Where NO, Why has your company not complied?

19 20 ... ...

8. (a) How do you rate the ability of the Government to make your company comply with this policy?

very less capable	fairly less capable	neither capable nor incapable	fairly capable	very capable
1	2	3	4	5

21 ...

(b) Please explain why

22 23 ... ...

9. (a) How important is each of the following host country characteristics in determining your company's compliance or not with the policy of procuring raw materials/supplies from Nigeria.

	very unimport.	fairly unimport.	neither import. nor unimport.	fairly import	very import.	
i. Nigeria's market attractiveness	1	2	3	4	5	24 ...
ii. The availability of raw materials/supplies in Nigeria	1	2	3	4	5	25 ...
iii. The human resources in Nigeria	1	2	3	4	5	26 ...
iv. The degree of competition between investors in your sector in Nigeria	1	2	3	4	5	27 ...

(b) Where very important, please explain how this has influenced your company's compliance with this policy.

28 ... 29 ...
30 ... 31 ...
32 ... 33 ...
34 ... 35 ...

10. (a) How important is each of the following company characteristics in determining your compliance or not with this policy?

	very unimport.	fairly unimport.	neither import. nor unimport.	fairly import.	very import.	
i. Your technology	1	2	3	4	5	36 ...
ii. Your exports (actual/potential)	1	2	3	4	5	37 ...
iii. The complexity of your managerial tasks	1	2	3	4	5	38 ...
iv. The size of your company:						
Number of employees	1	2	3	4	5	39 ...
Amount of capital invested	1	2	3	4	5	40 ...
v. The percentage of Nigerians in your top mangt.	1	2	3	4	5	41 ...
vi. The age of your operations in Nigeria	1	2	3	4	5	42 ...

43 44 45 46

(b) Where very important, please explain how this has influenced your company's compliance with this policy.

47 48 49 50

51 52 53 54

55 56

(c) i. In general, how would you categorize your company's response to this policy?

Avoidant (refraining from conflict e.g. by withdrawing)	Collaborative (seeking to satisfy both your concerns and those of the Government)	Accommodative (seeking to satisfy the concerns of the Government)	Compromising (trying to reach a mutually satisfactory agreement)	Competitive (seeking to overpower or suppress the Govt.)
1	2	3	4	5

57

ii. Please explain why.

58 59

(d) i. How does your response in (c) above compare with your parent company's overall behaviour in such circumstances in other developing host countries?

ii. <u>If Different</u>, why the difference in this case?

60 61

II. What impacts have changes in Government in Nigeria had on the following:

62 63

i. The policy itself?

64 65

ii. The implementation of the policy?

66 67

iii. Your response to the policy?

THANK YOU FOR YOUR TIME AND YOUR COOPERATION.

EXHIBIT 5

PROMOTION OF NIGERIAN ENTERPRISES

Introduction

The need to promote active indigenous participation in all aspects of the economy has never been in doubt. Deliberate policies by Governments to help indigenous enterprises have been formulated by many countries at different stages of their economic development.

2. As early as 1958 when political power had begun to gradually pass into the hands of Nigerians, attempts started to be made by Nigerian Governments to encourage active indigenous participation in the commercial and industrial sectors of the economy. Although these early efforts achieved some measure of success, especially in the distributive trade and produce marketing, no systematic network of official implementation of programmes existed. Financial and management support to aspiring indigenous businessmen had not been effectively provided to sustain Government efforts. The promulgation of the Nigerian Enterprises Promotion Decree, 1972 (NEPD/72) was the first real scientific approach to tackle this subject with the full appreciation of its magnitude and complexity.

The Nigerian Enterprises Promotion Decree, 1977 (NEPD/77) and its scope

3. The Nigerian Enterprises Promotion Decree, 1977 (the Decree) has been promulgated in consequence of a comprehensive appraisal of the results of the implementation of NEPD/72. Besides providing for further indigenisation of enterprises in Nigeria, the Decree attempts to guide against the anomalies that resulted in the implementation of NEPD/72 and to make improvements in the various organs of implementation and promotion in order to achieve a more meaningful indigenous participation in the private sector of the economy.

4. Unlike the NEPD/1972, the Decree affects ALL alien enterprises. The prime objective of the Decree is to promote and protect Nigerian participation in all areas of the economy. The businesses which are within the competence of indigenous expertise are reserved exclusively for indigenous exploitation and listed in Schedule 1. Other businesses in which joint participation is still considered to be required are classified into two categories and listed separately as Schedules 2 and 3. The ownership of these businesses must reflect a minimum Nigerian interest of 60 per cent in the case of businesses listed in Schedule 2, and 40 per cent in respect of businesses listed in Schedule 3. In addition to the above an existing enterprise whose operations incorporate activities listed in Schedules 1, 2 and 3 or in any two of those schedules and whose annual turnover is not less than ₦25 million and whose business is being carried on in not less than ten (10) states of the Federation, is required to have a minimum Nigerian equity interest of 60 per cent. Such an enterprise is required, as per Section 7 (1) of the Decree, to comply with the Decree by 30th of June, 1977, whilst all other enterprises must comply by 31st December, 1978. For new enterprises no approval will be given for their establishment unless their ownership structure accords with the aforementioned requirements of the Decree. (Schedules 1, 2 and 3 are annexed here as Appendix I).

The Organs for the Implementation of the Decree

5. The Decree establishes the following organs/instruments and utilises some existing institutions for the purpose of facilitating its effective implementation :—

(a) *The Nigerian Enterprises Promotion Board* :—This is the principal body charged with the responsibility for the effective implementation of the Decree.

(3)

(*b*) *The Nigerian Enterprises Promotion Committees of the States.*—These are the state arms of the Board, and their principal function is to assist and advise the Board on the implementation of the Decree and ensure that its provisions are complied with by any aliens resident or carrying on businesses in the states, and in such other measures as they may consider necessary.

(*c*) The Decree also confers definite function on the *Capital Issues Commission* (C.I.C.). These include powers to determine the prices at which all alien enterprises or shares of all alien enterprises affected by the Decree are to be sold or transferred to Nigerians. In respect of public companies, the C.I.C. has also powers to determine the timing of the sale(s) or transfer(s) and to lay down the terms and other conditions pertaining to the sale(s) or transfer(s), including the manner of the selection of the buyers or transferees or the manner of the allotment of the shares among the buyers or transferees.

In view of the comprehensive details required by the C.I.C., all alien enterprises are advised to forward their applications for valuation to the Commission in good time. Such applications should be addressed to :—

The Secretary,
Capital Issues Commission,
Central Bank of Nigeria,
Tinubu Square,
Lagos.

(*d*) *The Allotment Committee of the Capital Issues Commission.*—This body, composed of representatives of the Commission, the Board, the Lagos Stock Exchange and the appropriate Issuing House is charged with the responsibility for the allotment of shares in all public companies (both quoted and unquoted) selling shares for the purpose of complying with the provisions of the Decree.

(*e*) *Inspectors of Enterprises.*—The Decree provides for the appointment of a corps of Inspectors who are vested with inspectorate powers to function as the direct enforcement agents of the Board in relation to all affected enterprises.

The Board's Modus Operandi

6. The Board, in the exercise of its general function to advance and develop the promotion of business enterprises in which citizens of Nigeria would participate fully and play a dominant role may issue general directives or become directly involved in the activities of particular businesses before or after the appointed day as follows :—

(*a*) In order to ensure that all affected enterprises comply by the appointed day(s), the Board may require all or any specified types or classes of business to submit specified returns or to take any other necessary steps to comply with the provisions of the Decree ;

(*b*) where the approval of the Board is being sought in relation to any proposed sale or transfer of interest in respect of businesses listed in Schedule 1, or businesses listed in Schedules 2 and 3 which are not operated as public companies ;

(*c*) where an application is made to the Board for a certificate of compliance ; and

(*d*) where there is a purported transfer or sale of interest in an enterprise in contravention of the provisions of the Decree, the Board may—

(*i*) direct the sealing up of the premises in which the enterprise is carried on ;

(*ii*) take over, sell or otherwise dispose of the enterprise ; and

(*iii*) distribute to the proprietors or shareholders, as the case may be, the proceeds of such sale or disposal after defraying its expenses.

7. As the primary objective of the Decree is the indigenous businessman the major emphasis of the Board is to ensure that Nigerians know what they are buying, that they pay reasonable prices for what they buy and that the operations of the businesses bought are sustained commercially. However, the Board is not unaware of its responsibility to aliens as well. But, the alien business-owner should know that his interest will be better protected if he abides with the normal procedure for fair business transaction and provides all essential information to the Board, the Capital Issues Commission and the prospective buyer(s).

Compliance with Nigerian Enterprises Promotion Decree, 1977

8. A prospective buyer could approach the Secretariat of the Board, the State Committee or the vendor(s) for details of enterprises which are either to be sold outright under the Decree or whose equities are to be indigenised to the extent of 40 per cent or 60 per cent. The process of transfer of interest in enterprises from aliens to Nigerians shall be in accordance with the requirements of the Decree, viz:

(*i*) The Nigerian Enterprises Promotion Board, *and the Board alone*, will determine the schedules to which all affected alien enterprises belong. All alien enterprises are therefore advised, in their own interests, to give full and correct details of their activities to enable the Board determine accurately the exact schedules under which their activities fall. Every alien enterprise will be subjected to detailed on-the-spot investigations by the Board's Inspectors either before or after compliance or both before and after compliance. Any person who knowingly furnishes inaccurate or misleading information in connection with any enterprise on the basis of which the enterprise is scheduled will be dealt with in accordance with the penalties stipulated in Section 15 (2) of the Decree. In addition the enterprise will of course be rightly re-scheduled and made to comply accordingly;

(*ii*) The prices at which all alien enterprises or shares of all alien enterprises affected by the Decree are to be sold or transferred will be determined by the Capital Issues Commission;

(*iii*) In respect of ALL businesses listed in Schedule 1 and all businesses listed in Schedules 2 and 3 which are being operated *other than* as public companies (i.e. proprietorships, partnerships or private companies), no sale or transfer of interest can be effected unless the terms of sale or transfer have been approved by the Board. Alien owners of such enterprises will be allowed to submit names of prospective buyers, but the Board reserves the right to reject or vary whatever submissions are made to it ;

(*iv*) In case of public companies, the Allotment Committee of the Capital Issues Commission will be responsible for allotment of share, or stocks ;

(*v*) Both the Nigerian Enterprises Promotion Board and the Allotment Committee will take steps to ensure that the beneficial ownership of enterprises or shares of enterprises which are being sold for the purposes of complying with the provisions of the Decree are as widely spread as possible and deliberate efforts would be made to prevent the concentration of ownership in a few hands;

(*vi*) Except in the case of owner-managers, no enterprise or the entire mandatory portion of shares of any enterprise affected by the Decree would be sold or transferred to a single individual, and in no case will a single individual be allowed to have control of more than one enterprise affected by the Decree;

(*vii*) Except in the case of owner-managers, the maximum interest that any Nigerian citizen or non-public sector association (whether corporate or non-corporate) could be allowed to acquire in any one enterprise will be limited to 5 per cent of the equity shares being offered for sale or ₦50,000 worth of shares, *whichever is higher*. Nigerians are advised to note that the 5 per cent or ₦50,000 maximum rule is not as restrictive as it seems. However, any Nigerian citizen or association already holding more than the 5 per cent or ₦50,000 permissible maximum will not qualify for any further allotments, but will not be forced to divest any of his or its current holdings;

(*viii*) In considering applications from Nigerians to buy enterprises or shares of enterprises affected by the Decree, the Nigerian Enterprises Promotion Board or the Allotment Committee, as the case may be, will take into account the existing interest or shareholdings of such applicants in the enterprise or shares being sold and in any other enterprise or shares of enterprises affected by the Decree. In this connection the Nigerian Enterprises Promotion Board or the Allotment Committee, as the case may be, is not obliged to approve in whole or in part, any application from any Nigerian citizen or association (whether corporate or non-corporate) for the purchase of enterprises or shares of enterprises affected by the Decree. Besides, the Board or the Allotment Committee reserves the power to request for any information whatsoever from any Nigerian citizen or association (whether corporate or not) seeking to purchase shares or interests in enterprises affected by the Decree ;

(*ix*) All Schedules 2 and 3 enterprises as well as enterprises complying under Section 7 (1) of the Decree, are obliged to reserve not less than 10 per cent of the amount of sale for their employees. At least one-half of the 10 per cent must also be reserved for the non-managerial staff. Any lawful arrangement under which the acquisition of the shares by workers will be achieved or facilitated will be favourably considered by the Board provided that the arrangement is not obnoxious. The Nigerian Enterprises Promotion Board is always ready to advise and assist enterprises to ensure that Government objective of worker equity participation is achieved.

9. It is important to emphasise that any sale or transfer of interest which is in contravention of the foregoing requirements shall be null and void and be of no effect whatsoever. Consequently the vendors or transferors as the case may be, shall be obliged to immediately return any moneys received in connection with the transaction to the buyer(s) or transferee(s).

10. Beside consulting professional advisers on the necessary steps to acquire a business in whole or in part, prospective buyers could also seek advice from the Secretariat of the Board or the State Committees. Relatively inexpensive advice as well as financial assistance could be obtained from the commercial banks, other specialized banks and investment houses. Assistance for small scale businesses could be sought from the small scale industries credit schemes of various State Governments. Medium and large-scale enterprises could seek and obtain financial assistance from other public financial institutions (Federal or State). For example, agricultural projects can seek assistance from the Nigerian Agricultural Bank (N.A.B.), while industrial and commercial projects can expect assistance from the Nigerian Bank for Commerce and Industry (N.B.C.I.), the Industrial Development Bank (N.I.D.B.), the New Nigerian Development Company Limited (N.N.D.C.) and Odu'a Investment Company, etc. (*see* list of financial institutions in the country in Appendix II).

11. For quite sometime, Government has appreciated that technical and management support to indigenous businesses is essential for their development. A number of institutions have been established which Nigerians could make maximum use of. For instance, there are the Industrial Training Fund (I.T.F.) which is responsible for promoting and encouraging the acquisition of skills in industry and commerce with a view to generating a pool of trained indigenous manpower sufficient to meet the need of the economy, and the Centre for Management Development (C.M.D.) which is charged with the formulation and execution of policies on management education, training and development. The latter has a Business and Advisory Unit which provides direct and meaningful assistance in the management needs arising from the implementation of the Nigerian Enterprises Promotion Decree. (A list of management and skills development institutions in the country is in Appendix III).

Offences and Penalties

12. Any person who fails to furnish any information or furnishes false information to the Board when requested to do so shall be guilty of an offence. Any person who acts as a front for the purpose of defeating the object of the Decree is liable to be prosecuted, and contravention of any of the provisions of the Decree is an offence punishable with a fine or imprisonment or both. In particular it is an offence to retain the services of a former alien proprietor of a business acquired unless the prior approval of the Federal Commissioner for Internal Affairs has been obtained by the new owner. Alien employees not being former owners or part owners could however, be retained on the normal immigration quota. In addition to the penalties imposed under the Decree, offenders are warned that the Board would not hesitate to take administrative actions against them.

Conclusion

13. Indigenisation of businesses is a political, economic and social necessity in every country. For it to be effective it is essential to create suitable conditions for the development of local entrepreneurship mainly through technical and managerial assistance and easy access to capital. Successive Governments in this country have attempted to tackle this problem in varying fashions. While the NEPD/72 represented the first comprehensive formal enactment which aimed at placing the commanding heights of the economy in the hands of Nigerians, the NEPD/77 seeks to consolidate and improve on the earlier gains. Indigenous entrepreneurs are therefore expected to rise to the occassion by taking full advantage of the opportunities offered by the new enactment and make use of the various facilities now available for the development of their businesses.

14. Copies of the Decree are obtainable from the Federal Government Printer, Malu Road, Apapa, Lagos. Any Nigerian or alien seeking further clarifications on the above as well as on any other issues relating to the Nigerian Enterprises Promotion Decree, 1977 is advised to contact DIRECTLY the Nigerian Enterprises Promotion Board, 15 and 19 Keffi Street, P.M.B. 12553, Lagos or any State Enterprises Promotion Committee at the State Ministry of Trade, Industry and Co-operatives. The Board cannot entertain any excuses that affected enterprises or prospective Nigerian buyers have been misled by their professional advisers.

15. With the co-operation of all concerned the Nigerian Enterprises Promotion Board fervently hopes that the implementation of the current (second) phase of indigenisation will be smooth and successful.

APPENDIX I

SCHEDULES 1, 2 and 3 OF NIGERIAN ENTERPRISES PROMOTION DECREE, 1977

SCHEDULE 1

ENTERPRISES EXCLUSIVELY RESERVED FOR NIGERIANS

1. Advertising and public relations business.
2. All aspects of pool betting business and lotteries.
3. Assemblyof radios, radiograms, record changers, television sets, tape recorders and other electric domestic appliances not combined with manufacture of components.
4. Blending and bottling of alcoholic drinks.
5. Blocks and ordinary tile manufacture for building and construction works.
6. Bread and cake making.
7. Candle manufacture.
8. Casinos and gaming centres.
9. Cinemas and other places of entertainment.
10. Commercial transportation (wet and dry cargo and fuel).
11. Commission agents.
12. Departmental stores and supermarkets having an annual turnover of less than *₦2,000,000.*
13. Distribution agencies excluding *motor vehicles, machinery and equipment and spare* parts.
14. Electrical repair shops other than repair shops associated with distribution of electrical goods.
15. Establishments specialising in the repair of watches, clocks and jewellery, including imitation jewellery for the general public.
16. Estate agency.
17. Film distribution (including cinema films).
18. Garment manufacture.
19. Hairdressing.
20. Ice-cream making when not associated with the manufacture of other dairy products.
21. Indenting and confirming.
22. Laundry and dry-cleaning.
23. Manufacturers' representatives.
24. Manufacture of jewellery and related articles, including imitation jewellery.
25. Manufacture of suitcases, brief cases, hand-bags, purses, wallets, portfolios and shopping bags.
26. Municipal bus services and taxis.
27. Newspaper publishing and printing.
28. Office cleaning.
29. Passenger bus services of any kind.
30. Poultry farming.
31. Printing of stationery (when not associated with printing of books).
32. Protective agencies.
33. Radio and television broadcasting.
34. Retail trade (except by or within departmental stores and supermarkets).
35. Rice milling.

36. Singlet manufacture.
37. Stevedoring and shorehandling.
38. Tyre retreading.
39. Travel agencies.
40. Wholesale distribution of local manufactures and other locally produced goods.

SCHEDULE 2

ENTERPRISES IN RESPECT OF WHICH NIGERIANS MUST HAVE AT LEAST 60 PER CENT EQUITY INTEREST

1. Banking—commercial, merchant and development banking.
2. Basic iron and steel manufacture.
3. Beer brewing.
4. Boat building.
5. Bottling of soft drinks.
6. Business services (other than machinery and equipment rental and leasing) such as business management and consulting services ; fashion designing.
7. Clearing and forwarding agencies.
8. Canning and preserving of fruits and vegetables.
9. Coastal and inland waterways shipping.
10. Construction industry.
11. Departmental stores and supermarkets having annual turnover of not less than ₦2,000,000.
12. Distribution agencies for machines and technical equipment.
13. Distribution and servicing of motor vehicles, tractors and spare parts thereof or similar objects.
14. Fish and shrimp trawling and processing.
15. Fertilizer production.
16. Grain mill products except rice milling.
17. Industrial cleaning.
18. Insecticides, pesticides and fungicides.
19. Internal air transport (scheduled and charter services).
20. Insurance—all classes.
21. Lighterage.
22. Manufacture of bicycles.
23. Manufacture of biscuits and similar dry bakery products.
24. Manufacture of cement.
25. Manufacture of cosmetics and perfumery.
26. Manufacture of cocoa, chocolate and sugar confectionery.
27. Manufacture of dairy products, butter, cheese, milk and other milk products.
28. Manufacture of food products like yeast, starch, baking powder, coffee roasting ; processing of tea leaves into black tea.
29. Manufacture of furniture and interior decoration. Manufacture of metal fixtures for household, office and public building.
30. Manufacture of leather footwear.
31. Manufacture of matches.
32. Manufacture of metal containers.

33. Manufacture of paints, varnishes or other similar articles.
34. Manufacture of plastic products such as plastic dinnerware, tableware, kitchenware, plastic mats, plastic machinery parts, bottles, tubes and cabinets.
35. Manufacture of rubber products, rubber footwear, industrial and mechanical rubber specialities such as gloves, mats, sponges and foam.
36. Manufacture of tyres and tubes for bicycles and motorcycles ; of tyres and tubes for motor vehicles.
37. Manufacture of soap and detergents.
38. Manufacture of wire, nails, washers, bolts, nuts, rivets and other similar articles.
39. Other manufacturing industries such as non-rubber and non-plastic toys, pens, pencils, umbrellas, canes, buttons, brooms and brushes, lampshades, tobacco pipes and cigarette holders.
40. Mining and quarrying.
41. Oil milling, cotton ginning and crushing industries.
42. Paper conversion industries.
43. Plantation sugar and processing.
44. Plantation agriculture for tree crops, grains and other cash crops.
45. Printing of books.
46. Production of sawn timber, plywood, veneers and other wood conversion industries.
47. Petro-chemical feedstock industries
48. Publishing of books, periodicals and such like.
49. Pulp and paper mills.
50. Restaurants, cafes and other eating and drinking places.
51. Salt refinery and packaging.
52. Screen printing on cloth, dyeing.
53. Inland and coastal shipping.
54. Slaughtering, storage associated with industrial processing and distribution of meat.
55. Tanneries and leather finishing.
56. Wholesale distribution of imported goods.
57. Photographic studios, including commercial and aerial photography.

SCHEDULE 3

ENTERPRISES IN WHICH NIGERIANS MUST HAVE AT LEAST 40 PER CENT EQUITY INTEREST

1. Distilling, rectifying and blending of spirits such as ethyl alcohol, whisky, brandy, gin and the like.
2. Tobacco manufacture.
3. Manufacture of basic industrial chemicals (organic and inorganic) except fertilizers.
4. Manufacture of synthetic resins, plastic materials and man-made fibres except glass.
5. Manufacture of drugs and medicines.
6. Manufacture of pottery, china and earthenware.
7. Manufacture of glass and glass products.
8. Manufacture of burnt bricks and structural clay products.
9. Manufacture of miscellaneous non-mineral products such as concrete, gypsum and plastering products, including ready-mixed concrete ; mineral wool, abrasive ; asbestos products ; graphite products.
10. Manufacture of primary non-ferrous metal products such as ingots, bars and billets ; sheets, strips, circles, sections rods, tubes, pipes and wire rods ; casting and extrusions.

11. Manufacture of (fabricated metal) cutlery, hand tools and general hardware.
12. Manufacture of structural metal products-components of bridges, tanks, metal doors and screens, window frames.
13. Manufacture of micesllaneous fabricated metal products, except machinery and equipment, such as safes and vaults ; steel springs furnaces ; stoves, and the like.
14. Manufacture of engines and turbines.
15. Manufacture of agricultural machinery and equipment.
16. Manufacture of metal and wood working machinery.
17. Manufacture of special industrial machinery and equipment, such as textile and food machinery, paper industry machinery, oil refining machinery and equipment, and the like.
18. Manufacture of office, computing and accounting machinery.
19. Manufacture of other machinery and equipment except electrical equipment, pumps, air and gas compressors ; blowers, air-conditioning and ventilating machinery ; refrigerators, and the like.
20. Manufacture of electrical industrial machinery and apparatus.
21. Manufacture of radio, television and communication equipment and apparatus.
22. Manufacture of electrical appliances and houseware.
23. Manufacture of electrical apparatus and supplies not elsewhere classified, such as insulated wires and cables, batteries, electric lamps and tubes, fixtures and lamp switches, sockets, switches, insulators and the like.
24. Ship building and repairing (excluding boat building).
25. Manufacture of railway equipment.
26. Manufacture of motor vehicles and motor-cycles.
27. Manufacture of aircraft.
28. Manufacture of professional and scientific and measuring and controlling equipment, such as laboratory and scientific instruments, surgical, medical and dental equipment, instruments and supplies and orthopaedic and prosthetic appliances.
29. Manufacture of photographic and optical goods.
30. Manufacture of watches and clocks.
31. Ocean transport/shipping.
32. Oil servicing companies.
33. Storage and warehousing—the operation of storage facilities and warehouses (including bonded and refrigerated warehouses) for hire by the general public.
34. Textile manufacturing industries.
35. Hotels, rooming houses, camps and lodging places.
36. Data processing and tabulating services (on a fee or contract basis).
37. Production of cinema and television films (or motion picture production).
38. Machinery and equipment rental and leasing.
39. All other enterprises not included in Schedule 1 or 2 not being public sector enterprises.

EXHIBIT 6

AVAILABLE MAJOR RAW MATERIALS IN NIGERIA - THEIR LOCATION AND THE PRODUCTS INTO WHICH THEY CAN BE PROCESSED:

RAW MATERIALS	LOCATION (STATES)	PROCESSED PRODUCTS (SEMI & FINAL)
Cattle, Goats and Sheep	Borno, Bauchi, Kano Kaduna, Sokoto	Hides, Leather goods fresh and frozen meat, Bones, blood, skins and wool, milk & milk products
Domestic Fowls, Chicken, Ducks, Turkey	Most parts of Nigeria	Eggs, Broilers, spent Layers meat.
Tomatoes, Oranges, Pineapples, Mangoes e.t.c	Widely grown in most parts of Nigeria	Natural and concertratic juice, Jam, Animal fee.. sugar syrup
Onions, Tubers, beans, carrots, potatoes and other vegetables	Most parts of Nigeria..	Dehydrated vegetables, and other food products
Fish	Mangrove swamp, Lake Chad, Main Rivers in Nigeria, Niger, Benue, Ogun, Forcados, Cross River and Kaduna River and Nigerian Territotial water.	Fish meal, fish oils, Fresh and frozen fish, glue, lubrication, varnishes, soap and other industrial uses
Cotton seeds, Groundnuts, co-conut, palm karnel, palm oil, soya Bean	Anambra, Cross River Rivers, Bendel, Imo,Ondo Ogun, Gongola, Benue, Oyo and Kwara States	Edible oil, soap and detergents, Lubricats, cake.
Maize, guinea corn (Sorghum), Millet	Ogun, Ondo, Benue Bendel, Gongola, Bauchi, Kaduna, Sokoto, Kano, Borno Oyo, Anambra, Imo, Cross River and Kwara States	Corn flakes,(cereal Flaking Process) Bean Cakes, Flour, Animal Feed Starch and other food products
Rice	Gongola, Bendel, Ogun, Borno, Anambra, Imo States	Whole Rice, Broken rice Bran

Cocoa	Ogun, Oyo, Ondo and Bendel States	Cocoa, Butter, Chocolates, Sweets, Soap and Cosmetics, Wine, Beverages and other Confectionary and Bakery
Yam, Cassava, Maize	Oyo, Gongola, Imo Kaduna, Anambra, Ogun, Cross River, Kwara, Ondo, Bendel, and River States.	Glucose, Food, Starch for Textile and Paper industries, and Pharmaceutical industries and laundaries
Cotton	Kano, Kaduna, Gongola, Oyo Kwara States	Textiles, Medicated gause (wadding) Sanitary pad
Wood	Anambra, Bendel, Imo Oyo, Ondo, Benue, Gongola, Cross River and Ogun States	Wood products, Construction and building industries
Coal	Anambra and Benue States	Fuel, Manufacture of Tar, Gases and oils
Lignite	Bendel State	Industrial use similar to Coal and for production of nitrate fertilizer
Crude Petroleum	Bendel, Imo, Cross River and Rivers States	Used in the refineries to produce petroleum products, oils, gases, exhylene, propylene andclegins products, insecticides
Natural Gas	Bendel, Cross River Imo and Rivers States	Production of Ammonia/Urea for nitrogenous fertilizers
Clay (Kaolin)	Kaduna, Ogun, Anambra, Bauchi, Kano and Kwara States	Ceramic Wares, Production of Sanitary Wares, tiles, pottery, Bricks
Columbite	Kano and Plateau States	Nuclear engineering and alloys for gas turbines and space missings
Diatomite	Borno	For preparing insect control powder
Glass Sand	Anambra, Bendel, Imo, Kano, Lagos, Niger, Ogun and Rivers States	Manufacture of Glass Wares

Gold	Bendel, Kaduna, Kano Kwara, Oyo and Niger States	Jeweliery and Ornaments
Gypsum	Sokoto State Mainly	For Manufacture of Cement
Iron Ore	Kwara, Anambra, Oyo Ondo and Sokoto States	Steel Manufacture and Engineering Works
Kaymmite	Mainly in Kaduna State	Used in manufacture of refractory morters, cement and mixes
Limestone	Anambra, Oyo, Ogun, Niger, Bendel, Sokoto, Rivers, Benue & Kwara State.	Cement Manufacture, and fluxing stone for iron smelting
Salt	Anambra, Cross River Bauchi and Kwara State	Food stuff uses, uses in agricultural and industrial chemicals, texile industry soap making and explosives
Talc	Kwara, Oyo and Niger State	Used in paint, Cement, Tolletaries and furneces
Tin	Plateau State	Tin Plating
Uranium	Gongola, Borno, and Kwara States	Nucle'r Energy, Fuels and source of radium in medicine
Wolframite	Bauchi, Benue, Kano and Plateau States	Used mainly in Manufacture of tungsten steel and electronic bulb filaments.
Zircon	Plateau State	Used in nuclear reactors and chemical plants
Tantalum	Oyo, Ondo, Kwara, Kaduna and Plateau States	Used in the manufacture of dental surgical and military instruments and equipments
Marble	Bendel, Kwara, Oyo and Niger States	Used for metallurgical processes chemical industry, cement production road and building construction
Phosphate	Ogun and Sokoto States	for phosphate fertilizers
Shale	Anambra and Imo States	Ingredients for bricks and heavy clay products