

Nigeria 1961-1991:

Closure, Survival
and Growth of
Small Enterprise

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**Nigeria 1961-1991:
Closure, Survival and Growth of Small Enterprise**

by

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This paper reports on the investigation of a sample of 212 African firms that were founded in southern Nigeria during the years 1917-1961. Data pertaining to these firms were collected in 1960-1962 and again in 1991-1993. The purpose of the enquiry is two-fold. It seeks, first, to assess survival rates during the three decades since 1961 and the proximate determinants of those rates. The second objective is to discern patterns of stagnation and growth among the survivors. These findings, in turn, should help to illuminate in a small way two areas of contemporary policy concern: (1) the workings and evolutionary potential of the small enterprise sector, and (2) intergenerational entrepreneurial dynamics and its impact upon the growth of the individual firm.

INTRODUCTION

The senior author conducted field research in Nigeria from October 1959 to June 1962 and in the summer of 1964, first as a Fulbright research fellow and later as a USAID economist. During this period, some 212 firms in the greater Lagos area, Ibadan, and nine towns in eastern Nigeria were interviewed.¹ The firms were engaged predominantly in manufacturing, ranging in size from one-person microenterprise to establishments engaging more than 50 paid workers.

Although by no means a random draw from the 1961 population of Nigerian establishments, the experience of these firms — in their sheer number and lack of *a priori* selection bias with respect to survival — should add to our understanding of the dynamics governing the size and make-up of the small enterprise sector.

The consequences for policy formulation of a study of survival such as this one turns primarily upon the magnitude of closure rates. If comparatively few firms are still operating after 4 to 6 years, a lower level of overall assistance might be indicated than if the situation were the opposite. In terms of the type of intervention, in those cases where closure rates are low it makes sense to strengthen firm-specific managerial capabilities and to extend loans for acquiring new equipment and expanded physical premises. Contrariwise, where high closure rates obtain, such interventions are wasteful and of little effect. In this instance short-term working capital loan schemes, which maintain current employment and output, have the highest payoff. Where a sizable proportion of individuals from closed firms seek further employment within the small enterprise sector, individual-specific technical training may still have a positive social rate of return.

The second objective of this study, relating to the individual firm rather than to the collective of all firms, is to investigate the degree and type of evolution that occurs in those establishments that do survive for a significant period of time. Do they grow in size? Are they able to move on to technologically advanced production processes and to new and higher-quality products? Do they adopt innovations in marketing, in organization and management control, and in finance that permit them to lower unit-cost and increase market share? And can they navigate that critical juncture when the founder departs from the scene and intact control must be passed on to able hands in the next generation?

Based on the premise that sustained industrialization does entail some proportion of firms evolving over significant periods of time into more complex, larger-scale organizations, then indeed there will be policy implications here as well. They will lay in the areas of support for managerial human capital,

¹ The senior author was ably assisted by Daniel Ibeziako in eastern Nigeria and by Sylvester Obi in Lagos during 1961. All other interviews in 1959, 1960, 1962, and 1964 were carried out solely by the senior author and were directed toward larger firms.

strengthening markets for equity capital, and adapting inheritance practices with respect to ongoing commercial enterprises.

SOME LIMITATIONS

There is, however, one major caution as to the representative nature of the experience of these firms in the larger African or even West African context. Although few social science experiments manage to fully isolate the effect of environmental variables lying beyond the explanatory factors chosen for study, in this instance the force of "omitted variables" is extreme. The most important of these omitted variables are intermittent lapses in social order, oscillations in market-determining national income, and maladroit government policies.

During the 30-year duration of our experiment, a brief period of economic stability was followed by a protracted political breakdown. This in turn was followed in 1967 by a three-year civil war that physically dislocated virtually all of the 120 firms situated in then Biafra. A more or less orderly period of reconstruction facilitated by advancing oil production in 1970-1973 was succeeded by an uncontrolled oil-price boom that lifted per capita income three-fold. In 1981 a punctured boom was followed by recession and then hyper-devaluation, bringing with it a plummeting of per capita GDP back to its starting point 30 years earlier. And in adapting to these manic gyrations, producers found, at virtually every turn, an environment that had been further poisoned by government policy.

Much of the policy-making of Nigeria's military rulers has been technically incompetent in design and execution and, not infrequently, kleptocratic in intent. In the international trade area, apart from the diversion of unrecorded government oil revenues to private individuals, a frequent policy intervention has been sudden bans on specific imports (textiles, shoes, rice, wheat) followed some months later by the issuance of illegal duty-free import licenses; the first attracted new investment while the second — creating great wealth for the grantee — insured that all production would occur at a loss.

Acute under-provision of infrastructural services during the second half of the 1970s meant that all firms had to raise their capital-intensity via the purchase of electricity generators, that the transport of materials and finished product was disrupted and that workers (in Lagos) spent as much time commuting as they did laboring, giving rise to the "16-hour work day." As law and order weakened, burglary from without and pilferage from within mounted. Most pervasive, every transaction involving a government purchase, sale or approval entailed a "commission" of unpredictable magnitude. Erratic fiscal policy, the sudden expulsion of hundreds of thousands of foreign workers in February 1983, and uncontrolled contraband trade from surrounding francophone countries added to the turmoil, creating a pitch of uncertainty that well might have seized-up the sinew of virtually any risk-taking enterprise.

What might be the implications of such a volatile and fundamentally hostile business environment for successfully carrying out our investigation, of locating the firms and obtaining a picture of the enduring elements in their life cycle? Three come to mind. First, the "normal process" by which some firms grow and evolve in less hostile environments should in the Nigerian case be more difficult to discern and the outcome itself truncated or, at least, retarded. Second, with reference to our principal firm-survival index, the strength and frequency of the external shocks ought to result in substantially higher closure rates than would obtain under more normal circumstances.

The final effect to be expected of a volatile environment strikes at the very viability of the project itself: the turmoil that results in more closures, more changes of location and more distractions to the

undisturbed memory of informants all portend a reduction in our ability to trace the whereabouts of those firms of long ago. A trace rate of 10 percent would leave us with a sample having no statistical significance, while a rate of 20 percent would permit evaluation of only the broadest generalizations. With no census or other forms of public or commercial records, 30-year tracing is a difficult business under the most ideal of environmental conditions.

THE 1961 SAMPLE

The first point to be made about the collection of firms from 1961 is that they were far from a random sample of the "small enterprise sector" of the day. In the late 1950s and early 1960s "growth and development" was the almost-exclusive focus of interest for both academics and policy-makers. In contrast to today's concerns with "poverty alleviation," and hence all microenterprise activities, three decades ago the target of research was delimited to the small and medium manufacturing firm, with the service sector and one- and two-man producers attracting only secondary interest.² This same concern meant that commercial home-based production (for example, tailoring, beer) was ignored, as were small full-time processing and manufacturing units in rural areas. In sum, the 1961 sample, conforming to the regnant trends, is strongly biased toward larger scale units, under-represents non-manufacturing activities, and represents not at all small towns and rural areas.

Even within the context of urban small industry, specific interests introduced further biases. Indeed, interviewed firms were sought out in three separate, albeit temporally over-lapping, research ventures. The first, begun in 1960, was a study of the bread industry: 35 bakeries account for the largest single SIC category, 16 percent of the total.³ A second wave of interviews during 1961-1962, accounting for three-quarters of the total, had as its objective provision of basic data for Nigeria's inaugural assistance program in this sector. Sponsored by USAID, the senior author and his assistants — in the absence of any enumerated (or statistically estimated) population of establishments from which to draw a sample — selected firms at random as spied from the streets, municipal industry layout and open market areas. An attempt was made to cover all significant manufacturing activities, and within each activity, all size groups. The final venture in the summer of 1964, involving about a dozen firms, was designed to increase the coverage of the largest Nigerian-operated industrial firms. Most of these located in formal industrial estates for large-scale industry would not have been caught in the "pedestrian" USAID small industry survey.

² Regarding the size issue, for example, if we take nine urban areas in eastern Nigeria as indicative, of all enumerated units 38 percent were one-person firms and 54 percent engaged two-to-five in 1961. By contrast, our sample included only 8 percent of one-person units and 24 percent in the two-to-five category.

(For details on the complete count of urban eastern Nigeria non-trading establishments, see Peter Kilby, *The Development of Small Industry in Eastern Nigeria*, Government Printer: Enugu, 1963.)

³ Peter Kilby, *African Enterprise: The Nigerian Bread Industry*, The Hoover Institution: Stanford, 1965.

TABLE 1
THE 1961 SAMPLE

(SIC)		Firm Size					Total
		1	2-5	6-9	10-49	50+	
1542-1611	Civil Engineering	..	..	..	..	2	2
2044	Rice Milling	..	3	1	..	..	4
2041	Blended Flour	..	..	..	1	..	1
2051	Bread	1	..	6	23	5	35
2086	Soft Drinks	..	..	..	4	..	4
2257	Woven Fabric	..	..	1	4	..	5
2254	Singlets	..	..	3	1	..	4
2311-2335	Clothing	4	7	5	4	..	20
2421	Sawmilling	..	1	1	4	1	7
2431-2521	Wood Products ¹	3	13	8	6	1	31
2734	Printing	1	2	2	8	2	15
3143	Leather Shoes	..	7	5	4	..	16
3411-3551	Metal Products ²	3	7	8	5	..	23
3911	Jewelry	..	1	2	1	..	4
7216	Dry Cleaning	1	..	..	2	..	3
7221	Photography	..	2	..	1	..	3
7534	Tire Retreading	..	..	..	1	2	3
7531-7538	Automotive Repair ³	1	1	6	15	..	23
	Other ⁴	1	3	..	4	1	9
TOTAL		15	47	48	88	14	212

- 1 Primarily furniture; also window and door frames, and caskets.
2 Welding and smithing, iron grill work, machines, spare parts, and tinsmithing.
3 Motor repair, body work, electrical, and upholstery.
4 Hospital beds, cosmetics, ceramic table ware, coffins, marble monuments, and electric armature rewinding.

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The 212 establishments represent predominantly manufacturing and processing activities. The two large civil engineering concerns were caught in our net by virtue of large furniture factories that were an integral part of their public contract work constructing office buildings, university residential facilities and the like. Three units in "woven fabrics" were cloth hand-weaving undertakings, the result of government training schemes during the 1950s. Of the services, only automotive repair is given a significant weighting. For many of the SIC categories — clothing, wood products, printing, shoes, metal products, automotive repair — reported firm size would be cut significantly if apprentice labor were held to one side.

THE 1991 SAMPLE

The process of tracing and testing of the survey instrument was begun in mid-1990. Three years and the efforts of many people were devoted to the project.⁴

Each questionnaire contained the firm's 1961 address, a brief education-employment history of the entrepreneur and questions pertaining to standard business performance. The enumerator began at that address, or in close proximity if the street no longer existed. Occasionally the firm was still there. If not, long-time residents, nearby elderly competitors and industry association officials were questioned about what happened to the firm and the whereabouts of family members. Many times a failed trace was saved in the course of an interview months later with a respondent in the same industry. All but a handful of traces ultimately involved contact with original entrepreneur or a relative as well as the individual who last ran the business.

Of the 212 firms, information was obtained in 120 cases, for a trace rate of 56.6 percent. This seeming extraordinary success after 30 years is attributable to astonishing memory capabilities among Nigerian informants — a faculty whose development is perhaps favored by an environment where written records are frequently unreliable and almost always impermanent. There was however considerable regional variance in our ability in locating potential informants, resulting in a 42.5 percent trace rate in the East versus 75 percent in Lagos and Ibadan. The grinding three-year civil war fought in the eastern region, with its attendant population dislocations, comes to mind as a likely explanation. Finally there was variance between industries. Baking, printing, and leather shoes are rediscovered at rates above 80 percent, while wood and metal products fall below 30 percent.

Even more remarkable than the large proportion of firms which was found is the very high survival rate among those units. Of 120 traced establishment, 75 were still in operation 30 years later. This survival rate of 62.5 percent contrasts with less than 10 percent in the United States and in other African countries. Liedholm and Mead report that studies in Kenya, Zimbabwe, Swaziland, Botswana, and Malawi — covering all non-farm enterprises of 50 or fewer workers — found that within three years of start-up approximately one half of the firms have closed.⁵

⁴ In addition to the authors, major tracing and interviewing was done by the following individuals (by order of importance): Ugochukwu Ejinkoye, Dr Marin Trenk, Brent Pattison, Stephen Onyiefwu, Sanya Otufowora, Dotun Idowu, and Julius Odusanya. Essential logistical back-up was provided by Meg Bowman of Technoserve and Frank Hicks of the Ford Foundation.

⁵ Carl Liedholm and Donald Mead, *The Structure and Growth of Microenterprise in Southern and Eastern Africa: Evidence from Recent Surveys*, Gemini Working Paper No. 36, 1993, Chapter 2.

FIRMS TRACED IN 1991

(SIC)		Firm Size					NT
		2-5	6-9	10-49	50+	Closed	
1542-1611	Civil Engineering	..	..	1	..	1	..
2044	Rice Milling	..	..	1	..	..	3
2041	Blended Flour	..	..	..	1	..	..
2051	Bread	..	2	9	1	18	5
2086	Soft Drinks	..	..	..	..	..	4
2257	Woven Fabric	..	..	..	2	..	3
2254	Singlets	..	..	1	..	1	2
2311-2335	Clothing	2	1	4	..	1	12
2421	Sawmilling	1	..	4	..	2	..
2431-2521	Wood Products ¹	..	1	2	1	2	25
2734	Printing	4	2	2	2	2	3
3143	Leather Shoes	4	..	1	..	8	3
3411-3551	Metal Products ²	2	..	3	..	2	16
3911	Jewelry	2	..	..	..	1	1
7216	Dry Cleaning	..	..	1	..	..	2
7221	Photography	1	..	..	..	..	2
7534	Tire Retreading	..	..	1	1	1	..
7531-7538	Automotive Repair ³	2	4	4	..	4	9
	Other ⁴	..	2	2	1	2	2
TOTAL		18	12	36	9	45	92

Primarily furniture; also window and door frames, and caskets.

Welding and smithing, iron grill work, machines, spare parts, and tinsmithing .

Motor repair, body work, electrical, and upholstery.

Hospital beds, cosmetics, ceramic table ware, coffins, marble monuments, and electric armature rewinding.

The findings of this investigation are thus rather unique and, if valid, are of consequence for the type of development policies that ought to be perused. We now turn to the issue of validity.

THE QUESTION OF SAMPLE BIAS

We began by identifying one source of the discrepancy in findings between this and earlier studies about which there is no disagreement. The country research reported by Liedholm and Mead is uniform in its finding that the areas of retail trade, part-time activities and home-based industry are subject to higher-than-average closure rates. That work also shows that urban locations, *ceteris paribus*, have lower closure rates than do rural ones.⁶

The methodological issue pertaining to the representativeness of the 120 firms is two-fold. First, were the 212 firms of 1961 drawn from the small industry population in such a way that they would tend to over-estimate typical longevity? Second, and additively, did the methods of tracing in 1991, which left over two-fifths of the original firms unaccounted for, result in closed firms having a lower probability of being rediscovered than open firms? Both these effects would lead to an inflated measure of the survival rate.

The first criticism asserts that the simple pedestrian method of firm selection may have resulted in a truncated sample. To wit, that the early years of the cohorts of which these firms were a part did in fact suffer the high attrition rates that Liedholm and Mead report. The 212 selected establishments represent, under this scenario, the hardy group of survivors. Fortunately, our survey data provide a fairly definitive rebuttal to this charge.

FIRMS FOUNDED IN 1958-1961 (N=59, 29% of 212)

	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
No. of Firms	14	17	16	12
Not Traced	50%	53%	44%	50%
Open	43%	29%	31%	25%
Closed	7%	18%	25%	25%
(Years Closed)	('80)	('73 & '86)	('67 & '80)	('60 & '82)

⁶ In 1977 the International Labor Office, the Federal Department of Statistics and the University of Lagos undertook a major survey of the Lagos informal sector (firms of ten and under). The findings of that survey indicate both the higher longevity of urban firms and the shorter-than-average life of retail and wholesale trade within that population. Three-quarters of the surveyed units were one- and two-person establishments.

		<u>Age of Firms (years)</u>		
		<u>0-4</u>	<u>5-10</u>	<u>11+</u>
Retail trade	(n=524)	75 %	12%	13%
Wholesale trade	(n=116)	74	10	16
Paper products	(n=58)	55	31	14
Wood products	(n=116)	54	22	24
Metal products	(n=51)	64	22	14
Other manufac.	(n=48)	39	23	38

If the "hardy survivors" thesis were correct, we would see very few firms founded in 1961 or the preceding three years, and of those whose start-up did occur then, a high mortality rate. What we see instead is: (1) only slightly below-average trace rates of these presumably small firms, (2) 30-year survival rates well above one half, and (3) not one of the 30 traced firms closing within its first three years.

The second potential criticism has two components. The first follows the "hardy survivor" logic: very small firms are at greatest risk, if their 1991 trace rate is less than the mean it follows that the computed open/closed ratio is too high. The second argument in support of an under-count of closures holds that as more and more of the requisite geographic area is canvassed, the probability of an undiscovered open firm falls exponentially. By exhaustion, an untraced firm is a closed firm.

As explained above, the search technique employed did not rely on a physical canvass; rather it relied on searching for informants connected in one way or another with the 1961 entrepreneur. In the three years, our canvassing could not have covered more than 2 or 3 percent of the habitat of our population.

Reflection suggests that there are few grounds on which to expect an equi-probable trace rate for each type of firm. Where the firm or family members are not in their 1961 location, informants' memories can be expected to vary in accordance with the size and physical prominence of the establishment, the number of years over which it was observed, and the intensity of its interactions with customers and competitors. A single person making door frames selling only to building contractors will make a far smaller mark on the memory than a 15-man furniture factory with a splashy showroom and poster advertisements. Further, a 15-man door frame workshop selling only to contractors will also make a smaller mark on the neighborhood's memory.

The data in tables 3, 4, and 5 address various aspect of sample bias. Regarding employment, the top panel of Table 3 reveals that one-person establishments did have a very low trace rate, but two-person establishments were traced more frequently than all firm sizes up to 7 employees! Until one reaches 10-or-more where all the trace rates are above the mean, there is no clear pattern on likelihood of trace by size. When one nets out apprentice labor (the lower panel), firms of 1, 2, and 3 are traced more frequently than firms of 4 and 5. Indeed, firms with but an entrepreneur plus apprentices had a trace rate of 73 percent. As regard to correlation between number of employees in 1961 and closure rate, variance dominates any trend.

An examination of 1961 investment in equipment in Table 4 provides stronger evidence for a below-average trace of smaller firms as measured by physical assets. For the median firm in the under-\$600 category, equipment valued at 1991 prices was about \$300; in the second group the median was about \$12,000. Although greater investment is connected somewhat with a higher likelihood of being open in 1991, its greater impact was on informants' memory via the physical prominence it created.

The East/West geographic division, shown in the second panel of Table 4, has a powerful impact on the trace rate and a moderate impact on the survival rate. But an analysis of the industry statistics in the third panel suggests that in the East the presence of plastic bags, soft drinks, and rice milling, and the absence of sawmilling, may explain as much of the low trace rate as does the civil war.⁷

⁷ A proponent for the importance of history would point to lower trace rates in the east for metal products, bread and wood products.

TABLE 3

SAMPLE BIAS: TRACE RATES

BY NUMBER ENGAGED

<u># Engaged</u>	<u># of Firms</u>	<u>% Traced</u>	<u>% Open</u>	<u>Open</u>	<u>Closed</u>
1	14	21	67	2	1
2	10	60	33	2	4
3	12	33	50	2	2
4	12	58	86	6	1
5	13	31	75	3	1
6	7	43	67	2	1
7	16	50	63	5	3
8	17	65	45	5	6
9	9	22	100	2	0
10-15	39	69	48	13	14
16-20	16	69	82	9	2
21-49	33	64	62	13	8
50+	14	100	71	10	4

BY NUMBER OF PAID WORKERS

<u>Entrepreneur and Paid Workers</u>	<u># of Firms</u>	<u>% Traced</u>	<u>% Open</u>	<u>Open</u>	<u>Closed</u>
1	52	46	54	13	11
2	24	50	67	8	4
3	26	50	62	8	5
4	14	36	80	4	1
5	12	33	100	4	0
6	11	82	78	7	2
7	5	40	100	2	0
8	7	71	80	4	1
9	5	80	75	3	1
10-15	17	71	33	4	8
16-20	4	50	50	1	1
21-49	23	74	53	9	8
50+	12	100	67	8	4

TABLE 4

SAMPLE BIAS BY INVESTMENT REGION AND INDUSTRY
(1961 Sample, N=212)

		<u>No. of Firms</u>	<u>% Traced</u>	<u>% Open</u>	<u>No. of Traced Firms</u>	
					<u>Open</u>	<u>Closed</u>
<u>1961 Equipment</u>						
	\$600 & Under	43	30%	54%	7	6
	Over \$600	<u>169</u>	<u>64</u>	<u>63</u>	<u>68</u>	<u>40</u>
		212	57%	62%	75	46
<u>Region</u>						
	East	120	43%	59%	30	21
	West	92	76	64	45	25
<u>Selected Industries</u>						
Sawmilling	W	7	100%	71%	5	2
	E	-	-	-	-	-
Plastic Bags	W	-	-	-	-	-
	E	4	0	na	na	na
Soft Drinks	W	-	-	-	-	-
	E	4	0	na	na	na
Rice Mfg.	W	-	-	-	-	-
	E	4	25	100	1	0
Wood Prod.	W	10	50	60	3	2
	E	21	5	100	1	0
Bread	W	11	100	27	3	8
	E	24	79	47	9	10
Shoes	W	6	83	40	2	3
	E	11	82	33	3	6
Metal Prod.	W	6	50	67	2	1
	E	18	28	75	4	1
Printing	W	11	100	89	8	1
	E	<u>4</u>	<u>100</u>	<u>75</u>	<u>3</u>	<u>1</u>
		141	56%	56%	44	35

A final attribute associated with a low trace rate is location not at a fixed street address, but rather in a motor park or open market area where hundreds of traders, motor mechanics and artisan producers are situated in temporary sheds or in entirely unprotected spaces. By 1991 most of the 1961 market areas, overtaken by highways or apartment buildings, had ceased to exist. Of the 35 firms in such locations in 1961, 24, or 69 percent, could not be traced. If we remove the three western units, which were traced, the non-trace rate rises to 75 percent versus an average for the East of 57 percent.

What can we infer from Table 5? Three low-trace industry groups, despite falling in the mid-range of average employment, were not traced, at all. Traced firms are a bit younger, but neither employment nor fixed investment appear to be decisive. In this world of mini-samples, what does appear decisive is whether or not the firm is in auto repair: eight motor mechanics, sizable only by virtue of their many apprentices, contribute 60 percent of all traces and 70 of all open firms.

THE EVOLUTION OF SURVIVING FIRMS

The extraordinary survival rate of Nigerian firms is not matched by an equally impressive performance in graduating to larger-scale, more complex organizations. Indeed, quite the contrary. The simple statistics of stagnation are reported in Table 6.

The positive information to be extracted from Table 6 is further confirmation of the long life span, including that of the closed firms. Of the latter, with the exception of printing, all groups enjoyed average lifetimes of 22 to 41 years (the record is 73 years). And the three-fifths of the units still operating are already in a very impressive 30-to-50 year range.

With respect to the growth of open firms, the record is depressing. Average employment does not show the pattern of long-term growth that is normally associated with a healthy, progressive firm. Although the variance among firms is great, the weighted average signals a small decline in the size of firms as measured by number employed.

The question of the growth of the firm is further explored in Table 7, which focuses upon the largest producers. Again we see a great deal of variance. Of the seven firms employing over 50 in 1961, four have closed and two others have seen their size much diminished, only one has increased in size. Of the eight firms engaging 50 or more in 1991, only two are carry-overs from 1961. Even more striking is the within-firm volatility, with all firms having been much larger in the 1960s or the 1970s: these larger firms have been in decline for the past one or two decades. And this pattern holds for most of the smaller firms as well.

What factors can we identify to explain such a dismal performance? We offer two. The first, and most obvious, is that set of "omitted variables," alluded to in the "Introduction," which emanate from the external business environment. The second is a set of social structural factors that comes into operation late in the tenure of the founding entrepreneur. We begin with the economic environment.

The variety of experience among the smaller firms in 1961 that did not subsequently evolve in terms of scale, organizational complexity or technology is reasonably well illustrated by two case histories drawn from the automotive motor mechanics trade.

TABLE 5

1961 FIRMS LOCATED IN MARKET LAYOUTS
(N=35)

PRODUCT	AVERAGE EMPLOYMENT	AVERAGE INVEST.	YEAR OF START-UP		T/NT	O/CL
			Tr	Non-Tr		
Tailoring	1	\$330	-	'57	0/1	-
Pails	2	134	'56	'52	2/3	1/1
Shoes	2	415	'56	-	2/0	0/2
Plastic Bags	3	583	-	'55	0/3	-
Carpenter	5	552	-	'53	0/10	-
Welding	6	2,079	-	'58	0/4	-
Auto Parts Mfg	9	29,883	'59	'56	1/1	1/-
Auto Repair	14	2,030	'55	'53	6/2	5/1

Notes: Value of fixed investment in 1991 dollars. "T" and "Tr" represent traced firm, "NT" designates non-traced firms. "O" and "CL" designate open and closed firms.

TABLE 6

TRACED FIRMS: LIFE SPAN AND GROWTH

SIC		Closed Firms		Open Firms		
		No.	Life Span (Years)	No.	Employment 1961	Employment 1991
1542-1611	Civil Engin.	1	28	1	500	45
2044	Rice Milling	-	-	1	4	30
2041	Blended Flour	-	-	1	40	64
2051	Bread	18	31	10	31	21
2257	Woven Fabric	-	-	2	15	165
2254	Singlets	1	22	1	9	40
2311-35	Clothing	1	31	7	8	8
2421	Lumber	2	22	5	20	21
2431-2521	Wood Product ¹	2	26	6	32	51
2734	Printing	2	13	11	26	18
3143	Leather Shoes	8	22	5	8	7
3411	Metal Prod. ²	2	24	5	6	9
3911	Jewelry	1	41	2	8	3
7216	Dry Clean	-	-	1	26	17
7221	Photography	-	-	1	10	5
7534	Tire Retread	1	22	2	180	135
7531-38	Automotive Repair ³	4	23	10	11	9
	Other ⁴	2	23	2	20	29

¹ Primarily furniture; also window and door frames and caskets.

² Welding and smithing, iron grill work, machines, spare parts, and tinsmithing.

³ Motor repair, body work, electrical work, and upholstery.

⁴ Hospital beds, ceramic tableware, marble monuments, and electric armature rewinding.

Son of Police Constable. Bassey Edit was born in Calabar in 1943. At age 10 he was sent to live with relatives in Lagos to continue his primary education. As they did not treat him well, he soon moved out and found work as a cleaner in a local hotel. Within a few months, a German who had taken a liking to the young boy (Bassey washed his car) arranged for him to be employed as a helper at the firm which held Nigeria's Volkswagen franchise. Well liked by his employer (he was instrumental in putting out a major fire), he was admitted into their apprentice program. Seven years later, now a journeyman motor mechanic, he was transferred to the Ibadan branch, where he began to do VW repairs on his own account after hours. Sensing the much greater payoff to self-employment, he established on his own in 1961 where, with the help of six apprentices, he achieved a monthly income of over L 200, as against his former wage at Mandalis of L 35.

Business flourished until the Civil War in 1967. The slow war years were followed by the oil boom: initially favorable, by 1978 difficulties of hanging onto his labor force in the face of oil frenzy forced a shift in labor remuneration from fixed wages to profit-sharing; fee paying apprentices all but vanished. With the oil bust and the closure of the Volkswagen assembly plant, demand declined and competition from the growing number of firms of his former apprentices intensified. The post-devaluation unavailability of imported spare parts forced him to sell off his two largest pieces of equipment in 1985.

Both his home and work place are rented; twice he bought land, only to discover later that the seller's title was invalid. In 1989 his wife decamped, taking with her most of his tangible personal property. By 1991 repair jobs had become irregular, and his workforce had shrunk to four, one-third of its 1966 peak.

J. A. Adejuwon's story is similar to Bassey Edit's in that he came to Lagos (in 1948) as a youngster with partial primary education, gained admittance to a formal-sector apprenticeship program, worked for eight years as a journeyman auto mechanic with various expatriate companies and government agencies, and then launched his own enterprise in 1960. As in the first case, business was at its peak prior to the civil war (two journeymen, eight apprentices). The proprietor's health was poor during much of the 1970s and paralysis forced his complete retirement in 1984. As he engaged only apprentices at that time and none of his children (many of whom he assisted to a university education) were interested in joining in the business, the firm closed upon his retirement.

Our next firm typifies the experience of better educated, better technically trained entrepreneurs who have enjoyed at some point a major degree of success. Shade Thomas was Nigeria's leading producer of women's fashion clothes during the 1960s. After completing her secondary education in Lagos in 1952, Ms. Thomas went to Britain, with her family's support, to study nursing. She soon shifted course, and for the next seven years worked as a trainee in a number of London fashion houses. Upon her return in 1960, she engaged three journeymen and established a workshop in the Yaba Industrial Estate; in 1961 she opened a showroom in the Federal Palace Hotel.

One of the first Nigerians to incorporate native Yoruba designs and materials into custom-made western fashions, Shade Thomas' creations won prizes in Lagos, London, and New York. In the years before the Civil War business boomed, her work force jumped to more than 40, two new Lagos showrooms were opened, along with a boutique in New York (in partnership with two Americans). As with so many manufacturing firms in our sample, this was to be the golden age of the Thomas enterprise.

The 1970s was a period of reconstruction and oil boom. Purchasing power surged, but so to did the value of the naira. As with men's bespoke tailors, most of Shade Thomas' clientele frequently traveled abroad for business and shopping, and, like the air ticket, European high-fashion was naira-cheap. In the local market, her legendary success had spawned hundreds of imitators. There was additional competition in the off-the-rack segment of the market from high-quality naira-cheap Far East imports.

Nor was all well on the production side. The partial collapse of public infrastructure in Lagos—notably in the areas of electricity, road transportation, bureaucratic capacity to process official transactions—brought into the workplace disruption, higher costs, and fraying worker psyches. The principle cause of worker psychological stress was related to getting to and from: typical commuting times rose from two hours per day to four or five hours per day.

A more general factor in negative worker psychology was present throughout the country, affecting virtually all firms in our sample. Many groups in urban Nigeria were able to participate in the oil windfall as transmitted through an explosion of government spending and an explosion of the import trade. Although the income of these groups increased many fold in a short period of time, fixed-wage employees saw real incomes that changed very little or not at all. Such spectacular relative deprivation was not without its effect on labor's behavior. When individual workers perceived the glimmer of an alternative opportunity, they changed their occupation. For all the employers in our sample this meant, for the period 1974-1982, extremely high labor turnover, much pilferage and theft, inadequate concentration on work, and limited skill accumulation. Apart from its wider consequences, the impact of this for the entrepreneur, in the short run, was declining product quality and a great deal of aggravation. In the long run, it joined with other forces to reduce entrepreneurial commitment to manufacturing activity.

One of those "other forces" was the indigenization decrees, yet another derivative of the oil boom. The first decree in 1974 required that in specified sectors of the economy every firm owned by multinationals or resident aliens sell—to the extent it had not already done so—40 percent of its equity to the Nigerian public; the second decree of 1977 increased the number of sectors and raised the proportion to 60 percent. The conditions of these forced share offerings was such that fortunate buyers paid only one-third to one-fifth of market value. The aggregate windfall was in excess of \$1 billion. Shade Thomas, along with most other medium and large entrepreneurs in Lagos and Aberdeen, diverted a substantial chunk of her retained earnings to acquire shares.⁸

If the oil boom provided an inauspicious setting for industrial entrepreneurship, the oil bust was considerably worse. On the demand side, plummeting purchasing power and shriveling markets have been the inexorable consequence of a fall in national income from over \$1,000 per capita to less than \$250. On the supply side, progressive devaluation (the value of the naira in 1991 being but one-thirtieth of that of 1982) has had devastating effects for all those engaged in manufacture. In the largest firms expatriate technicians and managers, who played an important role during the 1960s and 1970s, became prohibitively expensive; all had departed by 1984. For all firms the price of imported current inputs—spares, components, materials—rose at a far faster rate than output prices. Regarding the potential for exporting that devaluation creates—and entrepreneurs have attempted to do so in clothing, printing and lumber—the unwillingness of any bank outside of Nigeria to issue letters of credit to Nigerian exporters, owing to abuses during the 1970s, has effectively foreclosed this option.

As to protecting existing productive capacity, for all those enterprises making significant use of imported equipment and fixtures, accumulated depreciation reserves came up woefully short. And so most **replacement** investment has proved infeasible and productive capacity across the manufacturing sector has shrunk. As illustrated by Pacific Printers, significant **new** capital formation likewise can seldom find sufficient support in retained earnings or justify debt-financing against prospective free cash flow. Shrinkage is not offset by rejuvenation.

⁸ Recovering from the devastation of the Civil War, very few entrepreneurs in the East had either the liquidity or the bank credit to partake in the windfall. For details, see Thomas Biersteker, *Multinationals, the State and Controls of the Nigerian Economy*, Princeton 1987.

To these sources of entrepreneurial stress and strain that naturally follow a decade of heroic macro-economic mismanagement have been added discretionary suffering imposed by other Nigerians. The burden of corrupt public official who would withhold the services that the law requires they must supply is never light; in times of contracting markets and rising costs their exaction's can be the last straw. Very few of the medium and larger firms in our sample have escaped the adverse consequences of the myriad forms of public corruption.

Another illegal activity, the drug traffic, has helped to generate intolerable economic circumstances in selected industries. Shade Thomas' women's fashion clothing is one of them. To launder black money into white money, Nigerian drug couriers establish fashion clothing firms. Lacking any relevant competence, they pay night visits to the most skilled personnel of existing firms offering them salaries double or triple their current rate; to obtain a volume of sales sufficient to fully mask their drug earnings, the output of these "Allen Street" firms is sold well below cost. All legitimate producers thus face a situation where their wage costs are being bid up while their sales price is being hammered down. In the period 1985-1991 perhaps half of the Lagos firms in the trade were forced out of business as a result of this type of money laundering. Law and order, not fully realized in contemporary Nigeria, is the first requisite of sustainable economic activity.

TABLE 7

THE GROWTH RECORD: FIRMS EMPLOYING MORE THAN 50
(apprentices excluded)

	Year Est.	Number of Employees		
		1961	Highest	1991
A. Oni Div. Eng. + furniture	1946	500	500 (1961)	45
C. Okeke Div. Eng. + furniture	1956	350	500 (1977)	closed
Odutola re retreat	1950	180	210 (1959)	135
e Facto read	1955	134	210 (1967)	closed
F urniture	1947	70	350 (1978)	105
Odutola re retreat	1955	67	82 (1963)	closed
rodu Ceramics ableware	1952	53	53 (1961)	closed
* * * * *				
cific Printer xtbooks	1960	41	500 (1977)	350
N. Oji nglet cloth	1952	18	300 (1975)	205
	1950	12	150 (1980)	125
odun xtbooks	1946	8	140 (1979)	80
abi Mills ended flour	1938	40	120 (1987)	64
sos electric rewinding	1955	15	110 (1965)	50

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