

Multi-Nationals and the Nigerian Economy

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Caveat

Bunmi Oni made this presentation as an invited seminar contribution at the Nigerian Institute of Policy & Strategic Studies, Kuru, in 2004; and was used in classroom discussion only. He was then CEO of Cadbury Nigeria Plc



Outline

- ❑ Prologue – a global outlook
- ❑ The world of Multi-National Companies
 - Phenomenal changes in a decade
- ❑ Nigeria's economic development
 - Structure of the economy
 - Rethinking the development model
- ❑ Multi-nationals in Nigeria's economic development
 - Past, present and future
- ❑ Epilogue – the Cadbury experience



Characteristics of the 21st century

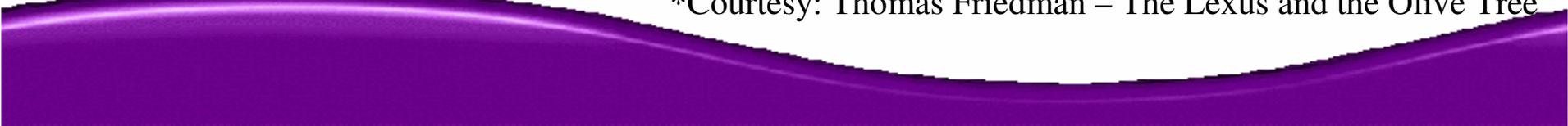
- The environment in which Multi-national companies have been nurtured
- The factors that shape the outlook of the Multinationals
 - Expectations for investment
 - Motivation for integration with host country
- Elements of the future trends



Globalization: A 'new' world system

- Globalization Round I: Mid 1800s to late 1920s*
 - Cross-border capital and labour flows
 - No currency controls (daily forex trading in \$m in 1900)
 - No passports required before 1914.
- World War era
 - Russian revolution
 - The Great Depression early 1930s
 - Cold War: 1945 – 1989
- Globalization Round II
 - Triggered by the fall of the Berlin Wall in 1989
 - Different in speed and coverage
 - Daily forex trading in 1992: \$820b. In 1998: \$1.5 tr.

*Courtesy: Thomas Friedman – The Lexus and the Olive Tree



Globalization I Vs. II

	Technology	Politics
Round I	<p>☐ Falling transportation costs: Invention of railroad, steamship, automobile</p>	<p>☐ Dominated by British power The British Pound, British Navy</p>
Round II	<p>☐ Falling telecomm costs Invention of microchips, satellites, fiber optics, Internet.</p>	<p>☐ Dominated by American power American culture, Navy Counterbalance communism</p>

... But every human empire falls !!!



Globalization I Vs. II

- The degree & intensity of world integration
- Spread of the impact
 - Many developing countries left out of Round I
- Insignificance of borders
 - Companies can locate different parts of their production, research & marketing in different countries
- Infinite tradability of goods and services
 - Three minute call NY-London in 1930 cost \$300
 - Similar call almost free in 2000



A global perspective: The defining characteristics

Cold War

Globalization

Demographic trends	North - South	Rural to urban
Driving idea	Détente / non-aligned	Free market capitalism
Over-arching feature	Division	Integration
Symbol	Berlin wall	Web
Defining technology	Nuclear weapons	Computerization/Digitization
Power structure	Nation-states	N-S; N-S/Markets; Individual/N-S
Measurement	Weight	Speed
Anxiety	Nuclear annihilation	Rapid change
Phenomenon	$E=mc^2$	2(comp. power), $P = 1/2$
Questions asked	Whose side are you? How big is your missile?	To what extent are you connected? How fast is your modem?

Courtesy: Thomas Friedman – The Lexus and the Olive Tree

A global perspective: Swords Vs ploughshares

- ❑ If the Cold War were a sport, it would be sumo wrestling
- ❑ If globalization were a sport, it would be 100 metres dash over and over



A global perspective

- Is there anyone in charge?
 - The ‘electronic herd’
 - The super-empowered individual
- The democratization of
 - Finance
 - Technology
 - Information



Matters arising

- Ageing population
 - Pressure on world resources
 - Environmental concerns
- The power of consumerism
 - The rise of mega brands
- Behold the inheritors
 - 50 years of accumulated wealth
 - Search for investment destinations
- The “functional” organisation
 - Learning culture
 - Matrix structures

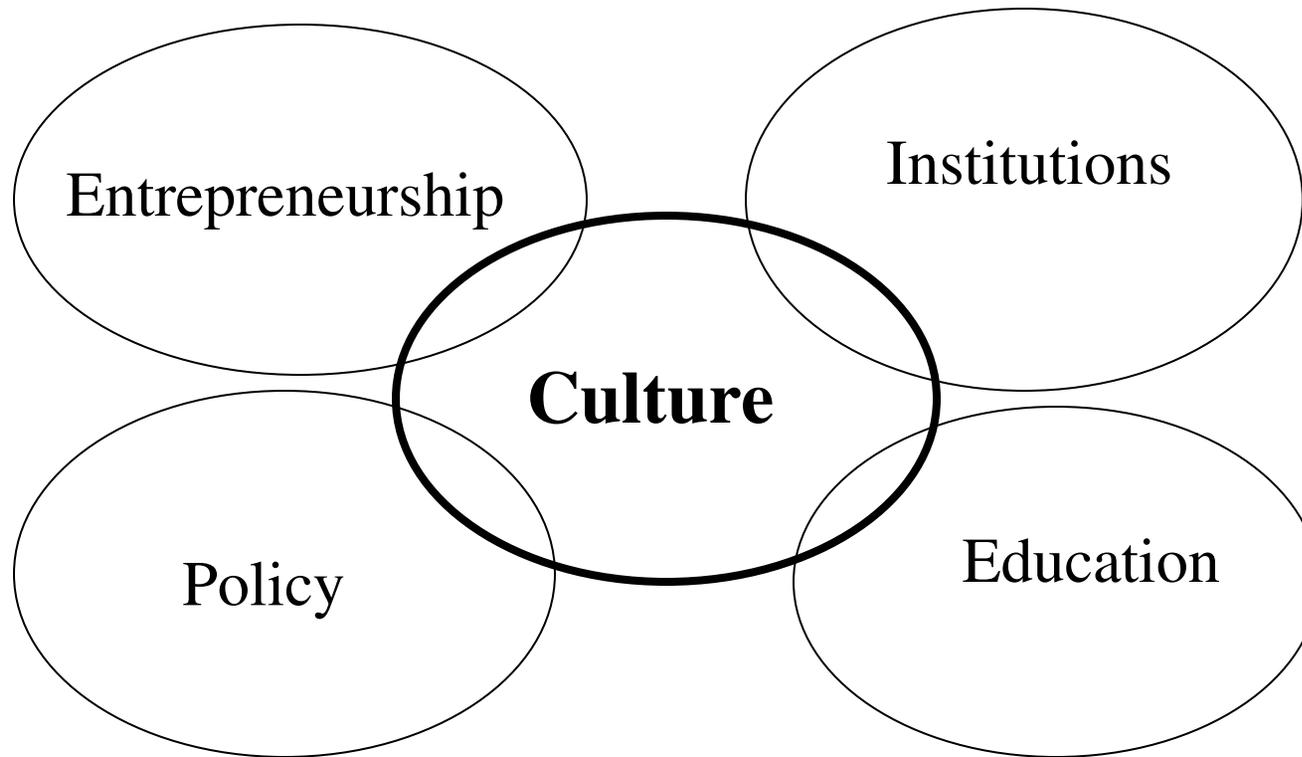


Matters arising

- ❑ Death of the nation state
- ❑ A harsh and unforgiving world
 - Stiff penalties for policy error
 - Shifting criteria for commercial success
 - No place for #2
- ❑ The Internet age
 - Companies can locate units in different countries
- ❑ Growth of leisure
- ❑ Rise and rise of commerce

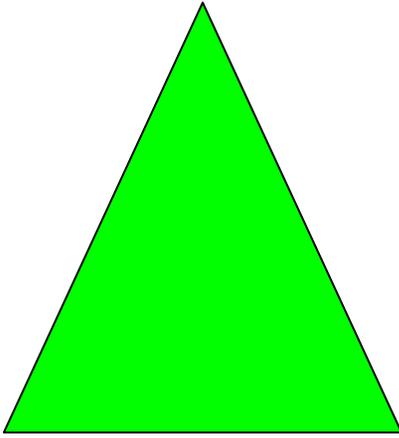


Development drivers I

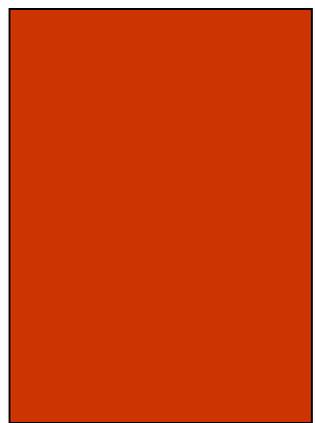


Courtesy: Dr Pat Utomi

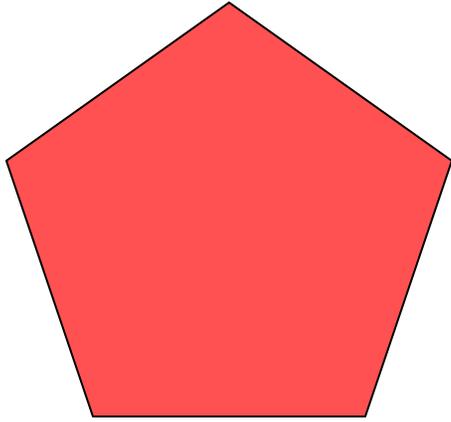
Development drivers II - Demographics



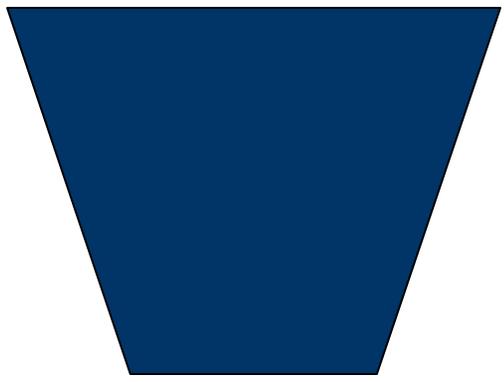
BABY



CASH COW



STAR



DOG



Emerging trends

- ❑ Rise of consumer interest groups
 - Choice
 - Insistence on fair business practices
- ❑ Global standards enforced across borders
 - Safety and consumer information
- ❑ Competition and anti-trust rules
 - Industry regulators
- ❑ Producer liability



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Phenomenal changes in a decade

□ Dematerialized world

- Company assets increasingly in
 - People – intellectual property, talent, patents
 - Brands
- Shareholders are primarily investors
 - No pride of ownership

□ Who really owns the firm

- Seems unreal to treat the intangible assets as property of financiers
 - Those who carry IP within them should have rights
- Business is community and a community is not something to own



Phenomenal changes in a decade

- Rethinking the purpose of business
 - Not just profit – its profit to do something more or better
 - Serving a purpose for common good
- Responsibility
 - Giving back, caring and nurturing the earth's resources
- Governance
 - *The proper governance of companies will (**has**) become as crucial to the world economy as the proper governing of countries.*
Jim Wolfensohn – WB President
 - Market values have grown as big as nations
 - Corporate collapse raised serious governance issues
 - Codes of Governance
 - Sabanes-Oxley Act



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The Nigerian economy: Key issues

- ❑ Structure of the economy
 - The commodity trap
 - No value added, therefore import dependent
- ❑ Very low savings/GNP ratio
 - 11% far too low to drive investments
 - Target 25 – 30%
- ❑ Large informal economy (unknown size)
 - Considerable currency speculation
 - Fuelled by corruption
- ❑ Defective development model
 - Focuses on physical infrastructure instead of human capital development



The ultimate issues

□ Scarcity

- Foreign exchange is short (>80% from oil)
 - At \$32 per barrel and 2 mbpd, per capita revenue less than \$150
 - Imports increasing faster than exports
 - Created need for high external reserves
- **Investment grade** Naira is short
 - No long-term money
 - Policy instability of the past created short-term orientation
 - Hot money inhibits productivity

□ Low production & low productivity

- Uncompetitive local industry (25% cost disadvantaged)



Challenges of reform

- ❑ Clear long term plan, in the context of globalization
- ❑ Two key issues/questions:
 - How do we develop the right internal “software” to enable us plug into global system without a backlash?
 - What safety net for those who may be adversely affected?
- ❑ Government intervention must be focused
 - Instrument of banning imports must be short lived
- ❑ Diversification towards value creation



Challenges of reform

- Rebuilding institutions for governance
 - Democratic structures
 - Judiciary and the rule of law
- Capacity building: Human Capital Development
 - Education
 - Health
 - Social security
- Dealing with entrenched positions
- Rebuilding social infrastructure



What Needs to Be Done & How

- Economic Empowerment
 - Investing in Human Capital development
 - Promoting private investment (in prioritized sectors)
 - Privatization: The imperative of a baton change from public to private sector
- Migrating the informal economy to the formal
 - Property ownership and land reform
 - Converting assets into capital (liberating dead capital)
 - Pension reforms and long term funds
 - Building an SME force
- Mind the gap
 - Managing intangibles (image)



Investment Mantra

- Investment accelerates free enterprise which drives growth and raises **quality of life**

- Activate domestic investment to create momentum on the growth flywheel
 - Systemic change to facilitate economic activity
- Stimulate commerce
- Consistency in economic policy
- Action aligns with the rhetoric



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50 years of M.N.Cs in Nigeria

- ❑ Mostly British origin initially
 - Trading outposts for commodity sourcing
 - Local manufacturing based on technology of parent companies
- ❑ American and other nationalities with the advent of oil
- ❑ Indigenization
 - Three “generations” of Nigerian managers



Multinationals in Nigeria

- Up to 1970s: Primary outlook opportunistic
 - ‘Outpost’ rather than ‘national’ establishment
 - First generation Nigerian managers felt ‘favoured’
 - Satisfied to maintain status quo
 - Engagement with the community very low
- 1980s: Companies began to think more national
 - Prepare Nigerians for leadership
 - Entrepreneurial capacity still relatively low
 - Rapid advancement of managers driven by expansion



Multinationals in Nigeria

- 1987 onwards, powered by expansion and new opportunities:
 - Increasing investment in manufacturing and value added ventures
- Weak indigenous entrepreneurial base
 - Era of corporate farmers
 - Import substitution not supported by strong policy
 - Direct Government participation in commerce
 - \$100 bn to establish parastatals between 1975 & 1995
 - By 1998 consumed more resources than Federal Budget
 - Basking in the euphoria of the “black gold”



Multinationals in Nigeria

- 1990s: Increasing national outlook
 - Community involvement
 - Education, Health, Sports, Society's needs
 - Social and physical infrastructure
 - Corporate citizenship
 - High local management participation
 - High growth rates especially in fast moving consumer goods industry
- Industry growth severely hampered by inconsistent policy
 - Diminution of local entrepreneurial class

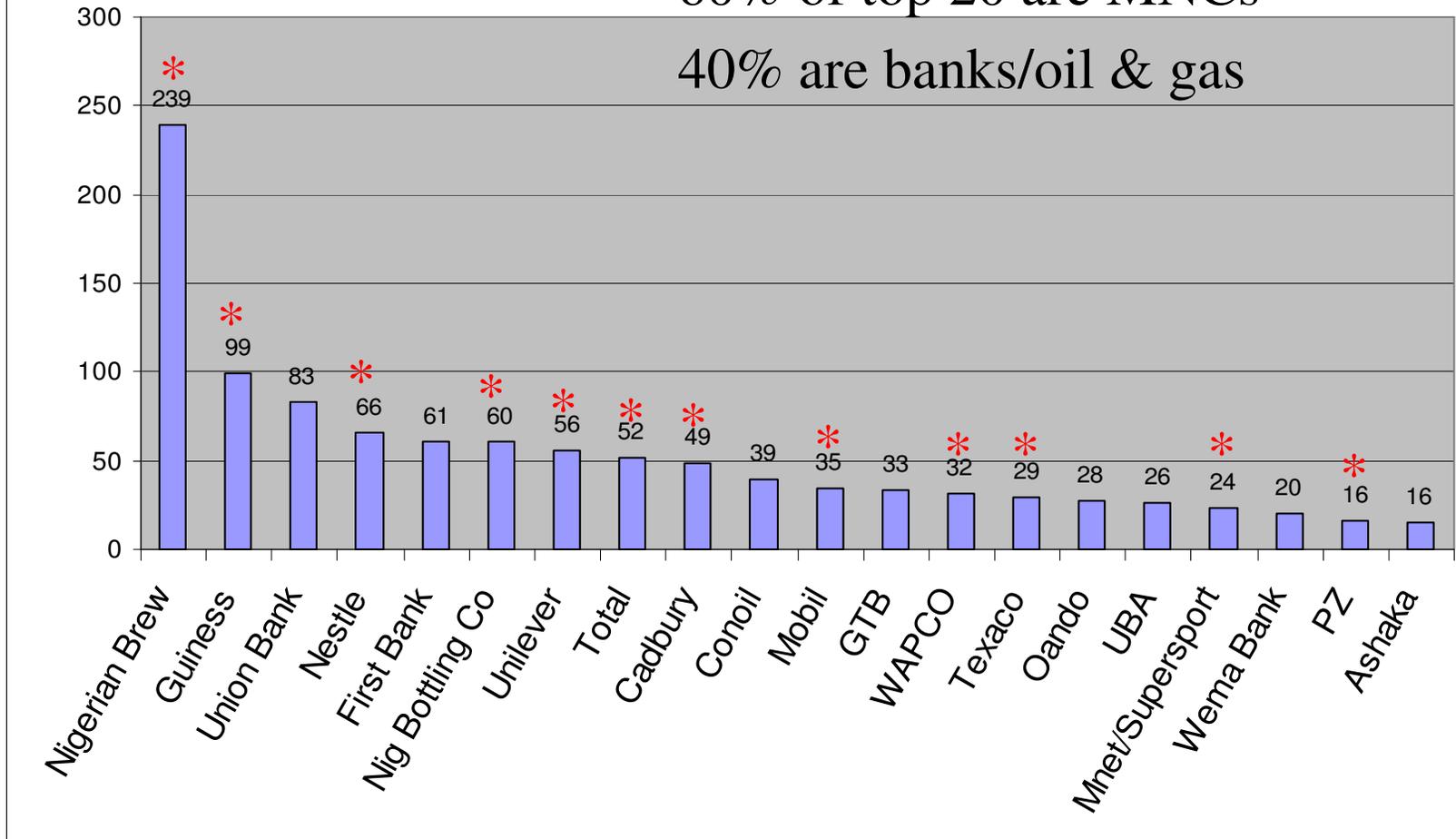


Market capitalization

Top 20 equities = 80% of NSE value

60% of top 20 are MNCs

40% are banks/oil & gas



Source: The Nigerian Stock Exchange

What Multi-nationals can contribute

- Economic empowerment
 - Talent management
 - Wealth creation – unleash the intellectual capital
 - Purveyors of technology, R&D capability
- Responsible behaviour
 - Products not intrinsically injurious
 - Support for important needs of society
- A “Hippocratic” oath for business
 - Help host community find meaning and relevance
 - Convention on Business Integrity



What Multi-nationals can contribute

- Collaboration (concept of *Kyosei*)
 - Sound financial base
 - Cooperating with employees
 - Building commitment and a national spirit
 - Personal meaning to life
 - Working in the community
 - Addressing global imbalance
 - Trade imbalance
 - Income imbalance
 - Environmental imbalance
 - Policy advocacy – support for reform



What M.N.Cs can contribute

- Investment / Value added operation
 - Diversification of economic base
 - Economies of scale and job creation
 - Know how and management competence
 - Spirit of enterprise
- Growth of SMEs through outsourcing
 - Promote linkage industries
 - Beneficial effect on service industry
- Technology/Management
 - Leveraging their heritage



What M.N.Cs can contribute

Employment practices

□ International Best Practice

- Business process
- Asset management
- Raise standards in line with global trends

□ Promote Governance

- Accountability and openness



What makes for good governance?

- Accountability Vs. Responsibility
 - Accountability:- Liable to render account
 - Responsibility:- Liable to be called to account
- Balance between enterprise & constraints
 - Performance Vs. Conformance
 - Human Rights
 - Ethical trading



Dealing with corruption

- Government gets out of business
 - Privatization and Liberalization
- Tackle the endemic poverty issue through
 - Relentless pursuit of economic growth
 - Investment promotion
 - Business-friendly environment
 - Retrain bureaucrats away from “control” towards “facilitate”
 - Job creation schemes
 - Celebrate positive behaviour & punish defaulters openly



Dealing with corruption

- ❑ A more responsive private sector
- ❑ Convention on Business Integrity
- ❑ Triple Bottom Line reporting
 - Financial performance
 - Environment conformance
 - Social responsibility statement
 - Including Equal Opportunity Employer status



Current Issues in Nigerian Context

- Oil industry
 - Environment and sustainable development
 - New initiatives
 - Partnership for the development of oil producing areas
 - Major implementation challenge
 - Extractive Industry Transparency initiative
- Manufacturing
 - International manufacturing/emission standards
- Finance
 - Major role in promoting corporate governance



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- Global player in Confectionery and Beverages
 - \$14b in sales, 15% Pre-tax Profit Return
 - 133 factories and 55,000 employees
 - Growth through
 - Targeted acquisitions and disposals
 - Managing for Value
- Strong 200-year heritage
 - Portfolio of market leading local and regional brands
 - Commitment to high standards of CG and CSR
- EMEA is one of 5 regions (also 5 Functions)
 - Supply Chain separated from commercial management





Africa, Middle East within EMEA

- 17 factories, 7362 employees
- Long term partner, making contributing where it matters most
- Strong focus on
 - Serving consumers with high quality products that are a part of their lives
 - Engagement with the community in ways that add value to them



Cadbury Nigeria experience

- 1950s
 - Sourcing for cocoa beans
 - Prospecting for a market
- Early 1960s -Packing operation established
- 1965 -Moved to manufacturing facility
- 1976 -Went public

– Ownership structure: 46.3% Cadbury Schweppes Plc

53.7% Nigerian Institutions & individuals



Cadbury Nigeria experience

- ❑ Import substitution
 - Local R & D capability
 - 70% local sourcing
- ❑ Organic growth in prioritised market segments
- ❑ Clarity of strategy
 - We are not farmers
- ❑ Export orientation
 - Stanmark Cocoa Processing Co.
 - West Africa market development
- ❑ Managing For Value



Cadbury Nigeria experience

- Corporate social responsibility platforms
 - Brands: Supplementing dietary intake of Nigerians
 - Education: Working with schools and Education Authorities
 - Health: Awareness campaigns – Cancer, HIV/AIDS
 - Sports: Pioneered Professional Football League
 - The Arts: Building the literary arts
 - Important needs of society: Direct response to needs
 - Building tomorrow's leaders
 - Special project for Children



Cadbury Nigeria experience

□ Collaboration

- Cooperating with employees
- Promoting employee community involvement
 - Volunteers to teach in schools
 - Championing rehabilitation for drug addicts
 - Executives devoting time to community priorities
- Industry level leadership
- Consumer education
- Ethical trading
- Policy advocacy
 - Federal, State, and Local Government levels



☐ Thank you

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