

GOVERNMENT REGULATION AND SURVIVAL OF LOCAL INDUSTRIES: A STUDY OF SELECTED BREWERIES IN RIVERS STATE

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Abstract

The objective of this study is to determine the relationship between government regulation and survival of selected local industries in Rivers State. Cross sectional survey of the quasi experimental design was adopted while the hypotheses formulated were tested with spearman rank order correlation co-efficient. Senior and middle managers from five local industries in Rivers State were administered questionnaire to. It was revealed that monetary policy, fiscal policy and tariff have a significant relationship between survival of local industries. The study recommended therefore that priorities should not be changed frequently so as to enable local industries conform rightly with stipulated regulation.

Keywords: Government, regulation, monetary policy, fiscal policy, tariff, survival of local industries

Introduction

Government regulations on industries in Nigeria are not new, it started in the Nigeria colonial era, and continued later during independence and gathered momentum in the late 1960's and early 1970's. In 1984 as well, the former was modified by the

Federal Military government. This notification was also included in section (1) and (3) of 1999 constitution of the federal republic of Nigeria. Therefore, it is obvious that government has the responsibility to protect and represent the interest of the society and the citizenry in which business/industries operates. The instability of government in Nigeria has contributed to massive change in regulations affecting the operation of businesses.

Brewery industry in Nigeria started functioning over six decades with Nigerian breweries pioneering it in 1949 and Guinness Nigeria in 1962(Unah,2017). They are into the production of beer, stout, non-alcoholic drink while their activities include: production, assembling, packaging and sales of alcoholic and malt beverages. This industry is no more solely in the production of bottling drinks but has gone alongside with the production of canned drinks and use of tetra packs. The brewery industry is under the manufacturing sector and its activities fast growing. It employees closely 500,000 people. Between 1980-1982 production rose rapidly, the volume was five times greater than what it was in 1970. Production fell drastically in 1982-1986 as a result of restriction on the import of barley

malt together with the challenges in the usage of locally produced substitute.

However, business survival is the ability of a firm to continuously be in operation despite various challenges in the managerial process of directing the affairs of a firm regularly on a going concern basis and meet the needs of all stakeholders (Akindele et al; 2012).

According to Olebune (2007), in any government – business relation, the question is, how can the government create an environment in which businesses are naturally motivated to make the right long term investment decision choices? This means that government has to put in place the right regulatory and legal framework to guide growth of all industries in business areas. The popular picture of the “praying hands” started with the real life experiences of two brothers Albrecht and Albert, reveals that man would always need helping hands, no matter how talented he may be. Similarly, industries cannot operate in isolation. They need support from different sources ranging from family members, institutions and government. At times, their dreams may never come to pass and their grandiose thoughts may never come to combination except if certain measures are set up.

The intention of any government and other approved bodies who set regulations to run business are so that there can be assurance of quality and level playing ground for all. Government can use monetary policy, tariffs, subsidies, interest rates, exchange rates to regulate the activities of industry in Nigeria in order to protect local industries and producers against foreign competition and folding up. It is obvious that the growth, performance and productivity of local industries at present have taken the turn for the worst and no longer plays the key role it played to propel the economy about three

decades ago (Ku, Mustapha and Gosh, 2010). Challenges such as double taxation, high cost of locally made goods, low patronage of locally made goods, power supply among other issues are needed to be addressed to achieve a level of global competitiveness.

Several studies have been carried out on government regulations such as the relationship between government regulation and performance in the banking sector (Alao, 2010). Chirwa and Zakeyo (2003), investigated the relationship between government regulation and profitability of commercial banks. Research also have focused on government regulation of business management in general. However, less attention has been directed on government regulation and survival of local industries in Nigeria. this paper seeks to bridge the gap by examining government regulation and survival of local industries in Nigeria.

Literature Review

Like many other political concepts, regulation is hard to define, not least because it means different things to different people. Regulations are norms or standards used by government and supported up by some threat or consequences that are usually negative, and come in the form of penalties. The word regulation can be seen in different ways (Baldwin, Scott & Hood, 2002).

- a) **As deliberate state influence** – Regulation here encompasses all state action mapped to influence social and business behaviour. According to Breyer (1982), command based regimes would come within this usage, but so also would range of other modes of influence. For instance, those based on the use of economic incentives e.g. taxes or subsidies, deployment of resources, Franchise, etc.

b) As a specific set of command –It includes the declaration of a coupling set of principles to be connected by a body dedicated to this purpose. For example, the health and security at work enactment as applied by the health and safety executive.

c) As all forms of social or economic influence – It is often thought of as an activity that restricts behaviour and prevent the occurrence of certain undesirable activities (Harlow, Rawlings, 2009).

Contemporary pundits propose that guideline speaks to significant boundaries towards competitiveness and monetary development and such criticism is fuelled by some international organization's endeavors at benchmarking administrative and managerial imperatives on business situations, (for example, the World Bank's Doing Business).

Theories of Regulation

a) Public interest theories – These theories center on the idea that those trying to initiate or create guidelines do as such in quest for open interest – related goals (and not group, sector or individual self-interests). The 'public interest' world is a world in which bureaucracies do not protect or expand their turf, in which politicians do not seek to enhance their electoral or other career prospects, in which decision-making rules do not determine decisions, and a world in which business and other interest groups do not seek special exemptions or privileges (Barry 1965). The theory emphasizes that regulation should maximize social welfare and that regulation is the result of a cost/benefit analysis done to determine if the cost to improve the operation of the market out weight the amount of increased social welfare.

Problems associated with this theory is that different theories arise regarding how much regulation is optimal and it is difficult for the legislature to ensure the regulator is acting in the public's best interest and not its own. It was developed by Pigou (1932).

b) Interest Group Theory –As a result of the problems associated with the public interest theory, interest group theory can play. Individual hire form groups to protect their interest in regulation by lobbying. Some interest groups are demanders of regulation and the legislature is the supplier of regulation. The legislature is additionally another group of interest that looks to hold control by "providing" guideline to those "demanders" who will enable them to hold control. The regulating body endeavors to adjust the interests of the various groups. The interest group theory is a better indication of how regulation is actually made. The proponents of this interest group theory are George Stigler (1971), Sam Peltzman (1976) and Gary Becker (1983). Peltzman (1976) was an extension of this theory which explains sub-subsidization. It assures that politicians will choose their policy of reputation such that political support is maximized. It is not likely that regulations will benefit industry exclusively. Some group of consumers could organize themselves adequately this all-encompassing hypothesis clarifies the marvel of cross-endowment, but in addition, predicts which branches will be regulated. A further extension was by Becker (1985). He focused on the consequences of the competition between interest groups, which he calls pressure groups. As the political pressure gets intense, political impact also increases and the budgetary yield from the pressure applied also increases.

Becker's model propounds that regulation can happen even when there is no significant market failure.

Global Perspective of Government Regulation

Government imposes guidelines on publicly owned organizations, private firms as well as individuals, and these are prerequisite to accomplish government's objectives. These necessary requirements needed here include better and affordable goods and services, advancement and insurance of existing firms from reasonable and unfair competitions. The decision to regulate business in Europe is supported by several strictures. The organization for Economic Co-operation and Development (OECD), which includes several European nations (such as Poland, United Kingdom, France etc), North America State (such as USA and Canada) and South America state such as Uruguay and Czech Republic are some of the structure. States in other continents such as Japan (Asia) and Australia also form part of the economic union.

The main aim of OECD is to ensure that the regulatory frameworks in the member states aim at guaranteeing most sustainable development and growth as well as rising way of life in member nations, while keeping strong financial stability and in this way adding to the development of the world's economy (OECD, 1997). There are several instances where OECD has enhanced regulatory framework within the member states. This ensures that better empirical justification of regulatory decision is strongly supported by international trade rules. In Uruguay round, for instance, the General Agreement on trade in service (GATS) requires that standards on the supply of services be based on objective and transparent criteria and be to ensure the quality of the service (OECD, 1977).

In the USA for example, government regulated the use of tobacco by passing a law on tobacco regulation. Dubbed "no more light" "low or mild" cigarettes regulations, seeking to prohibit the tobacco industry from distributing or introducing into the USA market any tobacco products from which the labeling or advertising contains the descriptions "light" "low" or any similar description, no matter the date of the manufacturers.

Aspects of Government Regulation

1) Monetary policy – It is the credit measures taken by the apex bank of a country (Jhingan, 2002). It can be described as the art of controlling the direction and movement of monetary and credit facilities in purulence of stable price and economic growth in the economy (CBN 1992). Abeng (2006) explained that monetary policy is good for an economy that is highly monetized. If the economy is not monetized, the efficacy of monetary policy is restricted. For instance, in an underdeveloped economy where a large proportion of output is produce in a subsistence sector, supply of money would be independent. Monetary policy, therefore, would not be a better tool to manage the economy.

Monetary policy is divided into two, which are expansionary policy and concretionary policy. Expansionary monetary policy is when the apex bank of a country utilizes some means to stimulate the economy. This builds the supply of funds, brings down financing costs, and expands total interest. It supports development as estimated by total GDP. While the concretionary policy is focused on decreasing the money supply in the economy.

Instruments of Monetary Policy

a) Open Market Operations – The CBN purchases or sell in the interest of the financial specialists (the treasury), securities to the banking and non

banking public (that is in the open market). One of such security is treasury bills. At the point when the CBN sells securities, it diminishes the supply of reserves and when it purchases (back) securities – by reclaiming them – it increases the inventory of reserves to the various banks, in this way influencing the stock of cash.

- b) **Bank rate** – It is the rate at which the apex bank is set up to offer credit to the commercial banks. Increment in bank rate builds the loan costs and interest for credit get diminished. Then again, decline in bank rate brings down the pace of premium and credit ends up modest and interest for credit extends.
 - c) **Change in liquidity ratio** – Each bank is required to keep up a fixed level of its assets as money or other fluid resources called liquidity ratio. With a perspective on lessening the progression of credit in the market apex bank which upgrades the liquidity ratio.
 - d) **Change in minimum reserve ratio** – Minimum reserve ratio refers to the minimum percentage of a bank's total deposit which is required to be kept with the central bank. All the banks have to keep with the central bank a certain percentage of their deposits in the form of cash reserve ratio.
- 2) **Fiscal Policy** – It means the control of government income through taxation, government expenditure and debt management to accomplish pre-decided macro-economic financial target (Anyanwu, 1997). Variably or invariably, government influences the way resources are used in the economy by adjusting the rate and form of taxes, the magnitude and composition of spending and the degree and form of borrowing through the Ministry of

Finance. Fiscal policy could be neutral, expansionary or contractionary. It is considered neutral when government spending is equal to its revenue. This is also known as balanced budget. When government expenditure is fully financed by tax proceeds, the budget has a neutral consequences on economic activities in the country. A government is said to be operating an expansionary fiscal policy when it has a deficit budget. In such a situation, the public expenditure is higher than tax revenue. On the other hand, a government with contractionary fiscal policy has a surplus budget such that, public expenditure is lower than tax revenue. Instruments for fiscal policy include; public expenditure, taxes, public debt.

- 3) **Tariff** – Tariff is a way of creating income for the government for improvement of the welfare of her populace or fills in as an assurance for infant businesses. It has evolved over the years as tool for achieving other policy objective like industrialization and a rapid economic growth (Akinlo, 1996). Tariff has found increasing application as a discriminatory tool of restraining the importation of certain commodities in Nigeria. The objective of lower tariff is to stimulate trade, competition and value decreases, yet some indigenous enterprises may consider this to be as non-helpful as lower tariffs compel them to rival who may offer better quality or lower evaluated merchandise.

Tariff rates vary according to the type of goods imported. Important tariffs will increase the cost of importers and increase the price of imported goods in the local market; thus lowering the quantity of goods imported.

Hypotheses

- Ho₁:** There is no significant relationship between monetary policy and survival of local industries.
- Ho₂:** There is no significant relationship between fiscal policy and survival of local industries.
- Ho₃:** There is no significant relationship between tariff and survival of local industries.

Methodology

Cross sectional survey of quasi-experimental design was adopted for this study. The Population of study consists of

126 senior and middle managers from five local industries in Rivers State. Sample size of 95 managers was determined using Taro Yemen formula and a total number of 82 questionnaire retrieved from these managers. A five point likert scale ranging from Strongly Agree (SA) to Strongly Disagree (SD) was used to derive questions from each of the variable. Spearman rank correlation co-efficient was used to examine the relationship between government regulation and survival of local industries. The data was analyzed by use of statistical package of social science (SPSS).

Correlations

			MONETARY POLICY2	SURVIVAL OF LOCAL INDUSTRY 2
Spearman's rho	MONETARY POLICY2	Correlation Coefficient	1.000	.866**
		Sig. (2-tailed)	.	.000
		N	82	82
	SURVIVAL OF LOCAL INDUSTRY2	Correlation Coefficient	.866**	1.000
		Sig. (2-tailed)	.000	.
		N	82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Correlations

			FISCAL POLICY1	SURVIVAL OF LOCAL INDUSTRY 1
Spearman's rho	FISCAL POLICY1	Correlation Coefficient	1.000	.854**
		Sig. (2-tailed)	.	.000
		N	82	82
	SURVIVAL OF LOCAL INDUSTRY1	Correlation Coefficient	.854**	1.000
		Sig. (2-tailed)	.000	.
		N	82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Correlations

		TARRIF 4	SURVIVAL OF LOCAL INDUSTRY4
Spearman's rho	TARRIF4	1.000	.897**
	Correlation Coefficient	.	.000
	Sig. (2-tailed)	82	82
	SURVIVAL OF LOCAL INDUSTRY4	.897**	1.000
	Correlation Coefficient	.000	.
	Sig. (2-tailed)	82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Reliability Statistics

Cronbach's Alpha	N of Items
.966	4

Source: SPSS Output (2019)

Discussion

The above tables, reveal that the various P-values are <0.01 which indicates a positive significant relationship between the measures of government regulation which are monetary policy, fiscal policy, tariff and survival of local industry in Rivers State, thereby rejecting the null hypotheses. It goes to show that government regulation is a key concern of industries.

Conclusion

In Nigeria, most of the previous policy interventions had been ineffective, largely because the political will to make them succeed had been lacking or they had been public sector – led. The inability of local industries to properly develop and survive with respect to government regulation have been blamed on the lack of clarity on government economic policies, lack of access to relevant government laws or regulation etc. The causes of poor

performance of local industries is not much in the preparation of the business but over regulation which has impaired in a significant manner the achievement of these industries. Government should keep focus by the way it regulates business. However, both monetary policy, fiscal policy and tariff have great influence on industrial output, so managing these policies well will better the lots of our people through employment generation and improved standard of living.

Recommendations

- 1) Government priorities should not be changed frequently so as to enable local industries conform rightly with the stipulated regulation.
- 2) Government should from time to time disseminate relevant information about regulation to industries in the economy. They should be able to gather

information that will keep them fit in running businesses.

- 3) Fiscal policy should be given more priority attention towards local industries by increasing the level of budget implementation, which will enhance aggregate spending in the economy.
- 4) Expansionary policies on fiscal policy measure should be encouraged as the play vital role for the survival of local industries in Nigeria.

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