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An Analysis of the Operational Environments of Manufacturing Firms in Aba, South-East, Nigeria

Onuoha, B. Chima – Head of Department, Department of Business Administration, Faculty of Management sciences, Kogi State University, Anyigba

Kogi State, Nigeria

E-mail: chimaonuoha2005@yahoo.co.uk

Tel: +234 8037078654

Abstract

Our efforts in this research have been geared towards analyzing the operational environments of manufacturing firms in Aba, South-East, Nigeria. Specifically, the case study was Manufacturers Association of Nigeria (MAN), Abia chapter. Eight five percent of MAN's membership was studied. Percentages and test of proportion were used to analyse the data and for hypotheses testing. The study revealed among others that: Government policies impact negatively on entrepreneurship development in Nigeria generally and in Aba specifically. And that manufacturing enterprises in Aba are concentrated in the production of light and consumer oriented goods. These two factors are better described as the harsh economic environments of manufacturers, the cumulative effects of which include: operating below installed capacity, losing business opportunities, incurring *losses and closing shop; contributing very little to the Gross Domestic Product (GDP), at 4.20% in 2011, inability to provide/create employment opportunities, in a country where the rate of unemployment is very high; and inability to compete globally and earn foreign exchange for themselves and the economy, etc. It is against the backdrop of the negative impact of government policies, and the harsh operational environment of the manufacturing sector, that the study made far reaching recommendations.*

Key words: Manufacturing, Operational environments, Competitiveness, Gross Domestic Product, Capacity Utilization.

Introduction

Agriculture and manufacturing are the preferred sectors of every economy. The two hold the key to any nation's industrial and economic advancement. Unfortunately, they are not up to the bidding in this direction in Nigeria. The case of manufacturing is more pathetic, particularly between 1980 and presently. Available statistics from the CBN reveal that the share of the industry to GDP was 12 percent per year between 1960 and 1966 and 32 percent per year between 1980-1983. Its contribution to the GDP in 2005 was 4.8% and 4.20% in 2011. This is an abysmal performance so to say.

Manufacturing is the use of machines, tools and labour to make things for use or sale. The term refers to a wide range of human and innovative activities, from the simplest of handicraft to the production of high tech products like computers and aircraft, but is most commonly applied to industrial production, in which raw materials and other inputs are transformed into finished goods on a large scale. The sole aim of manufacturing is to meet customers' or consumers' specifications and needs. The manufacturing sector is so critical to an economy and its advancements because it provides different types of products for the people; provide jobs for thousands of people; contributes to a country's income via taxes and levies; encourages innovation and creativity; helps in providing basic infrastructures; actively involved in corporate social responsibilities; helps in earning foreign exchange; provides training ground for artisans, entrepreneurs and for transfer of technology (Akinlo, 1996: Banjoko 2009; and Onuoha, 2012).

The factors responsible for the very poor outing of the manufacturing sector are not far fetched. The sector is operating in very unfavourable economic environments. Again, Dibie (2000:55) opines that the sector has always experienced and, however, still experiencing, little internalization of technical-know-how and its industrial outputs had been confined to consumer goods.

This researcher is of the view that the cumulative effects of the harsh economic environments on manufacturing enterprises in Nigeria are: 1) Operating below installed capacity; 2) Losing business opportunities, incurring losses and closing shop; 3) Contributing very little to the Gross Domestic Product (GDP) of the nation; 4) inability to provide/create employment opportunities, in a country where the rate of unemployment is very high; 5) Inability to compete globally and earn foreign exchange for themselves and the economy, etc (Onuoha, 2005: 144). The other constraints facing the sector which have been identified by researchers in this area are: how patronage, unfair tariff regime, high cost of funds, unpredictable government policies, frequent changes in government policies for the manufacturing sector, dumping of cheap products, lack of effective regulatory policies, poor or inadequate infrastructures, low credit rating by financial institutions, inadequate incentive programmes by governments, multiple taxes and levies, etc. And according to Borodo (2008:46) between the period 2000 and 2008, about 820 manufacturing companies have closed down or temporarily suspended production. In the area of losing business opportunities, incurring huge losses and closing shop, MAN has officially declared that out of its 2000 members, 30 percent, mostly small and medium scale industries (SMIs) in Nigeria have closed shop, 60 percent of them ailing while just 10 percent of them, notably the multinationals currently operate at sustainable level (Mordi, 2005:21).

It is against this backdrop that we are undertaking the research of investigating the operational environments of manufacturing firms in Aba, South-East, Nigeria.

Objectives, hypotheses and methodology

The specific objectives of the study include the following:

1. To examine government policies on entrepreneurship generally and on manufacturing sector in particular.
2. To identify the type of economic activities engaged in by manufacturers in Nigeria in general and Abia State in particular.

3. To identify and highlight the operational environments of manufacturing firms in Aba and ascertain whether they are favourable or not.
4. To investigate factors responsible for business challenges/problems, Entrepreneurial failures and why most Nigerian enterprises are unable to compete globally.

To achieve the objectives of this study and to aid our investigation, the following hypotheses are formulated:

1. Government Poicies impact negatively on entrepreneurship development (i.e. manufacturing sector) in Aba.
2. Manufacturing firms in Aba are concentrated in the production of light and consumer-oriented goods.

Our emphasis is on manufacturing firms in Aba which are members of Manufacturers Association of Nigeria (MAN), Abia State Chapter. It has to be observed that MAN is a strategic component of the Organized Private Sector (OPS), and makes inputs to government on various economic and national issues. In this study, we used judgmental sampling which is one of the non-probability sampling techniques. There are 45 registered members of MAN in Abia State, according to records in MAN's office, in Aba. In this study, we chose 85% of the membership, by raffle draw, which came to 38. Questionnaire was distributed to their Managing Directors/General Managers. Out of 38 questionnaires distributed, 33 were returned. This represents 87% response rate. The data collected from this research were analysed with the aid of percentages, and test of proportion. The choice of Aba is predicated on the fact that Aba is one of the industrial and commercial nerve centeres of South-East, a region with a long history of entrepreneurship in Nigeria and West Africa.

Data presentation, analysis and discussions

This section will analyse the data from the field survey in line with our objectives and hypotheses.

Table 1 depicts the background of the companies studied. They answer various names, involved in various forms of manufacturing business and are all located in Aba. Majority 16(49%) of these firms were established between 1981 and 1990. only 11(33%) were established before, and 6(18%) were

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established between 1991 and 2000. None was established after 2000.

This shows that manufacturing firms established after 2000, due to harsh economic environments, occasioned largely by the importation of cheaper products from Asia, particularly India, China, UAE, etc, are yet to register with MAN.

Table 2 shows the companies' mode of operations covering a range of issues. Majority of the companies surveyed 24(73%) are producing light and consumer oriented gods. About 15% of the firms' products are partly industrial and partly consumer goods, and 4(12%) of the firms are producing heavy and non-consumer oriented goods. Some of the light and consumer-oriented goods include: beverages, soft drinks, sachet water, refined PKO oil, vegetable oil, ice cream, wine and spirit, cosmetics, poly bags, paints, soap and detergents, tissue papers, pharmaceuticals, shoes, stockins, rubber products, plastics. Some of the industrial products are: palm kernel oil, industrial paints, solid minerals, automotive paints, industrial coatings, wood vanish, lubricating oils, jumbo rolls, adhesives, bread rappers, PVD pipes, wire and nails. Example of heavey and non consumer goods include: switch gears, electrical/mechanical fabrications.

The information on the basic production techniques show that 4(12%) are mainly manual operations; 5(15%) are mainly machine operated, 2(6%) are completely automated, and the bulk of the firms, 22(67%) are operating both manual and machine operated techniques. On procurement of machines, 27(82%) of the firms imported their machines, while 6(18%) of the firms machines are procured partly locally and partly imported. In other words, the machines of most manufacturing firms in Aba have high foreign content.

On sourcing of production materials either locally or imported. On the local level, the picture is as follows; 14(42%); 3(9%) and 1(3%) sourcing. On the imported level we have 3(9%); 13(39%); 16(48%) and above 01(80) sourcing. No firm has used any research findings from any of the research institutes in Nigeria. Some of the reasons given for this unhealthy attitude include:

a. no relationship between the research findings and their operations;

b. there are policy gaps between these institutions and government on one hand and between government and the intended beneficiaries on the other;

c. the institutes don't usually get inputs (like knowing their needs) from the manufacturing firms; and

d. some claim to be unaware of the so called research institutes and their findings.

5. On capacity utilization 3 firms are utilising machines between 10-20%, 11 firms, between 21-30%; 17 firms, between 31-40%; 2 firms between 41-50% and no firm is operating above 50% installed capacity. The implication is that virtually all the manufacturing entities are operating below 50% installed capacity. Indeed majority of them (52% of firms) are operating between 31-40% of their installed capacity (See table 3). The factors responsible for the capacity under utilization are challenges of raw materials, poor purchasing power of buyer and challenges of spare parts. None of the firms surveyed has any research and development relationship with any multinational corporation in this country. This means, that the so-called claim of transfer of technology by multinational corporations to indigenous firms cannot be ascertained. In fact, they see the operations of these multinationals and government policy gaps and summersault as their major challenges.

6. From the above, all the manufacturing firms indicated that currently, they do not have any foreign technical partners. However, seven of them said they had on inception. The reasons for not having technical partner(s) are;

7. a. They have adequate technical manpower; (b) present operations do not require technical partner(s); (c) Continues to train and retrain own staff; (d) High cost of maintaining technical partner(s); (e) High costs of foreign exchange due to the depreciation of the national currency (Naira).

8. On whether the companies' products are given indigenous or foreign brand names, 28(85%) give their products local brands in any case, in English Language. They create these brand names. No firm agreed it is giving its products copied foreign names.

9. **T**able 4 illustrates the relationship between government and entrepreneurs. *A* majority of entrepreneurs, 28 (85%) are aware of the government policies on business in the country, while 3 (9%)

are not aware. Few entrepreneurs 3(9%) said that government policies have affected their business positively, 25(76%) indicated that these policies have negative impact on their operations, while 5(15.5%) have no responses to the questions.

10. If positively, state how, the reasons include; (a). Few had accessed funds from some government agencies such as Ntional Economic Reconstruction Fund (NERFUND) Bank of Industry; (b) Attended government sponsored workshops; (c) Had read entrepreneurship literature from government agencies.

Some of the factors given for the negative impact include:

- Poor and/or non-existent government patronage. ; insecurity to life and property; policy gaps and abandonment or programmes half-way; inconsistency ; insincerity; weak purchasing power on the part of consumers due to harsh economic conditions; not carrying the intended beneficiaries of the so called policies along; limited coverage and sometime lopsided implementation in favour of some geo-political zones;

- Corruption on the part of government officials; inadequate funding of programmes; high cost of funds, due to poor monetary policies ; foreign exchange problems; poor infrastructures, etc.

Table 5 shows the data on the problem and failure of entrepreneurship. High production costs ranked first as many manufacturers indicated that it is their major problem, followed by **poor** infrastructures, financial inadequacies, competition from imported goods and limited scope of operation, in that order. High production costs have been the bane of manufacturing firms in Nigeria. The manufacturers surveyed listed these costs to include:

- High cost of buying diesel and running generators as the major source of energy and as an alternative power supply;
- The constant grading/tarring of access roads;
- Single-handedly providing their water needs;
- Tax burden, multiple taxes from all tiers of governments **and** financial and other demands from youths and communities where they are operating;

- High costs of funds;
- High import content;
- High costs of foreign exchange; etc.

Almost all the entrepreneurs agreed that these problems can lead to business failure, 29(88%).A critical indication of intending business failure is ranked as follows: rising operational costs without increasing sales volume came first with 15(45%), followed by increasing credit sales without good repayment rewards- 8(24%). dwindling sales volume- 7(21%); and finally falling profit margin-3(9%). In fact, facts that emerged from MAN is that many manufacturing firms are closing shop in this country, as a result of harsh economic conditions. The other problems emanating from direct and indirect policies of the government include: (a) the adverse effect of uncontrolled imports; (b) the negative- effect of globalization and trade liberalization; and (c) the inability of African Continent in general and Nigeria in particular to take advantage of African Growth and Opportunity Act (A60A), and other economic blocs, due to low participation in international trade. These can easily be referred to as general drawbacks to industrialization in Nigeria. The research findings confirm similar opinions and findings in this area by Onyemelukwe (1984:109); Bello (2002:32); 0bitayo (2001:24); MAN (2003); Ajagu (2002:53); Ogbeh (2003) and Ochigbo (2003:85).

Table 6 demonstrates the export potentials of manufacturers in Aba. Only 7(21%) of the firms export their products through accredited agents/distributors, in some West African countries such as Ghana, Togo, Cameroon, Gambia, Liberia, Sierra Leone etc. And 26(79%) of the firms do not export their products. Some of the factors responsible for this inability include: (a) low capacity (b) financing problem; (c) high production costs. Which is any case, will not make their products competitive; (d) problem of logistics; (e) inability to access the federal government export grant scheme which is both dormant and hijacked by non-manufacturers with government connections.

Tests of hypotheses

Our hypotheses will be tested with the statistical tool known as test of proportion.

Test of Proportion

For the test of proportion using normal distribution, we have

$$Z_o = \frac{P_o - P}{SP_O}; \qquad P_O = \frac{X}{n}$$

And Sp Po (1-P) (N-n)

$$\frac{}{n} \qquad \frac{}{n}$$

where

Zo	=	Computed standard score
Po	=	Observed proportion
P	=	Expected or theoretical proportion, here it is 50% (i.e. 5)
SPo	=	Standard error of the observed proportion
N	=	Population size (remember we have finite population).
n	=	Sample size
x	=	Frequency of the parameter of interest.

Decision Rule

If computed Z is greater than theoretical Z., then reject the null hypothesis and accept the alternative; otherwise, accept the null hypothesis and reject the alternative.

Ho: Government policies do not impact negatively on entrepreneurship development in Aba.

H_1: Government policies impact negatively on entrepreneurship in Abia State, Nigeria.

Ho; = 0.6; Hi > 0.6

Positively	03
Negatively	30

$Po = 0.6$

$P1 = \frac{3}{33} = 0.09 = 0.1$

$n = 33$

at = 5% = 0.05, $Z = \pm 1.65$

$$Z = \frac{\sqrt{33}\,(0.1-0.6)}{\sqrt{0.6\,(1-0.6)}}$$

i.e. using

$$Z = \frac{\sqrt{n}\,(P-Po)}{\sqrt{Po\,(1-Po)}} = \frac{-2.8723}{0.4899}$$

$Z = -5.86$

Since $Z = -5.86 < Z = -1.65$ we reject H_O and H_1 hence we conclude that government policies rather impacted negatively than positively on business at 5% level of significance.

H_O: Manufacturing enterprises in Aba are not concentrated in the production light and consumer oriented goods.

H_1: Manufacturing enterprises are concentrated in the production of light and consumer oriented goods.

Light and consumer oriented goods	24
Partly industrial and consumer products and heavy and non-consumer oriented goods	9

Ho: $P_1 = P_2$

H_1: $P_1 > P_2$

$$Z = \frac{p_1 - p_2}{\sqrt{\frac{P_1(1-P_1)}{n_1} + \frac{P_2(1-P_2)}{n_2}}}$$

P1 = $\frac{24}{33}$ = 0.73;

PZ = $\frac{9}{33}$ = 0.27 33

NI = 24, n2 = 9

$$\frac{0.73 - 0.270}{\sqrt{0.73\,(1\text{-}0.73)\,/\,24 + 0.27\,(1\text{-}027)\,/\,9}}$$

$$Z = \frac{0.48}{\sqrt{0.0082 + 0.0219}} \qquad \frac{0.48}{0.1735}$$

= 2.77

α = 5% = 0.05, Z_{α} = ± 1.65

Since Z = 2.77 > 1.65

We reject Ho and accept Hi and hence conclude that manufacturing enterprises in *Aba* are concentrated in the production of light and consumer oriented goods.

Conclusion and recommendations

A major conclusion from this research is that unless the unfavorable operational environments of manufacturing firms in Nigeria are seriously addressed, the sector's contribution to the nation's GDP, will continue to be very low. In other words, industrialization and economic advancement will continue to elude us. and the country's participation in international trade/business will remain abysmally low endlessly. The sector will continue to provide employment for only a fraction of the country's work force, given the high rate of unemployment in the economy. It is against this background that we shall summarize our recommendation as follows:

- There should be seriousness by all tiers of government in Nigeria (Federal, State and Local Government) in developing basic infrastructures in the country.

- The income levels in Nigeria are among the lowest in the world. As such, there is urgent need to empower Nigerians to improve their purchasing power to reduce the huge unsold stocks of manufacturers in Aba in particular and the country in general.

- Nigeria is a huge dumping ground of all manners of products, which makes locally made products unattractive, hence uncompetitive. It has become imperative to discourage and fight dumping.

- It is important to consult and co-opt intended beneficiaries of government incentive programmes to know their peculiar requirements/needs.

- High level of insecurity and corruption is not good for investment and business operation. There must be seriousness in fighting corruption, maintaining law and order, providing security for lives and property.

- Virtually all the industrial estate in Aba and the country were built in the 1960s and 1970s. Governments at all levels should buiid more industrial estates with all the attendant benefits, including sharing basic facilities. (Onuoha and Ogbuji, 2010).

- Research institutes are agents of technological and economic development.

- There is need for strengthening our numerous research institutes to make them more relevant to the manufacturing sector and indeed other sectors of the economy.

- To address the problem of multiple taxes and levies, governments or their agencies, like the Federal Inland Revenue Service (FIRS) should harmonize taxes in the country, and insist on their implementation.

- Adopting appropriate technology for Nigeria is the right step towards addressing the challenge of technological dependence of manufacturing firms in Nigeria. That technology/machines must use local resources and raw materials, save foreign exchange, have indigenous content, and labour intensive to help fight unemployment.

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Table 1: Background of the companies

Question Number	Question	Response	Respondents	%	Total	%
1	Name of company	Various names		100	33	100
2.	Location	All in Aba	See appendix	100	33	100
3.	When did it start operation?	a. Before 1980 b. 1981-1990 c. 1991-2000 d. after 2000	11 16 06 0	33 49 18 0	33	100
4.	Form of business ownership	a. Sole proprietor b. Partnership c. private Limited Company. d. Cooperative	- - 33 -	- - 100 -	33	100
5.	Number of Employees	a. 1-10 persons b.11-20 persons c. 21-30 persons d. 31-50 persons e. Above 50	- 5 9 12 17	0 15 27 36 21	33	100

Source: Field Survey

Table 2: Companies' mode of operation 1

Question Number	Question	Response	Respondts.	%	Total No	%
6.	What are the major Products of your company?	a. light and consumer oriented goods	24	73		
		b. Partly industrial and partly consumer products	5	15		
		c. Heavy and non-consumer oriented goods	4	12	33	100
7.	What is the basic production technique?	a. Mainly manual	4	12	33	100
		b. Mainly machine operated	5	15		
		c. Completely automated	2	5		
		d. (a) and (b)	22	67	33	
8(a)	How are your machines procured?	a. Mainly locally	-	-	33	100
		b. Mainly imported	27	82		
		c. Partly locally and partly Imported.	06	18		
8(b)	What percent of your production materials is sourced	a. Locally				
		i.20-40%	14	42		
		ii. 41-60%	15	45		
		iii. 61-80%	03	09		
		iv. Above 80%	01	03	33	100
		b. Imported				
		i.20-40%	3	09		
		ii. 41 - 60%	13	39		
		iii. 61-80%	16	48		
-		iv. Above 80%	01	03	33	100
9.	Have your company used any research findings from any of	Yes			29	88
		No	29	88		
10.	If yes, indicate the particular research institutions?	None	None	00	00	00
11.	If no, give reasons	- No relationship - Policy gap - Institute not getting inputs them - Unaware of the research Findings, etc.				

Source: Field Survey

Table 3: Companies'mode of operation II

Que. Nos.	Question	Response	Respondents	%	Total No	%
12.	do you have any technical partner?	Yes	-	-		
		NO	33	100	33	100
13.	If no, what are your reasons	- Have adequate technical manpower. - Operations do not require technical partner - Continuous training and retraining of their own technical staff.				
14.	Do you give your products Indigenous or foreign	Indigenous (but in English)			28	85
		Foreign				
15.	If you give foreign brands, state why?	-	-	-	-	-
16.	What percentage of the installed capacity of the machines are you utilizing?	a.10-20%	03	09		
		b. 21-30	11	33		
		c. 31-40	17	52		
		d. 41-50	OZ	06		
		e. Above 50%	-	-	33	100
17.	Does your business have any research and development relationship with any multinationals in the country?	Yes	00	00		
		No	33	100	33	100

Source: Field Survey

Table 4: Entrepreneursship and government policies

Que. Nos.	Question	Response	Resp.	%	Total	
18.	Are you aware of the existence of a number of government policies on entrepreneurship in this country?	Yes	28	85	33	100
		No	03	09		
		No response	02	06		
19.	Would you say that these government policies have impacted positively or negatively on your business?	Positively	03	09	33	100
		Neqatively	25	79		
		No response	05	15		
20.	If positively state how	- Had accessed funds from NER FUND or BOI				
		- Attended government sponsored workshops				
21.	If negatively give reasons	- Policy gaps				
		- inconsistency				
		- insincerity - weak purchasing power - corruption				
		- limited coverage				
		- inadequate funding of programmes				
		- high cost of funds				
		- foreign exchange problems				
22	State specific areas you think government would assist the growth and development of en+repreneurship in Nigeria.	- Seriousness in developing basic infrastructures -Empowering people -Discouraging dumping -Taxing foreign companies more -co-opting the intended				

Source: Field Survey

Table 5: Problems and failures of entrepreneurship

Ques. Nos.	Questions	Factors	Yes		No	
			NO	%	N0	%
23.	What is the major problem of this business	a. Poor infrastructures	28	85	05	15
		b. High production costs	29	88	04	12
		c. Finance	21	64	12	36
		d. Limited scope of	19	58	14	42
		operation				
		e. Competition from			15	
		imported goods	20	61	13	39
24.	High production costs are the bane of manufacturing firms in Nigeria. Could you identity theses costs?	- High cost of buying diesel for running plants				
		- Grading/tarring of access roads and providing regular water				
		- Tax burden (multiple) taxes from all tiers of government				
		- High costs of funds				
		- High import content				
		- High cost of foreign exchange.				
25.	Can these problems lead to business failure?	Yes	29	88	32	97
		No	03	09		
26.	Which of the underlisted do you consider as a Crucial indication of Intending business failure?	a. Dwindling sales volume	07	21	3rd	
		b. Rising operational costs without increasing sales volume	15	45	1st	
		c. Increasing credit sales without good repayment records	08	24	2nd	
		d. Falling profit margin	03	09	4th	
			33	100		

Source; Field Survey

Table 6: Export Potentials

Ques. Nos.	Questions	Response	Respondts.	%	Total	
27.	Do you export your products to other countries	Yes	07	21		
		No	26	79	33	100
28.	If yes, indicate the countries	*Ghana, Togo,* Cameroon, Gambia, Liberia, Sierra Leone, etc				
29.	If no, what are the reasons? '	- Low capacity - Financing problems - High production costs - Problems of logistics - Poor export incentives				

Source: Field Survey