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## Backward integration

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# Backward Integration: A Panacea for Rural Development in Nigeria

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**Abstract** *Business is like a marathon race. It involves both mental and psychological alertness, exploring opportunities and taking chances is the strength, risk is the rule of the game and control is the price for the race. To this end, the aim of every business entity is to operate profitably in the industry it belongs, grow and possibly gain the largest share of the industry market. Among the strategies used in gaining control in the business industry is Integration which is the ability to influence or control either or both raw material input (backward integration) or the distribution chain (forward integration) or better still grow towards possible monopoly (conglomerate). While effort will be made to discuss other types of integration, this paper will focus more on the backward integration programme, its effect on the survival and growth of business entities, advantages and disadvantages to business operation and its role in rural development in Nigeria.*

**Key words** Integration, backward integration, forward integration, conglomerate integration, tied pub  
**JEL Codes:** O18, P25

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## 1. Introduction

What is permanent in life is change. This affects all facets of life and businesses too. Control is one of the rules of the game in the business world. While new businesses strive to penetrate the industry, the existing ones make all efforts to dominate it and possibly edge out incoming ones. While some use legal means in eliminating rivals others used illegal methods in doing same. One of the major ways of gaining control of the industry by business entities is integration. County (2008) described integration as the ability of business entity to control its production chain (both input and output chains) as a strategy for survival in very competitive markets like the perfect or monopolistic. "Business integration is a strategy whose goal is to solve a customer problem, managing a workflow, establishing a supply chain or designing a new product requires integrating many different sources of information from many different enterprise systems" (Techtarget, 2012).

Towards achieving going concern, entities developed different strategies toward their survival and growth within a reasonable period. Part of the strategies embarked upon is integration i.e. influencing either their input or output (finished goods distributions) or even both. Whichever strategy a business chooses will be influenced by some available factors. The main purpose of any integration is survival and possibly obtaining a larger part of the market. With these efforts, companies tend towards being a big fish in small water or even gain monopoly of the industry. The most helpful to the rural dwellers among these integrations, is backward integration because some of the inputs for production come from agricultural sector which requires massive land. This natural gift is in abundance at the rural or interior areas and this will in turn have positive economic impact on the rural communities.

Despite the increase in research in business integration, studies in this area in the emerging economies such as Nigeria are still very scanty. To this end, the paper attempts to examine the impact of business integration in rural development.

### 1.1. Research objectives

This study intends to determine the impact of integration in business, its influence in controlling production/distribution processes and profitability outcome. Specifically, the objectives of this research study are as follows:

- To evaluate the effect of backward integration in rural development in Nigeria.
- To identify the challenges of rural development and positive effect of backward integration.

## 2. Literature review

The beauty of good research work is ability to draw from available pool of knowledge, supports it with current events to form opinion and possibly add to the pool. Hence to make this paper robust, data were drawn from available pool of knowledge and also from current happenings and compared them with the past records to arrive at opinion that backward integration has played and still playing positive roles in the development of rural areas.

### *Concept of rural development*

The term “rural development” is a word that can be described as multi-faceted, dynamic, interesting, challenging, controversial, complex, political in nature, full of hope and frustrations, subject to a lot of meanings and debate, study and interpretations as there are individuals conceptualizing, thinking, and using it (Robert, 1987). The meaning of rural development has been the subject of much debate and little agreement among researchers (Gusztáv, 2005). The term is used to mean ‘organizing things’ so as to change existing conditions in favour of a better state (Robert, 1987). There may be

many variants of development drawing their nomenclature from the sphere of activity where the change is managed or the type of change or the 'method' how the desired change is attained. For several decades the term was used, solely, for economic change, inclusive of the conditions which affect betterment. The concept was later extended to its wider meaning to embrace 'changes' of political, social, cultural, technological, economic and also the psychological frame of society.

In a related study, Gusztáv (2005) asserted that the concept as a development approach was created as an alternative to the practice of central authorities in designing interventions which deal with sectors of social and economic life in isolation from each other and/or which assume that socio-economic problems can be solved by standard measures, regardless of location or culture. Rural Development ensures the modernization of the rural society and the transition from its traditional isolation to integration with the national economy. As a concept, it connotes overall development of rural areas with a view to improve the quality of life of rural people. In this sense it is a comprehensive and multidimensional concept and encompasses the development of agriculture and allied activities village and cottage industries crafts, socio-economic infrastructure, community services and facilities, and above all, the human resources in rural areas (Robert, 1987).

It is concerned with increased agricultural production for urban and international markets. In order to encourage increased production rural development may offer a package of inputs and welfare services for the rural masses. Such inputs and welfare services include physical inputs (such as the provision of feeder roads, water and electrification), social inputs - (namely health and educational facilities) and institutional inputs such as credit facilities, agricultural research facilities, rural expansion services among others. Since rural development intends to reduce poverty, it must clearly be designed to increase production and raise productivity. It is believed that improved food supplies and nutrition, together with basic services such as health, education and cultural activities would directly improve the physical wellbeing and quality of life of the rural poor, but also indirectly enhance their productivity and their ability to contribute to the national economy.

#### *Types of integration*

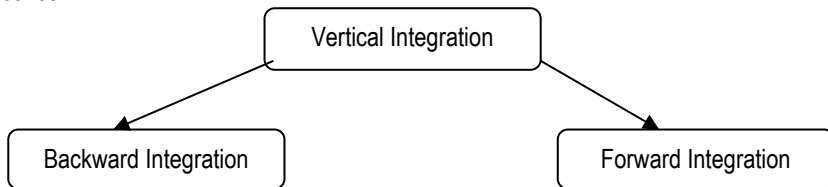
Prior literature (Perry, 1989; Stuckey and White, 1993; Sharma, *et al.*, 2014) classified integration into three main types: vertical, horizontal and conglomerate.

#### *Vertical integration*

Vertical Integration is commonly referred to as ability of a business entity to significantly influence or control its supply of input (Backward integration) or of output chains i.e. output (Forward integration) or both (Stuckey and White, 1993). Since control is the

target of every business entity, efforts will be in place to influence or control either or both raw material input and supply chain will put it on better pedestal than others in the industry. According to Perry (1989), there are three broad determinants for vertical co-ordination: (i) technological economies based on physical interdependencies in the production process, (ii) transactional economies associated with the process of exchange, and (iii) market perfections which include imperfect competition and imperfections caused by externalities and impact of asymmetric information.

Stuckey and White (1993) identified four reasons to vertically integrate namely, (i) the market is too risky and unreliable – it ‘fails’, (ii) companies in adjacent stages of the industry chain have more market power than companies; (iii) integration would create or exploit market power by raising barriers to entry or allowing price discrimination across customer segments; or (iv) the market is young and the company must forward integrate to develop a market, or market is declining and independents are pulling out of adjacent stages. Vertical integration occurs when a firm controls different stages of production and Figure A below illustrates the class of vertical integration in business concern.



*Figure A: Class of Vertical Integration*

However, some researchers misrepresent vertical integration as synonymous with backward integration only, leaving out forward integration. Despite backward integration being popularly discussed by scholars and mostly encouraged by government of different countries, yet forward integration is still the other arm of backward integration.

#### Backward Integration

Backward Integration, according to Farlex Financial Dictionary (2012), is a business model whereby a company takes direct control of how its products are supplied. For example, when a firm buys another company previously supplied its raw material. That is, setting up of another company or creating a subsidiary such as agricultural farms to supply raw materials input for a main company or its group is a typical example of backward integration. It is common to see that business entities both big and small make efforts towards controlling their production input most especially raw materials.

Statistics available shows that over 300 business entities in Nigeria alone involve in one effort or the other in controlling their production inputs. The common among them are those that used agricultural products as either input or as output for final consumption.

Backward Integration is an approach by a company to increase its level of control on its inputs. It is a part of the Corporate Strategy which is defined as “the match an organization makes between its internal resources and skills....and the opportunities and risks created by its external environment.”[www.businessdictionary.com](http://www.businessdictionary.com). Table A below shows sample of companies that use backward integration as strategy in Nigeria.

Urban companies	Rural companies acquired	Remark
Flour Mills Plc	acquired Thai Farm	to increase its chain of raw material supply
Dangote Group	acquired Savanna Sugar Company	to supply raw material for Dangote Sugar
Chi Ltd	Acquired Ajanla farms	to supply of raw materials to produce Chivita and other fruit drinks

The list is unending. However, these farms are not set up in the main cities but rural areas there by providing employment for some members of the immediate communities and some direct development to the community as part of conceptions for setting the farms.

#### Forward Integration

This is direct opposite of backward integration and it is very common for corporations to acquire their supply chains vendors or create facilities for the distribution of their products (County, 2008). This process of acquiring existing supplier or creating own distribution chain is referred to as forward integration. The process of forward integration involves integrating the supply chain within the corporate family. Forward Integration is a part of the vertical integration which is best understood by applying Michael Porters Value Chain Model. Vertical integration refers to the degree of integration between a firm's value chain and the value chain of its suppliers and distributors. Full Backward Integration happens when a company incorporates the value chain of a supplier into its own. This generally happens when the company acquires a supplier or expands its operation to carry out the activities of its suppliers. A lower degree of Backward Integration is commonly known as Supply Chain Optimization or also as Supply Chain Planning.

In line with the above, it is not unusual for firms to distribute or control its final products distribution to the final consumer. While firms like breweries and bottling companies

partially control their distribution channels at least to major distributors and encourages these distributors through commission on sales and other incentives, some partake in direct selling of their product to final consumers. Whether complete or partial control of distribution of products to either major distributors or involved in direct selling to final consumers it is regarded as forward integration. Two common types of forward integration are:

*Permanent:* This is a sub-vertical integration strategy aim to reduce cost of storage and distribution of finished products by companies. Storage is an additional expense to manufacturing companies hence; they develop many strategies to minimize in this area of expenditure. While excuse may be granted for shortcomings unsuccessful efforts made in reducing cost of raw materials storage, that of the finished goods should not be forgiven, rather, attributed to inefficiency on the part of management. One of the major strategies used by manufacturing companies is to aggressively push their product to the final consumer. With this, the quantity of finished goods to be held will greatly reduce and so also their storage cost. To facilitate the timely distribution of their finished goods to consumer, companies permanently engaged some major distributors as mini-depots for further distribution to other smaller distributors within their localities. While major distributors also selling bulk to other distributors within their locality and also engaged salesmen. These other distributors sell in smaller quantities to retailers and some also engaged bicycle boys to sell directly to the final consumers. All the suppliers and actors on the chain of distribution are rewarded with commission on sales (distributors) or salaries plus commissions for salesmen and bicycle.

Nigeria Bottling Company Plc have for over a decade introduced another strategy called Party Direct in which the company sells directly to final consumers (party celebrants) at a reasonable price better than that of retailers (Akamiokahor, 2007). As incentive, the company NBC supplied ice blocks and drums to ice the supplied drinks at no additional cost to the celebrant. The extra amount the celebrant needs to be paid is deposit for bottles and crates which are fully refundable on return.

*Temporary:* In addition to Permanent-forward-integration-programmes embarked upon by companies, they occasionally engage in some temporary measures and sell directly to the final consumer within a designated period of time for certain reasons which may be planned, spontaneous or both. However, whether planned or spontaneous, temporary forward integration is usually embarked upon as an addition and not a replacement for non-existence of forward integration.

Planned temporary forward integration mostly occurred during sales promotions and trade fairs or trade exhibitions. These are planned for as part of the company's programme for the year. Also planned temporary forward integration programmes are engaged in to introduce (penetrate) product to some major cities where their presence

is not known or much felt. Companies sometimes retained their presence in these areas for some period till they are able to secure distributors.

However, spontaneous temporary forward integration occurred sometime as reaction to government order like that given to some major manufacturing companies (PZ, Unilever etc.) during Buhari/Idiagbo regime (1983-85) to organize direct sales of essential goods to final consumers to beat hoarding created by some of their major distributors. Also companies engaged in spontaneous temporary forward integration to fight competitors' expansion programmes or increasing area dominants.

#### Horizontal integration

This type of integration neither backward nor forward but a control process aimed at either growing bigger or gain monopoly. This sometimes occurred in form acquisition, merger or takeover of companies in same industry. The recent takeover of Femstar Ltd (bottler of Limca and Gold Sport) by Nigerian Bottling Company is a good example of horizontal integration. Igweike (2012), asserts that horizontal integration involves the joining of two companies producing essentially the same products or services, or products or services that compete directly with each other. Horizontal integration is the expansion of a corporation to include other previously competitive enterprises within the same industry. This process is a characteristic of capitalist economies where the norm is winner takes all.

Further examples of international integration (mergers) are those between Porsche and Volkswagen; Daimler Benz with Chrysler; Kraft Foods with Cadbury; Quaker Oats with Snapple; PepsiCo with Quaker Oats; Pfizer with Wyeth and Pharmacia Corporation; Glaxo Wellcome with SmithKline Beecham; AT&T with T-Mobile and Bell South; Mittal Steel with Arcelor; HP with Compaq; Oracle with PeopleSoft; Delta with Northwest Airlines; United Airlines with continental ; Microsoft with Taahoo; Authen Tec, BP by Amoco; HP acquiring Compaq or Lenovo buying personal computer division of IBM.

In integration, expectations are usually high as the purpose is to have stronger and more advantageous market dominance by the company. This perception usually puts pressure on the management of the companies involved to identify performance indices that will improve the integration deal. Identification is just the beginning, as it must be accomplished by strategic plans to achieve and actualize the acquisition objectives, which include amongst others: (i) diversifying into new markets; (ii) enlarging managerial expertise; (iii) increasing market share; (iv) expanding the product line; (v) maximizing financial potential; and (vi) achieving technological success

#### Lateral integration

Another type of integration almost similar to that of horizontal is lateral integration. It is sometimes referred to as an alternative term for horizontal integration. It mostly



occurred among companies pursuing a diversification strategy in different production stages and industries under a uniform management in the economy. Organizations vary in terms of their needs for integration, and emphasis on complex lateral integration mechanisms is needed only when the requirements for integration are significant. Lateral integration takes place when two businesses that integrate have related goods but they do not compete directly with each other. It also occurs when the firms that combined provide different products that have some common feature. Example is the combination of firms producing related but not competitive products like the Hong Kong Telephone Co., Ltd. that combined with the Cable and Wireless (HK) Co., Ltd. and formed the Hong Kong Telecommunications Ltd. in 1988 and so also the taking over of the Internal telecommunications department of the old Post and Telecommunication (P&T) and former Nigerian External Telecommunication Ltd (NET) to form the current moribund Nigerian Telecommunications Ltd (NITEL).

#### Other type of integration

The ultimate result of every integration is to grow business entities; however, another programme that grows business entities that is almost similar to horizontal integration but could not be classified into it is the acquisition of *Patents* and *Franchise*. Though both differs in programming but they both make available products at some destinations where the presence of a particular product or a particular company is not felt/ almost going into extinction or to sustain the presence of a particular product in absence of main producer (Pepsi Cola – Nigeria as case study). The sale of Pepsi Cola in Nigeria to Seven Up Bottling Company is a deliberate strategy by PepsiCo (International) to sustain the world wide rivalry between Pepsi-Cola and Coca-Cola. The whole incident was so dramatic in the sense that while PepsiCo was leaving Nigeria, their only production plant located at Cappa-Oshodi, Lagos was sold to Nigerian Bottling Company (Bottler of Coca-Cola) but the patent was sold to Seven Up Bottling Company a major rivalry company to NBC. With this, in absence of PepsiCo (International) the cold war between Coca-Cola and Pepsi-Cola is still sustained. Some consumers of both product (Pepsi and Coke) know the type of promotion that follows the slogan “*we’ve got the taste*”.

#### Conglomerate

Conglomerate integration occasionally also comes up in form of merger, acquisition or takeover (Williams *et al.*, 1988; Wan *et al.*, 2011). It involves the coming together of two or more companies in different industries, i.e. the business not related with each other or sometimes not within same industry. The integration defers to that of horizontally (producing the same or competing products) nor vertically (standing towards each other in the relationship of supplier and buyer or potential supplier and buyer) but possibly

combining all types (Palich *et al.*, 2000; Zhou, 2011). Companies that involve in conglomerate integration engaged in different line of business which in some occasion not related to each other and expands beyond two or more industries (Ng, 2007). While some of these companies take name like -and - group, some others just bear such names that end with Ltd. PZ Plc and Flour Mills Nigeria Plc are typical example of such conglomerates without the appellation groups, Chi limited is another.

Akamiokahor (2007), posit that as part of its diversification strategy, Flour Mills Nigeria Plc (FMN), engaged in the importation and distribution of bulk cement (under the Burham name) and operates a cement joint venture (UNICEM) with Holcim of Switzerland and Lafarge France at Mfamosing, Cross Rivers State and also engages in the importation and distribution of high grade fertilizer. Additionally, in a bid to decrease their own packaging cost while providing a valuable product to the Nigerian market as a whole, FMN takes 70% stake in BAGCO, one of the largest suppliers of industrial sacks to many industrial and agro- allied companies in Nigeria. It is noteworthy, that FMN runs profitably, a series of support or auxiliary businesses such as Golden Transport, which operates more than 500 trucks and the Apapa Bulk Terminal, which handles over 3 million metric tons (MT) of bulk cargo per annum. Such businesses, in addition to being viable and profitable in their own right, give FMN a tremendous competitive advantage in terms of agility, efficiency, and service delivery. In addition to all these ventures, Flour Mills of Nigeria's interest in becoming the nation's dominant food business company is furthered by entities operating in agriculture, livestock feed and pasta manufacturing.

In pure conglomerate integration, there is no common factor between the companies in production, marketing, research and development or technology (Williams *et al.*, 1988). In practice, there is a dominant company that instigates such a merger, acquisition or takeover programme. This could occur for either of the following reasons as identified in the studies of Williams *et al.*, 1988; Ansoff, 2007:

- The dominant company may itself be a full-fledged “conglomerate” i.e. a holding company staffed by professional managers exercising management control over a substantial number of subsidiaries in a wide range of industries.
- The dominant company may be a “financial conglomerate”. i.e. the group may have been put together largely on the basis of financial engineering by the holding company by exchanging its highly priced listed securities for shares of companies in a wide range of industries. In this category, the holding company does not exercise control over its subsidiary, but finance will be centralized.
- Diversification - this consists of a company, deriving all or a greater part of its revenue from a particular industry, acquiring subsidiary operations in other industries for the purposes of:

- obtaining greater stability of earnings through spreading activities in different industries with different business cycles or to diversify a static or dying industry;
- imploring spare resources, whether of capital or management;
- Where there are some common factors, to obtain the benefits of economics of scale, particularly in respect to staff functions such as in personnel, advertising, accounting and financial. This is particularly noticeable in horizontal mergers and acquisition. The combination of the two industries could result in savings in many different ways. Large-scale productions will result in lower costs.

#### Backward integration: reasons merits and demerits

Amoo (2002) asserts that backward integration in business is like a marathon race, it involves both mental and physical alertness, exploring opportunities, taking chances and risks are the rules of the game and control is the price for the race". It further stated that the eventual winners are not completely innocent as in winning they will have to take some selfish decision to outsmart others. Referring to the above, that control is the price for business race and eventual winners not completely innocent means survival and growth of business enterprises may occasionally involve taking some selfish decisions at the expense of competitors resulting that successful integration programme which aim at survival and growth of business entities may not be totally innocent at the end of the day but partly selfish. Selfish or not, once it is done within the ambit of the law no crime may be committed. County (2008) identified that business enterprises may embark on backward integration for some of the following reasons:-

- Control production input: This will to certain extent guarantee continuous availability of raw material for production at times (no stock out).
- Reduction in cost of transportation: There is every possibility of relocation acquired entities (backward or forward integration) within the same geographical area if not possible within a site. The geographic proximity of related companies or processes will result into reduced transportation cost of raw materials, work-in-progress and finished goods if cannot be totally eliminated.
- Cost reduction: Self-production of raw materials will definitely reduce the cost at which raw material is supplied for production as some of the costs like suppliers markup, distribution, and handling will be partially eliminated. Also, change in management structure of the integrated company after acquisition will reduce or possibly eliminate some common cost within the company as a whole.
- Quality control: The level of wastages in production has direct relationship to quality of raw material used. The poorer the quality of raw material used for production, the higher the quantity of wastages. To ensure better quality of inputs, some companies may embark on backward integration with the aim of controlling the quality of materials used in production

- Lead time elimination: The lead time is an additional cost to production. When a company has full control of its raw material supplies, then it will be able to adequately plan to eliminate possible lead time which will cost the company additional cost for non-production.
- Expansion/Investment: Setting up facilities (e.g. farms) to cater for supply of raw materials is in no doubt an investment. Hence, increase in overall income is likely guaranteed in future if not immediate.
- Precautionary: Some companies may engage in backward integration programme for precautionary motive against unplanned shortfall in raw materials supplies or intending government policy or decision e.g. proposed ban on rice importation.
- Monopoly: Some business entity engaged in backward integration so as to control raw material input and possibly elimination or creating problems for competitors
- Government Policy: Business entities may embark on backward integration to support government policies example; backward integration on cement manufacturing by Dangote Cement.
- Parent company policy: The influence of parent companies over others in the group is unbeatable. When parent body sneezes subsidiaries catches cold. If the policy of the parent body is to embark on backward integration, other members of the group cannot do otherwise.
- Prestige: In Nigeria where some business decisions are not based on economy effect rather personal or political interest, a business entity may embark on backward integration for just prestige purpose (i.e. we too can do it)
- Bandwagon effect: Because some companies have being doing it, we too must do it.

### *Merits*

Engaging in integration programme is a big investment policy for every business enterprise; hence for a business to take such decision there must be some benefits to be derived from it. The benefits of backward integration identified in the prior studies (Martin and Sayrak, 2003; Akamiokahor, 2007; Alao, 2010; Guaughan, 2012) may include:-

- Grantee of timely supply of raw material: Being able to produce its needed raw materials, the company will be able to have uninterrupted raw materials supply. This will eliminate possible interruption in the production cycle and minimize possible variances when comparing production cost with budgeted. Ability to substantially control the supply of its raw material through backward integration will enable a company itself or through its subsidiaries produce quantity raw materials needed for production without or with tolerable delay is an advantage of backward integration.

- Reduction in the cost of production. Production of raw material by itself or through subsidiaries will help a company in reducing its cost of production through reduction in cost of materials used. This will eliminate suppliers profit on supply of raw materials thereby saving part of expected fund outflow from the company.
- Standardized and possible good quality raw material. Standard is synonymous with quality of every production, and it is the attainable quality level every supervisory body looks for in every product. As no company will want to be caught pants down in this area of operation, standard is the watchword. Production of standard products starts with the quality of raw materials used. Hence, when a company produces its raw materials, it will be able to determine the level of quality that will meet up with quality production. This will apart from meeting product standard also minimize wastages with the production.
- By product conversion: Conversion of raw material ends up in producing both main product as well as by-product. While accepting main product as the purpose of production, by-product too will not be disposed as waste, rather further processed to obtain another different product. The sale of by- product brings additional income to the company.
- Growth/ Expansion: Integration programme, whether forward or backward is an investment to the company and involves outflow of fund. This is a direct growth in investment and an expansion for the company.
- Variations/Experiment: it is common to see companies changing the container of their product to physically distinguish their product from others. Only companies that have strong influence over the manufacture of its products container (raw material) or produces container itself can easily do that without much stress or cost. Also, a company may vary a particular product for just special occasion or meet special demands (Coca-Cola for Eko 2013 games). This is also a benefit of backward integration.
- Tax Relieves: Companies engaging in backward integration programme as presence in rural areas are granted tax relief like Investment Allowance.

### *Demerits*

No matter the intensity of the sun, there is always a ray of cloud, so also there is hardly a business programme with 100 percentages success. To this end, Integration programmes with all its advantages have some disadvantages (Martin and Sayrak, 2003; Akamiokahor, 2007; Alao, 2010; Guaughan, 2012) which include:-

- Funds commitment: The programme involves outflow of fund to the companies embarking on it. These funds are not totally free as they attract some cost which is also additional out flow of funds.

- Increase in business risk: The entering into production of raw material for personal consumption is like investing into a new line but related business; hence this will initially increase the company business risk which may be eliminated in future.
- Decrease in rate Return On Investment (ROI) percentage: Entering into a new line of business though may yield positive return on investment for a company but the rate of return on this new investment may initially not be as high as the old businesses the company had being operating. This will result in delusion in the ROI and brings down the company average rate of ROI.
- Loss of fund: For every business, planning and proper feasibility study matters a lot. Where the company embarking on backward integration does not do proper home work on the subject matter, then total or partial loss of investment may occur and this too will bring down the overall rate of ROI.
- Some companies may execute the integration programme to the deterrent of other companies in the industry by making it difficult for some of them to obtain adequate raw materials for their normal operation thereby limiting their capacity.
- Monopoly: Integration programme may lead to outright or gradual monopoly power thereby making entries into the industry difficult for new competitors or gradually eliminating the smaller ones (Price sugar war).

### **3. Methodology of research**

The focal point of this paper is to critically evaluate the impact of backward integration as a strategy in rural development. This study involves mixed research methods (survey research method and qualitative research design). The main material used for this research was the use of questionnaires presented to the academicians, managers, and HND accounting students of Lagos State Polytechnic to make generalizations concerning the population of interest. Secondary data obtained from journals, internet articles, newspaper are subjected to context analysis. Survey research was adopted with a sample size of 250 to obtain the primary data. Microsoft excels and SPSS software is employed in analyzing data obtained.

The hypothesis for the study is stated in their null, thus:

*H01: There is no relationship between backward integration and rural development in Nigeria*

### **4. Results and discussions**

Finding in this study are discussed in the section as it relates to positive and negative effect of backward integration as a strategy for profitability of companies and in rural development.

*Positive effect of backward integration on rural areas*

There is no doubt that backward integration programme will bring lot of benefits to the rural areas in Nigeria and immediate environment in particular since most the backward integration programmes take place in the rural areas.

	<b>Table A: Positive effect of backward integration</b>		
	strongly agree	undecided	strongly disagree
Employment Opportunity	74%	7%	11%
Improved road network system	65%	9%	15%
Land and properties value appreciation	78%	5%	12%
Provision of basic amenities	54%	14%	11%
Reduction in rural urban drift	57%	12%	21%
<b>Source: Fieldwork 2016</b>			

Finding in Table A above identified the benefits to be derived from backward integration programmes by rural areas includes:

- *Employment Opportunity*: Irrespective of the part of backward programme activities to carried out at any area, not all the needed personnel can be moved or transferred to that area. Hence, some personnel have to be sourced locally. This notion was attested to by the respondents that strongly agreed (74%) and 11% disagree with the notion. Without any doubt, most of the backward integrations programme in Nigeria as of today involves agricultural products which are better embarked on at a rural area not cities.
- *Improved road network system*: if companies do not cite their production plants near the source of raw materials (rural area) then the raw materials has to be moved to the company production site (less rural). For easy transportation, a good road network is needed which if not available at the time a company is citing its backward integration there might be delay in the work. Most sample respondent in this study strongly agreed (65%) that improvement in road network system will have positive effect on backward integration. However, the company may still provide the needed road to ease the movement of its materials or by government at the influence of the company or as counterpart funding i.e. between government and the company.
- *Provision of basic amenities*: As part of social responsibility, some company provide their host community with some basic amenities like water, schools, hospitals and even electricity as was done by a quarry company in Okomita, Cross River State (1986), Oil companies in Niger Delta communities.
- *Reduction in rural urban drift*: Ancestral home is a pride to most Africans, so the provision of some basic amenities and employment will surely discourage some people

from moving from rural area to urban city thereby reducing the problems already created by these drifts.

- Land and properties value appreciation: Good road network, basic amenities (light, water, hospitals etc.) will gradually turn a rural area (village) to city. Most of the respondents seems to come from villages and strongly agreed (78%) that land and properties will appreciate greatly with investment in rural areas. With the provision of the above, civilization are gradually setting in and the value of properties like land and building will continue to rise as these amenities continued to increase. This will bring additional money to properties owners in the area and result into increase in standard of living.

#### *Negative effect of integration on rural areas*

Many factors can be attributed as negative effect of backward integration on rural areas. As the adage goes '*he who wants to grow tall should be ready to have long legs*'. So also any rural area that wants to be urbanized must be ready for problems associated with cities. Analysis of item Q7 revealed that respondents ranked security problem (67%), water, air and noise pollution (72%) and destruction of natural life style (63%) as strongly having negative effect on the rural area.

The more the provision of basic amenities in a rural area (village) the gradually it turns to city as a result of business integration and development brought by businesses to the rural areas. Among problems that may confront rural areas due to backward integration of companies (Table B) will include:

<b>Table B: Negative effect of backward integration</b>			
	strongly agree	undecided	strongly disagree
Security problem	67%	9%	12%
Water, Air and Noise pollution	72%	11%	9%
Destruction of natural life style	63%	13%	11%
Health problems due to much comfort	55%	19%	19%
<b>Source: Fieldwork 2016</b>			

Table B above shows the finding relating to the respondents' agreement or otherwise to a question on negative effect of backward integration on the rural areas.

- Security problem: 67% of the respondent strongly agreed that security problem will follow development in the rural area, and 12% strongly disagreed with the notion. This argument collaborated the finding of that most houses in rural areas hardly have burglary proof because burglars are either very low or in non-existence. It can be inferred therefore that security is a major problems in urban cities.



- Water, Air and Noise pollution: this variable seems to be the fear of respondents while ranking factors that negatively affect backward integration in rural areas. 72% of the most respondents strongly agreed that water, air and noise pollution are associated with the activities of companies in the rural areas, while 9% strongly disagree with the notion and 11% undecided. The case of water, air and noise pollution in Niger Delta area in Nigeria is a reference. Waste disposal is an expense to companies and not all companies are responsible, hence they disposed their wastes to the deterrent of citizens unless violently brought to order by the community or regulatory agencies. In most cases some companies waste disposal procedure pollutes the immediate neighbors' source of water supplies and even the natural air breaths in by the immediate community. Also, the type of noise that comes from the production plants of some companies is damaging to people's health.
- Destruction of natural life style: Urbanization do not always come with empty hands as it gives comfort with one hand, it takes cultural values and destroy natural life styles like communism extended family values etc. with the other hand. From Table B above, 63% of the respondents strongly agreed with the notion that destruction of natural life style is associated with backward integration in rural area, 13% undecided and 11% strongly oppose or disagreed with the notion.
- Health problems due to much comfort: Because of the provision of some basic amenities, the life style of people will be altered and gradually distorting their natural life style such as land tilling and trekking to farms which helps in excising the body. Health related problems due to rural development is ranked lowest 55% strongly agreed, and 19% either undecided or strongly disagreed with the notion. It is common believed that natural foods for synthetic can foods and unnatural ones can post some health problems like diabetics, high blood pressure etc. due to new companies and rural area development.

#### *Proposition*

*H01: There is no relationship between backward integration and rural development in Nigeria*

In testing proposition 1, Pearson Chi-square test .239 or 23.9% reveals that there is positive association between the backward integration and rural development in Nigeria. From Table A, B and C, the fact shows that backward integration comes along with both negative and positive effect on rural area development has been confirmed in this study  $\{\chi^2 (df = 3) = 23.9, p < 0.001\}$ . Employment opportunity, land and properties value appreciation and reduction in rural urban drift are some of the positive effect while water, air and noise pollution and security problem constitute negative effect. Therefore, the null hypothesis is rejected and alternative which state that 'there is

relationship between backward integration and rural development in Nigeria' is accepted.

Table C. Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	28.000 <sup>a</sup>	30	.239
Likelihood Ratio	22.320	30	.570
McNemar-Bowker Test	.	.	. <sup>b</sup>
N of Valid Cases	7		

a. 42 cells (100.0%) have expected count less than 5. The minimum expected count is .14.

b. Computed only for a PxP table, where P must be greater than 1.

## 5. Conclusions

In conclusion, it is obviously clear that backward integration is far more beneficiary to rural dwellers than other types of integrations. Despite backward integration being a cost to companies, incurring additional expenses to improve the life of the host community will guaranty them peaceful operation. At the end of it all, it will be a win-win situation for both companies investing in backward integration programme and the host communities.

## 6. Recommendations

Backward integration being a win-win situation for companies and the rural dwellers, government should encourage more companies to embark on it has it also assist government in reducing the problem of rural-urban migrations. Apart from tax relieves, government should encourage some of the companies by entering into counterpart funding arrangement to provide good road network and other social amenities for the host communities where possible. Borrowing from the problems associated with integration, any company that planned to engage in any form of integration should do proper homework before embarking on such so as not to waste fund.

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