Export of Agricultural Products as an Indicator to Performance of Rural Base Small Scale Agri-Businesses, South Africa

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Abstract: The performance of Small Scale Agricultural Businesses (SSABs) is vital as they generate employment and income for poor rural communities. This study examines export as a pillar of globalisation which was used as an indicator to access performance by rural based Small Scale Agri-Businesses (SSABs) in South Africa. Since, the democratic transition in 1994, SSABs are exposed to the forces of globalisation and are exposed to various international forces which have been presumed to result in poor performances and closure of some of these businesses across rural South Africa. The study addresses a basic question in the small business/globalisation literature: what is the impact of globalisation on small firm performance? Arguing from the new growth theory, this study investigate exportation opportunities (exogenous factor for growth) that result from trade liberalisation (as a component of globalisation) and its impact there of on the SSABs in a rural region of South Africa. Business success was measured by owner's perception of growth in employment and gross profit. The results lead to the conclusion that higher levels of exporting contributes to improved economic performance, hence by inference exogenous development path is relevant to better SSAB performance.

INTRODUCTION

Small Scale Agri-Businesses (SSABs) are viewed as an important contributor to rural employment in South Africa and the only source of economic livelihood of the majority of unskilled people. Lately, the sector is under increasing pressure to do more as big businesses shed jobs. South Africa's unemployment rate is estimated at between 25-35%[1]. The South Africa's Small Micro and Medium Enterprise's (SMMEs) environment definition are contained in Act No. 102 of 1996 as amended in 2003. Lamprecht[2] indicated that the South African export sector is dominated by few SMMEs because they are export oriented. Like every concept, it would be ideal to

defined globalisation, although, the concept is multifaceted[3]. Globalisation consists of four broad aspects, namely; technological, economic, social and political. This allows flexibility in the use of the concept depending on the on the focus of the study[4, 5]. Other economic definitions of globalisation exist however, they all seem to center on globalisation being the integration of markets or economies[6, 7, 5]. These views allow one to evaluate SSABs export performance, since, it is integration of markets that determines if a firm is global. In a study by Lekunze[8] and Agbobli[9] in developing countries most SSABs die off at the early stages of their formation.

This study examines the export performance of the SSABs of South Africa and the impact thereof on economic performance. The study further examines SSABs and the environment within which they operate. Apart from a few mining activities, rural South Africa is basically dominated by agricultural SSABs. Majority of the agricultural SSABs are characterised by resource inefficiencies, low product quality and they are unable to compete with firms of similar sizes globally. The research problem to date is that, no one knows for sure how these SSABs are responding to threats and opportunities presented by globalisation. The paper focuses on one of the key opportunities presented by globalisation export opportunity. Specifically, the paper explores two basic questions to what extent do SSABs in Vryburg-Pokwani export products?; What relevance does exports as a result of trade liberalisation (as a component of globalisation) have on performance of SSABs in the Vryburg-Pokwani area? Alternative are there significant differences in a SSAB performance based exports? If so, what is the nature of such difference?

MATERIALS AND METHODS

The study focused on the Vryburg-Pokwani area and covers the Vryburg District of the North West Province and the adjoining areas of Frances Baard District (Pokwani Municipality, Northern Cape). The target population of SSABs in the study area was approximately 3788 out of which 899 were agro-based businesses. Macorr sample calculator was used to calculate the sample size at 95% confidence level and 269 agro-based businesses were randomly selected. Data was collected using a semi-structured questionnaire and SPSS 23.0 was employed to analyse the data. Internal consistency was measured using Cronbach's alpha coefficient. All three indexes ("importance/relevance"; "impact"; "long-term performance expectations") demonstrate excellent reliability as their respective alpha coefficients where found to be 0.921, 0.906 and 0.885 which is above 0.70. Descriptive statistics was employed to analyse the mean, median, mode, standard deviation, minimum score, maximum score and number of cases of the three indexes (impact of globalisation, importance/relevance of globalisation, long-term performance expectations under globalisation). The results are presented in Table 1 and 2 and these measurements to establish the relationship between a categorical and scale variables.

The variables used for the categorisation into indexes were either dichotomous or non-dichotomous. Depending on whether the categorical variable is dichotomous (e.g., gender with its two categories) or categorical (e.g., age with its five categories), the appropriate significance test is either an independent t-test or a one-way ANOVA (F-test). In the case of a non-dichotomous categorical variable, a post-hoc test (Bonferroni) was used as a follow-up, to determine which levels of the categorical variable are significantly different from which in terms of the mean scores on the index.

Table 1: Perceived impact of globalisation on the performance of SSABs

| Aspects of globalisation | Negative impact | | | No impact | Positive impact | | | |
	Moderate negative (%)	Low negative (%)	Total (%)	None (%)	Low positive (%)	Moderate positive (%)	Strong positive (%)	Total (%)
Foreign technology on the growth of businesses	0.00	1.30	1.30	19.2	19.9	16.6	43.0	79.5
Foreign technology on the profitability of businesses	0.00	1.30	1.30	19.9	19.9	16.6	42.4	78.9
Foreign technology on the survival of business	0.00	1.30	1.30	19.9	19.9	19.2	39.7	78.8
Technology average	**1.30**			**19.7**	**79.0**			
Lowering of Foreign trade barriers on profitability	4.50	6.60	11.10	49.6	5.9	12.6	19.2	37.7
Lowering of Foreign trade barriers on growth	2.00	10.50	12.50	49.2	6.6	15.8	16.6	39.0
Lowering of Foreign trade barriers on survival	2.60	9.90	12.50	48.9	11.9	17.2	9.2	38.3
Lowering trade barrier average (trade liberalisation)	**12.03**			**49.23**	**38.33**			
Free labour movement on growth	1.30	2.60	3.90	70.2	16.6	6.0	1.0	25.6
Free labour movement on survival	1.30	2.60	3.90	71.5	17.9	4.0	1.0	24.9
Free labour movement on profitability	2.60	2.00	4.60	70.2	15.9	7.3	1.3	25.5
Free labour movement average	**4.10**			**70.63**	**25.33**			
Globalisation average	**5.81**			**46.52**	**47.55**			**99.88**

Table 2: Importance/relevance and long-term expectation of globalisation by business characteristics

Characteristics	Number	Mean score (out of 30)	Standard deviation	Significance testing	Post-hoc comparisons (Bonferroni)
What is your gender?					
Male	120	17.8	6.5	$F = 0.157$, $p = 0.876$ (ns)	--
Female	31	17.6	4.5		
What is your age group?					
21-30 years	10	17.8	4.5	$F = 5.982$, $p<0.05$ (sig)	[51-60 years > 41-50 years; Above 60 years]
31-40 years	18	16.9	5.0		
41-50 years	53	17.5	6.0		
51-60 years	40	21.0	6.1		
Above 60 years	30	14.4	5.4		
What is your highest academic qualification?					
None	21	13.6	4.6	$F = 23.733$, $p<0.05$ (sig)	[Tertiary qualification>None; Primary; NSC and below]
Primary	22	13.1	3.9		[Diploma/degree > None; Primary; NSC and below]
NSC and below	35	14.7	4.4		[Postgraduate > None; Primary; Matric and below]
Tertiary qualification	22	19.7	5.5		
Diploma/degree	38	22.3	4.8		
Postgraduate	13	23.7	4.0		
At what highest level of education have you acquired business management skills?					
High school	21	16.5	5.6	$F = 21.023$, $p<0.05$ (sig)	[College > Short courses; None]
College	14	21.2	4.7		[Diploma/degree > High school; Short courses; None]
Diploma/degree	37	22.7	4.1		[Postgraduate > High school; Short courses; None]
Postgraduate	7	23.1	5.0		[Short courses > None]
Short courses	27	16.5	4.8		
None	45	13.0	4.7		
At what highest level of education have you acquired agricultural skills?					
High school	24	16.2	4.6	$F = 16.464$, $p<0.05$ (sig)	[College > High school; Short courses; None]
College	15	22.8	4.3		[Diploma/degree > High school; Short courses; None]
Diploma/degree	30	22.6	4.3		[Postgraduate > None]
Postgraduate	6	22.5	4.3		
Short courses	27	16.6	5.5		
None	49	14.0	5.4		
At what highest level of education have you acquired engineering skills?					
High school	15	17.1	5.6	$F = 11.168$, $p<0.05$ (sig)	[College > None]
College	13	21.7	6.6		[Diploma/degree > High school; None]
Diploma/degree	16	23.3	3.4		[Short courses > None]
Postgraduate	4	20.8	5.9		
Short courses	28	20.3	5.2		
None	75	14.9	5.3		
At what level of education have you acquired entrepreneurial skills?					
High school	9	14.0	4.1	$F = 16.117$, $p<0.05$ (sig)	[Diploma/degree > High school; College; None]
College	6	15.6	7.0		[Postgraduate > High school; College; None]
Diploma/degree	25	22.5	4.2		[Short courses > None]
Postgraduate	10	24.3	4.5		
Short courses	42	19.4	4.8		
None	59	14.2	5.3		
How long has the company been operating?					
Up to 1 year	9	16.5	4.9	$F = 6.884$, $p<0.05$ (sig)	[11 to 20 years>2 to 5 years; Over 20 years]
2-5 years	24	16.0	4.7		
6-10 years	35	18.2	5.5		
11-20 years	48	20.8	5.7		
Over 20 years	35	14.6	6.5		
# What type of business activity is the company engaged in?					
Agric-processing	28	21.9	5.1	$F = 14.229$, $p<0.05$ (sig)	[Agric-processing>Livestock farming]
Livestock farming	61	14.4	4.5		[Crop farming>Livestock farming]
Crop farming	43	18.9	5.7		[Both livestock and crop farming>Livestock farming]
Both livestock and crop farming	18	19.1	7.6		
What form of business ownership do you practise?					
Sole proprietor	99	16.6	6.2	$F = 6.764$, $p<0.05$ (sig)	[Close Corporation> Sole proprietor]
Partnership	15	16.5	3.3		[Private company > Sole proprietor; Partnership]
Close corporation	16	21.6	4.3		
Private company	17	22.8	5.1		
Cooperative society	4	14.4	4.3		
Number of employees including owner/manager:					
1 to 5	73	14.9	5.1	$F = 15.999$, $p<0.05$ (sig)	[21 to 30>1 to 5; 6 to 20]
6 to 20	28	17.0	5.7		[31 to 40>1 to 5; 6 to 20]
21 to 30	22	21.9	4.3		[41 to 50>1 to 5; 6 to 20]
31 to 40	10	24.2	5.0		
41 to 50	18	21.9	5.4		

Table 2: Importance/relevance and long-term expectation of globalisation by business characteristics

Characteristics	Number	Mean score (out of 30)	Standard deviation	Significance testing	Post-hoc comparisons (Bonferroni)
Is your company engaged in Foreign business?					
Yes	57	23.2	4.0	t = 11.856, p<0.05 (sig)	--
No	94	14.4	4.6		
Do you engage in importing?					
Yes	12	23.5	4.2	t = 3.524, p<0.05 (sig)	--
No	139	17.2	6.0		
Do you engage in exporting?					
Yes	56	23.2	4.1	t = 11.587, p<0.05 (sig)	--
No	95	14.5	4.6		
Growth in pre-tax profit over the past 5 years (%):					
Declining (11-20%)	6	13.9	2.9	F = 13.680, p<0.05 (sig)	[Growing (11-20%)>Declining (11-20%); Declining (1-
Declining (1-10%)	21	16.1	4.3		10%); No change (0%); Growing (1-10%)]
No change (0%)	26	14.4	4.8		
Growing (1-10%)	65	17.1	6.0		
Growing (11-20%)	33	23.4	5.0		
Growth in size/employment over the past 5 years (%):					
Declining (11-20%)	3	15.3	2.9	F = 4.836, p<0.05 (sig)	[Growing (1-10%)>No change (0%)]
Declining (1-10%)	14	17.9	5.4		[Growing (11-20%)>No change (0%)]
No change (0%)	70	15.9	5.4		
Growing (1-10%)	56	19.2	6.4		
Growing (11-20%)	8	23.6	5.6		

"Horticulture" excluded because only one respondent selected this category

RESULTS AND DISCUSSION

The study examined the extent of establishment of Foreign alliances by SSABs in the North West and parts of the Northern Cape provinces of South Africa. The results in Fig. 1 reveal that, although, a high proportion (48.3%) of SSABs have no Foreign alliances, the majority (51.7%) have some form of relationship with international alliances (even if only a few). The results also show that as many as 18.5% have a maximum of 2 connections; 11.9% have >10 alliances and 6.6% had 6-10 alliances. The study found that, the type of Foreign alliance gained by SSABs in the study area ranged from, product, information and technology exchange. According to Lekunze[8], majoring of small-scale farmers in South Africa benefits from cost cutting Foreign technologies such as production inputs (hybrid seeds, mechanisation, etc.) and broader market exploration.

Furthermore, the extent to which SSABs in the study area export product was analysed using percentages as shown in Fig. 2. The results reveals a high percentage (60.3%) of SSABs in the Vryburg-Pokwani area does not export produce/products. The analysis also reveals that, for SSABs that export, only a very small proportion (13.2% of SSABs) export any appreciable percentage of gross turnover (21-30%). It seems therefore that exporting of products is not a priority for SSABs in the region. Respondents indicated that there are a lot of export restrictions and information asymmetry related to product export. They further indicated that the export market is dominated by large scale commercial farmers who produce at a lover average cost than SSABs. Henson et al.[10] supported this view by stating that
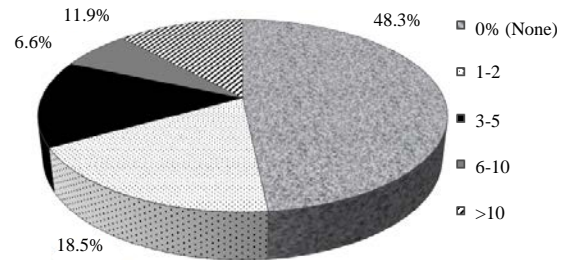

Fig. 1: Extent to which businesses have established Foreign alliances
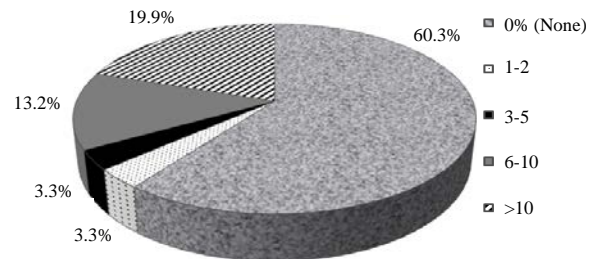

Fig. 2: Export as a percentage of gross turnovers

majoring of small scale agro-industries face major export restrictions such as sanitary and phyto-sanitary measures in the US and European Union.

Perceived impact of globalisation on the performance of SSABs: The impact of globalisation elements on

the performance (profitability, growth and survival) of SSABs in the study area was also investigated.

To understand the impact of globalisation on the performance of SSABs, the extent to which the use of Foreign technology has impacted on the performances of SSABs was analysed and the results are presented in Table 1. From the results, majority (79%) of participants agreed that Foreign technologies have positively (increased productivity) impacted overall business performance as a whole and individually for profitability, business growth and business survival. This result is in line with the findings by Hoekman and Javorcik[11, 12] who found that the introduction of more modern Foreign technology reduced operational costs, increased efficiency and output resulting in increased profitability in various SMEs worldwide.

With regard to the impact of lowering trade barriers proportional analysis was performed. The results in Table 1 reveal that the greatest proportion (49.3%) of respondents believe trade liberalisation had no effect on the performance of their business while a relatively smaller proportion (38.3%) indicated that it had a positive impact. The respondents further indicated that this is due to the fact that they sell majority of their produce to local consumers who do not have access to a range of international products.

Some respondents (12.03%) indicated that globalisation has negative impact on their business performance. It is interesting to note that a number of researchers indicate the existence of a positive impact of trade liberalisation on SMMEs firm performance worldwide[13-15]. However, findings from this study showed the reverse. The possibility of this outcome maybe that, the proportion (49%) of respondents who indicated that trade liberalisation has no impact on their businesses are not engaged in exporting, use Foreign or do not employ Foreign labour, hence are not in a position to notice their impact.

To measure the extent to which free movement of labour impacts on the performance of SSABs in the study area, participants were asked to state how they think relaxed immigration laws impacted on their businesses in terms of growth, profitability and survival. The results in Table 1 reveal that a good majority (over 70%) of respondents believe that free movement of labour has no impact on business growth, profitability and survival chances, hence, overall performance of the business. It can therefore be concluded that respondents feel that the free movement of labour across national borders does not influence business performance. This result could be attributed to the fact that a large number (70.9%) of SSABs do not employ Foreign labour in the study area. Therefore, it is difficult to determine the impact of

the employment of Foreign labour on performance. Contrary to this finding, Pecoud and Guchteneire[16, 17] argue that the biggest gains due to globalisation lie in the international movement of workers, leading to the development of poorer countries such as South Africa.

Analysis of importance/relevance and long-term expectation of business performance of SSABs globalisation: Analysis of Variance (ANOVA) was used to quantitatively ascertain the degree of importance/ relevance of each identified globalisation indicators on small-scale agro-based businesses in the study area. The analysis revealed that some of the indicators were of more importance/relevance in ability of businesses to goglobal than others. Table 2 summarises the comparison of mean scores on the "importance/relevance of globalisation" index and business characteristics.

Analysis revealed gender does not have an influence on the perception of owners of SSABs regarding the importance of globalisation in terms of profitability, growth and survival as well as long-term expectation of business performance under increased globalisation. Table 2 further reveals that the age of owners/managers has a significant influence on their perception of the importance of the elements of globalisation. The current profitability, growth, survival and long-term expectation of business performance of SSABs stands at p = 0.05. The Bonferroni test results in the last column of Table 2 shows that the older the manager, the more they perceive the elements of globalisation as important for business success. This seems to suggest that as managers/owners grow old and as the businesses grow older, so also do their experience and knowledge on the global forces impacting an enterprise.

The results in the table further shows that the academic qualifications of owners/managers are significant determinants of perceived importance of globalisation for business success at p = 0.05. The Bonferroni test results reveals that the higher the qualification of the manager, the more they perceive the elements of globalisation as important for business success. This suggests that owners/managers with higher qualifications and who have probably acquired skills in business are better positioned to appreciate the impact of globalisation in business. There are empirical evidences in support of this assertion[18-20].

The number of years the sampled companies have been in operation were analysed and grouped (up to 1 year, 2-5 years, 6-10 years, 11-20 years, over 20 years). The mean scores of the length of operation of different companies were computed and the results show that companies that are at their early stage of operation (<5 years) have lower mean scores while those that have

been operating for over 20 years have the highest mean scores. The results of the Bonferroni analysis (Table 2) also reveal that the numbers of years of operation have a positive and significant impact (at $F = 6.884$ and $p = 0.05$) on the perception of importance of globalisation for business. The implication may be that older businesses have probably acquired more experience in business and hence are better positioned to appreciate the impact of globalisation on business. Recent evidence provided by Audretsch[21] suggests that high performance firms are not necessarily newly founded entrepreneurial start-ups but rather tend to be more mature firms.

Analyses were performed on the type of agro-based activities (agric-processing, livestock farming, crop farming, both livestock and crop farming) practised by the sampled enterprises and their mean scores computed. The results show that enterprises specialising in processing activities have the highest mean scores while SSABs involved in primary activities (livestock farming and crop farming) have the lowest scores. The results in Annexure2 reveal that type of agro-based activity has a significant impact at $F = 14.229$ and $p = 0.05$ on the perception of importance of globalisation for agro-based enterprise performance. The Bonferroni results in Table 2 show that firms engaged in primary activities view globalisation as less important to business success than processing activities. This result was anticipated as it is only logical that processing activity requires more and better technology. This may be readily available in other countries (internationally) than locally.

Analysis on the different forms of business ownership (sole proprietor, partnership, close cooperation, private company and cooperative societies) shows significant differences in perception of importance of elements of globalisation for business performance at $F = 6.764$; $p < 0.05$. The Bonferroni results shows that Ptys and Close corporations regard elements of globalisation more important for business performance than sole proprietorships and partnerships. This can be partially explained by the fact that sole proprietorship may not be very sophisticated in nature to comprehend the importance of globalisation. In the final analysis, it is an indication that SSABs that are formally registered have a better understanding of the implications of globalisation for business performance. It may also be that Foreign firms prefer to do business with more formal businesses such as Ptys and CCs because this reduces the level of risk and loss of their investments.

The number of employees in an organisation has generally been used to classify a business in terms of small-scale, micro and medium agro-based businesses. According to the Department of Trade and Industry (DTI) of South Africa, any business with between 1-50 employees is classified as a small-scale business.

During the study, sampled businesses were grouped into the following categories: 1-5, 6-20, 21-30, 31-40 and 41-50. The results in Table 2 show that the number of employees has a significant influence on a firm's perception of importance of globalisation for business performance at $F = 15.999$; $p < 0.05$. The Bonferroni result in the last column of Table 2 indicates that larger businesses regard elements of globalisation more important for business performance than smaller businesses. This result was anticipated as it is reasonable to expect larger SSABs (>20 employees, Table 2) to have more ambitions of growing even larger and into Foreign countries than smaller ones. Therefore, as firms become larger and the local market becomes limited, they might consider going global for bigger market shares[3].

Results of the analysis in Table 1 also shows that the importance attached to the impact of globalisation on firm performance is significantly related to the number of Foreign alliances formed by the business at $F = 11.856$; $p < 0.05$. However, the Bonferroni test could not confirm the nature of the difference. It is, however, reasonable to postulate that the higher the importance attached to globalisation, the higher the number of Foreign alliances formed.

During the survey, firms were asked what type of engagements they have with Foreign businesses. The analysis reveals that the level of importing from Foreign businesses is significantly related to the importance firms attach to the impact of globalisation on business performance at $F = 3.524$; $p < 0.05$. This may be due to the fact that firms that import improved technologies and cheaper labour from Foreign countries, thus, reducing the costs of production and improving efficiencies will have a better appreciation for the importance of access to the global market arena to business success.

Owners/managers were asked what type of engagements they have with Foreign businesses. The analysis revealed that a firm's level of export to Foreign countries was significantly related to the importance attached to globalisation at $F = 11.587$; $p < 0.05$. Just like importing, this may be due to the fact that firms that export will better appreciate the importance of access to the global market arena to business success. Also, firms that export have a larger customer base and sometimes fetch better prices for their products. The increase in sales volumes may reduce the cost of purchasing raw materials due to high discounts for bulk purchases. This will subsequently increase margins thus resulting in better performance.

Analysis of variance was conducted on pre-tax profit for SSABs in the study area in the last 5 years in order to indicate whether they are declining, growing or have remained stagnant. The analysis on percentage growth in pre-tax profit was found to be significantly related to

importance attached to globalisation at F = 13.680; p<0.05. As firms engaged in international trade globalised, they might become more efficient and reduce costs of production while increasing sales volume. The profit levels of firms may increase as they grow larger.

The analysis on percentage growth in size/employment was found to be significantly related to importance attached to globalisation at F = 4.836; p<0.05. As firms grow in size and logically produce more, they soon realise that the local market is not large enough and may need to export to the global market. It is also possible that as firms engaged in international trade become globalised, there is an increase in the demand of their products. There is thus the need to increase production capacity which means increase in the number of people employed by the firm.

CONCLUSION

Small businesses in general have a high failure rate in South Africa. Having somehow, been protected (even if inadvertently) in the past by apartheid policies from global influences, post-1994 small businesses, including SSABs in South Africa are now confronted with the challenging task of global competition. With the abolition of control marketing boards and the removal of government subsidies and support in the post-apartheid era, the inefficiencies of SSABs in South Africa are exposed to the extent that they are bound to struggle to compete for market share. Meanwhile, it is common knowledge that unless a business entity can ride the troubling waters of competition in the marketplace, the chances of good performance (profitability, growth and survival) is next to nothing. Moreover, in every business undertaking, local competition exists and this is even compounded by global forces of technology, free trade and the free movement of labour. This intensified competitive business environment is bound to affect the performance (profitability, growth and survival) of SSABs operating in rural areas of South Africa. As discussed in the literature review, no business is immune to the vagaries of the forces of globalisation.

RECOMMENDATION

It has been proven in the study that the level of Foreign involvement of both local and international investors in small-scale agro-based businesses is low. As such, government and other stakeholders in this sector must remove policies that act as a barrier and redesign new legislation that promote the development and growth of small-scale agro-based businesses. The introduction of such new policies will result in the formation and promotion of alliances among local SSABs and between

local SSABs and Foreign businesses. This can be only achieved through the participation of local businesses in Foreign trade fairs and the subsidisation of such attendance by government or local chambers of commerce.

One of the vital necessities of a successful agricultural industry is the availability of reliable, readily available and understandable market information. This enhances logical decision-making of farmers and also enhances opportunities to penetrate the global market. With the current deregulation of the various control boards, timely market information has become even more important as small-scale agro-based businesses are now more involved in the marketing of produce. The balance between marketing of agricultural inputs and production is vital to guard against the cost price-squeeze syndrome. Supply-side measures such as technology to produce cheaper fertilizers and other agricultural inputs can help reduce the cost price-squeeze syndrome and lead to sustainable growth of the manufacturing sector. Some of these measures are: support for technological development and diffusion and promotion of both internal and export marketing programmes.

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