



**THE IMPACT OF SELECTED ASPECTS OF GLOBALISATION ON THE
PERFORMANCE OF SMALL-SCALE AGRO-BASED BUSINESSES IN RURAL
SOUTH AFRICA**

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DECLARATION

I, Livingstone Aglosu Kofi Agbotame, student number,, declare that the thesis entitled **“The impact of selected aspects of globalisation on the performance of small-scale agro-based businesses in rural South Africa,”** hereby submitted for the degree D Tech: Business Administration has not previously been submitted for a degree at this or any other university. I further declare that this is my own independent work in design and execution and that all materials contained herein have been duly acknowledged. I cede the copyright of this thesis in favour of the Central University of Technology, Free State.

SIGNATURE OF STUDENT

DATE



25TH August 2015

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ABSTRACT

Small-scale agricultural businesses (SSABs) are important in addressing South Africa's social and economic problems and remain the main source of economic activity, especially in rural areas where socio-economic development is a major concern. It is therefore vital to address the multiple challenges confronting these businesses. The challenges among others include, the fluctuation in the prices of agricultural commodities and the inability of small agro-based firms to compete on a global scale due to their weak financial base and coupled with the vagaries of international trade.

The greatest challenge for SSABs in post-apartheid (1994) South Africa is optimising global competitiveness, bearing in mind that these businesses were previously insulated from global competition during the apartheid era. In this respect, it is important to fully comprehend how globalisation has impacted on SSABs in post 1994 South Africa. Using SSABs located in Vryburg–Pokwani area of the North West and Northern Cape provinces as case study, an attempt was made to establish the extent (if any) to which aspects of globalisation impact on the performance of SSABs in post 1994 South Africa. This is mindful of the fact that the lowering of tariffs by South Africa around 1994, while allowing the benefits of free movement of migrant labour and technology transfer also exposes SSABs to foreign competition, which may affect their performance, growth and survival.

In the study, data were obtained from 151 owners/managers of SSABs in the Vryburg-Pokwani area using a structured Likert type questionnaire. Results from analysis of the data gathered using analysis of variance (ANOVA) revealed that personal demographic factors (age, gender, education) and organisational demographics (number of years of operation, form of business, type of business activities, number of employees, engagement with foreign businesses, import and export of technology and products, foreign labour usage and pre-tax profit) significantly impacted positively on performance of SSABs. However, the extent of impact of each variable was found to differ for SSABs. The results therefore indicate that contrary to the position maintained by many — that globalisation negatively affects business performance, growth and survival — the reverse is also true.

The issues raised by the study, which have negative impact on SSAB performance could be addressed by adopting the policy recommendations provided in the thesis. The problem of low level of involvement by both local and foreign investors could be solved by government and other stakeholders by removing policies and legislation that act as barriers to the performance of SSABS as well as designing new positive ones. Government and the relevant agencies should also embark on growth promotion programmes such as export guarantee schemes, tariff reductions and negotiating free trade agreements with foreign governments. Immigration laws should also be reviewed to facilitate the employment of skilled and technically efficient foreign workers. Incentives should be introduced, in the form of subsidies, tax rebates and discounts on transportation and shipping costs. It is also crucial to establish investment promotion information centres and promote research and development of the SSABs sector. Support must be given in the form of education and skills training to SSABs manager/owners. The issue of low level of participation by the youth and women could also be dealt with by providing incentives and support to these marginalised groups.

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LIST OF ABBREVIATIONS

ADB	African Development Bank
ANC	African National Congress
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BBBEE	Broad-Based Black Economic Empowerment
BEE	Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
CAADP	Comprehensive Africa Agriculture Development Programme
CAPRDCC	China-Africa Poverty Reduction and Development Conference
CCMA	Commission for Conciliation, Mediation and Arbitration
DTI	Department of Trade and Industries
EPZs	Export Processing Zones
EU	European Union
EU-SAFTA	European Union - South Africa Free Trade Agreement
FDI	Foreign Direct Investment
FTAs	Free Trade Areas
G8	Group of Eight
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IFA	International Franchise Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPN	International Production Networks
IT	Information Technology
KFC	Kentucky Fried Chicken
MWB	Migration without Borders
NAFTA	North America Free Trade Association
NBSSI	National Board for Small-Scale Industries
NCR	National Credit Regulator

NEPAD	New Partnership for Africa's Development
OECD	Organisation for Economic Co-operation and Development
R&D	Research and Development
SAB	South African Breweries
SACOB	South African Chamber of Business
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAFTA	South Africa Free Trade Area
SBA	Small Business Administration
SEDA	Small Enterprise Development Agency
SMEs	Small and Medium Enterprises
SMMEs	Small and Medium Micro Enterprises
SSABs	Small-Scale Agro-Based Businesses
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
USA	United States of America
WTO	World Trade Organisation

CHAPTER ONE: INTRODUCTION TO THE STUDY

1.0 INTRODUCTION

Globalisation is the growing interdependence of national economies, involving customers, producers, suppliers and governments in different countries (Knight, 2008). In the context of this study, interdependence of small-scale agro-based businesses (hereafter referred to as SSABs) manifest itself in the capacity to produce, transact, and export raw materials and value added agricultural products to foreign countries. SSABs also depend on capital goods such as agricultural machinery and equipment imported from foreign countries for them to operate effectively and efficiently. In light of these international transactional exchanges, it can be inferred that globalisation is breaching boundaries between domestic and international markets (Organisation for Economic Cooperation and Development [OECD], 2013). Globalisation, among other considerations, involves selling and distributing locally produced goods and services in other countries. This is made possible through interventions by governments that aimed at reducing investment barriers, corporate strategies of sourcing raw materials or machinery and parts of equipment from cost effective suppliers abroad by large firms as well as the intensification of competition in domestic markets by foreign firms.

Grasping the subtleties of globalisation within SSABs requires a precise definition of SSABs, especially because defining small business can be context specific. In view of the complexity of locating an all-encompassing, context informed definition of SSABs, this study adopts the South African definition of SSABs. In the South African context, SSABs denote businesses with a maximum of 50 employees, including the owner/manager, with an annual turnover of not more than R3 million and gross asset value of not more than R3 million for South African SSABs (Small Business Act 102 of 1996). With regard to the agricultural processing sector (thereafter referred to as agro-processing sector), the maximum number of employees remains 50, the annual turnover is R13 million and the total asset value is R5 million (Small Business Act 102 of 1996). Khan (2009) identifies two types of agro-based businesses. The first types are those engaged in the processing of agro products while the second types are those engaged in the processing and production of a number of agricultural inputs.

The afore-mentioned definitions, which encompass businesses dealing with the production and provision of inputs into agriculture, such as farm machinery, fertilisers, seeds and other modern inputs to farmers, are conceivably too broad as they underpin multiple activities because of the inclusion of backward linkage activities. According to Dhungana (2003); Khadka and Ichsana (2003:4), agro-based industries can be described as industries that add value to agricultural raw materials, both food and non-food through their processing into marketable, usable or edible products, while enhancing the income and profitability of producers. Similarly, Wilkinson and Rocha (2009) also define agro industries as comprising all post-harvest activities that are involved in the transformation, preservation and preparation of agricultural production for intermediary or final consumption of food and non-food products. Limiting the definition of agro-based industries exclusively to industries that add value to agricultural raw materials or post-harvest activities will be too narrow for this study. For the purpose of this study, agro-based businesses constitute enterprises engaged in agriculture (agribusiness) and the processing of agricultural products. The current study targets small-scale agro-based businesses in Vryburg-Pokwani in South Africa. This is due to the high concentration of SSABs in the area. This study examines the impact of globalisation on SSABs in the area. While globalisation is often explained in generic terms as the increase in international social and economic/trade relations between regions, countries and continents, the multiple perspectives/theoretical positions regarding the term necessitate further discussion in order to locate the term appropriately within these discourses.

1.1 DESCRIPTION OF SSABS

‘Agro-industry’ is a broad expression that describes a variety of industrial, manufacturing and processing activities based on agricultural raw materials (Khan, 2009; Wilkinson and Rocha (2009). It also includes basic agricultural products or raw materials. Examples of agro products include farm produce (maize, rice, potatoes and cattle).

According to the International Standard Industrial Classification, products are classified into six main groups as follows:

- Food and beverages;

- Tobacco products;
- Paper and wood products;
- Textile, footwear and apparel;
- Leather products; and
- Rubber products.

(UNIDO, 2011:28)

The predominant group in developing countries is food and beverages (UNIDO, 2011). This group is applicable to the study area and South Africa as a whole.

For the purpose of this study, SSABs include small businesses involved in agriculture and in the processing of agricultural products value-adding activities. The former includes small businesses such as those involved in farming activities while the latter involves value creating industries such as cheese making, wine-making, and meat canning. The research focuses on SSABs in Vryburg and Pokwani area of the North West and Northern Cape Provinces.

1.2 POST-APARTHEID SOUTH AFRICA AND GLOBALISATION

During the apartheid era, sanctions were imposed on the minority white regime by the United Nations to put pressure on the government at the time to dismantle and abandon apartheid and adopt a democratic system of government. The imposition of financial sanctions, especially on capital, led to disinvestment of foreign companies in South Africa, spearheaded by the USA. Trade sanctions and embargos were also imposed on exports and these had negative effects on exports. The severe restrictions on economic activities with South Africa during the sanctions period (from 1979 to 1994) adversely affected globalisation at the time. However, since the dawn of democracy in 1994, and the lifting of sanctions, South Africa has opened its markets to the outside world. In the same manner, international markets been availed have become available to local South African businesses.

This study explores the nexus between globalisation and small-scale agricultural business performance in a rural South African setting with specific reference to their survival and growth. The focus is on three of the four dimensions of economic

globalisation widely discussed in the scientific discourse and which are relevant to the South African context. The first dimension is: *trade liberalisation* – which involves the lowering/removal of domestic and foreign trade barriers, resulting in availability of competitive imports, increased opportunities for export growth, cross border entrepreneurship, flow of international capital, and, formation of foreign alliances. The second aspect is *free movement of labour* - due to relaxed immigration laws – leading to the availability of foreign labour and emigration of skilled workforce. The third dimension explored is the *transfer/acquisition of foreign technology*. The fourth dimension of economic globalisation which is not covered in this exploratory research is *flow of capital*. The reasons for not including this fourth dimension in the study are explained in the literature review.

All of the above developments have been made possible through technological development, especially information communication technology, and economic and political liberalisation that have allowed even the smallest firms to gain access to customers, suppliers and labour around the world (Wright and Etemad, 2008). Wright and Etemad (2008) argue that these trends impact profoundly on the performance of businesses, no matter the size and location. In fact, the world of business is changing rapidly. Barriers that impeded access to and thus protected local markets have fallen rapidly in recent years. Thus, countries are able to trade with one another without any hindrances. Since the dismantling of apartheid in 1994, which also ended the isolation of South Africa, trade has increased between South Africa and the rest of the world. Small businesses in South Africa just like their big counterparts, are therefore, exposed to the vagaries of globalisation. While they stand to benefit by exporting to foreign countries, South African small-scale agricultural businesses face increasing competition from imported products and foreign companies which may hurt infant industries. It is important to note however, that, though the South African economy is perceived to be open, it has specific forms of strategic protectionism. For example, in the agricultural sector, the poultry business is protected against foreign competition; in the manufacturing sector, the South African motor industry is protected against Japanese imports. There is no free movement of labour in South Africa either; stiff immigration laws are conceivably detrimental to the free movement of labour (Trimikliniotis et al., 2008).

1.3 POSITIVE AND NEGATIVE ASPECTS OF GLOBALISATION

Globalisation, undoubtedly, has both positive and negative aspects. Some of the positive aspects of globalisation are increased economic prosperity, increased transfer of technology, free flow of information and ideas, free flow of capital, increased competition and entrepreneurship, and promotion of global peace due to the increased interdependence of nations (Nistor, 2007). The negative effects include the widening gap between the Global North and the Global South, the increasingly uneven distribution of wealth-leading to civil wars, economic collapse of nations due to uneven trade relationships and economic mismanagement by international economic institutions (Stief, 2014). The Washington Consensus has allowed developed Western countries to impose their economic and political institutions on least developed countries, which sometimes, damage them rather than improving their situations. International regulatory bodies also put pressure on state governments to comply with international trade restrictions (Wirkkala, 2010). Some of these world bodies and institutions are the World Bank, IMF and the World Trade Organisation. These institutions turn a blind eye to powerful states such as the USA and Netherlands when they breach the rules, but are very hard on poor and developing countries for similar offences. This application of double standards is particularly noticeable when it comes to the removal of subsidies and the withdrawal of government support in favour of the agricultural sector. This issue is discussed in detail in the literature review.

1.4 BACKGROUND TO THE PROBLEM UNDER REVIEW

The agricultural sector in South Africa is export-oriented. This makes it vulnerable to the changes in the rules of global trade. Despite its small contribution to GDP (less than 3% for primary agricultural products and 12 per cent when agro- industrial value adding production is added), agriculture accounts for a relatively high share of goods exported from South Africa accounting for about 8 per cent of total exports (Department of Agriculture, Forestry and Fisheries, 2012). During the apartheid era, SSABs were heavily subsidised and supported and therefore, enjoyed protection from the government. During the period when international sanctions were imposed against South Africa (1979 to 1994), SSABs were compelled to produce solely for the local market. With such an environment, SSABs became self-sufficient, could improvise and were satisfied with limited foreign competition and external pressure. With the

dismantling of the apartheid, sanctions were dropped against South Africa. This was the period of intense trade liberalisation and deregulation efforts by the World Trade Organisation (WTO). The new democratic ANC-led government pushed through with a series of reforms in the agricultural sector in 1996 in accordance with the WTO Agreement on Agriculture by promoting the deregulation and liberalisation of the agriculture sector as contained in the “Marketing of agricultural Products Act of 1996” thereby opening the economy to foreign competition again.

The WTO agreement on agriculture requires all nations to reduce support measures, but contrary to expectations, the United States, Japan and the European Union, together with other industrialised countries, spent US\$ 360 billion on supporting farmers in 1999 (OECD, 2000). This amount is about seven times more than the amount they offered to poor countries for international development assistance. The EU alone was responsible for a quarter of the amount, making it the biggest domestic supporter. This implies that rich countries subsidise their producers in order for them to produce cheaply and dump these products in poor countries. The practice exposes SSABs to unfair competition and is tantamount to double standards on the part of the rich and developed countries. Currently, another area of challenge and of concern to SSABs is the mass importation of cheap Chinese goods and imports from neighbouring SADC countries. China became South Africa’s leading trading partner in 2009, but South Africa is already experiencing a huge trade deficit which increased from R 36bn in 2012 to R38bn in 2013 (Esnor, 2014). This unfavourable balance is a matter of concern because of the fast rate in the increase and the seemingly inadequate measures taken to arrest the situation.

Globalisation has generated a confusing debate on its effects on small, medium and micro enterprises (SMMEs). One school of thought argues that globalisation affects SMMEs negatively, especially in developing countries. Knight (2000) maintains that trade liberalisation increases the ability of well-established foreign manufacturers and retailers to penetrate remote and underdeveloped markets and makes it increasingly difficult for local SMMEs to survive or maintain their business position. Khor (2006) argues that the liberalisation of agribusiness, in particular, is detrimental to performance, growth, profitability, competitiveness and survival in developing countries because of the limited subsidies and support given by developed western

countries to the agricultural sector. The value of both local and foreign small businesses has been a subject of varying debates. For example, Audretsch (2010) contends that foreign SMMEs are a source of innovation, growth and competitiveness. Alvarez and Vergara (2006) believe that SMMEs with a global focus are more exposed to external competition but are generally more able to grow. Globalisation is assumed to trigger off the adoption of new technology and the production of high quality goods at lower costs thus making SSABs more efficient and competitive (Javorcik, 2004; Pray et al. 2009; 2010; 2011). The creation of an enabling environment through the formulation and adoption of appropriate policies for small-scale agricultural businesses, and the provision of other needed support like subsidies by government will further enhance the export performance of SSABs.

These divided opinions make globalisation and its impact on SMMEs an increasingly important and interesting debate. Yet, there is paucity of empirical evidence to clear the lack of consensus on whether globalisation impacts on the performance of SMMEs negatively or positively. Furthermore, the few studies conducted so far on SMME and globalisation have focused mainly on manufacturing, high-tech firms and service industries (Winters and Stam, 2007). Thus agro-based SMMEs are not given the desired attention. Yet, the socio-economic and political value of SSABs in South Africa's national development endeavours necessitates that their relationship with global forces be examined closely. For instance, SSABs in South Africa contribute 7% to formal national employment of about 8.5 million people (South Africa Year Book, 2012/13, 44), SSABs contribute about 12% to GDP covering the entire value chain of agriculture (South Africa Year Book 2012/13), and account for about 8% of national exports. SSABs also contribute about 10% of South Africa's foreign exchange (Department of Agriculture, Forestry and Fisheries (DAFF), 2012) thereby providing the funds needed for the importation of capital goods. In light of this fundamental importance, conducting a study on SSABs would contribute to closing this research gap. This is particularly cardinal considering the fact that most studies focus on determining the impact of globalisation at national level but virtually neglect its impact at the level of firms (Knight, 2000).

In light of shortcomings of the afore-mentioned research, the current study attempts to close this gap by analysing aspects of globalisation on SSABs in rural South Africa.

The geographical coverage of this study is the Vryburg District of the North West Province and the adjoining areas of Frances Baard District (Pokwani Municipality) of the Northern Cape Province of South Africa. Some of the major villages and towns in the area are Vryburg, Taung, Hartswater, Jan Kempdorp, Warrenton, Christiana, Bloemhof and Ganyesa. Since the greater part of the study focuses on the Vryburg District and Pokwani Municipality, the area of study is hereinafter referred to as the Vryburg-Pokwani area.

The dominant economic activity of the area is agriculture. Arable and livestock farming are the main agricultural businesses. The main crops cultivated are maize, peanuts, citrus fruits, grapes, apples, cotton, olives, soya beans, raisins, barley, wheat and lucern. Livestock in the area includes cattle, sheep, goats, pigs, turkey, chicken and ostrich. The area produces more than 50% of the livestock of South Africa (Van Zyl and Motswana, 2004:59). The main agricultural export products from the study area include:

- *Cotton*: a cotton ginnery is established in the area and has been exporting cotton products.
- *Soya beans* are also being exported to cross border African markets.
- *Grapes* - according to the South African Wine and Spirits Export Association, the export of white wine increased from 20 million litres in 1992 to 218 million litres in 2002. In 2013, South Africa had a record exportation of 525.3 million litres (South Africa Year Book, 2013:44). Approximately 300 ha of irrigated farmland in Pokwani is allocated to grape vineyards. The vine cellar at Hartswater produces first class wine for export.
- *Olives and olive oil* are produced near Hartswater –the olives are exported to the United States of America and other countries.
- *Ostrich meat*: this is produced in the study area and there is great demand in the world.
- *Groundnut* is exported on a large scale - Global Nuts Holding located in *Hartswater* is the biggest role-player in the industry and a successful nut processing and exporting company in South Africa.

- Fresh fruits: The category of fresh fruit, which includes grapes, represents 11% of South Africa's agricultural export earnings.

(Van Zyl and Motswana, 2004:63; South Africa Year Book, 2013).

As noted above, it is evident that a number of firms in the area export their products to foreign countries and are therefore, operating in the global market. This study investigated the relationship between the levels of growth (in employment and sales) - which is assumed to result from globalisation (Alvarez and Vergara, 2006) and the level of globalisation of SSABs. It also investigated the perceptions of owners/managers and policy makers regarding the impact of globalisation on SSABs in the study area.

1.5 STATEMENT OF THE PROBLEM

The literature reveals that SMMEs have a high failure rate. 80% of SMMEs are unable to continue business after one year (Legun, 2006) while most of them get out of business within four years. This indicates that SMMEs survive only within the first five years after their formation (Timmons, et al. 2010). SMMEs hardly develop in rural areas (Dorward, et al. 2004) and face serious competition (Khor, 2006). However, as stated earlier, the impact of globalisation on the performance of SSABs, their growth and survival in South Africa is still unclear, especially after the deregulation of the agricultural sector and the withdrawal of government support during the apartheid era. During the apartheid era, farmers received substantial support in the form of subsidies, grants and other aids for fencing, dams, houses, veterinary services, horticultural advice, subsidised rail rates, special credit facilities and tax relief. Furthermore, in the 1950s, the Agricultural Credit Board (ACB) was established to give loans to farmers who were no longer found to be adequately credit worthy by commercial institutions. Assistance was given to farmers through the Land Bank and farmers were protected from foreign competition, producer prices were controlled and were above world market levels. SSABs were shielded from external competition and coupled with sanctions against South Africa, these firms were satisfied in terms of production and competition (Department of Agriculture Forestry and Fisheries [DAFF], 2013). The system of supports and subsidies by the apartheid government became burdensome on the state and was worsened by international financial sanctions and disinvestment.

From the 1980s, there was erosion in direct government support to agriculture, which accelerated into the 1990s with the removal of barriers and the creation of a less dependent and more market-driven agricultural sector.

But 20 years into democracy, and with South Africa's integration into the global economy, the formerly controlled markets (Agricultural Product Act No. 47 of 1996) were radically deregulated providing limited interventions such as registration and information collection. It also provided for the collection of levies in very exceptional cases in terms of improved market access, promotion of marketing efficiencies, optimization of export earnings and the enhancement of the viability of the agricultural sector. By 1998, all control boards had ceased operations and their asset transferred to industry trust which provide only services such as market information, export advice and product development. All price controls were removed and single-channel markets disappeared. Foreign businesses, especially Chinese businesses have increased the exportation of agricultural goods into the country. Argentina and China are major exporters of agricultural products into South Africa representing R6331million and R5105 million respectively (DAFF, 2013). These products sell at lower retail prices than locally produced agricultural products. With these developments, there is thus the need to understand the impact of these global processes on SSABs competitiveness.

The current problem confronting SSABs in South Africa can be surmised as follows: *“with the abolition of the control of marketing boards and the removal of government subsidies and support, SSABs in South Africa are exposed to the vagaries of globalisation which can adversely affect performance unless there is full understanding of the status quo as far as the impact of globalisation on SSABs are concerned so that appropriate steps can be taken to prepare these SSABs to successfully deal with threats of globalisation and in exploiting opportunities presented by same”*. In order to have a better understanding of the situation, this study investigated how globalisation has affected the performance of SSABs in the Vryburg-Pokwani area.

1.6 RESEARCH QUESTIONS

Based on the above problem statement, the main research question asked was: What impact does globalisation have on the performance of SSABs in the Vryburg-Pokwani study area? The following specific questions were raised in the study in order to answer the main research question.

1. To what extent do SSABs in Vryburg-Pokwani use foreign technology?
2. To what extent do SSABs in Vryburg-Pokwani establish foreign alliances?
3. To what extent do SSABs in Vryburg-Pokwani export products?
4. To what extent do SSABs in Vryburg-Pokwani use foreign labour?
5. Are there significant differences in a firm's performance based on the extent of the usage of foreign labour? If so, what is the nature of that difference?
6. What impact does foreign technology usage have on the performance of SSABs in the Vryburg-Pokwani area?
7. Are there significant differences in a firm's performance based on the extent of foreign technology usage?
8. What impact does trade liberalisation (establishment of foreign alliances and exportation of products) have on performance of SSABs in the Vryburg-Pokwani area?
9. Are there significant differences in a firm's performance based on the extent of the establishment of foreign alliances? If so, what is the nature of such difference?
10. Are there significant differences in a firm's performance based on the extent of exportation of products? If so, what is the nature of the difference?
11. What impact does free movement of labour (use of foreign labour) have on the performance of SSABs in the Vryburg-Pokwani area?
12. How successful have SSABs in the Vryburg-Pokwani area been in countering threats and taking advantage of globalisation?
13. What are the long-term business performance expectations of SSABs according to owner/manager and business characteristics?
14. What can be done to enable SSABs improve their long-term performance prospects in the global market?

1.7 AIM OF THE STUDY

The main aim of the study was to create an authentic understanding of how globalisation (trade liberalisation, free movement of labour and technology transfer) impacts on the performance of small-scale agro-based businesses (SSABs) in the South African context in order to provide practical and policy oriented guidelines to tackle the problems head on.

1.8 OBJECTIVES OF THE STUDY

The fundamental objective of the study was to determine the impact of aspects of globalisation (trade liberalisation, free movement of labour and technology transfer) on the performance (as measured by growth, profitability and survival) of small-scale agro-based businesses in the Vryburg-Pokwani area of the North-West and Northern Cape provinces of South Africa. The subsidiary objectives derived from the main objective of the study were to:

1. Determine the extent to which SSABs in Vryburg-Pokwani use foreign technology;
2. Determine the extent to which SSABs in Vryburg-Pokwani establish foreign alliances;
3. Determine the extent to which SSABs in Vryburg-Pokwani export products;
4. Determine the extent to which SSABs in Vryburg-Pokwani use foreign labour;
5. Find out whether or not there are significant differences in a firm's performance based on the extent of the usage of foreign labour and if so, the nature of the difference;
6. Determine the impact of foreign technology usage on the performance of SSABs in the Vryburg-Pokwani area;
7. Find out whether or not there are significant differences in a firm's performance based on the extent of foreign technology usage and if so, the nature of the difference;
8. Determine the impact of trade liberalisation (establishment of foreign alliances and exportation of products) on the performance of SSABs in the Vryburg-Pokwani area;
9. Find out whether or not there are significant differences in a firm's performance based on the extent of the establishment of foreign alliances and if so, the nature of the difference;

10. Find out whether or not there are significant differences in a firm's performance based on the extent of exportation of products and if so, the nature of the difference;
11. Determine the impact of free movement of labour (use of foreign labour) on the performance of SSABs in the Vryburg-Pokwani area;
12. Find out how successful SSABs in the Vryburg-Pokwani area have been in countering threats and taking advantage of globalisation;
13. Determine the long-term business performance expectations of SSABs according to owner/manager and business characteristics; and
14. Suggest what can be done to enhance the long-term performance prospects of SSABs in the global market.

1.9 SIGNIFICANCE OF THE STUDY

This study is critical to multiple stakeholders such as the academia, owners-managers of SSABs, all levels of governments, development planners and administrators. On the academic level, very little research has been conducted on the impact of globalisation on growth, survival and profitability of small-scale agro-based SMMEs. Whatever evidence that is available is mostly speculative and anecdotal. Alvare and Vergare (2006) attest to this by stating that there is virtually no empirical evidence that establishes a linkage between globalisation, growth, survival and profitability concurrently. This research is intended to fill this gap and to further determine the impact of the elements of globalisation (trade liberalisation, technology transfer and free movement of labour) on SSABs. Vinig and Kluijver (2007:7) also state that there is a wide spectrum of literature on the interconnectedness of globalisation and entrepreneurship at country level. The literature search confirmed this position (Akpor-Oboro, 2012) but interestingly, did not produce much evidence on the interconnectedness at local level let alone in rural areas. The authors concede that determining the exact impact of globalisation at the level of entrepreneurship (in a country) has proven rather difficult. Thus, a number of gaps exist in the literature on globalisation/entrepreneurship interface.

Another significance of this study is that it identifies and pays attention to an important set of homogeneous businesses which have strangely enough been ignored in small

business research in the South African context. The results of the study would enable government to focus on developing specific guidelines that could assist in improving the success rate of SSABs in an increasingly volatile and globalised market place. SSABs in the Vryburg–Pokwani area stand to benefit from the knowledge of opportunities and threats presented by the globalisation phenomenon through the study. The insights from this study and its recommendations will lead to the identification and dissemination of best practices (strategies) employed by more successful SSABs in dealing with threats and exploiting business opportunities to the benefit of less successful SSABs as well as the entire small enterprise community. A positive correlation between globalisation and firm performance could also strengthen the government's case for opening up the economy to global competitors.

1.10 LIMITATIONS OF THE STUDY

One of the limitations of the study is the smallness of the sample size which could affect the reliability of the results and render it unsuitable for purposes of generalisation. The researcher judiciously attempted to make the samples selected as representative of the population as possible by designing a structured questionnaire in order to minimise the problem of reliability. The size of the actual sample is reflected in the methodology section of this study.

Small business owners/managers are usually unwilling to disclose information they regard as confidential and sensitive, especially figures related to profit. The researcher took time off to explain to respondents their ethical obligation of being honest, and how the findings of the research could benefit them in the long run through recommendations to policy makers. The researcher also avoided asking for exact figures, especially figures about profit. In light of these challenges, the low response rate could be attributed to owners/managers' reluctance to give out what they considered as confidential and sensitive information.

METHODOLOGY

The research is exploratory in nature because it is conducted in an area which has not been previously investigated, especially in South Africa; it attempts to provide a

linkage between globalisation elements and small scale agricultural businesses. The epistemological approach adopted is positivism as the research is descriptive in nature.

1.11 DELIMITATION OF THE STUDY

The study is limited to the Vryburg–Pokwani area (see 1.7 above). The study also considered SSABs to be those enterprises that are involved in either arable or livestock farming or both and in the processing of such agricultural products.

1.11 SUMMARY OF CHAPTER

This chapter has presented the various perspectives on globalisation and discussed the background to the study. It has examined the debate on the effects of globalisation on SSABs. The chapter further discussed the possible relationships between trade liberalisation, free movement of labour and technology transfer on the performance, growth and survival of SSABs. It was explained in the statement of the problem that the impact of globalisation on survival, growth and performance is still unclear as it relies mostly on normative assertions. Despite these assertions, the world of business is changing rapidly and barriers that impede access to and protect local markets have fallen in recent years as a result of globalisation. The question on what happens to the performance, growth and survival of SSABs is dependent on their ability to access the world market and withstand competition without government subsidies and support. The objectives of the study focused on the impact of trade liberalisation, free movement of labour, technological transfer and how they affect the growth, performance and survival of SSABs in the Global South, particularly the Vryburg-Pokwani area of South Africa.

CHAPTER TWO: GLOBALISATION AND FIRM PERFORMANCE

2.0 INTRODUCTION

The previous chapter focused on the definition of SSABs. It was argued in the chapter that the failure of most SSABs in post-apartheid South Africa is due to the challenges of globalisation. This chapter constitutes the literature review of the study and comprises two sections as follows: The first section discusses the theories and perceptions, the concept and aspects of globalisation while the second section follows the outline in Figure 2.1.

The chapter begins with an introduction and briefly summarises the contents of the chapter. It provides a definition of globalisation and an explanation of the concepts, the conceptual framework, drivers of globalisation and the impact of globalisation. The chapter discusses the aspects of globalisation, especially the aspects that relate to economic globalisation (trade liberalisation, free movement of labour, technology transfer and flow of capital) in detail. The chapter provides definitions of the free movement of labour and determining the free movement of labour; the definition of technological transfer, the means of transferring technology and measuring technology transfer. Links are also established between growth, performance and survival of SSABs in the study area. Specific focus is devoted to the relationship between aspects of globalisation and firm performance, growth and survival. The next section discusses the theories and perspectives of globalisation.

2.1 GLOBALISATION THEORIES AND PERSPECTIVES

Globalisation is a complex phenomenon. There is no unique view of the process in economic theory. There are various schools of thought which perceive the concept according to their own ideological orientation. The field of globalisation is therefore characterised by intensive and multidisciplinary debate (Stephanovič, 2008:263).

Despite the divergent views and definitions of the concept, Held and McGraw (2007:2) categorise globalisation theory into three perspectives as follows:

- The hyperglobalist perspective;
- The sceptical perspective; and
- The transformationalist perspective.

2.1.1 The hyperglobalist perspective

The hyperglobalists view globalisation as a legitimate and irrepressible historical process, leading to a world order based on the market and supranational institutions (Stephanovič, 2008:264). Globalisation is also perceived as presenting an unprecedented era in the development of civilisation in the course of human history (Held and McGraw, 2007:5). According to Held and McGraw (2007), this process is conceived as progressive and socially desirable, embodies intensity and dynamics of current changes in the economy that lead to changes in core framework of social action.

Hyperglobalists claim that globalisation has destroyed all previously established hierarchical structures through the growth of global markets and technological progress. In this spectacle, multinational corporations are seen to be subduing the role of the nation-states through their vast resources, which have become the predominant carriers of economic activity on a global level. With the attendant declining role of state actors, a new strand of global civilisation is perceived to have emerged - one in which the market is integrated into the world stage and multinational institutions have assumed the role of nation- states. Therefore, the hyperglobalist perspective is sometimes viewed to be economic, with economic changes having political and cultural implications (Held et al., 1999:3). The hyperglobalists also perceive culture to have become homogeneous with cultural differences between nations becoming less marked as people consume culture from all over the world.

2.1.2 The sceptic perspective

Those who hold the sceptic view argue that globalisation is not new as claimed by hyperglobalists. It is believed that trade routes and the voyages of discovery that took place in the nineteenth century were all forms of globalisation in a different era and that the processes described are also not very global either. Sceptics are particularly concerned about the abstract nature of globalist perspectives which seem to be thin upon empirical substantiation and make sweeping claims and generalisations about the processes as if they affect every area in the world evenly and with the same

responses (Martell, 2007:176). According to Martell (2007:176), sceptics maintain that nation-states still have a role to play within their own boundaries and as agents of transnational processes of globalisation, through which they maintain as much as loose power.

Sceptics also maintain that national identities have a history and a hold on popular imagination that global identities cannot replace. Sceptics tested to see whether globalisation is received evenly and with the same response everywhere, but have found signs of differentiation in its spread, which is contrary to the globalist view (Kennedy and Danks, 2001). Sceptics consider the global economy as not being globally inclusive – some countries are much less integrated than others. They argue that the global economy is internationalised and triadic rather than global, and that its internationalisation is not unprecedented in recent years and must have been internationalised more than a hundred years ago. Liberal policies and integration into the global economy may have helped some countries of the world such as India and China, but protectionism and state intervention may also have played a role in other parts of the world. In Africa, for instance, there is greater inequality and poverty even though globalisation has improved; hence globalisation may not be a solution to their problems as envisaged by hyperglobalists (Kaplinsky, 2005).

According to Martell (2007), politically, the effects of globalisation could be said to be uneven because states gain as well as lose power in the process of globalisation. Powerful states are able to pursue more social and democratic policies contrary to the hyperglobalists who view pressure coming from globalisation as the ultimate source of power for compliance with neoliberalism. This implies that nation-states still retain their autonomy and sovereignty in many ways. The sceptics also maintain that global governance by an institution such as the United Nations is dominated by powerful nation-states. These states exempt themselves from the rules when they do not favour them (Zolo, 1997; 2002) but use such a body to impose their will when to their advantage (Wolf and Wade 2002; Kaplinsky, 2005).

2.1.3 The transformationalist perspective

Transformationalists are theorists who share the views of the sceptics about providing evidence for the claims they make and differentiation instead of making sweeping

generalisations about globalisation (Martell, 2007). Contrary to the view of the sceptics, however, these third wavers agree that globalisation is indeed changing the world and attempt to modify it to be more complex than the hyperglobalist perspective. The authors who are widely regarded as representing this view are Held et al. (1999), Cameron and Palan (2004), Scholte (2005). Though the third wavers emerged to be critical of hyperglobalism and hope to formulate a more sophisticated picture, they do not criticise hyper globalism as the sceptics. They rather, acknowledge the reality of globalising changes. They defend the globalist position but one that is modified to be more complex than the position of hyperglobalists.

The third wavers criticise the sceptics for the view that the present era is that of internationalisation rather than a new period of globalisation, a view expressed by Hay and Marsh (2000). In general, the transformationalists share most of the doubts of the sceptics and express them in their own analyses but fail to use them in drawing globalist conclusions. Kofman and Young (1996) who align themselves with the sceptic view, have also criticised the globalisation theory, to be too generalising and universalising and does not address specific issues in specific situations. They align themselves with the sceptic view, but their analysis is consistent with the transformationalist view as well. They do not view globalisation as a new concept, but a restatement of the old presented in new forms. These new forms involve inequality, politics and power. The West dominates power relations but the smaller nations are able to influence and shape decisions through collaboration. Kofman and Young (1996) further note that the present is associated with free flow of capital; but restrict the free movement of people. States also have sovereignty, but are being reshaped by regional institutions. There are global flows of the media, technology, communications and finance which are being concretised and articulated in specific ways. Kofman and Young (1996) do not differentiate between scepticism and transformationalism. They also do not criticise any of the views and thus adopt a middle ground position.

It is noteworthy that both Kofman and Young's (1996) outline stop only at the second wave. Scholte (2005) attempts a modification of globalisation theory. Unlike Hay and Marsh (2000) and Held et al. (1999), Scholte (2005) does not specify the perspectives of globalisation but tries to come up with a more complex view of the concept. He

defends globalisation as a reality. States remain sovereign but their sovereignty is constantly being reshaped and is shifting due to the rise of regional institutions. According to Martell (2007), transformationalists share many of the views of the sceptics in practice and express them in their analysis. They however, depart from their views with regard to more globalist conclusions. Kofman and Young (1996) analyse only the second wave which can also straddle both the transformational and sceptical perspectives. This is based on the fact that transformationalists base their normative globalist proposals on an analysis shared by sceptics, one of unevenness of integration, stratification, active nation states with options, reterritorialisation and regional blocks. In light of this, it is not possible to have the cosmopolitan global democracy which they claim will be the political future if there is no radical departure from the past by political leaders. Sceptics have identified the future to be characterised by politics of power, inequality and conflict between nation-states, regional blocks and political alliances between actors of similar interests and ideologies. These views as held by the sceptics look more realistic and are shaping the world right now. Having critically examined the various theories of globalisation, their positive and negative aspects, the researcher aligns himself with the transformationalists who maintain that globalisation is changing the world in an unprecedented manner through new ways of economic, social and political interactions. This implies that the future course of action to take is in the hands of governments, policy makers and international institutions; which must endeavour to promote the positive aspects of globalisation. This also implies that developed countries, which have enjoyed economic prosperity since the industrial revolution, must introduce genuine programmes that will help poor and developing countries catch up with the rich nations. This can only happen if rich and developed countries feel morally obliged to do so. In this way, the world will be transformed into a more prosperous, democratic and peaceful place. Having discussed the theories of globalisation, the next section discusses how globalisation manifests itself in the real world.

2.2 DEFINING GLOBALISATION

Given the multifaceted nature of globalisation, developing a precise definition is complex (Douglas and Craig, 1995; Khadka and Ichsan, 2003; Jatuliavičienė and Kučinskienė, 2006; Dreher, 2006). It is, however, important to develop a working

definition of globalisation in order to lay down an appropriate perspective on which this study can be understood. Dhungana (2003) defines globalisation simply as the shrinkage of economic distances. Considering the fact that this definition dwells exclusively on the diminishing of economic cleavages and downplays political and socio-cultural dimensions of globalisation, it is inadequate for addressing the global business issues confronted in this study. Czinkota et al. (1995) posit that globalisation reflects the belief that the world is becoming more homogeneous and that the distinctions between national markets are not only fading, but for some products, will eventually disappear. This statement is true and practically manifests in the invisibility of transactions (the buying and selling) and insecurities. These transactions are conducted over the internet and are not subject to national border and market controls.

According to Jatuliavičienė and Kučinskienė (2006:76), globalisation is the process by which nations, businesses and people are becoming more connected and interdependent across the globe through increased economic integration and communication exchange, cultural diffusion and travel. Karamah, Sidin and Sinun (2002:1222) view globalisation as 'signifying integration and unity'. Sir Leon Brittan, Vice President of the European Commission (cited in Karamah et al. 2002:1223) refer to globalisation as the "dramatic acceleration and multiplication of economic activity which transcends national and regional markets, leading to a single market". Based on the literature, globalisation is defined in this study as: ***the breaching of national, regional, market and industrial barriers to investment, trade and economic activities leading to the integration of nations and regions, markets, and industries at various scales, facilitated and accelerated by economic, political, socio-cultural and technological forces.***

Having operationally defined the term globalisation, it is logical to continue the literature review by exploring the drivers of the phenomenon.

2.3 DRIVERS OF GLOBALISATION

According to Douglas and Craig (2011), globalisation is driven by four main forces, namely; economic, technological, political and socio-cultural forces.

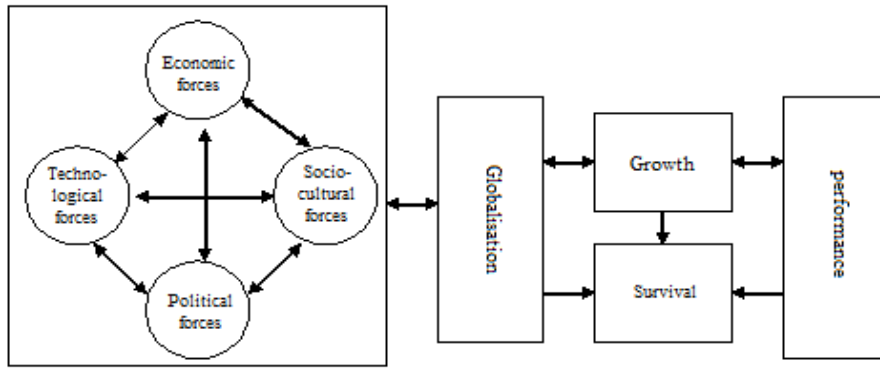


Figure 2.1: Forces of globalisation and their impact on growth, survival and performance

(Adapted from: Douglas and Craig, 1995; 2011)

The forces interact with each other and influence the business profitability, growth and survival (Khor, 2000) of individual agro-based businesses as depicted in Figure 2.2.

Figure 2.3 presents the forces of globalisation and how they continuously interact with one another to promote globalisation. It also illustrates how globalisation impacts on the growth, survival and performance of a firm. Globalisation and integration of markets have encouraged a number of governments to dismantle or simplify trade barriers (Kumar and Liu, 2003:60). The integration of markets may not necessarily be in the interest of SSABs as South Africa could become a dumping ground for large, well-established foreign companies. Hence, infant small-scale agro-based businesses in South Africa may not be capable of competing favourably with their foreign counterparts.

2.3.1 Social and cultural forces

Social and cultural forces shape patterns of market demand. They influence the emergence of new interests and tastes as well as the growth of new market segments. Socio-cultural trends such as the food people eat are said to reflect the impact of changing economic and technological developments. The implication for agribusiness is that they must produce goods which are socially and culturally acceptable and consumed in their targeted foreign market.

The spread of information technology has dramatically increased exposure to ideas, products, attitudes, lifestyles and events globally. This exposure has widened horizons and generated awareness and interest in the products of other cultures/countries. For example, information technology has contributed immensely to the success of the South African wine industry, which is agro-based. Wine exports rose to 525.3 million litres by April 30, 2013, up by 25% from the previous 12 months (South Africa Year Book, 2012/13). This is triple the volume shipped in 2000. The major export markets are the UK (22%), Germany (19%) and USA (1.2%). The emerging markets are becoming strong export markets for South African wine. For example, China's demand has grown six times over the last five years to 4.28 million bottles. Exports to Nigeria almost tripled to 3.44 million. This phenomenal growth has been facilitated by information technology (Collins, 2013) which has enabled online sourcing, marketing and sales of products.

The internationalisation of lifestyles is further fuelled by the wave of migrations from one country to another. Sometimes, these immigrants play a key role in introducing foreign products and consumption patterns into other countries and stimulate their adoption by a broader market base (Douglas and Craig, 2011; Jatuliavičienė Kučinskienė, 2006). An example of this situation is the flooding of the South African informal market by Asians (mainly Chinese, Malaysians, Pakistanis, Bangladeshis and Indians).

The above diagram also illustrates the view that globalisation leads to the growth of a firm and such growth in turn stimulates globalisation. This situation arises particularly when firms have exhausted their domestic markets but still want to broaden their market base (Douglas and Craig, 2011). This assumption may not always be true though because at times, globalisation could lead to the crowding out of small firms that cannot stand the competition of giant firms. It also leads to the exploitation of local labour; for example, Nike in China and labour brokers in South Africa. The diagram depicts a situation where survival depends on profitability and growth.

2.3.2 Economic forces

According to Douglas and Craig (2011), economic forces impact global marketing strategies at both macro and micro economic levels. At the macroeconomic level, they

influence the nature and location of global marketing opportunities as well as the spatial configuration of markets. In order to make profit, grow and survive in the global market place SSABs need to be aware of the prevalent economic forces and adopt appropriate strategies that will enhance their performance. At micro economic levels, economic forces allow firms to emphasise specialisation in particular products, develop counter-marketing strategies in view of pressure from competitors. Agri Forum performs the role of forecasting agricultural indicators, which helps farmers to sustainably improve their performance in South Africa.

2.3.3 Political forces

Douglas and Craig (2011) also note that macro-economic factors are normally linked with political initiatives formulated to stimulate or restrict natural economic flows and growth. On the one hand, the National Development Plan headed by Trevor Manuel which focuses on 'Inclusive Rural Economy' estimates that almost 1 million new jobs could be created within a short space of time, of which 643000 will be primary jobs, inclusive of those created in the agricultural sector. The plan aims to enliven the rural economy. The plan proposes the expansion of particular crops and requires a significant increase in the investment in irrigation by increasing the size of irrigable land from 1.5 million hectares to 2 million hectares (Manuel, 2012).

On the other hand, micro economic forces, also impact on the organisation and efficiency of a firm's operations. Cost considerations and the availability of resources in regions, cities and localities impact production and sourcing logistics as well as capital or labour substitution. Economic conditions can also impact a firm's ability to compete in the global market and can create pressure to improve efficiency leading to better performance.

The implication of all these observations made by the authors is that SSABs need to study government policies such as the intentions and actions of the National Development Plan that will benefit the business in order to take advantage of them. It is, however, not an easy task, given the fact that SSABs face multiple challenges, *inter alia*, remoteness, limited access to electronic media, lack of access to modern technology and competitive markets. The SSABs of Vryburg-Pokwani area must also

be cost conscious, cutting down on factor costs in order to ensure efficiency and global market competitiveness.

2.3.4 Technological forces

Douglas and Craig (2011) further assert that technological forces are closely linked with economic forces, especially where technological developments impact on the scale and efficiency of production. Technological developments are known to have revolutionised the conduct of global business and have increased awareness and exposure to events and life-styles. SSABs in the Vryburg–Pokwani need to keep abreast of the use of modern technological developments. For example, mobile technologies could be used to explore possible markets and forecast rainfall patterns while social media could prove vital for self-organising and planning agriculture related work (for example, cooperative and group work on farms).

Political actions can also be linked to macroeconomic and technological conditions (Jatuliavičienė and Kučinskienė, 2006). These authors contend that government policy can either promote or discourage globalisation of business. A positive government policy can encourage international trade, market integration, trade liberalisation and the establishment of linkages in market infrastructure. The benefits derived from the creation of large markets and the economic pressures leading to globalisation will depend on how SSABs have internalised technological inventions into their routine operations and how responsive / attuned they are, through technological processes, to the global developments brought about by these pressures. As stated earlier, competitiveness is crucial if firms are to operate in the global market. This means that SSABs must endeavour to use modern technology to provide products and services more efficiently and effectively than the relevant competitors in the world market. Technology itself could contribute to significant cuts in labour by making production more technology intensive and improving production processes.

However, it is not always possible to replace labour with machines as some agricultural activities in South Africa's SSABs remain labour intensive. That said, one way that SSABs can reduce cost is by employing cheap external labour. Notwithstanding, it remains an issue of serious concern among labour movements. South African citizens claim that foreign manual labour is exploited in the agricultural

sector as foreign nationals accept anything from the employer due to desperation. South African citizens conceive cheap foreign labour as economic sabotage that potentially weakens their bargaining power. On the contrary, employers regard it as cost reduction and competitive employment that can be drawn upon for profit maximisation.

Ohmae (1995) and Karamah and Sinun (2002) have further broken down the four forces into major drivers of globalisation. The drivers are discussed below.

- i. Trade liberalisation and the removal of capital control* - brought about by large increment in the volume of trade and capital flows. In theory, it implies that SSABs could access more capital for carrying out their operations; however, international financial institutions are wary about giving loans to SSABs as they are regarded as high risk investments. The traditional economic theory views trade as the engine for growth (Loots, 2003:220). Trade openness through the removal/reduction of trade barriers leads to globalisation (Edwards, 1993:108). Theoretically, this suggests that the volume of agricultural exports would greatly increase while at the same time, importation of agricultural inputs will also increase. However, the removal/reduction of trade barriers could intensify competition with old well-established foreign companies which may disadvantage local small-scale agricultural producers.
- ii. Financial or capital account openness is also viewed as a driver of globalisation and economic growth* (Khor, 2000:3). The relaxation of capital controls needs a cautious approach as capital flight is one possible consequence of weak controls on portfolio investments. A classic example is the collapse of the South Asian financial markets in 1998, as a result of disinvestment by Western companies in young cubs such as Philippines, Thailand and Indonesia. Riley (2006:3) also notes that the deregulation of global financial markets, which includes the abolition of capital control in many countries, both developed and developing, is one of the main drivers of globalisation. Since insufficient funding is a characteristic problem of many small firms, access to global financial markets and foreign direct investment (FDI) is envisaged to solve the funding problem and improve SSABs performance.
- iii. The collapse of communism as an economic system and the acceptance of capitalism* – that opened up the world, leading to the further expansion of

business activities into the former communist countries. Though there may not be a direct link between Communist Russia and the apartheid regime of South Africa and agro businesses, the collapse of communism has undoubtedly opened the doors for SSABs in the Vryburg- Pokwani area. South African firms wishing to do business with former communist countries (countries that operated as closed economies), now have easy access to those markets like never before.

- iv. *The emergence of new major trading nations-* such as China, South-east Asia and Latin America which are developing into full blown advanced industrial economies and are already major players in international markets. The rise of the new nations, especially the large, populous and dynamic ones such as China, India, Brazil and South Africa has provided the fuel for globalisation. Enterprises in these countries are involved in production, trade and investment in both developed and developing countries (UNCTAD/DITC, 2007:7). Fortunately, South Africa is part of these Brazil, Russia, India, China and South Africa (BRICS) countries and its membership could be exploited by SSABs to export products to these countries. South Africa, however, should be aware of and guard against becoming the dumping ground for cheap Chinese agricultural goods.
- v. *Regional integration blocks such as the North American Free Trade Area and the European Union* – are instrumental in removing barriers to trade between members. According to Miller (2004:2), the formation of free trade areas (FTAs) facilitates the removal of tariffs and non-tariff barriers, permitting the products of FTA member countries access to one another's markets. South Africa is a member of the Southern Africa Customs Union (SACU), the oldest customs union in the world, and the Southern Africa Development Community (SADC). It also entered an agreement with the European Union known as EU- South Africa Free Trade Area (EU-SAFTA). South Africa's membership of these FTAs is supposed to provide its SSABs a favourable position in terms of lower tariff payments. It remains to be seen if the SADC countries that are members of EU-SAFTA are truly benefitting from the EU-SAFTA because of the double standards of the EU countries in imposing quotas on African agricultural goods.
- vi. *Technological developments* - the information technology (IT) revolution has led to the development of large multinational corporations that dominate world

markets through high technology dependent production and products. According to Jatuliavičienė and Kučinskienė (2006), technological advances accelerate the rapid diffusion of free enterprises through new means of communication, e-commerce and e-mail, which invariably change sales and purchasing processes. *New systems of conducting business through the internet* – Jatuliavičienė and Kučinskienė (2006) also note that the internet is a major driver of globalisation because it provides a less costly vehicle for connecting buyers and sellers and linking strategic partners and critical suppliers. The internet acts as a product and as a catalyst of globalisation. According to the International Telecommunications Union, from 2000 to 2009, the number of internet users globally rose from 394 million to 1858 billion. By 2010, 22% of the world's population had access to computers with 1 billion Google searches daily, 300 million Internet users reading blogs and 2 billion videos viewed daily on YouTube. South Africa's SSABs cannot afford to be left behind with these fast, cost-cutting and world-wide means of communication and doing business. Internet transactions are envisaged to improve the efficiency and competitiveness of SSABs in the world market.

- vii. *Developments in government policies* - such as the privatisation of state-owned enterprises have further encouraged the growth of market-based activities. Furthermore, globalisation needs the firm hands of states in order to create the enabling environment for it to thrive and flourish (Guttal, 2007:523). For South Africa, whose policy imperatives are informed by a mixed economy and developmental state, the state cannot blatantly interfere with economic operations without the risk of an economic and capitalist backlash.

Globalisation is categorised in the same way as the forces as follows: economic globalisation, political globalisation, social and cultural globalisation. The categories are briefly discussed below.

2.4 CATEGORIES OF GLOBALISATION

2.4.1 Economic globalisation

This study focuses on the economic aspects of globalisation and how they affect the growth, performance and survival of SSABs. According to Dreher (2006:3), economic globalisation can be categorised into three main dimensions: economic integration, social integration and political integration. What is referred to by Dreher (2006) as

dimensions/aspects of globalisation are also called forces of globalisation by Douglas and Craig (2011). It could therefore be said that the dimensions are derived from the forces and mean virtually the same thing.

According to Dreher (2006:38), economic globalisation involves the flow of goods, capital, and services as well as information and perceptions that affect market exchanges. For Loots (2003:219), economic globalisation can be analysed within two distinct dimensions namely; (i) the trade dimension, which focuses on the impact of trade openness and liberalisation on economic development and growth; and (ii) financial or capital account openness and liberalisation. Douglas and Craig (2011) add 'technology' as the third dimension (though it could be part of the economic dimension) because of the significant role played by technology in the globalisation process. They refer to these dimensions as the forces of globalisation.

2.4.2 Political globalisation

Political globalisation refers to the intensification and expansion of political interrelations around the globe which means the increasing number and power of human associations, which influence and govern the world as a whole (Kamal, 2011).

For Guttal (2007:523), political globalisation takes place on three levels as follows.

- i. Increase in international agreements and contracts;
- ii. Increase in international organisations (governmental and non-governmental);
- iii. Negotiations and interactions between institutions of transnational capital, nation states and international institutions.

Political aspects of globalisation are evidenced when governments create international rules and institutions to deal with issues such as trade, human rights and the environment. For Cliche and Scholtes (2005), global politics may ultimately reduce the political power of nation states. Sub-state and supra-state institutions such as the European Union, the WTO, the G8 or the International Court have replaced national functions with international agreements. For sale and marketing of agro-processed and agricultural products in general, the overreliance on institutions such as WTO and EU, which are riddled with double standards when it comes to African and developing

nation's products, implies that more powerful economic regional trading blocs need to be harnessed to tackle and ameliorate these challenges that transcend national jurisdiction and sovereignty.

2.4.3 Social and cultural globalisation

Social globalisation is expressed as the spread of ideas, information, images and people whilst cultural globalisation means increased cross-cultural contacts which may be accompanied by a decrease in the uniqueness of once isolated communities and could lead to cultural erosion (McAlistar, 2005:249). Globalisation has expanded recreational opportunities by spreading the pop culture, particularly through the internet and satellite television. Culture also influences the type of food people eat while immigration and settling of a large cultural group in a foreign nation could influence what should be produced by agro-businesses as food or agro-related products peculiar to such cultural groups (McAlistar, 2005:249). A 2005 UNESCO report showed that cultural exchange is becoming more frequent from Eastern Asia although Western countries still remain the main exporters of cultural goods. For instance, China was the third largest exporter of cultural goods in 2002 after the UK and USA (UNESCO, 2005). The Indian experience particularly reveals the plurality of the impact of cultural globalisation (Ghosh, 2011:153). For instance, booming, Indian films industry, dubbed "Bollywood" is taking the world by storm and is gaining currency in the Western and emerging economies of Africa.

2.5 IMPACT OF GLOBALISATION ON SSABS

Although globalisation is generally believed to impact large international businesses, small businesses have not been insulated from these transnational forces. Consequently, it is not surprising that many countries resort to protectionist measures for certain agricultural products because of the following reasons.

- i. Agriculture's crucial role in sustaining life and its position as the mainstay industry for emerging economies, and
- ii. Its role in food security, in the development of culture and ecological value of a nation, hence its multi-functionality

(Department of Agriculture, 2012).

According to Department of Agriculture (2012), liberalising agro-business can offer the following opportunities.

- i. Developed countries, which specialise in high technology, can import semi-industrial products and foodstuffs from the agro businesses leading to increased volume of production and export;
- ii. Enterprises with economies of scale benefit from the expansion of resource markets by engaging in cross-border supply and production chains known as international production networks;
- iii. Expanding markets can also augment the possibility of diversifying the agro-industrial sector; and
- iv. Liberalising agro-business may be a safe investment because foodstuffs and other necessities of life have relatively low demand elasticity and these products enjoy low price volatility.

The above imply that there could be a readily available market for the products of South Africa's SSABs under a liberalised trade regime. The following section examines trade liberalisation, free movement of labour and technology and how they impact on SSABs.

5.6 CONCEPTUALISING THE IMPACT OF GLOBALISATION ON SSABS

The conceptual framework for this study derives from an extensive literature review. Some researchers are of the view that globalisation is detrimental for the profitability, growth and survival of SMMs, particularly in developing countries. On the other hand, some researchers argue that there is a positive relationship between globalisation and the profitability, growth and survival of a firm, though not concurrently (Alvarez and Vergara, 2006; Dreher, 2006; Esterhuizen and Van Rooyen, 2006; Jatuliaviciene and Kucinskiene, 2006; Lu and Beamish, 2006). While the two camps differ in terms of direction of impact, they seem to agree that there is some link between globalisation, profitability, growth and survival.

A useful conceptualisation for understanding this relationship is proposed and depicted in Figure 2.2. The framework is an extensive adaption of Douglas and Craig (2011). According to Figure 2.2, the three dimensions of globalisation, namely; trade

liberalisation, free movement of labour and technology transfer will influence performance as measured by growth and profitability and business survival. Although there are many measures of firm performance, for the purpose of this study, profit and growth are chosen. The fact that profit and growth are relevant motifs for the existence of a firm, makes them indisputably ‘a must be included’ in any attempt to measure performance (Santos and Brito, 2012). In this framework, survival is also included to show that ultimately, when a firm does not make profit, its eventual survival as a going concern is threatened. Essentially, the framework illustrates how globalisation and its aspects can lead directly to performance; and how globalisation can also lead to a firm’s growth/decline, profitability/non-profitability and survival/demise.

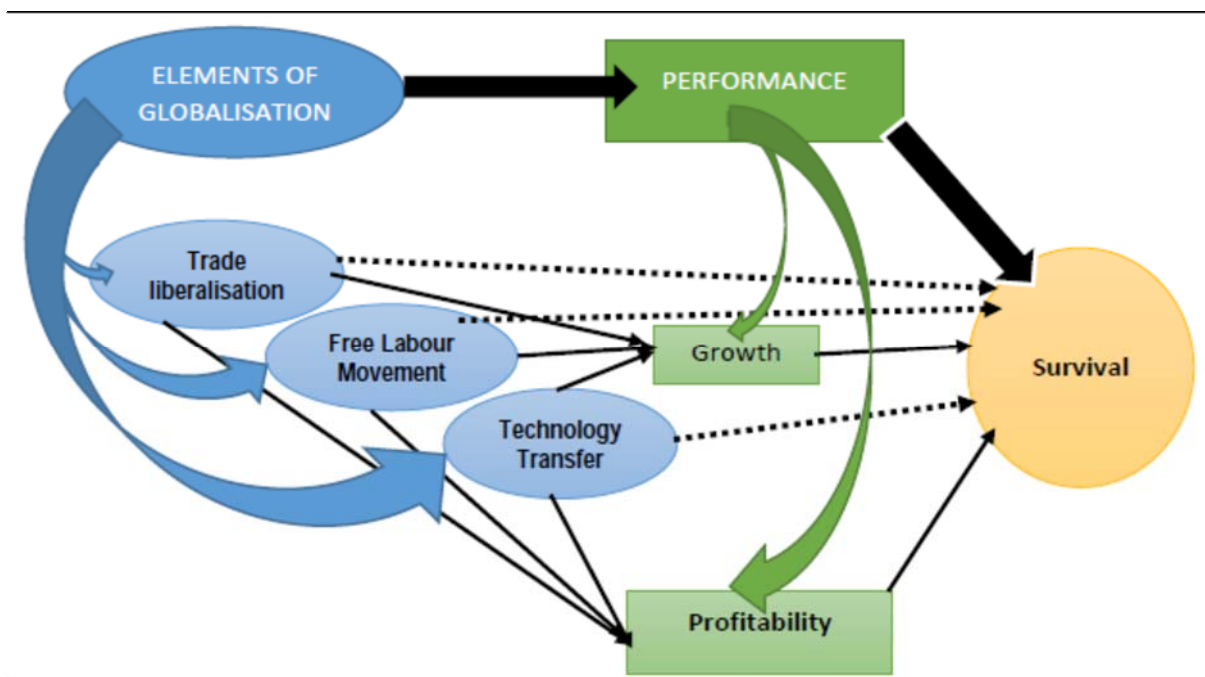


Figure 2.2: Impact of globalisation on performance (profitability, growth) and survival (Adapted from: Douglas and Craig, 1995; 2011)

The application of this framework (Figure 2.2) to the situation of SSABs in the rural South African setting means the three elements of globalisation can lead to the profitability and growth of SSABs, which can make the businesses to go global. This situation arises, especially in cases where an SSAB has grown and exhausted the domestic market but still intends to increase production, thus leading to a search for a bigger market globally. On the other hand, globalisation and its aspects can also lead to the non-profitability, decline and demise of SSABs. According to this framework, it is argued that the three elements of globalisation, namely; trade liberalisation, free

movement of labour and technology transfer will affect the performance of SSABs either positively or negatively, depending on the ability of SSABs to employ the right strategy in dealing with the opportunities and threats which these forces present.

The next section explores three aspects of economic globalisation in the conceptual framework.

2.7 TRADE LIBERALISATION, FREE MOVEMENT OF LABOUR AND TECHNOLOGY TRANSFER

2.7.1 TRADE LIBERALISATION

There are many definitions provided in the literature for *trade liberalisation* but they all express the free market notion of less restriction on economic activities and more market freedom than before (Palaniswami and Prasad, 2002). For example, Schulze (2004:193) defines trade liberalisation as the reduction of trade barriers to permit free flow of goods across national frontiers. This essentially means the reduction and sometimes the complete lifting of the limitations (protective measures) on trade. The removal of restrictions promotes the free flow of goods, services and skills.

2.7.1.1 Trade liberalisation in South Africa

By the 1990s, virtually all countries had opened up or were in the process of opening up their markets to trade and pursue trade liberalisation policies. South Africa, in particular, committed itself to an ambitious and massive programme of tariff liberalisation in the 1990s, especially the latter part (Loots, 2003:234). This is in compliance with the agreement reached in the Uruguay Round of talks on the General Agreement on Trade and Tariffs (GATT)/WTO. This is the period when a new government was democratically elected and new policy reforms were being introduced to promote rapid economic growth and development in order to improve the standard of living of previously marginalised and disadvantaged majority under the apartheid regime.

The liberalisation of tariff by government led to its offer to GATT in 1994 and its implementation in January 1995. Under the GATT offer, South Africa agreed to bind

98% of all tariff lines and to cut tariff by a third (Rangasamy and Harmse, 2003). It was also agreed that all quantitative restrictions on agriculture would be converted to *ad-valorem* rates and all sensitive industries liberalised over an eight-year period. The South African economy was thus opened to foreign competition. Industrial protection was also to be reduced over a five-year period from an average tariff of about 12% in 1994 to approximately 5% in 2001. The average import weighted tariff rates were to be reduced to well within the WTO bound rates, from 34% to 17% for consumption goods, from 8% to 4% for intermediate goods and from 11% to 5% for capital goods (TIPPS, 2002:11).

South Africa's liberalisation efforts, whose aim is to promote economic growth through export, were remarkable towards the latter part of the 1990s. For instance, the average import weighted tariff reduced drastically since the GATT offer, from 28% in 1990 to 10% in 1998 (IMF, 2000:55). The tariff rate for agricultural products was lowered from 9.23% in 1996 to 1.4% in 2000. This drastic tariff reduction for agricultural products means that South Africa's agriculture is now largely unprotected, unlike in other countries, especially in advanced countries such as the USA.

The question to ask is has tariff reductions really made significant impact on the profitability, growth, competitiveness and performance of a firm? Tariff for industrial products for instance was reduced from 11.4% in 1996 to 8.6% in 2000. The average tariff for the South African economy as a whole has seen applied rates dropped from 11.3 % in 1996 to 7.3% in 2000 (Rangasamy and Harmse, 2003:650). From these figures, it is evident that South Africa has liberalised the economy and has therefore, opened it to foreign competition.

The removal of protectionist policies can be counter-productive as it leads to the dumping of cheap foreign goods, which weakens the competitive power/capacity of local infant industries to compete with foreign firms. There is also the challenge of exploitation of labour in export processing zones (EPZs), tariff-free zones where collective bargaining does not apply. It is for these reasons that nations often impose different national taxes, fees on exported and imported goods as well as non-tariff regulations on imported goods. Apart from the anti-dumping policy and the protection of the infant industry argument, there are other good reasons why countries impose

tariffs/regulate foreign trade. Some of these reasons are to: provide employment for the citizens of the country; produce more goods and services instead of importing them; stabilise the exchange rate; and improve the position of the balance of payments.

The responsible body for trade liberalisation is the World Trade Organisation (WTO). Other important organisations that influence trade include the United Nations Conference on Trade and Development (UNCTAD). The World Bank and the International Monetary Fund also play vital roles in economic globalisation (Reddy, 2007:19). It is noteworthy that the WTO is criticised as being a “problematic organisation full of double standards” due to its selective application of quotas on African goods exported to Europe while it fails or turns a blind eye to subsidies granted by European countries such as the Netherland to its farmers. This erodes the competitiveness of African goods.

Schulze (2004:193) also notes that trade liberalisation has led to a massive expansion in output. World output or GDP has grown five times while world trade has grown sixteen times at an average compound rate of over seven per cent per annum. In certain East–Asian countries, export growth has exceeded ten per cent. Exports tend to grow fastest in countries with more liberal trade regimes and have had the fastest growth in GDP (Schulze, 2004:193). Some agro-based businesses in South Africa, such as the wine industry, recorded export growth rates (25 %) in terms of wine exports in 2012. This figure is more than triple the total quantity shipped in 2000 (Collins, 2013).

SSABs in South Africa also have the opportunity to grow due to the massive reduction in agricultural tariffs and the fact that the government has embarked on a policy of export promotion. Despite the increased openness of countries through tariff reduction on a wide range of products, many countries still adopt restrictive measures on agriculture. For example, EU countries (for example Holland) and the USA provide subsidies for their farmers and adopt other restrictive measures such as sanitary and *phytosanitary* regulations (Khor, 2006). SSABs in South Africa will therefore find it difficult to enter and compete in these markets.

2.7.1.2 Free trade areas/agreements

The issue of free trade has been debated for centuries, but only recently has actual free trade agreements been actively pursued and implemented. Advocates of free trade claim that it is the best formula for economic growth and increased development as it opens previously untapped markets to lucrative investment opportunities and improving the standard of living for all. Free Trade Areas (FTAs) are arrangements between two or more countries under which they agree to eliminate tariffs and non-tariff barriers on trade in goods among themselves. However, each country maintains its own policies, including tariffs, outside the region (Miller, 2004:2).

FTAs are formed for the following economic and political reasons as outlined by Cooper in Miller (2004:2).

- I. By eliminating tariffs and some non-tariff barriers, FTAs permit the products of FTA partners, easier access to one another's markets;
- II. Developed countries have also formed FTAs with developing countries to encourage trade and investment liberalisation in developing nations;
- III. FTAs may be used to protect local exporters from losing out to foreign companies that might receive preferential treatment under other FTAs;
- IV. Slow progress in multilateral negotiations has been another reason for FTA formation; and
- V. The surge in FTA formation world - wide is the result of problems in launching a new round of talks in the WTO.

South Africa's involvement in FTAs has to do with its membership of the Southern Africa Customs Union (SACU), comprising of South Africa, Botswana, Lesotho, Namibia and Swaziland. SACU was established in 1910 (McDonald and Walmsley, 2008:993). Apart from SACU, South Africa belongs to a bigger FTA- Southern African Development Community (SADC) which is made up of Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia, Zimbabwe and South Africa. Under the SADC agreement, South Africa is to scale down tariff levels faster than other SADC countries.

Outside Africa, South Africa also entered a unilateral (without SACU and SADC's approval) trade agreement with the European Union, known as the EU-South Africa Free Trade Agreement (EU-SAFTA) which came into effect in January 2000. The EU liberalised 96% of its imports from South Africa, while South Africa liberalised 86% of its imports from the EU. This means that over 90% of all trade between the EU and South Africa is free of customs duty. There is also an agreement for the creation of a free trade area between the Southern Cone Common Market and South Africa (McDonald and Punt, 2002:1). The Southern Cone Common Market is a free trade area made up of Brazil, Argentina, Paraguay and Uruguay.

The effect of these free trade agreements is the opening up and the expansion of the market for South African goods in general and for SSABs in particular. This can reasonably be expected to eventually lead to increased investment in SSABs. Some economists strongly oppose FTAs as an economically inefficient mechanism while others support it as a means to build freer trade as it promotes globalisation.

According to Miller (2004:2), the arguments on the impact of FTAs are based on the concepts of *trade creation* and *trade diversion*. Trade creation refers to a situation where a member of an FTA replaces the production of goods with imports from another member of the FTA because the formation of the FTA has made it cheaper to import rather than produce domestically. Trade creation is said to improve economic welfare within the group because resources are being shifted to more uses. This means that SSABs in South Africa should apply David Ricardo's Theory of Comparative Advantage by concerning themselves with producing goods that they could produce at a cheaper cost than other members of the SACU or SADC.

There is trade diversion when a member of an FTA switches its imports from an efficient non-member to a less efficient member because of the removal of tariffs within the group, which makes it cheaper to buy from the member country. Diversion reduces economic welfare because resources are diverted from an efficient producer to a less efficient producer. Hence, the world would be worse-off if more trade is diverted than created.

South Africa's SSABs stand to gain from the reduced or complete removal of tariffs. SSABs products will become more competitive in the member countries of the FTA as the prices of SSAB products will fall, leading to increased demand. It can be inferred from the discussion so far that that FTAs generate long-term dynamic effects which include

- Increased efficiency of production as producers face increased competition with the removal of trade barriers;
- Economies of scale result as goods are produced in larger quantities to meet the demands of an enlarged market;
- Increased foreign investment from outside the FTA to take advantage of the preferential trade agreement; and
- Achieving economic growth, providing better jobs and improving labour standards are some of the goals of modern day trade agreements.

The long-term dynamic effects that will accrue to SSABs from South Africa's membership of FTAs include increased efficiency of SSABs, economies of scale due to the large market and enhanced profitability. South African will also gain from increased foreign investment, an improved balance of payments position, heightened economic growth and increased job opportunities.

Though economists argue that free trade increases the standard of living through the theory of comparative advantage and economies of scale, there are others who have opposing views. These views are summed up as follows by Peloso (2004:5).

- Free trade allows developed countries to exploit developing nations, destroying local industries, while circumventing social and labour standards.
- Some argue that free trade hurts developing nations because it causes job losses; expatriate labour from developed nations move to countries with lower labour costs, causing a general lowering of health and safety standards.
- Developed nations tend to insist that developing nations should open their markets to industrial and agricultural products from the developed world, while they refuse to open their markets to agricultural products from the developing world. This is tantamount to double standards on the part of the EU and WTO. Trade barriers like quotas and agricultural subsidies prevent farmers in

developing nations from competing in local and export markets, thereby creating third world poverty.

- The current form of free trade supports the free movement of products and employers, which favours the developed world, but not the free movement of employees which will favour the people in developing nations.
- Free trade changes living conditions and careers faster. Economic disruptions used to happen slowly such that natural attrition such as deaths and retirements could manage them. Nowadays, changes in living conditions and careers are too fast, quicker than the natural attrition rate, making coping too difficult

(Peloso, 2004:5).

In view of the above observations/criticisms, it is imperative that governments (including South Africa) should exercise care and caution in negotiating trade agreements in order to eliminate exploitative tendencies and bring about mutual benefits to all countries involved. Despite the criticisms against FTAs, governments around the globe favour their development as they easier to form and organise than the WTO.

2.7.2 DETERMINING THE FREE MOVEMENT OF LABOUR

Labour (human) issues are complex and sensitive. Despite the similar effects that free trade in goods and the free movement of labour have on countries in terms of welfare and the effects of income distribution, policy makers readily and eagerly sign free trade agreements but often restrict the movement of labour.

A classic example of the sensitivity and complexity of free movement and access to work in other countries can be seen from the European Union's efforts at checking the influx of workers from new member states of Central and East European countries (Adinolfi, 2005:465) where migrant workers are said to be taking away jobs from citizens of host countries. These Central and East European countries are the Czech Republic, Slovenia and Slovakia, Albania, Azerbaijan and Belarus. This effort comes against the background that *freedom of movement for workers* is a policy chapter of the *acquiscommunitaire* (the rights and obligations that EU countries share) part of

the four economic freedoms (free movement of goods, services, labour and capital) of the European Union.

Within SADC, the 1995 Draft Protocol on the Free Movement of Persons was met with a plethora of criticisms and had to be replaced in 1997 with the Draft Protocol on the Facilitation of Movement of Persons in the Southern African Development Community.

The 1995 Protocol had the objective of achieving the progressive elimination of all controls on visa restrictions of SADC members in order to allow the free movement of people in the region within ten years from the date of enforcement of the Protocol. Article 2 specifically provides for the rights to: (i) enter the territory of another member state freely and without a visa for a short visit; (ii) reside in the territory of another member state; and (iii) establish oneself and work in the territory of another member state.

The 1995 Protocol was considerably ambitious as it tried to foster regional integration in Southern Africa and served as a bold step towards building an Africa Economic Community by the year 2000. The free movement of people and regional integration were seen by the drafters as the first steps in realising Kwame Nkrumah's vision of a 'United States of Africa' (Solomon, 1997:1).

The objectives of the 1997 Draft Protocol on the Facilitation of Movement of Persons in the Southern African Development Community are as follows:

- To facilitate the movement of citizens of member states within the region by gradually eliminating obstacles, which impede such movement;
- To expand the network of bilateral agreements among member states in this regard, as a step towards a multilateral regional agreement;
- To co-operate in preventing the illegal movement of citizens of member states and the illegal movement of nationals of third states within and into the region;
- To co-operate in improving control over external borders of the SADC community; and
- To promote common policies with regard to immigration matters where necessary and feasible (Solomon, 1997:1).

The 1997 Protocol is more modest in its aims than the 1995 one. It was clearly cognisant of the difficulties associated with the free movement of people - it is concerned with illegal immigrants and does not specify a time frame for achieving the objectives of the free movement of persons (Solomon, 1997:3). What these immigration controls mean to agricultural business is that it can intensify exploitation of foreign labour (particularly undocumented migrants) because these illegal migrants have no recourse to legal remedy if they are exploited or not paid on the farms. More so, they settle for less since they are desperate and are easily threatened by reports to law enforcement authorities or may not be paid on time. These scenarios cannot be compared to locals who can report abuses by farmers to the Commission for Conciliation, Mediation and Arbitration (CCMA) or labour unions they are affiliated to. They can also exercise their right to strike.

It is evident that where countries opt for economic integration, they always approach the “free movement of people” issue with considerable care and caution. In some instances, of regional integration, the free movement of people is left out completely. An example is the North America Free Trade Agreement (NAFTA), which makes no provision for the free movement of people between the USA, Canada and Mexico. The USA rather strengthened its border controls with Mexico and promulgated a new illegal immigration legislation. In the case of the Southern Cone Common Market, there is also no specific provision relating to the free movement of people either.

2.7.2.1 The case for free movement of labour

Acknowledging the resistance to the free movement of workers internationally, Dua (2007:14) cautions that “the uneven spread of the gains of globalisation can only be redressed by liberalising the movement of labour and knowledge”. Economic theory provides a strong and general result about aggregate production when the production sectors of two or more countries are integrated by the removal of restrictions on intra-area factor mobility (Lloyd, 2002:3). Lloyd asserts that it requires the removal of border restrictions on the movement of factors, especially labour, in addition to treatment through mutual recognition or equivalent measures to ensure that foreign factors are treated equally. The proposition is that, aggregate production using the sum of the

resources is greater than the sum of the different countries separately (Lloyd, 2003:3). The positive results derive from differences in the countries in terms of the marginal productivity of factors, with labour and capital moving from low marginal productivity countries to high marginal productivity countries (Lloyd, 2002:3).

This means that South Africa stands to gain if it removes restrictions on the factors of production factors (especially labour) between itself and other countries, especially SADC member countries. SSABs can also gain from the free mobility of labour as manual labour from neighbouring countries such as Lesotho, Zimbabwe and Mozambique are known to be cheaper than labour obtained in South Africa (Trimikliniotis, Gordon and Zondo, 2008:1324). The advocates of 'Migration Without Borders' (MWB), sometimes referred to as 'open borders', provide insight into the economic impact of the free movement of people which represents the interest of neoclassical economists. The economic impact of the MWB scenario for sending countries is that emigration generates remittances and reduces tax revenues because they are not working in their home countries and therefore, do not pay income tax. However, the remittance earned by their home countries from emigrants might offset the loss of income by their home country through income tax they would have paid if they were working in their home countries. This situation, however, results in a loss in skills, even if it could be stated that brain - drain could be replaced by brain-gain, whereby sending countries rely on their emigrants' skills for their development (Pécoud and de Guchteneire, 2005:9).

The MWB scenario is applicable to South Africa as well. Many South Africans are working in other countries as doctors, nurses, engineers and in other professions while foreign nationals with similar skills and professions also come to work in South Africa. SSABs also stand to benefit from unskilled labour flow into South Africa. Skilled workers such as agricultural engineers and agricultural economists (a scarce skill in South Africa) are needed for technical projects while cheap unskilled workers are needed as farm workers and factory hands by SSABs. South Africa benefits from the skills provided by foreigners as such skills are needed in order to execute development programmes. Sending countries also gain by way of the remittances made from South Africa. The disadvantages of emigration of locals from South Africa are loss in tax revenue and brain drain.

Some studies have also shown that immigration is costly to host countries, especially in terms of welfare benefits received by migrants (Bojas, 1999). There are also those who hold a contrary view that migrants are net contributors and that receiving countries gain from their presence. A study by Faini et al. (1999:6) revealed that 'immigration has played virtually no role in explaining the worsening labour market conditions of unskilled workers in Europe and the USA'. Moving away from analysis as national level and evaluation to the world level economic impact of the MWB scenario, Pécoud and Guchteneire (2005) argue that the biggest gains in terms of development and poverty reduction do not lie in the much-discussed issues surrounding free trade, but in the international movement of workers, and that even minor liberalisation in this field would massively foster the development of poor countries. Wolf (2004:117) supports this view by arguing that agricultural businesses form the backbone of most poor countries and are labour-intensive. Access to more labour (especially unskilled) through the free movement of workers, would therefore increase national output and leading to economic growth and development.

The implication of the above argument is that if South Africa could open its borders to unskilled immigrants who would work in the agricultural sector, such move could promote economic growth and development. According to Martin (2003:88), if labour is viewed as an export, and remittances as the foreign exchange earned from the export of labour, then the opening of borders could allow labour-surplus countries to export labour and earn remittances. In so doing, the transfer of labour from poorer to rich countries would increase the world GDP. This will result from workers, skilled and unskilled, earning more and eventually reducing migration pressure. Wages tend to converge as they rise in emigration areas and fall or rise slowly in immigration areas.

Within SADC, South Africa is regarded as a more developed country than its other member states. Opening South Africa's borders to labour surplus countries such as Zimbabwe, Mozambique and Lesotho will lead to influx of workers from these poorer countries into South Africa. Remittances made by these emigrants would contribute to raising the GDP of their countries due to the higher wages they earn in South Africa. On the other hand, wages in South Africa may fall due to competition from foreign workers. Eventually, there may be convergence of wages of emigration and the

immigration country (that is, South Africa), thereby reducing migration pressure between the countries. The SSABs, in particular, will benefit from the payment of lower wages to foreign employees from the SADC.

According to Boulhol (2009), globalisation has the effect of ultimately reducing labour market rigidities through capital mobility, which triggers a re-allocation of resources that trade integration amplifies, away from the high-rent or highly unionised sector. The threat of costly relocations encourages labour market deregulation. Labour market deregulation is efficient because it avoids sub-optimal sectorial specialisation. It therefore, makes economic sense to promote the free movement of labour. South Africa should not regulate the labour market rigidly in order to ensure a more efficient allocation of resources. A flexible labour market is desirable for SSABs as they will be in a position to hire their labour from the right source.

In the South African context, Trimikliniotis, Gordon and Zondo (2008:1325) have noted that the ideology of Pan-Africanism should have served as the basis for the free movement of labour, which was discouraged by the apartheid regime. To the contrary, the initiative to push for a free movement protocol in the development of a regionally harmonised approach in the SADC region was not encouraged by the new South Africa for fear of being 'flooded' by migrant workers. Free movement has been replaced by tough migration control, which, to the contrary, does little to deter migrants from entering the country in search for work and better life. The lesson for South Africa is that as long as living conditions in neighbouring SADC countries are bad, their citizens will continue to force their way into the country, no matter how tough the immigration controls may be. The SSABs should gain from the oversupply of labour, which will lower labour cost and overall production costs, thereby, enhancing the profitability position of SSABs. However, this could be viewed by other SADC member countries as the exploitation of labour.

South Africa is, however, adopting a more open approach to the movement of people with skills who intend to work in the country. The radical departure from the past is as a result of the government's identification of importation of skills as a precondition for the economy to grow (Paton, 2005). Particular permits for skilled labour have been created (for example, general, quota and exceptional skills permits) to accommodate

the situation. The new policy would lead to the employment of skilled workers required to improve productivity, promote economic growth and development. Though this measure is selective in nature, it is a step towards openness and free movement of labour. Therefore, SSABs, especially the value adding businesses, could also hire the right calibre of skilled workers from other countries with relative ease.

2.7.3 TECHNOLOGY TRANSFER

Technology development has changed the mode of market competition in the world. For example, as a result of information technology, communication technology and transport technology, humans now live in a borderless economy and face global competition. Kondo (2005) defines technology as the knowledge necessary to design and/produce a product or a set of service retained by an individual or an organisation. It can be embodied in machinery and other products or services. According to Kondo (2005), technology transfer is influenced mainly by technology development and changes of technology. Achleitner (1995:137) defines information transfer (which is an integral part of technology) as the creation, dissemination, organisation, diffusion and the use of information.

Redding (2007:5) asserts that the agricultural information transfer system consists of four independent, interrelated components: development, documentation, dissemination and diffusion of information. Information transfer is vital for agro-based businesses as it is the only means by which new technological development could be accessed and applied to enhance performance. Redding (2007:5) further notes that these components broadly correspond to generation, organisation, communication and utilisation of information. The above definitions are similar and suggest facilitation of interaction, networking, feedback and collaboration by serving each other as both a resource base and as a customer base for participants in the agro-based business.

2.7.3.1 TRANSFERRING TECHNOLOGY

According to Hoekman and Javorcik (2006), access to new technologies is a second channel through which globalisation affects the performance of indigenous firms. In order for goods to embody technology, such knowledge can be obtained through imports from technologically advanced countries. There is strong empirical support in

favour of this view. Aggarwal (2009) notes the import of technology constitutes one of the most important sources of knowledge acquisition by enterprises in developing countries. The import of technology may be disembodied in the form of blueprints, or embodied in capital goods. Disembodied technology imports involve arms' length purchase of technology while embodied technologies are acquired through the importation of capital goods. It is observed that there is a strong positive correlation between a country's productivity and the import-weighted research and development (R&D) of its trading partners. This view is supported by Hoffmaister (2008) who commented that, it would be to the advantage of SSABs to adopt and apply the appropriate results of their trading partners in order to improve performance. Schiff and Wang (2002) also found that the impact of technology transfer is greater if the country has more open trade policies, skilled labour force and trade engagement with developed countries. The suggestion here is that open trade policies are critical for developing countries in attracting technology. There is also a need for absorptive capacity and the ability to adapt foreign technology, both of which are related to human capital endowments and investment in R&D-intensive industries (Hoekman and Javorcik, 2004:457). By liberalising trade and importing capital goods from developed countries, South Africa is doing the right thing as this is a way of acquiring embodied technology. In order to be able to adopt and adapt foreign technology, it is imperative for SSABs to employ skilled manpower to work with their machinery and equipment.

Another important mechanism for cross-border technology transfer is through foreign direct investment (FDI). This involves the transfer of technology by multinationals from headquarters to foreign affiliates.

According to Gorg and Greenaway (2004), the literature has identified the following ways through which technology and know-how may spill over to indigenous firms in the host country.

- Through demonstration effects – local companies may learn about the existence of new technologies or products by observing multinationals operating in their country;
- Indigenous firms may hire workers previously employed by multinationals and benefit from the training received by the worker at the foreign company; and

- Foreign entry may generate new or improved intermediate inputs in the form of both goods and complimentary services.

Multinationals have the incentive to transfer knowledge to local producers as they would benefit from improved performance of intermediate input producers. Evidence consistent with spill over was found by Blalock and Gertler (2008) in Indonesia, Javorcik (2010) in Lithuania and Ma-Shuwen et al. (2013) in China. A one-standard deviation increase in the presence of multinationals in downstream sectors is associated with a 15% increase in the productivity of domestic firms in the supplying industries (Javorcik, 2010). The magnitude of the effect is economically meaningful. In order to gain technical knowledge transfer, South Africa's SSABs should work closely with multinationals, especially where they serve as input suppliers to multinationals. Examples are KFC and McDonald. They provide expert advice to local chicken suppliers on the best ways to produce and supply chicken of highest quality according to their specifications.

According to Wang and Yao (2002:197), the most important channel for small enterprises in China to obtain technology is to cooperate with an outside source. This cooperation can take the forms of acting as a supplier for a large firm; cooperating with a research institution or university; forming a joint venture with a foreign firm; and cooperating with other small firms.

Cooperation with large firms secures a market for the products of a small firm and enables it to specialise through division of activities/processes to be undertaken. Cooperation with research institutions and universities enables small firms to quickly get access to new technology, new products and necessary training because SSABs lack the capacity to carry out all these activities on their own. Cooperation with a foreign firm not only provides a small firm with much needed capital, but also brings new production and management technologies.

SSABs in South Africa could study the Chinese methods of technology acquisition/transfer and adopt the most appropriate method to suit the local context. The Chinese study found out that firms engaged in outside cooperation had more standardised products, more qualified labour force and more investment in technical

innovation than those not involved in outside cooperation (Wang and Yao, 2002:207). Wang and Yao (2002) also noted that capital is the most important factor that determines the technical efficiency of a firm. SSABs in South Africa could also adopt the Chinese formula by engaging in outside cooperation, which could bring in more qualified labour force, capital and improve technical efficiency (Merda & Sadi ,2013) assert that technology transfer brings scientific advances to SMMEs and enables them to be innovative and efficient.

2.7.2.2 Technology transfer in the agro-business sector

Innovations in plant varieties, machinery, pesticides, fertilisers, and poultry imported by private agricultural businesses have been important sources of new agricultural technology and increased agricultural productivity in Africa. It has been determined that innovations are concentrated in the seed industry (Pray, Gisselquist and Nagarajan, 2011). A study conducted by Pray et al. (2009; 2010) on five countries- Kenya, Senegal, South Africa, Tanzania and Zambia found that most of the technology transfer and in-country research recorded through the survey were produced by African firms, some of which are regional multinational corporations. In addition, multinational corporations with headquarters in Europe, USA, India and other countries play important roles in technology transfer in all five countries.

In South Africa, the USA and Europe, firms conduct about half of the biotech and seed research. Some examples in South Africa are Panaar (seed), Illovo sugar and South African Breweries (SAB). South Africa's agricultural economy is large by African standards, and has minimum restrictions on the importation of technology. It allows the introduction of new cultivars from conventional breeding without performance tests, it does not restrict exports of agricultural products and does not heavily tax (or subsidise) agricultural products. African governments and donors could do more to encourage South-South technology transfer. China and India are already large suppliers of generic pesticides and agricultural machinery. Indian companies also sell vegetable seeds, maize, millet and sorghum throughout Africa, while China sells improved rice seeds (Pray et al. 2011). Technology transfer can come from many other countries at similar latitudes and similar climatic conditions such as Bangladesh,

Brazil, Mexico and Thailand. Programmes to encourage South-South contacts could have significant pay-offs.

2.7.4 Free flow of capital

According to Boulhol (2009:224), capital mobility improves the bargaining position of shareholders by expanding their range of outside options. A fall in trade costs amplifies this phenomenon by increasing effective capital mobility, since it becomes more profitable for firms to relocate and supply the domestic market from that location. The rapid economic development of countries in Asia and the Pacific has attracted huge amounts of capital to the region. Although the Asian financial crises of 1997 discouraged foreign investment for a while, the region has managed to build new confidence. About half the global investment flows are directed towards Asia and the Pacific despite the declining trend of Foreign Direct Investment (Khadka and Iscsan, 2003:8).

Loots' (2003) research on the impact of openness on inward foreign direct investment (FDI) indicates a positive association between FDI and growth, but studies on the effects of financial capital flows are less conclusive. A study conducted by Klein (2013) and Olivier (2012) concluded that countries with more open capital account enjoy a significantly greater increase in financial depth than countries with continuing capital account restrictions. They also found that countries that are more integrated in financial markets performed better than countries that isolated themselves. It is important, however, to note the warning by these researchers that developing countries should require capital account liberation only when strong institutions and sound macro-economic policies are already in place, in addition to an understanding of the manner in which openness changes the performance of an economy. In view of the complexity of the issues surrounding capital mobility and openness, South Africa needs to adopt a cautious approach to ensure that openness does not negatively affect the performance of the economy.

Generally, the issue of accessing capital/flow of capital poses a great deal of problems for small businesses in both developed and developing countries. A 2009 report from the European Commission highlights the concerns that EU entrepreneurs have about

debt financing. The survey revealed that access to typical bank financing continues to be one of the top worries for entrepreneurs (Cornwall, 2010).

In India, SMMEs find it extremely difficult to access credit despite clear instructions from the Reserve Bank of India and the Ministry of Finance to encourage the flow of funds through what is referred to as achieving “priority sector” lending targets from commercial banks to small enterprises. It was reported that the banks created a ‘specific bias’ against small loan portfolio (Das, 2007:75). The situation in Bangladesh is similar to that of India. There is lack of venture capital for SMMEs that consolidates foreign direct investment (FDI) and portfolio investments (Adhikary, 2009:91).

According to the Global Bank Alliance (2011), the key obstacle to the growth of SMMEs globally is the challenge of accessing capital. The two main sources of external finance to new SMMEs are equity and debt. External equity in the form of venture capital or the stock exchange which is usually not available due to the relatively small financing desired by the SMMEs (National Credit Regulator [NCR], 2011:51). Free flow of capital as an aspect of economic globalisation is left out of the study because of the difficulties that small firms encounter in raising capital outlined above. The researcher is of the view that the SSABs of Vryburg–Pokwani study area may not even be aware of the possibility of raising foreign capital. Those that may be aware may find it difficult or impracticable to access foreign capital. It can therefore be argued that the concept of the flow of capital /capital account openness/financial liberation is more relevant and applicable to national level transactions than to individual small firms within a country.

2.8 PERFORMANCE OF FIRMS UNDER GLOBALISATION

This section deals with the growth, performance and survival of a firm under globalisation and how these aspects are affected by trade liberalisation, free movement of labour and technological transfer.

2.8.1 PERFORMANCE MEASUREMENT OF LEVEL OF GLOBALISATION IN A FIRM

Knowing the level of globalisation of firms facilitates the determination of the impact of globalisation on their performance (as measured by survival, profitability and growth). A study conducted by Alvarez and Vergara (2006) identified the existence of a positive relationship between the survival, growth and globalisation of a firm. They compared firms with less globalisation against those highly involved in globalisation and found that SMMEs that are highly involved in globalisation, are more likely to survive in terms of employment and that globalised SMMEs show a higher level of growth than those that are not (Alvarez and Vergara, 2006). It is impracticable to employ all the dimensions of globalisation mentioned earlier in order to measure the degree of globalisation at the level of a firm. The variables of economic globalisation should be measured. The specific economic flows to be measured are: exports as a percentage of volume of sales; number of foreign employees as a percentage of the total labour force; and level of application/acquisition of foreign technology.

2.8.1.1 Exports as percentage of sales

A common measure of export performance is export sales. It is noted by Baldauf, Craven and Wagner (2000:61) that there is no uniformly accepted conceptualisation and operationalisation of export performance. Export performance is measured using a single indicator approach. Any one of the indicators is considered as acceptable: export sales (indicate the financial dimension of volume of goods exported), growth, export profit and export intensity. Export sales have been adopted in the study in order to measure the performance of SSABs in a liberalised trade regime in the Vryburg-Pokwani area as it is simple to determine.

2.8.1.2 Foreign employees as percentage of total work force

South Africa's labour force comprises all residents aged 15 – 65, employed or unemployed excluding inactive persons. Foreign labour/workers refer to employees employed in SA, who are nationals of other countries other than the country of residence. This study is basically concerned with determining foreign labour usage in order to determine the level of globalisation in a specific SSAB. The measure involves counting the specific number of foreign workers employed in each firm, and expressing the number as a percentage of the total number of workers in the firm.

2.8.1.3 Level of application/acquisition of foreign technology

According to Tiralap (1992:30), there is a wealth of studies on the measurement of technology but there is no satisfactory framework for analysis. Most analyses have either emphasised quantitative aspects or the qualitative dimensions; as it is widely recognised by both economists and technologists that technology measurement is a very complicated and difficult task. Economists, on the one hand, have used production functions while on the other hand, technologists have employed their own knowledge and expertise to make such judgements. For the purposes of this study, respondents (owners / managers) were required to rate the level of application / acquisition of technology in their respective firms. The data collected was analysed in order to determine the general level at which technology is applied in SSABs in the Vryburg-Pokwani study area.

2.8.2 Impact of globalisation on the performance of a firm

As stated earlier, some researchers are of the view that globalisation is detrimental to the survival, growth and profitability (performance) of a firm, particularly in developing countries where governments often do not put in place the right policies to support these variables (Khor, 2006; Cooley and Quadrini, 2005). On the other hand, a large number of researchers hold a contrary view. They argue that there is a positive relationship between globalisation and the survival, growth and profitability of a firm though not concurrently (Alvarez and Vergara, 2006; Dreher, 2006; Esterhuizen and Van Rooyen, 2006; Jatuliavičienė & Kučinskienė, 2006; Lu and Beamish, 2006). Other scholars such as Loots (2003); Kumar and Liu (2005); Alvarez and Vergara (2006); Dreher, (2006); Lu and Beamish (2006) also found that globalisation indeed promotes growth. What all these studies did was to investigate economic growth from the

macroeconomic (financial) perspective only. While the two camps differ in terms of direction of impact, they seem to agree that there is at least a link between globalisation and the performance (growth, profitability) and survival of a firm.

2.8.3 Performance indicators

Performance usually indicates the extent to which a firm's financial objectives are achieved through the execution of tactics and marketing strategies. To determine whether a business in the global market is doing well or not calls for performance measurement. The financial objectives that are crucial to SMMEs are market share, sales growth and profit. The degree to which these objectives are met is a measure of the firm's performance (Cavusgil and Zou, 2009). This study attempts to find out if globalisation has an impact on non-financial performance as well, by employing the performance measures – sales growth and employment growth in addition to profitability.

2.8.3.1 Growth

An attempt is made in this section to define firm growth and to determine how it is measured in the study. Growth can be defined and measured in several ways in order to suit the intended purpose (Delmar et al. 2003). In the context of this study, growth is defined as: *the increase in employment figures, sales and global presence of a firm over a period of time*. Firm growth, as a focus of entrepreneurship scholarship, has attracted a lot of attention from researchers such as Street and Cameroon (2007); Huo et al. (2008); Cavusgil and Zou (2009), among others. According to Delmar et al. (2001), growth can be achieved in different ways such as increase in the volume of sales and employment. In other words, firm growth is fundamentally multidimensional rather than a one-dimensional phenomenon. These researchers therefore advocate the use of heterogeneous growth measures in order to facilitate comparison of research results.

After an extensive literature review, Delmar (1997) and Ardishvili, Cardozo, Harmon and Vadakah (1998) came up with an identical list of possible growth indicators that include: *assets, employment, market share, physical output, profits and sales*. In addition to profit, this study uses sales and employment figures for the measurement

of firm growth. The choice of sales and employment is consistent with the indicators used by Delmar et al. (2001). One of the reasons for using sales and employment measures is because they are the most widely used in empirical growth research (Delmar, 1997). Profits is also used as a measure of performance because they are an important measures of success (Delmar et al. 2001).

Secondly, other indicators have obvious shortcomings and are only applicable in very special contexts. For example, market share and physical output can only be compared within industries. For firms with a similar product range, using total asset value is highly related to the capital intensity of the industry and is sensitive to changes over time (Delmar et al. 2001). Finally, sales and employment figures are acceptable to employers themselves as these do not constitute sensitive information (Barkham, et al. 1996). It is also critical to note that this study focuses on small-scale agricultural businesses in a rural environment where a good number of the owners/managers may not be very much exposed to answering sensitive research questions. With this setting in mind, the researcher decided to use *sales* and *employment* figures for the measurement of growth.

2.8.3.2 SURVIVAL

Studies conducted in both developed and developing countries reveal that the failure rate in small businesses is higher than in large businesses. It has been established that for every three businesses formed in the United States, two representing 67% fail (Timmons, 2011), with the greatest mortality occurring between 2-5 years from the time of formation. In the UK, a National Westminster Bank survey indicated a high failure rate of small-scale businesses to be between 60-70% in the range of between 1-5years (Murphy, 1996:24). In South Africa, the failure rate for small businesses is about 70% (DTI, 2000). It is further asserted that small businesses hardly grow and survive in rural areas (Dorward et al. 2004). For operational reasons, all firms that have existed for five years and more are considered as having survived. This is because the literature has revealed that most small business failures occur before five years.

2.9 RESPONDING TO GLOBALISATION

Globalisation response is the extent to which businesses react to opportunities and threats brought about by globalisation. To grow, SMMEs in the global market need to formulate and implement strategies (Porter, 1980) for overcoming competitors. Globalisation strategy has to relate to marketing function which deals with addressing customer needs, competitors, suppliers and scarce resources. In order to be successful in the global market, marketing orientation must be supported by entrepreneurial orientation (Dess, Lumpkin and Covin, 1997). Entrepreneurial orientation reflects a firm's propensity to engage in innovative, proactive, risk seeking, autonomous and competitively aggressive behaviour in order to achieve its strategic objectives (Knight, 2008). These researchers identify innovation as the key requirement for globalisation by pointing out the use of either new or existing products as well as the launching of new ventures.

In addition to innovativeness, risk-taking and pro-activeness of other elements include autonomy and competitive aggressiveness, which are particularly useful in uncertain and turbulent environments (Dess et al. 1997). Given the fact that globalisation is associated with turbulence, it is expected that SMMEs with an entrepreneurial orientation will do better than those without such orientation (Knight, 2008). Small scale agro-based businesses (SSABs) intending to operate in the global market successfully need to fulfil the attributes mentioned above (be ready to take risk, be innovative, pro-active and demonstrate competitive aggressiveness). Firms threatened by globalisation at the tactical level of operation, can respond, among others, through technology acquisition, globalisation response and internationalisation preparation (Knight, 2008). The implication for SSABs is that they might not have the resources to acquire the much needed technology to counter the threats posed by globalisation.

The primary challenge facing businesses is to create value for buyers as efficiently as possible. Businesses that are highly responsive under globalisation are better positioned to achieve this task and to achieve greater success in foreign markets (Knight, 2008). Internationalisation preparation describes a firm's efforts to take action (publicity of products in foreign markets, identifying a niche market in a foreign country)

in advance as it seeks to expand into foreign markets. This preparation is very important to the success of any new venture. This advance planning is especially important in international markets where the business environment is much complex (Bloodgood, Sapienza and Almeida, 1996). It is, therefore, crucial for SSABs that intend to expand into foreign markets to seek adequate information about these markets and plan properly before making any move.

2.10 SUMMARY OF CHAPTER

This chapter has presented the different aspects of globalisation. The concept was defined and explained based on the three dimensions of globalisation – economic, social and political. The conceptual frame work developed was based on the three aspects of economic globalisation: trade liberalisation (free trade), free movement of labour and technology transfer/acquisition. Their impact on firm performance was also discussed. An attempt was made to operationalise the measurement of the various aspects of globalisation. The literature also reviewed how the aspects of globalisation could lead to superior or inferior firm performance. The impact of globalisation in terms of profitability, growth, better performance and survival of a firm was also discussed in this chapter.

CHAPTER THREE

THE ROLE OF SMALL SCALE AGRO-BASED BUSINESS IN SOCIO-ECONOMIC DEVELOPMENT

3.0 INTRODUCTION

The previous chapter discussed globalisation with a focus on its complexities. It also discussed the various aspects of economic globalisation. Special attention was also devoted to trade liberalisation, free movement of labour and technology transfer in order to better understand the phenomenon of globalisation. As a follow up, the current chapter provides a definition of SMMEs and their classification in general and in South Africa in particular. It also articulates the socio-economic importance of SSABs in socio-economic development.

3.1 DEFINITION AND CLASSIFICATION OF SMMEs IN GENERAL

It is not easy to come up with one common and acceptable definition of a small business (Nieman, 2006:4). The fact that there is no common or unanimous definition of SMMEs is because small firms are present in virtually every industry and their characteristics are not always the same due to varying circumstances, especially across different industries. However, it is common knowledge that SMMEs are managed by owner(s) in a personalised manner, and are owned and operated independently. Also, common characteristics of SMMEs proposed by Bolton (1971:4811) are applied even today in defining small firms. Abor and Quartey (2010:221) articulate these common features as:

- Having no formalised management structure;
- Commanding a relatively small share of the market; and
- Being autonomous to the extent that they do not form part of a larger enterprise and are free from outside control in their decision-making processes (Nieman, 2006:4).

Countries often define and classify small businesses quantitatively leading to multiple and conflicting definitions of these entities. For instance, in the United States of America (USA), a small business would refer to a firm with less than 500 employees. The European Commission defines the SMME sector on the basis of the size of its work force and financial position. It comprises:

- Up to 250 employees;
 - Up to €50 million annual turnover; and,
 - Up to €43 million annual statement of Financial Position Ceiling
- (European Commission [EU], 2011).

The African experience paints a different picture on the classification. The National Board for Small Scale Industries (NBSSI) in Ghana defines these enterprises on the basis of the work force as follows:

- Micro enterprises – from 0 to 5 employees,
- Small enterprises – from 6 to 29 employees,
- Medium enterprises – from 30 to 499 employees.

To further compound the complexity of micro businesses, other definitions add new components such as fixed assets. The Ghanaian definition of micro and small businesses combine number of employees with fixed asset base. Micro enterprises are those employing less than six employees or with fixed assets not exceeding a value of US\$10 000 (excluding land and buildings), while small enterprises employ 6 to 29 workers or have a fixed asset value of not more than US\$100 000. The National Board for Small Scale Industries (NBSSI) classification is the universally accepted definition of SMMEs in Ghana (Nkuah, Tanye & Gaeten, 2013).

In South Africa, the definition of SMMEs is based on the classification provided by the Small Business Act 102 of 1996. The classification of sector/sub-sector, combines size (medium, small, very small and micro), total full-time employees, annual turnover and total gross asset value as presented in Table 3.1. The definition of small business is problematic to the extent that as presented in the schedule, it is criticised for the following reasons:

- It provides no single criterion for describing it - the definition is based on the number of employees, turnover, and total asset value;
- There is a lack of clarity on whether some or all criteria implicated in the definition must be met in order to be classified in a particular category;
- Definitions based on monetary units make comparisons very difficult due to price fluctuations over time; and

- Inter- state comparisons are difficult since different countries have their own currencies.

According to Nieman (2006), the South African definition as contained in the Small Business Act is merely an instrument to determine eligibility for government assistance to small firms. The South African government prioritises small business development as a means of achieving its macro-economic objectives of promoting economic growth, full employment and equity in the distribution of national resources. It is therefore understandable why smallness is limited to only 50 employees to enable many small firms to qualify for the assistance under the Broad Based Black Economic Empowerment (BBBEE) Act of 2003. The BBBEE Act is designed as a process towards the restitution of historical distortions under colonial and apartheid systems which discriminated against blacks and dispossessed them of the factors of production. The BEE Act is aimed at economic transformation in order to enhance the economic conditions of black people and to reverse their economic and social marginalisation. The National Small Business Act of 1996 was enacted with the objective of redressing economic inequality in South Africa. The Act reduced the size of a micro business in order to enable many businesses to qualify for BEE funding. The government also considers BEE as an instrument that could be used to broaden the economic base of South Africa, stimulate economic growth, create jobs and assist in eradicating poverty. It is a coherent and integrated socio-economic process that is intended to contribute directly to the economic transformation of South Africa. The Small Business Act was thus designed to contribute directly to the attainment of these objectives.

The table for the South African classification is presented on the following page.

Table1.1: The South African classification

Sector/sub-sector	Size of class	Total full-time employees	Annual turnover	Total gross asset value
Agriculture	Medium	100	R 5m	R 5m
	Small	50	R 3m	R 3m
	Very small	20	R 0.50m	R 0.50m
	Micro	5	R 0.20	R 0.10m
Mining and quarrying	Medium	200	R 39m	R 23m
	Small	50	R 10m	R 6m
	Very Small	20	R 4m	R 2m
	Micro	5	R 0.20m	R 0.10
Manufacturing	Medium	200	R 51m	R 19m
	Small	50	R 13m	R 5m
	Very small	20	R 5m	R 2m
	Micro	5	R 0.20m	R 0.10m
Electricity, gas and water	Medium	200	R 51m	R 19m
	Small	50	R 13m	R 5m
	Very small	20	R 5.10m	R 1.19m
	Micro	5	R 0.20m	R 0.10m
Construction	Medium	200	R 26m	R 5m
	Small	50	R 6m	R 1m
	Very Small	20	R 3m	R 0.50m
	Micro	5	R 0.20m	R 0.10m
Retail and motor Trade and repair services	Medium	200	R 39m	R 6m
	Small	50	R 19 m	R 3m
	Very small	20	R 4m	R 0.60m
	Micro	5	R 0.20m	R 0.10
Wholesale commercial agents and allied services	Medium	200	R 64m	R 10m
	Small	50	R 32m	R 5m
	Very small	20	R 6m	R 0.6m
	Micro	5	R 0.20m	R 0.10
Catering, accommodation and other trade	Medium	200	R 3m	R 3m
	Small	50	R 1m	R 1m
	Very small	20	R 1.9m	R 1.9m
	Micro	5	R 0.10m	R 0.10m
Transport, storage and communication	Medium	200	R 26m	R 6m
	Small	50	R 13m	R 3m
	Very small	20	R 3m	R 0.60m
	Micro	5	R 0.20m	R 0.10m
Finance and business services	Medium	200	R 26m	R 5m
	Small	50	R 13m	R 3m
	Very small	20	R 3m	R 0.50m
	Micro	5	R 0.20m	R 0.10m
Community, social and personal services	Medium	200	R 13m	R 6m
	Small	50	R 3m	R 3m
	Very small	20	R 0.20m	R 0.06m
	Micro	5	R 0.10m	R 0.10m

(Source: National Small Business Amendment Act 102 of 1996)

The next section of this chapter is devoted to the discussion of the socioeconomic development in selected emerging countries and an advanced country- USA.

The discussion begins with the role of SSABs in general and in some selected countries from Africa (Ghana and South Africa), Asian (China, Indonesia and Vietnam) and the USA. This discussion is necessary in order to provide the attention required by SSABs from the point of view of the owners/managers and the government. The discussion also provides the socio-economic challenges or problems faced by SSABs both in South Africa and the rest of the world. The policy interventions made and actions taken by the South African government in support of SSABs are also reviewed in this chapter.

3.2 CONTRIBUTIONS OF AGRO-BASED INDUSTRIES

Agriculture has contributed immensely to economic growth all over the world, either directly or indirectly because the majority of people, especially in developing countries depend on agriculture for livelihood. Dai and Dai (2006) outline the following contributions of agriculture to the global economy:

- 70% of the world's economy depends on agriculture and related industries;
- A sustainable industrialisation process requires increases in agricultural productivity;
- Agriculture provides linkages through factor markets (labour, capital and land);
- It also provides linkages through product markets;
- Farm productivity determines prices of food;
- Small farms play a specific role in diffusing the benefits of growth throughout the rural economy; and
- Agricultural growth is important for poverty reduction in poor rural areas where agriculture forms the predominant economic activity.

Fan et al. (2004:611) also note that agriculture helps to stem rural-urban migration with its attendant adverse socio-economic consequences such as overcrowding, crime and unemployment.

Despite the benefits of agro-based industries as outlined above, developing countries which have agriculture as the backbone of their economies, face problems of poverty, inadequate infrastructure, low productivity and poorly integrated markets due to the

underdeveloped agricultural sector. According to Brahim (2010:1), the unsatisfactory performance of agro-based businesses is because little attention is usually paid to the value chain. The neglect of value-adding activities results in enormous losses of value addition and employment opportunities. On the other hand, developed countries such as the United States of America (USA) and Europe add value (up to US \$180) by processing one tonne of agricultural products while developing countries generate only US \$40 per tonne of agricultural product. The reason is because 98% of agricultural productions in developed countries are processed compared to less developed countries that do not process primary agricultural products. Only 40% - 60% of manufacturing value added is generated by agro-processing industries in developing countries; meanwhile agro-industrial products are the major products exported from these countries, accounting for half of all products (Brahim, 2010).

Apart from the specific contributions made by agribusinesses, SSABs in general play a significant role in the social and economic development of countries. The following section discusses some of the contribution of SSABs in the social and economic wellbeing of a nation. According to Fida (2008:1), one of the most significant characteristics of flourishing and growing economies is a blooming small and medium enterprises sector of which SSABs are part. SSABs contribute to the economic development of countries in different ways as depicted in Figure 3.1 below. Furthermore, there is overwhelming evidence that SSABs have made and continue to make significant contributions to the social and economic development of both advanced and developing countries (Fida, 2008:1).

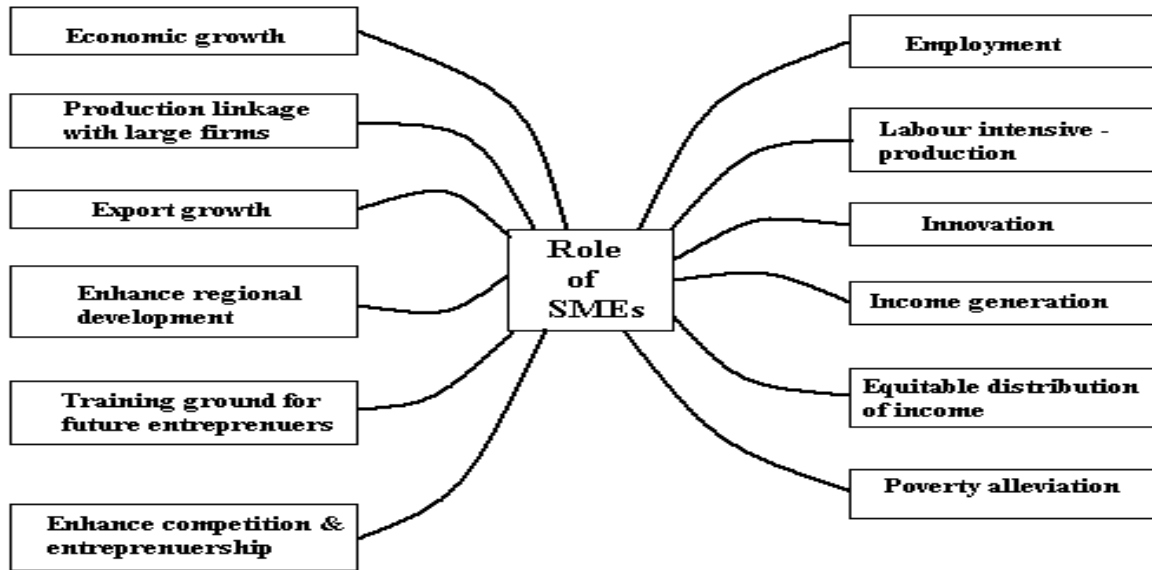


Figure 3.1: Diagrammatic presentation of the role of SSABs

3.3 SSABS AND THE SOCIO-ECONOMIC DEVELOPMENT OF A COUNTRY

According to Das (2010:1), small-scale agro-based businesses contribute to the social and economic development of a country in the following ways:

- They create employment for both rural and urban labour force as they are more labour-intensive than large enterprises;
- They provide desirable sustainability and innovation in the economy as a whole;
- They generate income for both owners and employees and ensure sustainability of family income;
- They help in poverty alleviation by providing jobs and income;
- They are considered as engines for the promotion of economic growth;
- They provide important production linkages with large enterprises;
- They provide for the development and growth of exports;
- They enhance regional development;
- They serve as the training ground for developing workers and entrepreneurs;
- and
- SMMEs enhance competition in the economy.

The discussion in this section is an overview of the contributions made by SSABs in different countries towards social and economic development. These countries include China, Indonesia and Vietnam in South East Asia (APEC countries), Ghana and South

Africa in Africa. The contribution of SMMEs in the USA to socio economic development is also highlighted. These countries were chosen partly because of the availability of country data and information.

In South East Asia, SMMEs contribution to economic development is highlighted by Narain (2010) in the following statistical figures:

- SMMEs make up 80-90 percent of all enterprises;
- They provide 60 percent of all private sector jobs;
- They generate 50-60 percent of total employment;
- They contribute 50 percent of sales or value added; and
- SMMEs contribute about 30 percent of direct total exports.

These statistics imply that SMMEs play a crucial role in the socio-economic development of the region.

China, Indonesia and Vietnam were chosen because they operate agro-based businesses and SMMEs in general play a dominant role in these countries. China's selection was also based on the fact that it is the largest economy in Asia and the second largest in the world, second only to the USA, and has the highest population in the world. It is a transition economy with middle income levels and is more developed than Indonesia and Vietnam. China is also industrialising at a very fast pace. Vietnam is also a country in transition just like China. Ghana and South Africa were chosen in Africa in order to study their SSABs and SMMEs. South Africa was chosen based on the fact that it is the second largest economy in Africa and the location of the study. On the other hand, Ghana is an emerging economy dominated by SSABs and SMMEs activities. Both Ghana and South Africa are developing countries just like all the other countries on the continent.

3.3.1. Contribution of SMMEs in China

In China, high priority is given to employment generation, environmental and ecological protection, poverty eradication and rising living standards of people through agricultural productivity. SMMEs provide 75 percent of urban jobs and the number of enterprises has risen to over 8 million, representing 99 percent of the total number of

enterprises in China. Das (2009:47) also maintains that 78 percent of employees, 64 percent of industrial turnover, 52 percent of corporate profits and 52 percent of fixed assets held by industry is in the SMME sector. The Chinese economy is characterised by numerous private small businesses built on personal strive. They have rural collective economy based on agriculture in the south, while manufacturing SMME activities are mainly located around Hong Kong and Taiwan. These impressive statistics demonstrate the significant role played by Chinese SMMEs in the economy in general and in job creation and poverty eradication in particular. Many Chinese SMMEs are in the export sector, generating almost 60% of China's GDP, 50% tax revenues, 68% of exports and 75% of new jobs (China- Africa Poverty Reduction and Development Conference [CAPRDCC], 2013).

There are many constraints confronting Chinese SMMEs but Zhang (2008) mentions the following as the key challenges: capital scarcity and access to finance, high institutional costs, human capacity building and lack of long term strategy. SMMEs, in general, face problems of funding and Chinese SMMEs are no exception; the government went to their aid by creating credit guarantee agencies in the late 1990s. The government also compelled commercial banks to remove the bank ceiling which restricted lending to SMMEs (Mudzviti and Mawanza, 2014). The 4 trillion CNY stimulus package in 2008 provided opportunities and resources for SMMEs to prosper. These interventions eased the financial problems encountered by SMMEs and promoted development.

Africa and China share the common understanding that the development of SMMEs is crucial for employment generation and poverty reduction and would be beneficial to the economic and social development of both China and the African continent. African countries and China consider SMMEs as an important pillar in the economy. Two-thirds of Africans are making their living off the land by promoting agricultural productivity and the creation of SMMEs to earn income to raise their standard of living (CAPRDCC, 2013).

3.3.2 CONTRIBUTION OF SMMEs IN INDONESIA

SMMEs in Indonesia account for more than 90 percent of all firms outside the agricultural sector, and are the biggest source of employment, providing livelihood for over 90 percent of the country's workforce. There were more than 48 million SMME units in 2006 accounting for more than 50 percent of the gross domestic product (Tambunan, 2008:148). SMMEs have been an important engine for the development of local economies and communities. Tambunan (2008) outlines the following reasons and characteristics which are important for their development.

- They are scattered all over the rural area and are mainly involved in agricultural-based activities and therefore, the engine for rural development.
- They are labour intensive, engaging the less educated women and the youth.
- They finance their operations mainly through personal savings because they cannot meet the requirements of financial institutions which include the provision of collateral security.
- They produce simple consumer goods for the domestic market.
- Both employers and employees have low levels of education.

This is a characteristic which differentiates them from their counterparts in developed countries such as Japan and the USA. Tau (2004) determined that most of the businesses were established out of poverty rather than from entrepreneurial spirit. They can therefore be viewed as survivalist businesses. Distribution by sector shows that Indonesian SMMEs are concentrated in agriculture, followed by trade, hotel and restaurant. The third most important sector is manufacturing, involving food processing as the main activity.

3.3.2.1 Constraints faced by SMMEs in Indonesia

The general constraints noted by Tambunan (2008) include the following:

- Lack/inadequate capital from banks or other financial institutions; though there are SMME credit schemes, rural SMMEs never receive any credit;
- Difficulty in procuring raw materials;
- Lack of access to relevant business information;
- Problem in marketing and distribution;
- Low technological capability;

- High transportation costs;
- Cumbersome and costly bureaucratic procedures; and
- Policies and regulations that generate market distortions.

In Indonesia, there are three conditions that make SMMEs to exist and grow alongside the large scale ones. The conditions are outlined below.

- Creating a niche market – they do not compete directly with big businesses; differentiated products are the key to their survival.
- SMME activities are very important sources of income for the population – It is therefore presumed that as long as there is poverty, SMMEs will survive even if the per capita income of the country is high.
- Subcontracting between SMMEs and big businesses has become increasingly more important than competition. This is a positive development as it fosters cooperation and harmony instead of cut-throat competition.

3.3.3 CONTRIBUTION OF SMMEs IN VIETNAM

Over the past 20 years, Vietnam achieved a unique success in economic development and poverty reduction. The country transformed from a centrally planned to a more market-oriented economy. It is a developing middle income transition country. Vietnam had a period of stable and high growth rate, averaging 7.3% from 1990 to 2010. The per capita income stood at USD 1330 by 2010. The strong economic development was due to strong export growth and increased investment in the private sector – 20.7% in 2011(Federal Department of Economic Affairs, 2013). SMMEs' share of production is 42% of the GDP. The majority of SMMEs are agro-based. The role of SMMEs is indisputably important for the growth of the economy and employment and could lead to solving social issues, especially in rural areas.

Poverty reduction is a key issue in Vietnam. Poverty dropped from 58% in the early 1990s to below 10% in 2011. With a population of 88 million, 56% constitute the labour force, mainly in the SMME sector (Das, 2009). Unemployment is as low as 2.3%and the majority of Vietnamese work in the informal SMME agro-business sector.

Access to long-term financing is problematic, as observed in China and Indonesia. Government, however, provides some support programmes for exports and financial management. According to Sinh (2013), the government has set up research priorities to investigate innovation systems in agro-based food processing. Agro-based production units or farms are regarded as centres of innovation systems. At this juncture, an attempt is made to compare SMMEs of the three Asian countries.

Table 3.1: Comparing the economic contribution of SMMEs of China, Indonesia and Vietnam

Country	% composition	Employment	Gross Domestic Product	Exports
China	99%	73%	60%	68%
Indonesia	99.9%	94%	58.33%	17%
Vietnam	99%	56%	42%	20%

(Source: Runckell, 2014)

The statistics above clearly demonstrate the predominance of small-scale businesses in the three countries- China, Indonesia and Vietnam. SMMEs constitute 99% and above of total business establishments in each of these countries. Similarly, they also dominate in job creation and employment. Indonesia has the highest percentage employment figure for SMMEs, which relates very well to the almost 100% number of SMME establishments in the country. The contribution to employment in China is also high while that of Vietnam is the least, but above average – 56%. Though the contribution of SMMEs to gross domestic product (GDP) is significant relative to the large number of business establishments, 99% in each of the three countries are of the view that they should have done better in their percentage contribution to GDP. This seemingly low contribution to GDP may be explained by the fact that SMMEs are generally known to have low productivity due to the numerous constraints they face, such as lack of skilled labour and lack of sufficient funding.

Narain (2010:21) also notes that the single most important indicator of competitiveness and growth is the contribution made by SMMEs to the total exports of a country. This applies to both higher export volume and diversification of exports. It also includes expanding the export base of domestic enterprises to enable them to compete globally. The contribution of SMMEs to exports varies in Asian countries from 10 percent to over 60 percent. It is currently 68% in China (see Table 3.1). China is at the

forefront of exportation, selling 68% of its production in foreign countries. The export figures are low for both Indonesia and Vietnam – 17% and 20% respectively. These low figures for Indonesia and Vietnam could be explained by the lack of technology, lack of skilled workers and lack of knowledge about foreign market opportunities and minimum access to capital for financing export activities. According to Tambunan (2009), a reason for the smallness of the export market in Indonesia in particular, is that, most of the small producers depend on the few large firms for the processing and exportation of their products to the global market.

The literature reveals that the majority of SMMEs in the three countries are agro-based and rural. They therefore help prevent immigration from rural to urban centres/cities thereby preventing social problems such as inadequate housing, inadequate facilities and crime. The large number of people involved also facilitates a more equitable distribution of income and poverty reduction in these countries. The three Asian countries exhibit impressive growth rates: China – 7.7 (Cong, 2014); Vietnam – 7.3% and Indonesia – 6.2% (World Bank, 2014). The impressive fast growth and development of the Asian economies is explained by some writers and academicians to be partly due to cultural values, especially, Confucian values.

Confucian values: The role of culture is taken very seriously in the conduct of business in Asian countries, especially in China, Vietnam, Japan and Korea. Khan (1979) identifies Confucian morality which is rooted in the ethico-religious background of East Asia as the base of the rise of industrial East Asia. Confucianism is manifested through strong family solidarity, filial piety, subordination of the individual to the group on the idea of group harmony, social organisation, careful political integration, hard work as a value in itself, frugality, and education as morally uplifting and as the proper road to personal and family success. They also have martial virtues, extra-family loyalties derived from their feudal experience. Confucianism is much a cultural unit that promotes hard work and productivity. It is, however, worthy to note that culture is dynamic and evolving and Confucian values are also found to be increasingly fading among the younger generation. This is being challenged by communist and capitalist ideologies. Currently, Confucian, communist and capitalist ideologies are jointly reshaping and transforming organisational behaviour and managerial practice, especially in China (Wang and Wang, et al. 2005).

3.3.4 CONTRIBUTION OF SSABs AND SMMEs IN AFRICA

In Africa, over 30 percent of the population depends on agricultural SMMEs for their livelihood. This percentage is even higher (90%) in very poor countries. Overall, agricultural exports from African countries represent half of the total merchandise exports and exceed 80 percent in some countries (Kjöllerström, 2007). It is therefore imperative for African countries to intensify agricultural production in order to ensure food security for their citizens. The location of SMMEs in rural areas helps to broadly distribute the benefits of economic growth among the rural poor. This is the objective that the Zimbabwe Growth Point Policy aims at achieving.

The ‘Growth Point’ policy of Zimbabwe

The term ‘Growth Point’ is widely used in Zimbabwe to denote settlements which are earmarked or designated for economic and physical development. They are settlements which are considered to have the potential for development and need support from the public sector. It was meant to spread economic justice to marginalised areas through a policy of ‘growth with equity’. It was an attempt to redress the imbalances created by the colonial economy. The “growth point” had to be self-sustaining (Manyare, Rwafa and Mutangadura, 2011). In order to highlight the contribution made by SMMEs to the socio-economic development of some African countries, a brief overview of Ghana and South Africa is presented in the next section.

3.3.5 CONTRIBUTION OF SSABs AND SMMEs IN GHANA

SMME studies have shown that small businesses contribute over 55% of gross domestic product (GDP) and over 65% of total employment in high income countries (Frimpong, 2013). Similarly, SMMEs play a crucial role in stimulating growth, generating employment and contributing to poverty alleviation. With regard to their economic weight in African countries, including Ghana, a policy document prepared by the National Board for Small-Scale Industries [NBSSI](1994) for the government identifies the following benefits that the country stood to derive from the development of the SMME sector.

- Creating new jobs at low capital cost;
- Improving linkages between diverse sectors of the economy;
- Stimulating entrepreneurial and managerial talent at local level;

- Providing an equitable distribution of wealth and opportunities to disadvantaged groups; and
- Encouraging savings and wealth creation.

In Ghana, it is estimated that SMMEs provide about 85% of employment in the manufacturing sector, accounting for about 92% of existing businesses and contribute about 70% of the country's GDP (Abor and Quartey, 2010). Small businesses are therefore, at the forefront of job creation, employment and income generation which is a prerequisite for poverty alleviation. SMMEs are also a source of immense tax revenue generated by the government for implementing some of its socio-economic programmes such as the provision of health care services, education and physical infrastructure. Frimpong (2013) also mentions the following as the areas where SMMEs have contributed greatly: economic diversification, exports and social stability. They are also breeding grounds for large corporations as many of them start as small businesses. They promote sustainable economic development efforts.

A major feature of SMMEs in Ghana is that they are one-man businesses; hence working proprietors form a large percentage of the work force, constituting about 50%, a situation which is applicable to Indonesia and other developing countries of the world (Abor and Quartey, 2010). Their families are usually unpaid, but are active in the business and make up about 25%, while the remaining 25% are hired workers, trainees or apprentices. The use of family labour and apprentices help cut down labour costs and working capital requirements. The majority of SMMEs in Ghana just like in Indonesia are female-owned and often home-based. They are often not included in the official statistics. They fall under the micro business classification (Abor and Biekpe, 2006).

Despite the immense benefits outlined in the policy document of the National Board for Small Scale Industries (1994), and assessing what has been achieved so far, it could be concluded that Ghana is lagging behind other developing countries such as China and India, especially in the export sector due to a number of constraints. Abor and Quartey (2010) and Frimpong (2013) identify constraints to the development of SMMEs in Ghana as follows: Problem of accessing capital; lack of entrepreneurial

skills; lack of high and affordable business development services; erratic power supply; inadequate technical and management services; limited access to information on global market opportunities; lack of access to appropriate technology; unfavourable laws, regulations and rules that impede SMME development; weak institutional capacity and improper record and bookkeeping.

The root cause of most of the problems could be traced to lack or inadequate support from government departments and agencies. The banking sector is also blamed by business owners for what they consider as the most serious problem – the provision of capital. The banking sector on the other hand, views the SMME sector as a high credit risk area because they do not have the collateral security required against loans. Another setback is that SMMEs are vulnerable to world market fluctuations. They also have very high mortality rate, which affects them negatively when being assessed for bank loans. Finding solutions to these problems would go a long way in promoting the survival and growth of SMMEs. It could assist in their contribution towards national economic growth and development. The next section discusses the contributions made by SMMEs to South Africa’s economy.

3.3.6 CONTRIBUTION OF SSABs AND SMMEs IN SOUTH AFRICA

The growth of small, micro and medium enterprises (SMMEs) is very important for the development of South Africa. The bulk of business enterprises in South Africa fall under SMMES. The situation in South Africa is similar to what obtains in the world’s largest economies of the USA, China, Germany and Japan where small business contributes more than 50% to the GDP of these countries. SMMEs are the drivers of growth and driving most of the global job creation. In South Africa, the contribution of small businesses to employment, GDP and as a component of total business establishment is even more similar to that of developing countries such as Ghana Vietnam and Indonesia. This similarity was drawn by Abor and Quartey (2010) in a comparative study of Ghana and South Africa as illustrated in Table3.2.

Table 3.2: Comparison of the contribution of SSABs of Ghana and South Africa

Country:	Ghana	South Africa
Employment in the manufacturing sector	85%	61%
Contribution to GDP	70%	52 – 57%

SMMEs as % of formal business establishments	92%	91%
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Source: Abor and Quartey (2010)

It is therefore important to recognise the fact that SSABs and SMMEs play a crucial role in stimulating economic growth, contributing 70% to the GDP of Ghana and between 52 to 57% in South Africa. In the manufacturing sector, the employment figures for SMMEs in Ghana and South Africa are 85% and 61% of the labour force respectively; hence they generate income through employment in order to alleviate poverty. SMMEs also form more than 90% of formal business establishments in both African countries. Though the percentage contribution of the SMME sector in Ghana towards employment, GDP and number of business establishments is higher than in South Africa, the contributions made by SMMEs in both countries towards economic growth and development is considerable as illustrated in Table 3.2 above. Abor and Quartey (2010) observed that SSABs and SMMEs in South Africa have become very important for the following reasons:

- Their labour absorptive capacity is higher than large-scale enterprises because they are located everywhere both in urban and rural areas and are involved in labour intensive activities;
- The average capital cost of a job created in the SMME sector is lower than in the big business sector because the labour force is predominantly unskilled and employees are paid lower wages;
- They allow for more competitive markets because of the large number of businesses involved thus discouraging the development of monopolies;
- They can adapt more rapidly than larger organisations to changing tastes of customers and trends because they are very flexible;
- They often use local recycled resources so they are cheaper and environmental friendly;
- They provide opportunities for aspiring entrepreneurs, especially those who are unemployed, underemployed or retrenched;
- Workers in micro enterprises often require limited or no skills or training. They learn skills on the job; and
- Sub-contracting by large enterprise lends flexibility to production processes.

3.3.6.1 Problems constraining SSABs and SMME development

SSABs and SMMEs in South Africa face a number of challenges which are similar to those encountered by SSABs and SMMEs in Ghana. This is a similar situation in all developing countries around the globe. According to SACOB (1999); DTI (2002) and SEDA (2012), these problems are related to:

- The legal and regulatory environment with regard to business licensing, registration of businesses, procedures for exporting and importing, etc.;
- Challenges with accessing lucrative markets due to lack of personal transport and access to ICTs which is crucial for the speedy conduct of business;
- Limited access to finance from financial institutions due to lack of collateral security which most of the businesses regard as their number one problem (SEDA, 2012);
- Lack of suitable business premises that attract the most competitive and sophisticated customers;
- Limited access to the requisite business management skills and managerial expertise;
- Access to appropriate resources and technology;
- The quality of infrastructure, in poverty and rural areas;
- Bureaucratic hurdles such as complex processes of approving business permits; and
- Complex control and supervision processes and the tax regime.

Apart from the general problems outlined above, the agro-business sector, which is the focus of this study, has its own peculiar constraints as identified in a study by Mthemte (2012). These challenges include:

- Lack of planning capacity;
- Inconsistent cash flow;
- Adverse climatic conditions affecting production;
- Difficulty gaining access to arable land;
- High cost of agricultural inputs and machinery;
- Difficulty accessing target markets and linking into supply chains of retailers;
- Shortage of technical skills and capacity;
- Difficulty in adopting new methods of production;

- Competition from large businesses; and
- Poor quality of supporting infrastructure.

The problems identified are many and complex and some are natural while others are regulatory. Government needs to study them and start addressing those that require immediate attention and design long-term plans for resolving such issues as infrastructural development. A study on SMMEs in South Africa will be incomplete if mention is not made of government's policy of Broad-Based Black Economic Empowerment (BBBEE) which seeks to create special favourable conditions for black South Africans to own small businesses.

3.3.6.2 Broad-Based Black Economic Empowerment and SMMEs

The post-apartheid government led by the African National Congress (ANC) strongly believes that supporting the activities of SMMEs will involve and assist black South Africans to benefit from participation in economic activities in the country, hence the introduction of the BBBEE policy. The objectives of BBBEE are outlined in the document referred to as "South Africa's Economic Transformation: A strategy for Broad-Based Black Economic Empowerment (DTI, 2004). According to Nair (2007:32), these objectives are to:

- Promote economic transformation in order to enable meaningful participation of black people in the economy;
- Increase the extent to which communities, workers, cooperatives and other collective enterprises own and manage existing and new enterprises as well as increase their access to economic activities, infrastructure and skills training;
- Increase the extent to which black women own and manage existing and new enterprises and to increase their access to economic, infrastructure and skills training;
- Empower rural and local communities by enabling access to economic activities, land infrastructure, ownership and skills;
- Increase the number of black people who create, manage and control enterprises and productive assets;
- Facilitate ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises; and

- Develop appropriate human resources and skills.

The ANC-led government sees the BBBEE as a central pillar of the democratic government's strategy for economic transformation. It considers it as a vehicle for accelerating economic growth, reducing poverty, unemployment and bridging the gap between the first and second economies. It also identifies the advancement of black people, and women in particular, in SMMEs as a means of narrowing income gaps and facilitating growth in rural areas. Having discussed some of the features, contributions and constraints of SMMEs in both Ghana and South Africa, the next section briefly reviews the features of SMMEs and the problems they are confronted with in the USA (a developed country); attempts made to solve the problems and promote SMME growth in the USA are also discussed.

3.3.7 OPPORTUNITIES FOR SMME DEVELOPMENT IN AFRICA

In this section, an attempt is made to identify institutions that can promote the development of SMMEs/SSABs.

3.3.7.1 New Partnership for Africa's Development (NEPAD)

Since its formation in 2001, NEPAD has emphasised the key role of the private sector, especially SMMEs in contributing to Africa's economic growth and development. At international level, NEPAD is committed to "strengthen and encourage the growth of micro, small and medium-scale industries through appropriate technology support such as cutting high transport costs by linking the continent's major production and consumption centres; empowering Africans with energy by building nine hydroelectricity projects; lowering the cost of information and communications technology and ensuring water security by embarking on nine trans-boundary water projects (NEPAD, 2014:8). Directly related to SSABs is the Comprehensive African Agriculture Development Programme (CAADP) of NEPAD which aims to increase public investment in agriculture by 10 percent of national budgets and to raise agricultural productivity by at least 6 %. Some of the programmes that fall under CAADP are the NEPAD Food and Nutrition Security Programme, NEPAD Pan-Africa Cassava Initiative (NPACI), and the Rural Futures Programme. NEPAD is committed to promoting entrepreneurial development programmes for training managers of

African firms and providing technical assistance for developing an appropriate regulatory environment, promoting SMMEs and establishing micro–financing schemes for the private sector in Africa.

3.3.7.2 Linkages for SMMEs

Linkages with big businesses have been a key driver for the success of SMMEs. Linkages are created when small-scale businesses are integrated into the supply chain of a large-scale business using the technical and business skills mentoring approach. It brings local SMMEs to international standards and spurs economic growth in the region of the local SMME by spreading the benefits of large industrial investments to a wider cross section of SMMEs. The costs of production are reduced while at the same time, it makes the SMME world class by adopting high class production methods. Advantages of the linkage as noted by the International Finance Corporation (IFC) (2008) include:

- Better access to finance;
- Access to quality control methods for goods and services;
- Leverage to negotiate;
- Lower overheads;
- Reduced operational risks;
- Access to technology and greater market access;
- Exposure and experience in global industrial standards;
- Fosters technical support and access to capacity-building initiatives; and
- Access to technical expertise and best practices from other countries and support from other globally recognised organisations.

A study on 200 small businesses in the US revealed that seven in ten small businesses increased revenue and their size of undertaking within two years of becoming part of a corporate supplier base (Badal, 2013). This is a proof of better performance of linkage activity. It is therefore evident that when SMMEs interact with big businesses, the SMMEs make changes that improve their organisational structures, management practices and operations. These help them to upgrade their technologies, increase their efficiency and bring financial stability to these firms. Increased revenue makes it possible to grow and create more new jobs. It also opens the door for easier credit

and other business opportunities. Other benefits are the spill over effects of new knowledge, innovation and business models. When a few small businesses improve their systems or business models, other small businesses learn from them and this contributes directly to raising their standards of performance and improving quality thereby boosting the competitiveness of the entire SMME sector.

3.3.7.3 Franchising

Franchising is a key development for SMMEs, involving the practice of leasing a business for a prescribed period of time and the right to use a firm's successful business model and brand. It has been identified by the African Development Bank (ADB) as a major lever for African business. Outsourcing goods and services to SMMEs by big businesses in turn benefits big businesses as it allows them to focus on their core business. In a micro economic sense, the linkages bring benefits of broadening the economic base, which leads to increased tax revenue for the government; wider distribution of wealth, employment creation that fosters an improvement in the standard of living. Franchise business has been the fastest growing business in many western countries and African countries could also benefit in the same way. In the USA, franchise outlets account for about 40% of all retail sales and about 20% in the UK. Franchising outlets in developing countries are predominantly SMMEs and have a survival rate far higher than other (independent) SMMEs. This is because of the following factors:

- Lower overhead cost – buying a franchise business means taking advantage of a franchisor's already existing national and global distribution networks when it comes to low cost bulk purchasing and consistent product supply and access to high volumes;
- Name recognition – It provides instant brand recognition and recall by customers which facilitates sales promotion;
- Training and support – The parent company provides training and support for the franchisee and its staff with the right set of skills and knowledge necessary for effective job performance;
- Risk minimisation – It avoids many risks associated with other types of start-up businesses;

- It increases the chances of business success because of proven and accepted products and methods of operation; and.
- Guarantee of quality – high quality and consistency is assured because it is stipulated in the franchise agreement.

According to the International Franchise Association (IFA, 2014), franchise businesses create faster growth than other businesses in the rest of the economy. In Africa, South Africa is the leading franchise country, creating about 300 000 new jobs, contributing about 9.7% to GDP and generating R302 billion income (Mail and Guardian, 2013). The USA is the largest franchising country in the world having an estimated number of 770 368 in the year 2014. The rate of establishment of franchise business stood at 1.7% in 2014 for the US alone. The rate of generation of employment is also high (2.3%), employing about 8 510 000 people in 2014 in the USA. Its contribution to GDP stood at 4.5%, and was estimated to amount to \$493 billion in 2014 (IFA, 2014:1). Another country in which franchise business is growing very rapidly is India, with a growth rate of 1.4 % per year. According to the franchising Association of India Report (2013), the franchise industry in India is expected to quadruple between 2012 and 2017 and to create an additional 11million jobs.

Franchise business has the potential to bring entrepreneurs from the informal sector to the formal sector, which is good for economic growth and stability. Being formal helps the business in many ways, especially when it comes to the problematic issue of raising capital. The franchise business sector is therefore a very fertile area for investment and governments need to encourage SMMEs to invest in the sector as it provides a fast line for economic growth, employment creation, income generation, poverty eradication and improved standard of living in Africa. The agro-processing sector will be particularly suitable for franchising businesses as they are in a better position to produce standardised products similar to those of the franchisor than those involved in primary production.

3.3.8 Contributions of SSABs and SMMEs in the development of the USA

The contributions made by SMMES to the economy of the USA are similar to those made to the rest of the world. SMMEs provide major employment opportunities and

also co-exist alongside the highly organised sector. There are 23 million small businesses in the USA which are the main employers of labour (Das, 2009:48). According to Das (2009: 47), the importance of the small business sector is manifested in the following ways:

- SMMEs represent 99 percent of all employers;
- They account for more than 50 percent of GDP;
- They account for 28 percent of jobs in the high technology sector;
- They provide 55 percent of all innovations;
- Virtually all new jobs in the economy are created by SMMEs;
- They account for 47 percent of all sales in the United States;
- They win and execute 35 percent of all Federal Government contract deals;
- They account for 51 percent of private sector output; and
- SMMEs represent 96 percent of all exports of the United States.

The statistics presented above are impressive and clearly illustrate the significant contribution made by the SMME sector to the economy of the United States. They are particularly dominant in their contribution to export, GDP, private sector output, innovation and job creation. The fact that they win and execute more than a third of all Federal Government deals is an indication of the positive government support and confidence in their capability to perform. Employment rate according to firm size (number of employees per enterprise) in the USA is as follows:

- 60 percent have 4 employees or less;
- 18 percent have 5 to 9 employees;
- 11 percent have 10 to 19 employees;
- 9 percent have 20 to 99 employees; and
- 1.4 percent have 100 to 499 employees.

This statistics demonstrate the significance of small firms, especially micro businesses in absorbing the labour force. Apart from their dominant role in employment and income generation, contribution to gross domestic product, turnover and exports, SMMEs are at the frontiers of innovation.

Despite the impressive contributions made by SMMEs to the economy of the USA, they are also confronted with a number of constraints to their development. The barriers mentioned below are related to globalisation and exports in particular. Major constraints to exports as articulated by Pandya (2012) include the following:

- Insufficient access to finance (which is a major problem in all the countries studied);
- High transportation costs;
- Problem with domestic and foreign regulations;
- The small-scale of SMME production;
- Burdensome foreign customs procedures;
- Tariff and non-tariff barriers;
- Language and cultural differences; and
- Lack of knowledge of foreign markets.

The constraints mentioned above in relation to the advanced economy of the USA, apply to all the developing countries discussed as well (China, Indonesia and Vietnam in Asia; and Ghana and South Africa in Africa). Pandya (2012) categorises these challenges into two groups as follows: organisation specific and system specific challenges. Organisation specific problems relate to the smallness of size which deprives them from reaping the benefits of economies of scale.

These organisation specific constraints are:

- Lack of finance;
- Low human resource capabilities;
- Low technological capabilities;
- Low efforts on R&D;
- Poor management competences;
- Lack of skilled manpower;
- Deficiencies in marketing strategies;
- Lack of innovative technology; and
- Lack of awareness of the significance of corporate governance structure or the adoption of these practices due to the high cost of implementation.

The systems specific challenges hampering the growth of SSABs and SMMEs as noted by Grimsholm and Poblete (2010) in the USA are:

- Competition;
- Corruption;
- Barriers to trade; and
- Role of government relating to bureaucracy in the legal and regulatory framework as identified by Aikaili (2007).

Attempts have been made in developed countries such as the USA to solve some of these problems. It is important to review these solutions and endeavour to adopt them in developing countries with the pious hope that they will work, because the challenges faced by SMMEs are universal and virtually the same in both developed and developing countries.

3.4 OVERCOMING THE CHALLENGES FACED BY SSABS AND OTHER SMMES

Pandya (2012) categorises the strategies to overcome the challenges faced by SSABs and SMMEs under specific themes such as; financial, human resource, marketing, research and development, technological and corporate governance.

3.4.1 Financial strategy

Studies on SMMEs throughout the world have identified lack of access to sufficient funds as the main problem that restrains performance and growth. To overcome this problem in the US, the government initiated support programmes for SMMEs; for example, it created the New Ventures Investor Forums which is charged with the responsibility of bringing together financial, government and business communities in order to find ways of supporting SMMEs. Secondly, training courses are organised for entrepreneurs on business plan monitoring and management (Pandya, 2012). These support programmes initiated and implemented by the US could be adopted in developing countries to ensure better performance, survival and growth of SMMEs.

3.4.2 Human resource strategy

According to Menefee et al. (2006), the characteristics of the entrepreneur play a key strategic role in the success of a business. The human resource problems of SMMEs have to do with recruiting, motivating and retaining employees. It has been determined that there is a positive relationship of professional human resource practice on the long-term sustainability of small firms (Pandya, 2012). Hence, it is of crucial

importance to pay special attention to this human factor. The mistake that small firms make is the tendency to ignore it, as it is not easy to quantify human resource contribution in the organisation.

3.4.3 Marketing strategy

The survival and growth of businesses depend to a large extent on the marketing effort. Limitations on marketing activities could also be due to constraints imposed by lack of financial resources, time, marketing knowledge and exclusive marketing techniques. A solution to the marketing problem faced by SMMEs has been recommended by Kai (2009) based on the success achieved by Italian clusters in the field of process technologies. The strategy involves forming enterprise clusters to participate in market competition and regional marketing. The advantages of cluster marketing are overcoming slow information delivery, high management cost and slow response to market demand. Consequently, production efficiency and high level of responsiveness in the cluster are enhanced. The cluster strategy was successfully applied in the manufacturing sector in Italy (a developed country like the US). It requires both government and private sector efforts to promote and execute the cluster idea.

3.4.4 Research and development strategy

Research and Development are necessary for product innovation and improvement in product quality. For SSABs to be able to compete in the global market calls for intensifying their research efforts, especially in the processing sector in order to add value to the products and gain competitive advantage over foreign competitors (Morrison, 2006). Government support is also needed though being directly involved or through granting subsidies to ease the R&D efforts of firms and research organisations. Governments could also endeavour to establish agricultural research stations/institutions that could help boost agro-based productivity for the global market as agro-based SMMEs generally lack the required resources for R&D.

3.4.5 Technological strategy

In order to keep abreast with current developments and changes, there is a need to upgrade technology in developing countries. Unfortunately, this is not happening in SMMEs of developing countries due to financial constraints. The continuous upgrade

of technology is what is required in order to cope with market demand (Pandya, 2012). The traditional outmoded way of production can only result in low productivity, low quality products and restrictions to local markets. To operate in the global market requires adopting new technology in order to produce high quality goods and in large quantities to meet the growing demand of the global market. Developed countries such as the US are at the forefront of technological development and upgrade; developing countries need to follow suit in order to enjoy positive results and become competitive global participants. SMMEs are incapacitated by lack of finance; policy makers are therefore required to support small businesses through subsidies and other incentive schemes in their efforts to adopt and upgrade technology.

3.4.6 Corporate governance strategy

Corporate governance is about the individual roles of the owners as shareholders and managers. This relates to establishing rules and procedures to manage and run the enterprise, setting up checks and balances to prevent abuse of authority, in order to ensure the integrity of financial statements. Corporate governance is therefore very important for the effective and smooth running of SMMEs (Mahmood, 2008). If SMMEs in developing countries can adopt the strategies or approaches used by developed countries, such as the USA, they will improve growth and survival rates and contribute positively to socio-economic development.

3.5 INNOVATION AND THE CONTRIBUTION OF SSABS/SMMES TO DEVELOPMENT

SMMEs have shown that they have a high propensity to innovate than larger firms (Audretch, 2012). This is because they are conceived to be more flexible, dynamic, and responsive to shifts in demand and changes in economic conditions. North and Strongbone (2000:1) in their study in a rural environment in England, determined that most innovative firms make important contributions to rural economies in terms of external income generation and employment generation and are the most likely to contribute towards economic development. Ndabeni (2008:81) also asserts that knowledge and technological innovations are increasingly becoming the driving forces behind economic development. The importance of SMMEs cannot, therefore, be overemphasised as they have shown that they have a higher propensity to innovate than large firms.

In the USA, Audretsch (2012) determined that the patenting rate, which is a determinant of innovation, is typically higher for small firms than for large firms. This could be due to their flexibility and their quick response to changing and challenging developments. Studies have also shown that despite the fact that a small fraction of total R&D expenditure is on SMMEs in developed countries, SMMEs still contribute greatly to innovation by introducing new products and adapting existing products in order to meet the needs of customer. (Harvie, 2008:53). Innovation, undoubtedly, leads to the production of high quality goods and in large quantities as well as provision of a wide range of goods for consumers' choice. SMMEs are also innovative in terms of improved designs, product processes, and in the adoption of new technologies. Small businesses are said to be in the fore front of innovation for the following reasons:

- They are less bureaucratic and therefore flexible and could easily adapt to changing conditions;
- Advances in technology accumulate on a myriad of detailed inventions involving components, materials and fabrications, techniques and sales. Possibilities for making such narrow detailed advances are often too narrow to interest large firms; and
- It is easier to sustain high interest in innovation where there is tight link between challenges, staff and potential rewards.

Key issues confronting economies have been job creation, economic growth, and international competitiveness through export promotion which SMME have helped to address. SMMEs have also promoted innovation and entrepreneurship and have spill over effects of efficiency and productivity growth. Outlined below are specific areas of innovation in agro-industries.

Innovation in agro-industries

Developments and innovations associated with food systems have increased the quality and quantity of food production. Apart from innovations such as biotechnology or genetic modification, a large number of innovations strictly related to food systems technology are as follows:

- Technologies for storage and preservation – low temperature storage, controlled atmosphere storage, processing of fresh fish in boats, pasteurisation and sterilisation, packaging technologies and preservatives;
- Technologies for transportation – cold chain distribution, transportation by refrigerated cars, planes and boats;
- Technologies for processing – freeze-drying, spray-drying, micro-wave drying, frozen-drying, frozen-grinding, membrane-filtration and high-pressure processing; and
- Changes in food distribution – ready-to- eat foods, frozen foods, vending machines, family restaurants, convenient stores and internet selling

(Saio, 2009).

The methods of technological innovations mentioned above, especially freezing technologies with high speed packing, facilitates the transportation of fresh food for long distances without damage. Another burning issue confronting the world, especially in developing countries is poverty alleviation. This is discussed in the next section.

3.6 POVERTY ALLEVIATION

Poverty can be defined as general scarcity or dearth, or the state of one who lacks a certain amount of material possessions or money. There are two types of poverty: absolute poverty and relative poverty. Absolute poverty refers to the deprivation of basic human needs such food, water, sanitation, clothing, health care and education. Relative scarcity is on the other hand, defined contextually as economic inequality in the location or the society in which people live. Hence, poverty is multifaceted. It has economic, social, political and cultural dimensions. The economic dimension involves the right to work and have an adequate income; the social aspect concerns such issues as access to health care and education; politically, it includes freedom of thought, expression and association and the cultural facet has to do with the right to maintain one's own cultural identity and be involved in the community's cultural life (Smelser, 2001:4).

This researcher is concerned mainly with absolute poverty because of its devastating consequences (hunger, diseases and deaths). The World Bank estimated in 2008 that

1.29 billion people were living in absolute poverty. Out of this number, 400 million were living in India and 173 million in China. Sub-Saharan Africa has the highest rate with 47% (World Bank, 2010). UNICEF also estimates that about 1.1 billion children (about half the world's children) live in absolute poverty (World Bank, 2012). The problem of absolute poverty is so serious that efforts are being made by both national governments and international organisations to address the issue of poverty alleviation. It is believed that the promotion and development of agro-based industries, especially in rural areas provides a vehicle through which poverty could be alleviated.

Over 80 percent of all poverty groups in developing countries live in rural areas (Gudgeon, 2001). Promoting agro-based and resource-based SMMEs in rural areas contributes in generating employment and alleviating poverty (Alweendo, 2004). These SMMEs make valuable contributions in alleviating poverty and promoting economic and social justice. This is achieved by employing a considerable number of poor and low skilled workforce who might otherwise not be absorbed by the formal market. Higher employment in rural areas helps to reduce inequalities, promotes development of backward areas and also leads to balanced regional growth and development. Most Africans live in rural areas and agriculture remains the single largest source of employment and income. Agriculture contributes 15% of GDP, almost two-thirds of employment –(64.7%) and accounts for more than 75% of domestic trade by value and provide livelihood for the majority of the economically active population (World Bank, 2007a).

In 1990, as a baseline for the Millennium Development Goals (MDGs), it was estimated that in sub-Saharan Africa, 295 million people were living on less than \$1.25 a day, but the number rose to 388 million people by 2005. The corresponding figure for \$2 a day also rose from 290 million to 555 million people (World Bank, 2009b). Thus, the proportion of people living in poverty has dropped from 57.6 per cent to 50.9 per cent for the \$1.25 benchmark and from 76 to 72.9 per cent for the \$2 a day benchmark.

Despite the slight improvement, it is at a slower rate than the progress necessary to reach the target of halving poverty by the year 2015 (World Bank, 2009b). At the continental level, agribusiness is estimated to account for approximately one fifth of

the GDP of sub-Saharan Africa. For individual African countries, the share of total manufacturing value added of the two primary agro-industrial subsectors (food and beverages and tobacco) alone range from 17% in South Africa to 47% in Ethiopia (World Bank, 2009:21).

An agricultural business development path involving greater productivity growth throughout the agricultural business value chain – covering farms, firms and distributors – represents a solid foundation for rapid, inclusive economic growth and poverty reduction. A consensus is emerging that agro-industries are a decisive component of socially inclusive, development strategies (Wilkinson and Rocha, 2008:1). The evidence between growth and poverty reduction is provided by China which lifted 475 million people out of poverty between 1990 and 2005 (UNIDO, 2011:47).

The Food and Agricultural Organisation (2007) highlights the following about economic growth and poverty alleviation using SMMEs.

- That poverty alleviation is positively related to overall economic development.
- Agricultural growth in developing countries has stronger effects on poverty alleviation than growth in other sectors.
- Economic growth alleviates poverty mainly through the labour market by means of wage increases.
- Its impact on poverty reduction lessens if there is growing income inequality.
- Rural growth reduces both urban and rural poverty.

The contention that SMMEs in the agricultural sector promote poverty alleviation is based on the fact that about 80 per cent of the total labour force in developing countries is employed in agriculture; and the percentage of the poor living in rural areas is much higher than those living in urban areas (FAO, 2007:16). Agricultural growth, undoubtedly, increases the income of the poor directly through the additional demand for labour and indirectly through input, output and expenditure linkages with non-farm activities. Agro-based businesses are therefore contributing greatly to social and economic upliftment of the poor through employment and income generation. Unequal distribution of income is another serious socio-economic issue that governments are

confronted with. The section that follows discusses the various ways used by agro-based SMMEs to address the unequal distribution of income in society.

3.7 EQUITABLE DISTRIBUTION OF INCOME

Agro-based and resource-based industries in rural areas assist in the distribution of the benefits of economic growth broadly and equitably among the rural poor (Das, 2009:39). According to Nugent and Yhee (2002:14), this equitable distribution could be due to the fact that SMMEs are more labour intensive than large enterprises and have narrower wage differentials across workers. Wages are also distributed more equally than profits, rents and other components of national income. As a result, the SMME sector expands faster than large-scale businesses. The fact that SMMEs contribute the highest percentage to employment in both developing and developed countries revealed in the literature revealed, coupled with the fact that income gaps are narrow in these businesses means that they are solving the problem of unequal distribution of income. Other contributions of SMMEs are outlined in the following section.

3.8 OTHER CONTRIBUTIONS OF SMMES

According to the Small Enterprise Development Agency (SEDA, 2012), apart from the glaring contribution to GDP, employment, exports, innovation, equitable distribution of income and poverty alleviation, agro-based SMMEs also play a significant role in the following ways:

- They open up new channels of distribution and marketing for agricultural commodities produced by small and marginal farmers and raise their income;
- Employment or ownership of micro enterprises provides the poor with a source of empowerment and income security and enables them to participate actively in rural and overall economic development;
- SMMEs also earn foreign exchange through exports, upgrade the quality of the labour force and diffuse technological know-how (which are prerequisites for production for the export market) throughout the economy;
- They mobilise domestic resources by utilising savings, labour and agricultural raw materials which could have remained idle;

- SMMEs serve low income consumer markets, and produce and provide a wide range of goods;
- SMMEs located in rural areas provide means of livelihood that helps to stem rural-urban migration; and
- SMMEs also provide a training ground for small-scale entrepreneurs and business management personnel who may later be employed in larger enterprises.

Despite the significant contributions made by SMMEs to economic growth and development (as outlined above), they are plagued by numerous problems which constrain their performance (SEDA, 2012). There is the urgent need for governments to solve these problems confronting SMMEs all over the world in order to sustain their positive contributions in society.

3.9 IMPLICATIONS OF GLOBALISATION

The discussion on the implications of globalisation in this section is conducted in line with the broad aspects of globalisation. These includes aspects such as trade liberalisation, flow of capital, free movement of labour, technology transfer and the emergence of international production networks.

3.9.1 Trade liberalisation

The main feature or aspect of globalisation is trade liberalisation which is supposed to result in the free flow of goods and services. The immediate consequence of increased trade flows is increased competition. In the short run, economies in general, and SSABs in particular, hate competition as it limits their market and places extra demand on their efforts. It should be noted, however, that, competition is good in the long run as it fuels the drive for efficiency and rationalises production along the lines of competitive advantage (Khadka and Ichsán, 2003). Developing countries can also compete effectively in the global market with products in which they have natural comparative advantage. They can be competitive in traditional tropical crops and in components of the animal protein complex, non-traditional food exports such as fruits,

horticulture, fish as well as livestock products, which already form a significant part of exports (Wilkinson and Rocha, 2008).

Though barriers to trade still exist, it is believed that with the help of the competitive agro-industry which increases value-adding and improves product safety and quality, the efficiency of technical processes and business practices, access to potentially lucrative global markets will be achieved. Furthermore, to be a successful player in the global agro-market requires adherence to standards, quality consistency, volume requirements and timely delivery. The large global market also offers the opportunity for diversifying the agro-industrial sector. The risk of selling in the small local market is reduced by diversifying production to serve international markets. The ability to serve a diverse base of customers could also safeguard against instability because the development and promotion of agro-based industries may be a relatively safe investment as the market for products such as foodstuffs and other necessities of life have relatively low demand elasticity and thus enjoy low price volatility.

3.9.2 Increased capital flows

Information and communications technology has enabled capital to become a tradable good, making it easier to access finance capital globally. This has facilitated the rapid economic development of countries. A classic example often cited is the Asia and the Pacific region which attracted a huge amount of foreign investment to the region. Reckless lending also contributed to the Asian financial crisis in 1997. Despite the more conservative approach adopted by the banks and the declining trend of foreign direct investment (FDI), about half the investment flows are directed towards Asia and the Pacific at global level (World Bank, 2003). In the Asian and Pacific region and elsewhere, agro-based industries in rural areas have not attracted attention from institutional investors and venture capitalists due to their low productivity. Prospects, however, look good for SSABs in view of the importance attached to SMME promotion and development by policy makers as well as increased SMME financing schemes and financing mechanisms.

3.9.3 Increased knowledge and information flow

According to Wong (2007:3), Agro-Biotechnology development in genetics, microbiology and diagnostics, coupled with Information and Communication Technology (ICT), and nanotechnology have revolutionised and pushed up agricultural productivity and profit frontiers. There is great expectation that agro-biotechnology can contribute greatly to innovations, cost deductions, productivity improvements, new processes and new products. ICT has greatly triggered global integration. Innovations and applications in the field of ICT such as e-mail, satellite connections, fibre optic cables and data compression have been able to boost the performance of industries. The speedy flow of information has made it possible for industries to respond faster to market opportunities. In the agro-business sector, ICT is playing an important role by encouraging the establishment of data bases with useful information on R&D and markets. A response is the Asian and Pacific Centre for Transfer of Technology (Khadkan and Ischan, 2003:10). Information is easily stored while its accessibility is facilitated by developments in communications technology. Many countries are now focussing on agro-biotechnology as a key strategic area for agricultural policy. Agro-biotechnology is concerned with genetic modification of crops to develop disease resistance or to increase plant yield. It also helps in the diagnosis and control of diseases in crops and livestock and in the use of crop residues and animal waste.

Recently, much attention has focused on biocar as a kind of soil amendment, slow release carrier for fertiliser and carbon sequestrating agent. According to He et al. (2011), biocar can sequester carbon in soil for hundreds to thousands of years. It can also improve the physical and chemical properties and activity of microbes, soil fertility and delay nutrient release of fertiliser as well as reduce nutrient losses from fertilisers and soil. Furthermore, biocar can help in alleviating soil pollution. The application of agro-biotechnology is therefore making a huge impact on the productivity and competitiveness of agro-businesses.

3.9.4 Increased movement of labour

Increased mobility of labour is noticeable where technology transfer is required for specific production processes. However, movement of labour is restricted by the

immigration laws and regulations of different countries. The movement of labour has direct positive effect on agro-businesses in terms of the demand by immigrants for the type of food they are used to eating in their countries of origin. This leads to the importation of such foodstuffs and consequently promotes global trade. On the other hand, the acquisition of taste for local food by immigrants can also expand the market for local producers.

3.9.5 International production networks

According to Hanson (2014), globalisation entails greater international trade in final goods. In the current environment, firms are more able to fragment their operations internationally, locating each stage of production in the country where it can be done at the lowest cost and transmitting ideas for new products and new ways of making products around the globe. Abonyi (2005) shares the same view, and maintains that International Production Networks (IPN) involves the distribution and coordination of geographically dispersed activities in multiple country locations. Foreign outsourcing in the US involves moving less skill-intensive activities abroad while keeping more skill-intensive activities at home. Globalisation of production also raises the incentive to produce in regions with relatively low cost access to foreign markets. Having provided insights into the implications of globalisation to agro-based businesses, the next section reviews the contributions made by agro-based SMMEs to economic development around the world.

3.10 SUMMARY OF CHAPTER

The agro-based industry is defined as industries/enterprises involved in agriculture and processing agricultural products. SMMEs were defined within the context of the peculiar circumstances prevailing in each country. The complexity of coming up with a universal definition of SMMEs was explained. The contribution of agriculture to socio-economic development, especially agro-based businesses was also discussed. Some of the contributions include: providing raw materials for industries; providing linkages through factor and product markets; diffusing the benefits of growth throughout the rural economy; and enhancing poverty alleviation. The role of agro-based industries is also manifested by employment creation, income generation,

fostering innovation, economic growth and regional development, serving as training grounds for workers and entrepreneurs and enhancing competition in the economy. Some of the constraints to the development of SMMEs relating to regulatory environment, market access, finance, skills and management access to technology, infrastructure and tax regime were also explained. Lastly, the opportunities for SMME development in Africa, through linkages with big business and franchising were discussed. The next chapter presents the research design and the methodology used in conducting this study.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.0 INTRODUCTION

In the previous chapter, the contribution made by SMMEs to economic growth and development was discussed in order to gain a better understanding of the role of SMMEs in the economy. This section describes the research approach/design used in conducting the study. The epistemological approach (positivism) adopted for the study is discussed, the sample design, data gathering and analysis, issues of validity and reliability, questionnaire design, delimitations and limitations of the study are described and explained in the chapter.

4.1 EPISTEMOLOGICAL APPROACH

The positivist epistemology was adopted for the study in order to examine the impact of selected aspects of globalisation on SSABs in the Vryburg-Pokwani area. Blumberg et al. (2008:20); Bryman and Bell (2011:15) advocate the positive approach, itself a natural sciences approach which is relevant to studies which are descriptive or quantitative in nature. This epistemology is preferred because it brings out the objective truth to the understanding of phenomenon. This philosophical approach is also supported by Sekaran and Bougie (2014:29) who maintain that positivists are concerned with the rigour and replicability of the research, the reliability of observations and the generalisability of findings. In this study, a quantitative approach, which involved the examination of relationships between globalisation variables and performance of SSABs was adopted to understand the complexity of globalisation and its implications for emerging agro-based businesses.

There are, however, a lot of criticisms in the application of positivism to a social phenomenon (with interaction between the respondents and the researcher to ensure a better understanding of the view point of actors which is superficial in positivism). For example, constructivists posit that to explain a social phenomenon by applying natural science method is wrong because of the repetition of the same questions that restrict respondents from expressing their personal views (Blumberg et al. 2008:20; Bryman and Bell 2011:15). Another criticism of application of positivism to social phenomenon is that it is costly and time consuming as large samples need to be

collected for analysis and interpretation (Blumberg et al. 2008:23). Although there are other epistemological approaches such as constructivism, critical realism, pragmatism (to mention just a few), the researcher does not intend to describe in detail the other types of epistemological approaches as positivism is the approach that was employed in the study.

4.2 RESEARCH DESIGN

This research is exploratory, descriptive and quantitative in nature. It is exploratory because there is no study so far that has been conducted on “the impact of selected aspects of globalisation on the performance of small scale agro-based businesses in rural South Africa. This need to conduct an exploratory study is supported by Cooper and Schindler (2011:143) and Kumar (2011:11). It is descriptive because it describes the situation as it is and at a given point in time – it draws the picture of a given situation (Cooper & Schindler, 2011:18); Kumar, 2011:10; Zikmund, et al., 2013: 55). It is quantitative because it involves the use of statistical computations to analyse data before drawing conclusions.

4.3 SAMPLE DESIGN

The sample design involves all aspects of sampling used in the study as discussed below. This research is exploratory, descriptive and quantitative in nature. It is exploratory because there is no study so far that has been conducted on ‘the impact of trade liberalisation, free movement of labour and technology transfer on performance, growth and survival’ in the Vryburg-Pokwani area. This need to conduct an exploratory study for the first time is supported by Cooper and Schindler (2011:143) and Kumar (2011:11). It is descriptive because it describes a situation as it is and at a given point in time - it draws the picture of a given situation (Cooper and Schindler, 2011:18; Kumar, 2011:10; Zikmund et al. 2013:55). It is quantitative because it involves the use of statistics to analyse data before drawing conclusions

4.3.1 Unit of analysis

According to Blumberg, Cooper and Schindler (2011:166), deciding on the unit of analysis is a very important step which describes the level at which the research is performed and which objects are researched. The unit of analysis/sampling unit is a

single element or group of elements subject to selection in the sample (Zikmund et al. 2013:390). The sampling unit/unit of analysis in this study is a single SSA because it is the focus of the study and constitutes an element of the population.

4.3.2 Study area

The study focused on the Vryburg-Pokwani area. The geographical coverage of this study is the Vryburg District of the North West Province and the adjoining areas of Frances Baard District (Pokwani Municipality) as described in Section 1.3.

4.3.3 The population

In order to carry out sampling, it is necessary to identify the target population. According to Zikmund et al. (2013:385), the target population is the complete, specific population elements that are relevant to the research project. It is important to carefully define the target population so that the proper source from which the data is to be collected can be identified. Zikmund et al. (2013:385) further emphasise that to implement the sample in the field, tangible characteristics should be used to define the population.

According to combined estimates, approximately 3788 small-scale businesses exist in the Vryburg–Pokwani area. This information was obtained through exploratory investigations conducted in municipalities in the study area. It was revealed that these municipalities do not have accurate records of all small-scale and agricultural businesses situated in the area. This is because many SSABs die off at the early stages of their formation and there is no credible and available list of such businesses. This finding is consistent with literature as similar problems were encountered by earlier researchers in the area regarding the number of small businesses (Dzansi, 2004; Lekunze, 2013; Agbobli, 2014). The population identified for this study includes all SSABs in the study area that employ from one to fifty people, including the owner/manager. The selection of the target population is in line with the definition of SSABs as discussed earlier in Section 3.2.

4.3.4 Sampling frame

Sampling frame is also known as the *working population* because it provides a list from which one can work with operationally (Blumberg, Cooper and Schindler, 2011:177; Zikmund et al. 2013:388). The sampling frame of the current study consists of 899 SSABs situated in the Vryburg-Pokwani districts of the North West and Northern Cape Provinces. Research suggests that there is no clear-cut way of determining the size of a sample (Blumberg et al. 2011:178). There is an agreement, however, that the following factors affect the decision on sample size.

- The extent of precision desired (confidence interval),
- The amount of risk allowable in predicting the level of precision (confidence level),
- The amount of variability in the population itself,
- The cost and time constraints, and
- The size of the population (Blumberg, Cooper and Schindler, 2011:178).

According to Sekaran and Bougie (2014), by rule of thumb, sample sizes between 30 and 500 could be effective depending on the type of research question being investigated. Similarly, Welman and Kruger (2002:64) suggest that as a general rule, one should not use any sample with less than 15 units of analysis, but preferably one with more than 25 units of analysis. If the population size is 500, then the sample size should be 200. It is not necessary to use a sample size bigger than 500 units of analysis. No matter what the size of the population may be, if random sampling is done, the chances of choosing a particular individual does not prevent the chances of choosing another individual. Strydom and De Vos (1998a:192) provide a useful table (Table 4.1) to determine what the size of sample ought to be.

Table4.1: Procedures for the selection of a sample size

Population	Percentage suggested	No. of respondents
20	100 %	20
30	80 %	24
50	64 %	32
100	45 %	45
200	32 %	64
500	20 %	100
1000	14 %	140
10 000	4.5 %	450
100 000	2 %	2000
200 000	1 %	2000

Source: (Strydom and De Vos, 1998:192)

Blumberg et al. (2008); Plaatjies (2008); Soeker (2009); Bryman and Bell (2011); Bvumbwe and Thwala (2011) generally agree that the larger the population, the smaller the percentage of that population sample needs to be included. Furthermore, if the population itself is relatively small, the sample should comprise a reasonably large percentage of the population (Strydom and De Vos, 1998). Consistent with this view, the study population sample was 899 and the actual sample comprised of 269 participants.

4.3.5 Sampling procedure

The total population identified to be involved in agro-based businesses within the study area was eight hundred and ninety nine (899) SSABs. This figure was based on estimates obtained from the various District Departments of Agriculture within the study area. The sample size was first computed out of the population by using the Macorr Sample Calculator at 95% confidence level and 269 agro-based businesses were randomly selected. In view of the above propositions, a sample size of 269 SSABs was selected for this study.

4.3.6 Use of probability sampling technique

The simple random probability sampling technique was used because it ensures that each member of the population has an equal chance of being selected, thereby, making it more representative of the population. This also allows the possibility of generalising results.

4.4 DESIGNING THE QUESTIONNAIRE

The questionnaire was designed to capture the demographic characteristics of owners/managers, the aspects of globalisation and characteristics of a business/firm. The questionnaire is attached as Appendix A. The questionnaire was divided into two main sections. The first section requested demographic information of participants while the second section comprised items on the various issues and aspects of globalisation.

4.4.1 Contents of the questionnaire

Respondents were requested to provide information on the following issues:

Section A: Demographic issues were requested as follows:

Information about the owner/manager

- Age
- Gender
- Highest academic qualification
- Highest level at which business management skills were acquired
- Highest level of education at which agricultural skills were acquired
- Highest level of education at which engineering skills were acquired
- Level of education at which entrepreneurial skills were acquired

Business information

- Length of time business has been operating
- Type of business activity engaged in
- Form of ownership
- Number of employees including owner/manager
- Whether firm is engaged in foreign business
- Type of foreign business activity
- Percentage growth in pre-tax profit over past five years
- Percentage growth in employment over past five years

Section B1: Globalisation and small-scale agricultural business

- Indication of level of importance/relevance of lowering of trade barriers to profitability
- Importance/relevance of lowering trade barriers to business growth
- Importance/relevance of lowering trade barriers to business survival
- Relevance of free movement of labour due to relaxation of emigration laws to business to business profitability
- Relevance of free movement of labour to business growth
- Relevance/importance of free movement of labour to business survival
- Relevance of availability of foreign technology to business profitability
- Relevance or importance of availability of foreign technology to business growth

- Relevance/importance of availability of foreign technology to business survival

Section B2: The extent to which aspects of globalisation has positively/negatively impacted on the growth, profitability and survival of business surveyed was rated. The following aspects were rated (very negative, moderate negative, low negative, none, low positive, moderate positive and very positive): (i) lowering of foreign trade barriers on profitability, growth and survival; (ii) free movement of labour on profitability, growth and survival; and (iii) technology transfer on profitability, growth and survival.

SectionB3: The long-term expectations for the performance of businesses under increased globalisation were rated. The following aspects were rated (very unpromising, unpromising, do not know, promising and very promising): (i) lowering of foreign trade barriers on profitability, growth and survival; (ii) free movement of labour on profitability, growth and survival; and (iii) technology transfer on profitability, growth and survival.

Section B4: The extent of globalisation were rated as follows: (i) extent of foreign labour usage; (ii) extent of foreign technology introduction into business as a percentage of total asset; (iii) extent of the establishment of foreign alliances; and (iv) export as a percentage of gross turnover.

Section B5: The strategies used and their effectiveness were rated as follows: (i) strategies used to counter negative impact of lowering trade barriers; (ii) success of the strategy; (iii) strategies to take advantage of the opportunities presented; (iv) strategies used to counter the negative impact of free labour movement; (v) strategies used to take advantage of opportunities presented by free labour movement due to relaxed laws; and (vi) strategies used to take advantage of the opportunities presented by the availability of foreign technology.

4.5 DATA COLLECTION AND ANALYSIS

4.5.1 Data collection

Quantitative data was collected for the study. A semi-structured questionnaire was used to collect primary quantitative data on the impact of aspects of globalisation on small-scale agricultural businesses. It is necessary here to recall the definition of SSABs as used in this study. Drawing from the definition as proposed by DTI, SSABs were considered to be agro-based businesses that employ between 1 and 50 employees. The researcher personally administered 269 questionnaires to respondents to fill in rather than posting or dropping them at their place of work and collecting them later. Interviews were also conducted by the researcher in order to collect qualitative data.

4.5.2 Data analysis

Data processing begins with editing and coding. Editing of data in this study was done to check for omissions, legibility and consistency in classification while coding helped in categorising data into groups of responses. In the qualitative part of the study, analyses involved determining consistent patterns and summarising them. The data collected was analysed using the IBM Statistical Package for Social Sciences (SPSS) software. The computations comprised of descriptive and inferential statistics.

4.5.3 Calculation of various indices

The next stage of the analysis involved the computation of total scores for each of the three broad dimensions - “importance / relevance”; “impact”; “long-term performance expectations”. In other words, each dimension was reduced to a single variable in the SPSS dataset. The individual item responses were originally captured to range from 1 to 5 (in the case of both “importance/relevance” and “long-term performance expectations”) and 1 to 7 (in the case of “impact”). These were all recoded in the SPSS dataset, starting with zero as the lowest value. In other words, the recoded scores ranged between 0 and 4, and 0 and 6 respectively.

Theoretically speaking, the total score for “importance/relevance” could therefore range from 0 (i.e. 9 items x 0) to 36 (i.e. 9 items x 4). A high total score for this newly

created index stresses the importance of globalisation for the profitability, survival and growth of the business.

Similarly, the total score for “impact” could range from 0 (i.e. 9 items x 0) to 54 (i.e. 9 items x 6), where a high score on this index reflects a positive assessment of the impact of globalisation on the profitability, survival and growth of the business.

A total score for “long-term performance expectations” was calculated in a similar way, ranging from 0 (i.e. 9 items x 0) to 36 (i.e. 9 items x 4). A high total score indicates very promising long-term expectations for business performance under increased globalisation.

However, the three indexes for the respective maximum theoretical values (i.e. 36, 54 and 36) differ because of differences in the number of response categories used. The index scores were therefore standardised by converting all values to a score out of 30. After standardisation, all index scores ranged between 0 (minimum) and 30 (maximum).

4.5.4 Ethical procedures in the data collection

Participants were informed of the objectives of the study and the researcher solicited their consent in order to voluntarily participate in the study. Respondents were assured that the information obtained was to be kept confidential, and that the data could be used for further research purposes and to develop policy guidelines in the study area. Respondents were treated with respect, dignity, and information was also treated with utmost anonymity. The objective of the research was explained to respondents and they were informed on how the findings of the study could be beneficial to them. Participation in the research was voluntary for participants and interviews focused only on issues related to the study, Apart from personal demographics, no personal issues were solicited from participants.

4.6 ENSURING CREDIBILITY OF THE STUDY

The credibility of a study significantly depends on the quality of the measurement instrument (Cooper and Schindler, 2011; Zikmund et al. 2013). The characteristics of a good measurement instrument include validity, reliability, practicality and sensitivity (Cooper and Schindler, 2011; Zikmund et al. 2013). The section that follows explains how these concepts were applied in this study.

4.7 ENSURING VALIDITY

Validity demonstrates the extent to which an instrument measures what is actually intended to be measured (Cooper and Schindler, 2011:280). Zikmund et al. (2013:303) state that validity reflects the accuracy of a measure or the extent to which a score genuinely represents a concept. Validity determines whether the research truly measures that which it is intended to measure or how truthful the research results are. In other words, can the research instrument of the researcher be used to “hit the bull’s eye” of his research object?

There are two main forms of validity namely, external and internal validity. Whereas external validity concerns itself more with generalisability of research findings across persons, settings and times, internal validity focuses on the ability of the measurement instrument to measure what it is purported to measure (Cooper and Schindler, 2011). Internal validity is relevant to the present study. Three broad forms of internal validity are often considered in research. These are: content validity, criterion validity and construct validity (Cooper and Schindler, 2011; Zikmund et al. 2013).

4.7.1 Ensuring content validity

Content validity of an instrument refers to the extent to which the measuring instrument adequately covers the domain of interest (Cooper and Schindler, 2011; Zikmund et al., 2013). An evaluation of content validity begins with identifying the constituents of the concept being measured. In the present study, it was necessary to identify the elements that constitute free movement of labour, technology transfer and trade liberalisation versus the firm elements (growth, profitability and survival).

4.7.2. Ensuring criterion validity

Criterion validity demonstrates how practical the measures are predicting or estimating outcomes of a research (Bryman and Bell, 2011; Cooper and Schindler, 2011; Zikmund et al. 2013). This study attempted to predict firm performance outcomes of sets of combinations of business performance which include the growth, profitability and survival. The extent to which these measures practically achieve these objectives was determined by their criterion validity.

4.7.3 Construct validity

Construct validity takes into account the measuring instrument applied compared with existing theoretical measures (Bryman and Bell, 2011; Cooper and Schindler, 2011; Zikmund et al. 2013). Some authors advocate that researchers should be encouraged to deduce hypothesis from theory as this is relevant to the concept (Bryman and Bell, 2011:157). The measurement instrument applied in this study was adapted from the existing literature on trade liberalisation, free movement of labour and technology transfer thereby ensuring construct validity.

4.8 Reliability

The reliability of a measurement instrument is determined by the extent to which it produces consistent results if applied at different times (Bryman and Bell, 2011; Cooper and Schindler, 2011; Kumar, 2011; Zikmund et al. 2013). According to Leedeey (2011:29), reliability is the consistency with which a measuring instrument yields a certain result when the entity being measured has not changed. The reliability of an instrument is determined by what is referred to as internal consistency. Internal consistency of an instrument demonstrates the extent to which different indicators of a concept converge on a common meaning. It shows the extent of homogeneity among the different items of a multi-item measurement instrument (values above 0.80 are deemed to possess excellent consistency, between 0.70 and 0.80 to be good; and between 0.60 and 0.70 are considered fair. Values below 0.60 are adjudged poor (Bryman and Bell, 2011; Cooper and Schindler, 2011; Zikmund et al., 2013).

In this study, internal consistency was measured by Cronbach's Alpha coefficient as shown in Table 4.2. According to the Cronbach's Alpha coefficients analysis, a value

of 0.70 is normally considered to be the appropriate cut-off for acceptable reliability or acceptable internal consistency. All three indexes (“importance/relevance”; “impact”; “long-term performance expectations”) demonstrate excellent reliability as their respective coefficients are 0.921, 0.906 and 0.885. A second measure of internal consistency is the extent to which each individual item correlates with its total score on the index. Correlation coefficients were computed as estimates of such item-total correlations. A coefficient of 0.50 indicates a strong correlation. As shown in Table 4.3 below, the item-total correlations range between 0.57 and 0.78, and the average-item correlations (for each of the three indexes, 0.72, 0.69 and 0.65) are all markedly above 0.50.

Table 4.2: Cronbach's Alpha coefficients and item-total for each of three indexes

Index	Item	Item-total correlation
Importance/ relevance of globalisation [Cronbach's Alpha = 0.921]	In your opinion, how important is lowering of foreign trade barriers (e.g. tariffs, quotas,) to the survival of your business?	0.70
	In your opinion, how relevant is lowering of foreign trade barriers to the profitability of your business?	0.78
	In your opinion, how relevant is lowering of foreign trade barriers to the growth of your business?	0.75
	In your opinion, how relevant is free labour movement due to relaxed immigration laws to the survival of your business?	0.70
	In your opinion, how relevant is free labour movement due to relaxed immigration laws to the profitability of your business?	0.72
	In your opinion, how relevant is free labour movement due to relaxed immigration laws to the growth of your business?	0.70
	In your opinion, how relevant is availability of foreign technology to the survival of your businesses?	0.69
	In your opinion, how relevant is availability of foreign technology to the profitability of your businesses?	0.72
	In your opinion, how relevant is availability of foreign technology to your businesses growth?	0.70
	<i>Average item-total correlation</i>	<i>0.72</i>
Impact of globalisation [Cronbach's Alpha = 0.906]	How has the lowering of foreign trade barriers actually impacted on the profitability of your business?	0.77
	How has the lowering of foreign trade barriers actually impacted on the survival of your business?	0.75
	How has the lowering of foreign trade barriers actually impacted on the growth of your business?	0.78
	How has free labour movement due to relaxed immigration laws impacted on the survival of your business?	0.57
	How has free labour movement due to relaxed immigration laws impacted on the profitability of your business?	0.62
	How has free labour movement due to relaxed immigration laws impacted on your business in terms of growth?	0.59
	As far as you can tell, how has the availability of foreign technology actually impacted on the survival of your business?	0.73
	As far as you can tell, how has availability of foreign technology actually impacted on the profitability of your businesses?	0.73
	As far as you can tell, how has availability of foreign technology actually impacted on the growth of your businesses?	0.72
<i>Average item-total correlation</i>	<i>0.69</i>	
Long-term performance expectations under globalisation [Cronbach's Alpha = 0.885]	How would you rate your business' long-term profitability under further lowering of foreign trade barriers?	0.73
	How would you rate your business' long-term growth under further lowering of foreign trade barriers?	0.71
	How would you rate your business' long-term survival under further lowering of foreign trade barriers?	0.67
	How would you rate your business' long-term profitability under increased free labour movement due to relaxed immigration laws?	0.63
	How would you rate your business' long-term growth under increased free movement of labour due to relaxed immigration laws?	0.64
How would you rate your business' long-term survival under increased free labour movement due to relaxed immigration laws?	0.64	

	How do you rate business long-term profitability under increased availability of foreign technology?	0.61
	How do you rate business long-term growth under increased availability of foreign technology?	0.61
	How do you rate business long-term survival under increased availability of foreign technology?	0.63
	<i>Average item-total correlation</i>	<i>0.65</i>

4.9 Addressing practical issues in administering a questionnaire

While validity and reliability are of great importance in ensuring the credibility of the study, it is equally important to consider the practicality of executing the measurement process (Blumberg et al. 2008; Cooper and Schindler, 2011). They identify three dimensions of practicality as economy, convenience and interpretability.

4.9.1 Economy

Cost in administering the questionnaire could be significant, especially if the questionnaire items are many. Yet, many items yield greater reliability (Cooper and Schindler, 2011:285). There is, therefore, a need to balance cost with reliability in practical terms. In this study, the number of items was kept to a moderate size and administered over a period of one month in order to cut down cost.

4.9.2 Convenience

A measurement instrument is convenient if it is easy to administer. Cooper and Schindler (2011:285) explain that a questionnaire that is clear, with detailed instructions, is easy to complete correctly, thereby, yielding more accurate results. They also explain that a clear design and layout could also facilitate a more accurate completion for greater reliability. Close attention was paid to the instructions that guided the completion of the questionnaires. The design and layout were revised several times until an acceptable quality was attained.

4.9.3 Interpretability

Cooper and Schindler (2011:286) maintain that interpretability should be given attention if someone other than the designer must interpret the results. Interpretability was not considered a serious hurdle because the measurement instrument was designed and interpreted by the researcher.

4.10 ANALYSIS OF VARIANCE

Three indexes were created for all data and are presented in Table 4.3. The data was summarised under the three main indexes for globalisation and their mean, median, mode, standard deviation, minimum score, maximum score and number of cases were also computed. These measurements are necessary for further statistical computation that will critically examine the relationship between a categorical and scale variables. The comparison was to determine whether respondents at the different levels of the categorical variable also differ significantly in terms of their mean scores on the scale variable. In this study, each of the three created indexes represents a scale variable. Depending on whether the categorical variable is dichotomous (e.g. gender with its two categories) or non-dichotomous (e.g. age with its five categories), the appropriate significance test is either an independent t-test or a one-way ANOVA (F-test).

The variables used for the categorisation into indexes were either dichotomous or non-dichotomous. In the case of a non-dichotomous categorical variable (one-way ANOVA or F-test), 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.

4.11 SUMMARY OF CHAPTER

This chapter has presented the research methodology used in conducting the study. The introduction summarised the different sections contained in the chapter. The research approach was explained and justified. This was followed by a description of the research design, sampling approaches and data collection procedure, a discussion of the research instrument, validity and reliability and the types of descriptive and inferential statistics performed. The next chapter presents the findings of the study.

CHAPTER FIVE: RESULTS AND DISCUSSION

5.0 INTRODUCTION

The previous chapter presented the research methodology used in conducting the study. The current chapter presents and discusses the findings and results.

5.1 DEMOGRAPHIC CHARACTERISTICS OF OWNERS/MANAGERS

5.1.1 Gender distribution of respondents

A total of 151 respondents were interviewed. The results of the analysis show that 20.5% of participants were female while 79.5% were male as depicted in Figure 5.1.

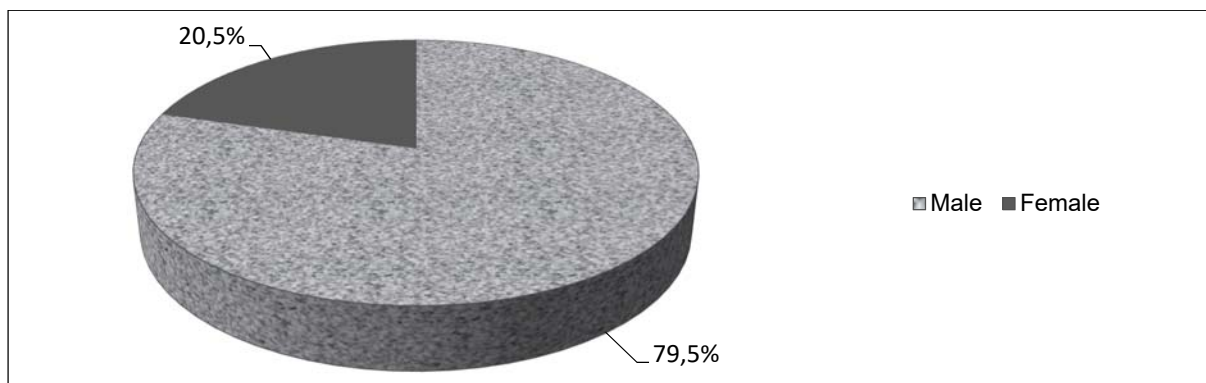


Figure 5.1: Gender analysis of respondents

The small number of female participants in SSABs may be a reflection of barriers to women participation in small businesses due to financial, social, institutional and cultural barriers. The other reasons may be because SSABs are involved in tedious activities that are physical in nature, the difficulty in accessing capital, and prejudices against doing business deals with women. This notion is supported by previous studies (World Bank, 2009; Sahan and Mikhail, 2012) on prejudices against women in agriculture. These studies also conclude that there are more males in small scale businesses than females. DAFF (2010) also notes that in South Africa, there is a historical trend of lower participation of women in agriculture and this trend has remained unchanged.

On the other hand, the higher number of men in SSABs can be attributed to the ability of men to take business risks, access capital, enter into business dealings that are mostly skewed in their favour compared to females. The social configuration of power in the home also contributes to differentials in access to resources (financial, intellectual and technological), which always favour men against women. This could be a true reflection of the ownership/management position in South Africa. Government should therefore take appropriate steps to address the imbalance in cultural, social and policies that reduce women participation in business in order to ensure more female participation in the sector.

5.1.2 Age distribution of participants

Respondents were divided into five different age cohorts to analyse the relationship between age and experience in business. From the analysis, respondents in the age group 41-50 years are in the majority, representing 35.1%, followed by the age group 51-60 constituting 26.5%. Those who are above 60 years constitute 19.9% while those aged 31-40 and 21-30 age group constitute 11.9% and 6.6% respectively as shown in Figure 5.2. The statistics reveal that the majority of successful SSABs owners/managers are aged 40 years and above.

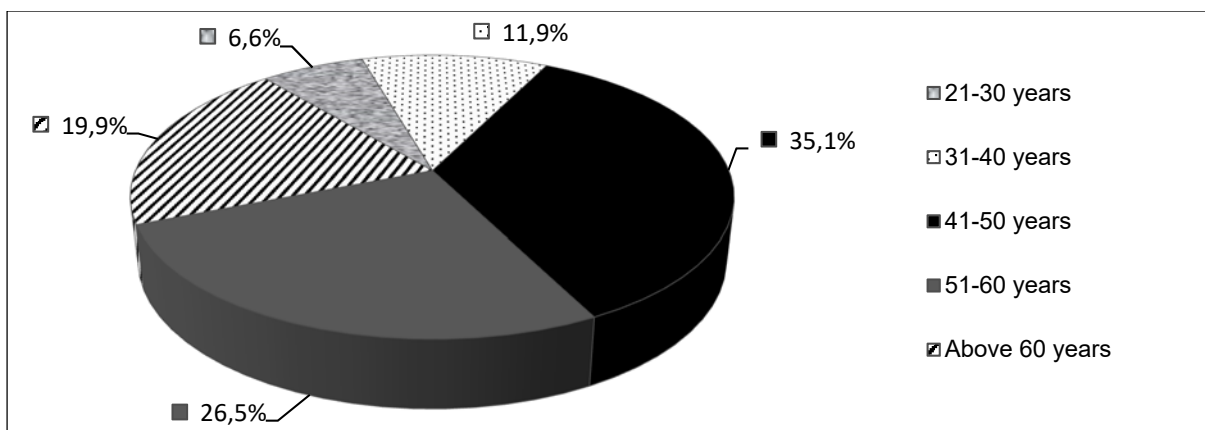


Figure 5.2: Age of respondents

The dominance of the middle age group (41-50 years) suggests the value of prior practical experiences obtained and proper understanding of the nature of local and international agro-industries by owners/managers before creating and establishing a business. This analysis supports the notion that there is direct relationship between

the establishment/survival of any SSABs and the age of owners and managers as older owners/managers have better practical experience than the younger ones. This is necessary to guarantee the success of the business.

5.1.3 Levels of academic qualification

The academic qualifications of the owners/managers were assessed in order to ascertain their educational profile. The result in Figure 5.3 shows that 13.9% did not have any academic qualification, 14.6% had primary education and those who had the National Senior Certificate (NSC) and above primary level comprised 23.2%. Respondents with tertiary education (tertiary qualifications, Diplomas/Degrees, Postgraduate certificates) constitute 48.4%, representing the majority of participants as shown in Figure 5.3.

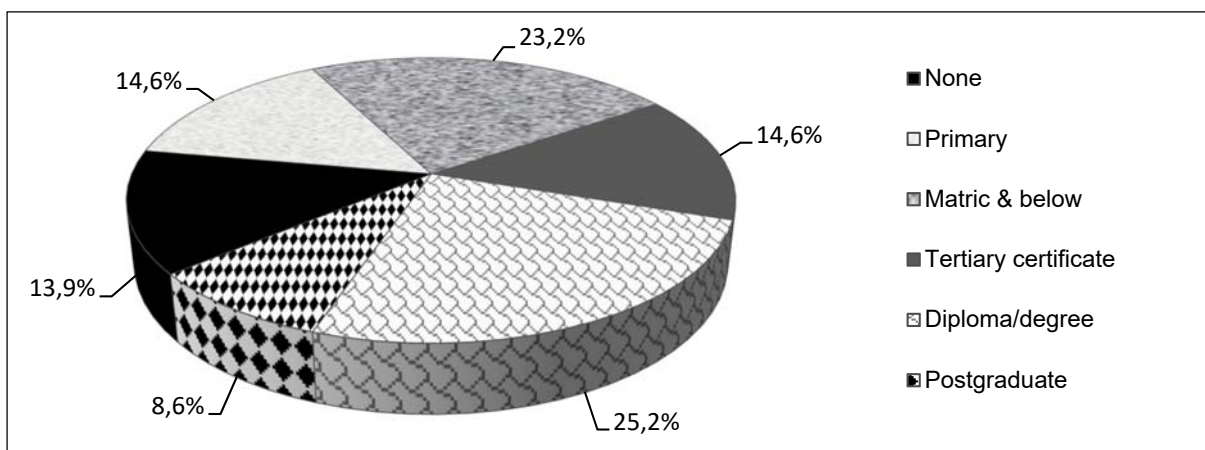


Figure 5.3: Levels of academic qualification

The above analysis reveals that the majority of owners/managers do not have tertiary qualifications. If the level of education is expected to impact positively on the growth and success of SSABs, then the above results suggest that lack of tertiary education potentially hinders the integration of SSABs into the global economy.

5.1.4 Level of education and skills acquired

The results in Figure 5.4 reveal that 30% of respondents with no formal education have acquired business management skills (marketing skills, financial management skills, personnel management skills). Figure 5.4 further reveals that owners/managers

who have no formal academic qualification represent a higher percentage in the acquisition of agricultural skills, engineering and entrepreneurial skills.

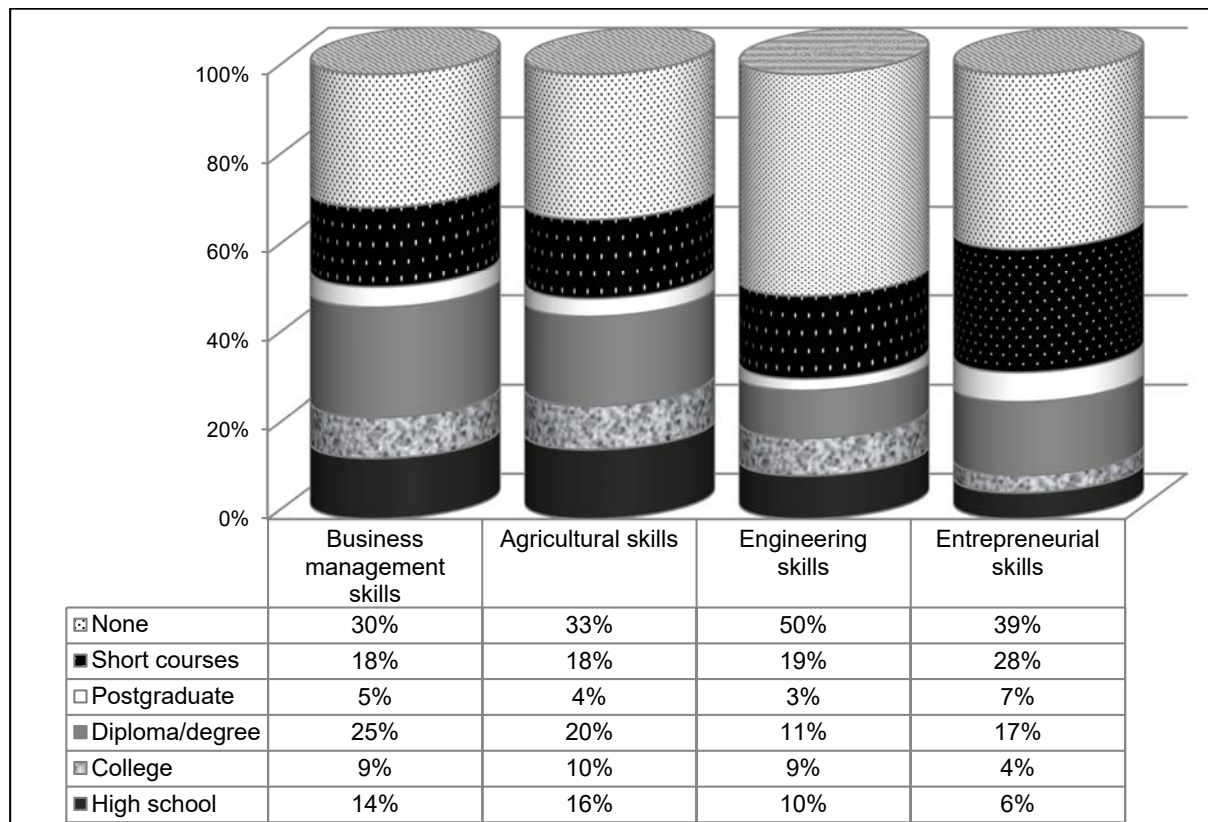


Figure 5.4: Level of education and skills acquired

The basic agricultural skills include soil management, animal husbandry and crop management; basic engineering skills relate to fencing, building of sheds, repairs of equipment and machinery; while entrepreneurial skills comprises of the organisation of the resources at their disposal and risk-taking. Holders of degrees/diplomas rank second highest to those without formal education. In addition to those with postgraduate qualifications, owners/managers are well positioned to run SSABs as they are highly qualified and have acquired high levels of skills which would contribute towards improved business performance.

5.1.5 Number of years the business has been in operation

Since the number of years in business is critical to the progression of small businesses towards internationalisation of SSABs, the duration of business operation was obtained in order to assess the level of experience in business of managers/owners.

The results show that SSABs that have been operating for less than one year constitute 6% of the total number while 31.8% have been in existence between 11-20 years. Those that have been in operation for 6-10 years and above 20 years constitute 23.2% each. SSABs that have been in operation for 2-5 years constitute 15.9% as shown in Figure 5.5.

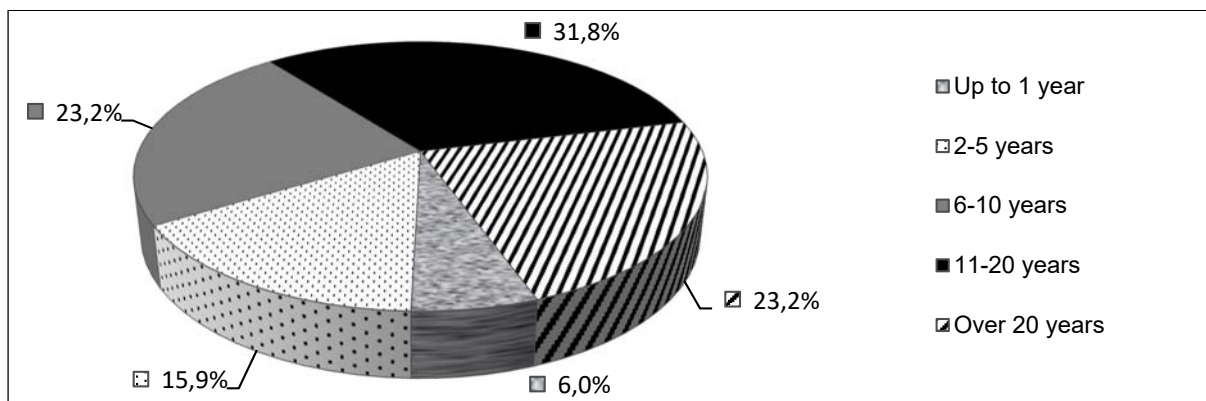


Figure 5.5: Number of years that the business has been in operation

The analysis reveals that most SSABs have been in operation for more than five years. According to Nieman (2006:6), survival is defined as businesses that have been in operation for more than five years. The analysis presented reveals that about 77.2% of all the SSABs surveyed have passed the survival stage and have the potential to grow. This also implies that they have the potential to go global.

5.1.6 Type of business activity

The type of business was assessed to establish the level of involvement of SSABs in various entrepreneurial / business engagements. The study revealed that the types of agro-based enterprise activities performed by most of the businesses are livestock farming (small and large stock), accounting for 40.4% while crop farming constitutes 28.5% of all the businesses surveyed. Participants in both livestock and cropping constitute 18.5% while businesses involved in the processing of these products (animal and crops) accounted for 11.9%. Only one respondent was found to engage in horticultural activity constituting an insignificant (0.7%) as indicated in Figure 5.6.

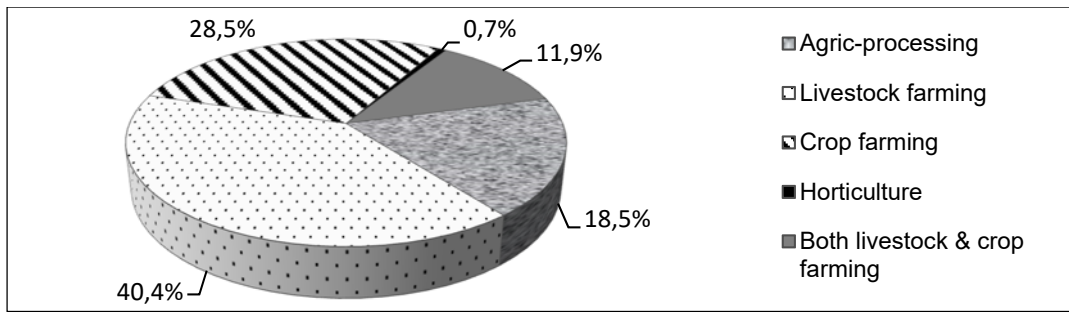


Figure 5.6: Types of business activities practised by the company

The popularity of livestock business could be explained by the low capital base needed to start the business. For example, some of the owners raise their livestock on communal land free of charge at the village level. These farmers may start with very few animals and do not provide large sheds and fencing.

5.1.7 Form of business ownership

Forms of business ownership were analysed to unravel the ownership patterns of various businesses. The results reveal that sole proprietorship is predominant and accounted for 65.6%. The reason for its popularity may be explained by the ease with which it takes to form a business of this nature. This is because there are no legal requirements for registration such as drawing up Articles of Association and Memorandum of Association which are legal requirements for the registration of companies. Furthermore, it should be noted that a large number of owners/managers do not have formal education and would want to avoid getting involved in complex legal technicalities associated with the formation of limited liability companies.

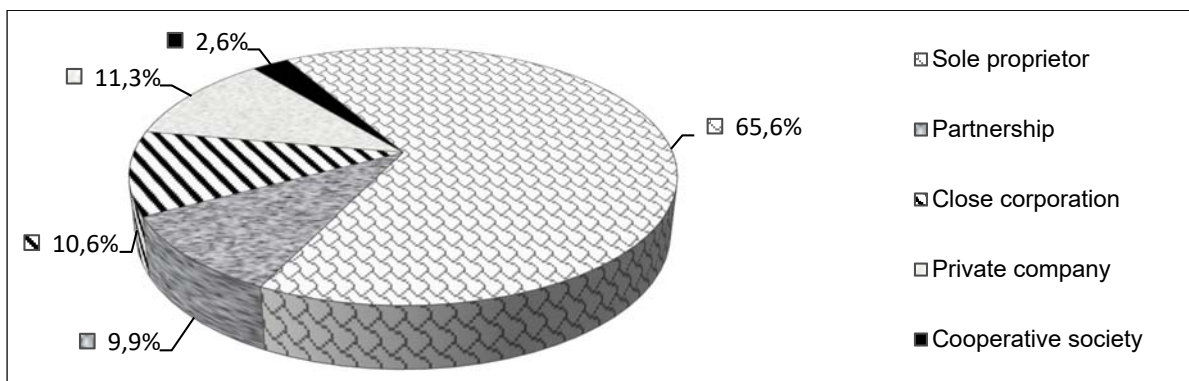


Figure 5.7: Form of business ownership

The study found that respondents who formed private companies, close corporations and partnerships make up 11.3%, 10.6% and 9.9% respectively while only 2.6% formed cooperative societies. This finding can be attributed to the legal frameworks and technicalities associated with the formation of these types of businesses as stated earlier.

5.1.8 Number of employees in business

The number of employees in SSABs, including owners/managers was assessed as an indication of individual firm sizes. The results revealed that SSABs that employ between 1 - 5 people accounting for 48.3%, businesses that have 6 - 20 employees constitute 18.5% as shown in Figure 5.8. Furthermore, SSABs with 21 - 30 employees account for 14.6% while businesses with 31 - 40 employees constitute 6.6%. Businesses with 41 - 50 employees represent 11.9% and constitute the least among the groups. Consistent with the Small Business Act 102 of 1996 and Nieman (2006:6), this suggests that the biggest proportion of businesses fall under the micro enterprise classification. Thus, SSABs with 1-5 employees are central in the region’s economy. Policy makers need to note this large base of SSABs and provide financial and institutional support to guarantee their growth and sustainability.

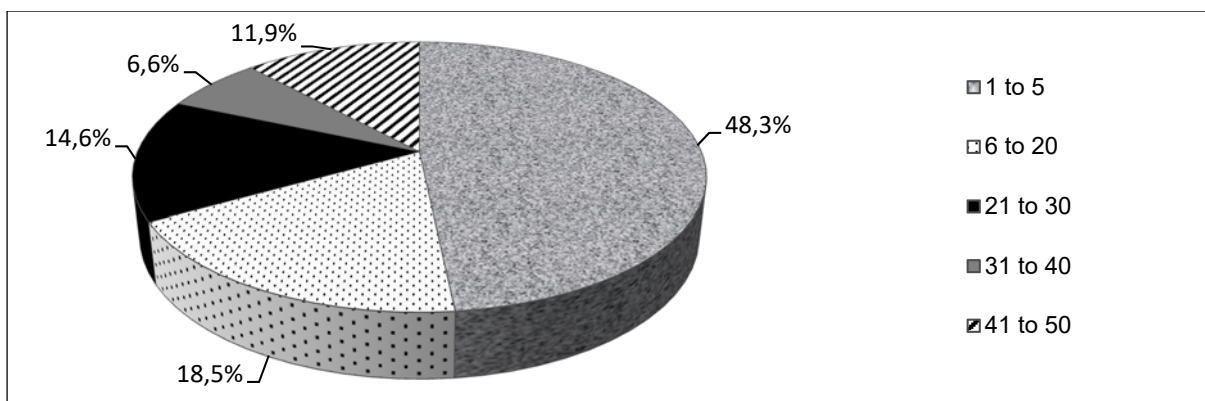


Figure 5.8: Number of employees in the business

5.1.9 Engagement with foreign business

Engagement of SSABs with foreign businesses were analysed in order to understand the extent to which SSABs were oriented towards globalisation. From the analysis,

45% of the SSABs surveyed have foreign business involvement while 55% do not have foreign business dealings as depicted in Figure 5.9.

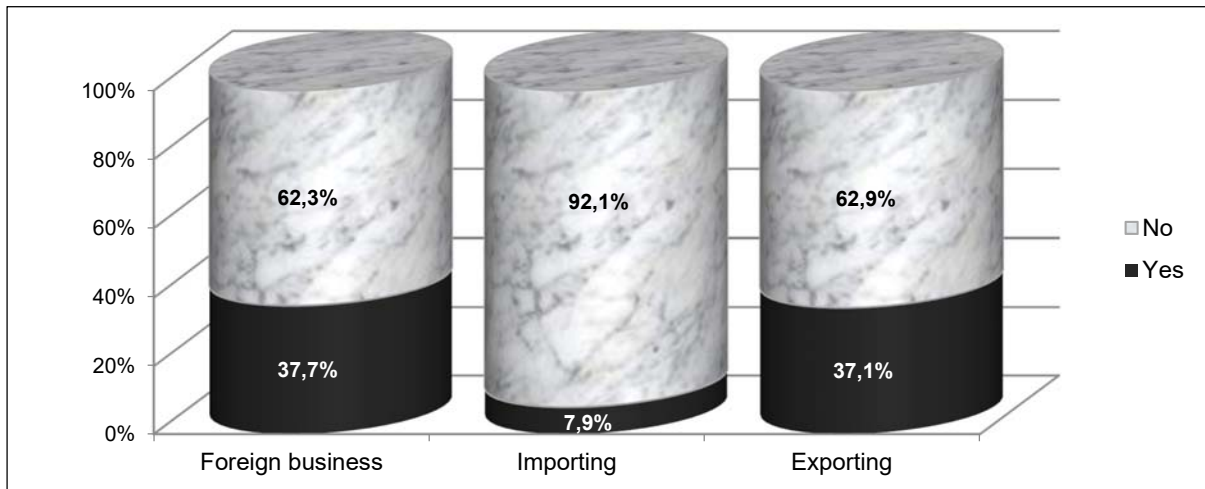


Figure 5.9: Engagement with foreign businesses

From the 45% of respondents with foreign engagements, only 7.9% were involved in importation of foreign technology while 37.1% participated in exportation of products. This low level of import / export orientation means SSABs do not optimally benefit from globalisation. As such, it behoves the department of trade and industry's export promotion division to embark on export promotion programmes that target SSABs for them to fully participate in the global market in order to obtain the much needed foreign exchange for the country.

5.1.10 Growth in pre-tax profit

Analysis on pre-tax profit growth was done to establish the level of profitability of the businesses.

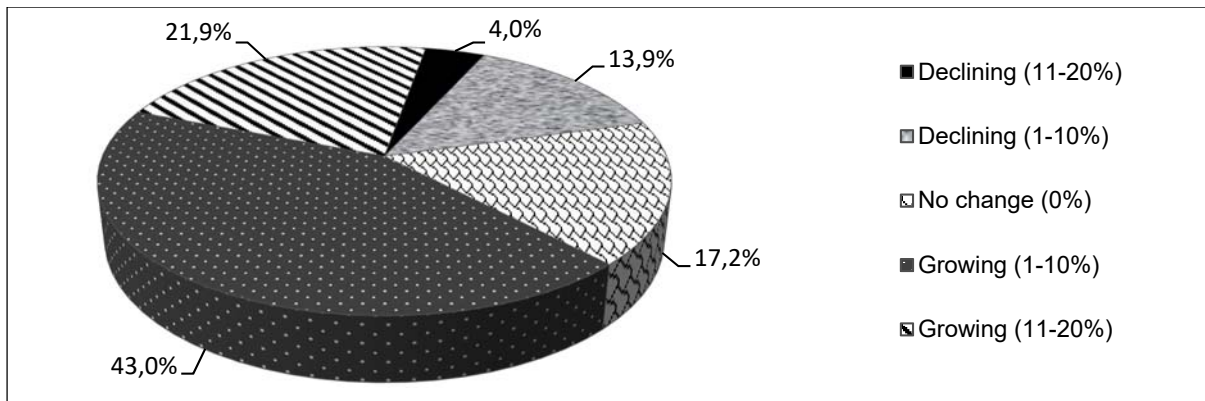


Figure 5.10: Percentage growth in pre-tax profit over the past five years

Figure 5.10 shows the pre-tax profit position. It shows that majority (65%) of the businesses are making profit, 18% are operating at a loss while 17% are just breaking even.

5.1.11 Employment growth over the past five years

Analysis on employment growth over the past five years was undertaken to establish the growth trend of SSABs in the area.

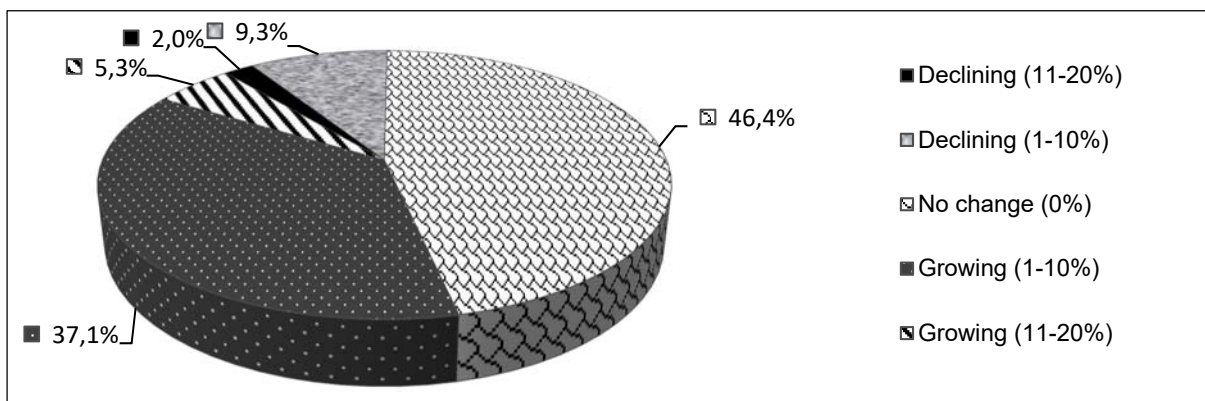


Figure 5.11: Percentage growth in size/employment over the past five years

The results show that SSABs with employment growth rates between 1-10% constitute only 37.1% of the number of firms surveyed while the greatest proportion (46.4%) showed no growth in employment. The figures suggest that the remaining 15.5% of SSABs have experienced a decline in employment which is definitely not good for the region's economy. As stated in Chapter 1, SSABs constitute the main source of

employment in the study area. SSABs therefore need to be supported in order to maintain, if not, increase their employment levels.

5.2 EXTENT OF GLOBALISATION BY SSABS

This section reports on the extent to which SSABs are globalised in terms of: (i) use of foreign technology; (ii) establishment of foreign alliances; (iii) exportation of products; and (iv) use of foreign labour. It is important to mention here that trade liberalisation promotes the exportation of goods and services (Collins, 2013). However, for any business to export, it must also establish foreign alliances. Therefore, trade liberalisation also promotes the formation of foreign alliances. It is therefore imperative that the general analysis of trade liberalisation should encompass exporting and the formation of foreign alliances. Furthermore, in order to investigate the free movement of labour, number of foreign employees was used while in order to investigate the usage of foreign technology, foreign technology as a percentage of gross turnover was used.

5.2.1 Extent of foreign technology usage

The extent to which SSABs in the study area use foreign technology was verified. The purpose of the analysis was to establish the extent of orientation of sampled SSABs towards globalisation. The results are presented in Figure 5.12.

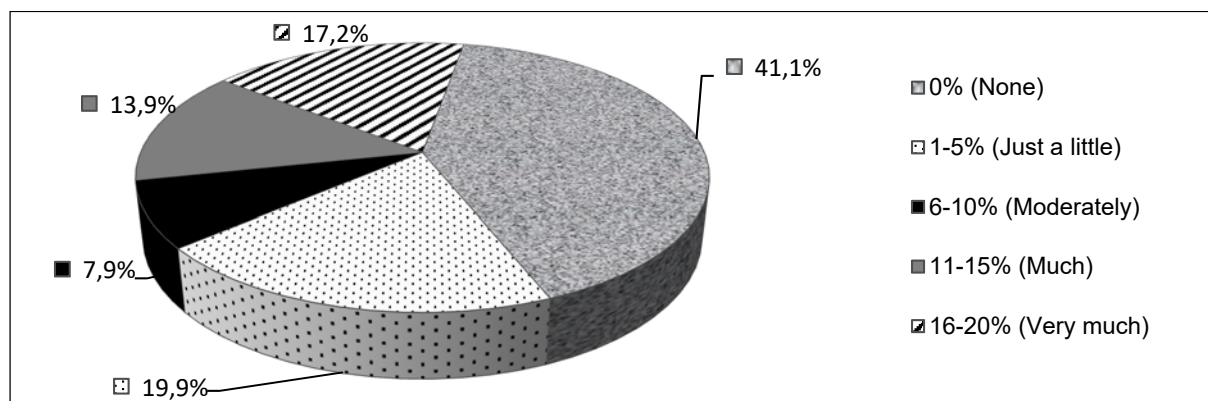


Figure 5.12: Extent of introduction of foreign technology into business

Figure 5.12 indicates a low level of foreign technology uptake by SSABs in the study area. Figure 5.12 shows that 41% of SSABs do not use any foreign technology while

the majority (59%) use some form of foreign technology with the extent of usage ranging from **little** (28%) to, **much** (31%). This finding points to a generally low level of foreign technology usage in the rural South African SSABs context. It is important for SSABs to be aware of foreign technology that may be superior to what is locally available and endeavour to use them as important cost-cutting measures. This may bring efficiency and improved performance and growth in their businesses as demonstrated by Malaysian agro-based businesses (Shaffril, Hassan et al. 2009).

5.2.2 Foreign alliances

The study also examined the extent of establishment of foreign alliances by SSABs in the study area. The results in Figure 5.13 reveal that although a high proportion (48.3%) of SSABs have no foreign alliances, the majority (51.7%) have some form of foreign alliance (even if only a few). The results in Figure 5.13 also show that as many as 18.5% have only 1-2 alliances; 11.9% have more than 10 alliances; and 6.6% had 6-10 alliances. These figures also show that majority (51.7%) of the businesses have foreign alliances but at a minimal level.

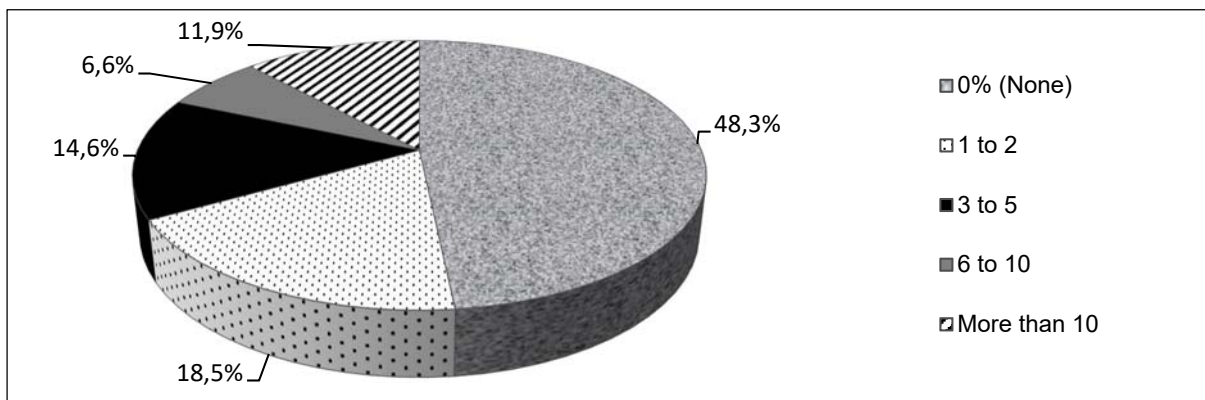


Figure 5.13: Extent to which businesses have established foreign alliances

5.3.3 Export as percentage of gross turnover

The extent to which SSABs in the study area export product was analysed using percentages as shown in Figure 5.14. The results in Figure 5.14 show that a high percentage (60.3%) of SSABs in the Vryburg-Pokwani area does not export produce/products. Figure 5.14 also shows that even 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.

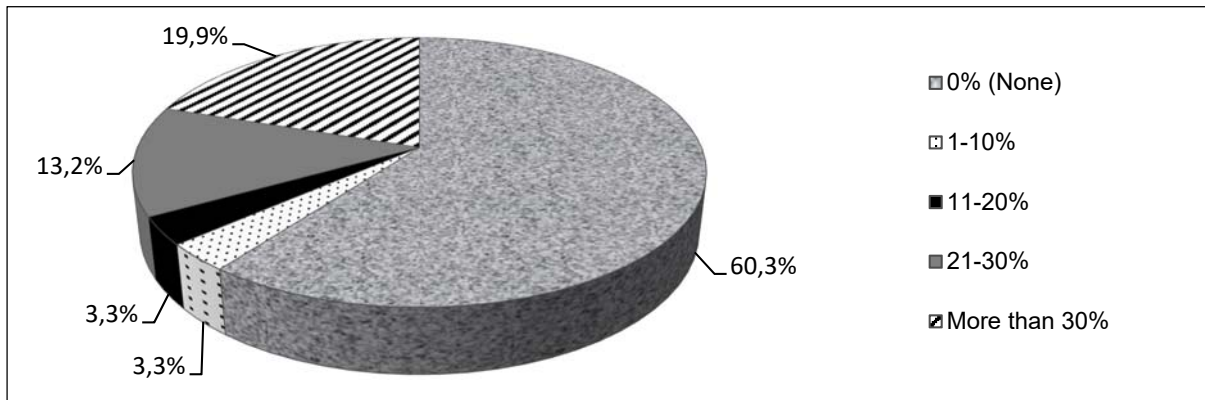


Figure 5.14: Export as a percentage of gross turnovers

5.3.4 Extent of foreign labour usage

An analysis on the extent to which SSABs use foreign labour was performed in the course of the study and the results presented in Figure 5.15. From the analysis, it is revealed that majority of businesses (70.9%) do not employ foreign workers. In other words, the results in Figure 5.15 show that most of the employees of SSABs in the study area are South Africans. In effect, the results indicate that micro businesses (businesses that employ 1-5 workers) have about the largest proportion (21.2%) of foreign employees, while the other sizes (businesses with more than five 5 workers) of SSABs employ between 2% to 6% of foreign labour. The paucity of foreign workers could be attributed to South Africa’s rigid immigration laws, which are deliberately designed to protect jobs from foreigners and to reserve jobs for South African citizens (Trimikliniotis et al., 2008:1325).

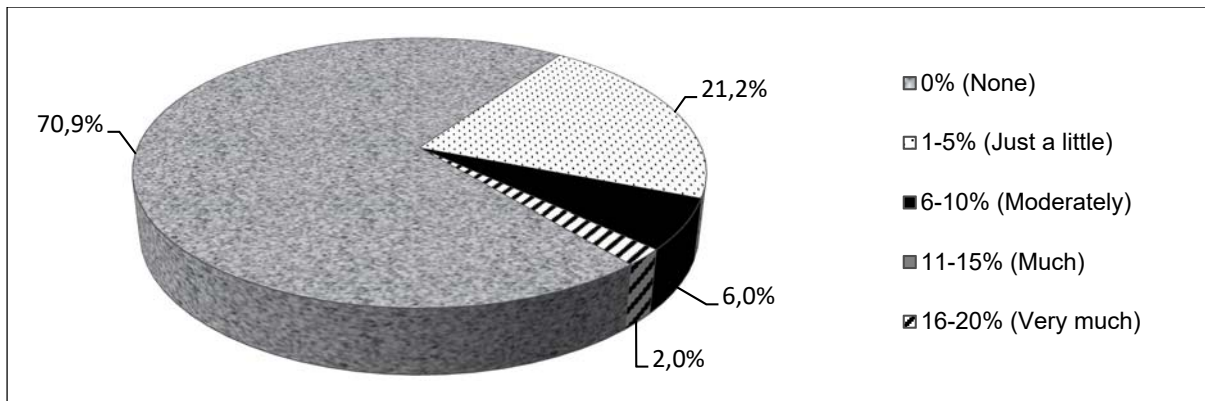


Figure 5.15: Extent to which foreign labour is used in business

5.3 IMPACT OF GLOBALISATION ELEMENTS ON THE PERFORMANCE OF SSABS

The impact of globalisation elements on the performance of SSABs in the study area was also investigated.

Table 5.1: 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	0.0%	1.3%	1.3%	19.2%	19.9%	16.6%	43.0%	79.5%	
Foreign technology on the profitability of businesses	0.0%	1.3%	1.3%	19.9%	19.9%	16.6%	42.4%	78.9%	
Foreign technology on the survival of business	0.0%	1.3%	1.3%	19.9%	19.9%	19.2%	39.7%	78.8%	
TECHNOLOGY AVERAGE	1.3%			19.7%	79.0%				
Lowering of foreign trade barriers on profitability	4.5%	6.6%	11.1%	49.6%	5.9%	12.6%	19.2%	37.7%	
Lowering of foreign trade barriers on growth	2.0%	10.5%	12.5%	49.2%	6.6%	15.8%	16.6%	39.0%	
Lowering of foreign trade barriers on survival	2.6%	9.9%	12.5%	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	1.3%	2.6%	3.9%	70.2%	16.6%	6.0%	1.0%	25.6%	
Free labour movement on survival	1.3%	2.6%	3.9%	71.5%	17.9%	4.0%	1.0%	24.9%	
Free labour movement on profitability	2.6%	2.0%	4.6%	70.2%	15.9%	7.3%	1.3%	25.5%	
FREE LABOUR MOVEMENT AVERAGE	4.1%			70.63%	25.33%				
GLOBALISATION AVERAGE	5.81%			46.52%	47.55%				99.88%

The objective was to determine the views of respondents on the perceived impact of globalisation elements (technology usage, trade liberalisation and free movement of labour) on their business performance (profitability, growth and survival). The findings are presented in Table 5.2.

5.3.1 Impact of foreign technology on performance

To partially 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 5.2. From the results, the overwhelming majority (79%) of participants agreed that foreign technologies have positively impacted on the performance of business as a whole and individually for profitability, business growth and business survival. This result is in line with the findings of Hoekman and Javorcik (2004) and Redding (2007) who found that the introduction of more modern foreign technology reduced operational costs, increased efficiency and output resulting in increased profitability. Therefore, it can be said that participants believe that foreign technologies improve business performance.

5.3.2 Impact of trade liberalisation on performance

As stated in Section 5.2, trade liberalisation enables the exportation of products and the formation of overseas alliances and eventual firm performance. From the analysis, with regard to the impact of lowering trade barriers, the situation is best understood using proportional analysis. The results in Table 5.2 reveal that the greatest proportion (49.3%) 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. A smaller proportion (12.03%) maintained that it had negative impact. This result indicates mixed fortunes for SSABs as far as perceived impact of trade liberalisation on business performance is concerned. It is interesting to note that a number of researchers indicate the existence of a positive impact of trade liberalisation on firm performance (Kumar and Liu, 2005; Alvarez and Vergara, 2006; Beamish, 2006; Dreher, 2006; Esterhuizen and Van Rooyen, 2006; Jatuliavičienė and Kučinskienė, 2006; Lu and Beamish, 2006; Collins, 2013). It is possible that the proportion (49%) that indicated that trade liberalisation has no impact on their businesses are not

engaged in exporting, foreign technology usage or do not employ foreign labour, hence are not in a position to notice their impact.

5.3.3 Impact of free labour movement on performance

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 5.2 indicate 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 (See Figure 5.1) do not employ foreign labour in the first place. This could, therefore, not determine the impact of the employment of foreign labour on performance. Contrary to this finding, Pécoud and Guchteneire (2005) supported by Iregui (2003), Rodrick (2003) and Wolf (2004) 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.

5.4 SUCCESSFULNESS OF STRATEGIES IN DEALING WITH THE FORCES OF GLOBALISATION

It is necessary to assess how successful SSABs have been in dealing with the challenges posed by globalisation and the opportunities presented in order to know where to start from in developing effective strategies for SSABs. In this regard, respondents were requested to rate how successful they perceive their strategies to be relating to globalisation.

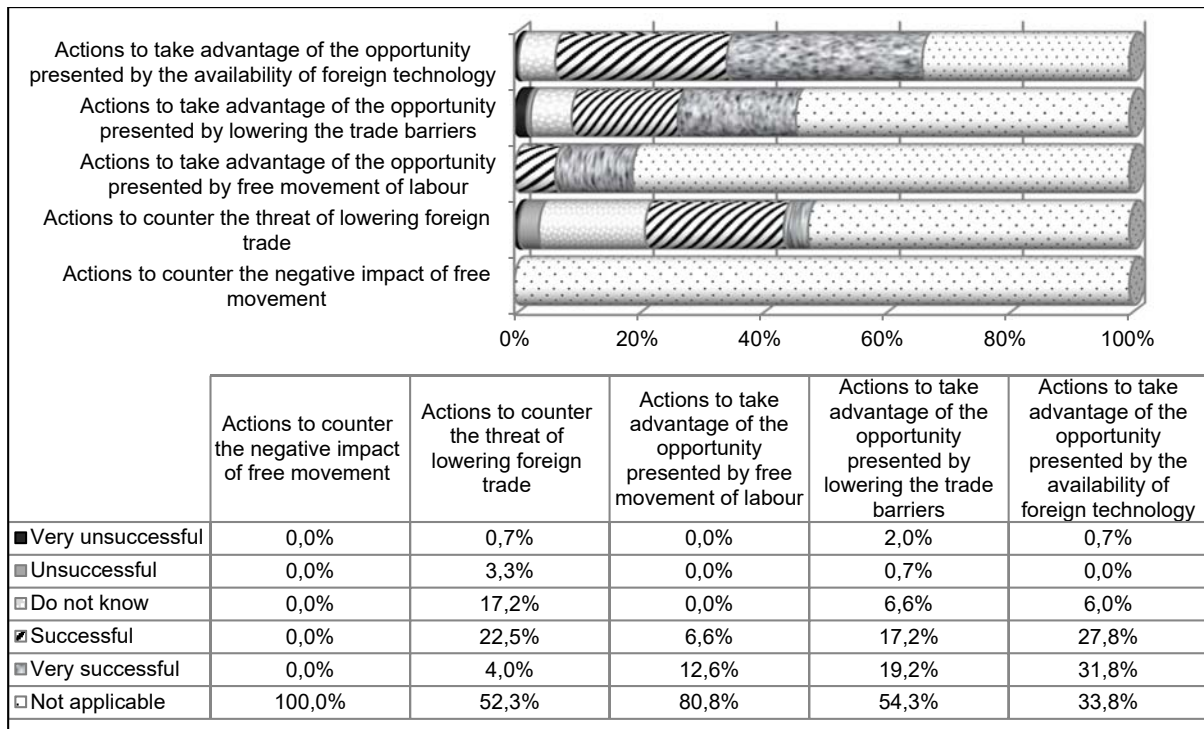


Figure 5.16: Rating of successfulness of five strategies relating to globalisation

These strategies relate to taking advantage of opportunities presented by the availability of foreign technology, lowering of trade barriers, and availability of foreign labour as well as actions taken to ward off threats posed by lowering of trade barriers and the free movement of labour.

The results in Figure 5.16 reveal interesting findings. First and foremost, the results in Figure 5.16 clearly point to apathy towards strategizing for the effects of globalisation as the figures for all the five strategy categories show majority or the greatest proportion reporting 'Not Applicable'.

Another interesting finding is that respondents seem to be totally oblivious to the threats posed by the free movement of labour as all (100%) of respondents reported 'Not Applicable'. With migration becoming much easier across South Africa's borders post-1994, not only will foreign labour be available to SSABs. The reality also exists that skilled employees of SSABs could also migrate to other countries if they perceive better opportunities.

The same trend seems to be evident for countering threats posed by lowering of trade barriers (although on a milder scale). According to Figure 5.16, the majority (52%) of respondents reported 'Not Applicable'. This is an indication that the majority are oblivious to the negative ramifications of lowering of trade barriers. Considering the fact that a lot of "noise" has been made about the importation of cheaper foreign agricultural products into South Africa, it is rather strange that the majority (52%) will show apparent apathy to the threat posed by lowering of trade barriers. This is what allows for cheaper foreign agricultural products to enter South Africa. For those who took some steps, Figure 5.16 shows that only 25% of respondents indicated that their strategies were successful.

Figure 5.16 also shows that the only category in which SSABs reported successful strategy implementation was taking advantage of opportunities presented by the availability of foreign technology where the majority (59.6%) rated their companies' strategies as very successful or successful.

5.5 GLOBALISATION AND LONG TERM PERFORMANCE EXPECTATION

Having examined the impact of globalisation on the performance of SSABs (profitability, growth), the chances of survival as well as the extent to which they are successful in strategising for globalisation, the next step in the analysis is to determine the long-term performance expectations of SSABs (profitability, growth and survival chances) given the increased level of globalisation (technology transfer - *foreign technology usage*; free labour movement – *use of foreign labour*; lowering of trade barriers– *formation of alliances and exporting*). After calculating long-term expectations (Table 5.3), analysis of variance (ANOVA) was performed to quantitatively establish the differences (if any) and the nature of the differences thereof and the results are presented in Table 5.4.

This section reports and discusses the assessment by owners/managers of future performance prospects of SSABs in the face of growing globalisation as well as possible variations in this assessment. The discussion begins with an overall assessment by owners/managers of future business performance and survival under increased globalisation.

The results are presented in Table 5.3. The results show that overall, the majority (67.3%) of SSABs are optimistic about long-term business prospects even under increased globalisation.

Table 5.2: Long-term performance expectations by respondents

	PESSIMISTIC		INDIFFERENCE	OPTIMISTIC	
	Very unpromising	Unpromising	Do not know	Promising	Very promising
How do you rate their future/long-term profitability under increased availability of foreign technology?	0.7%	1.3%	5.3%	39.7%	53.0%
How do you rate their future/long-term growth under increased availability of foreign technology?	0.7%	1.3%	5.3%	39.7%	53.0%
How do you rate their future/long-term survival under increased availability of foreign technology?	0.7%	0.7%	6.6%	41.7%	50.3%
INDIVIDUAL AVERAGE PERCENTAGE FOR TECHNOLOGY	0.7%	1.1%	5.7	40.4%	52.1%
COMBINED AVERAGE PERCENTAGE FOR TECHNOLOGY	1.8%		5.7%	92.5%	
How would you rate your business' future/long-term growth under further lowering of foreign trade barriers?	5.3%	29.8%	21.2%	25.2%	18.5%
How would you rate your business' future/long-term profitability under increased free labour movement due to relaxed immigration laws?	0.7%	5.3%	27.8%	48.3%	17.9%
How would you rate your business' future/long-term profitability under further lowering of foreign trade barriers?	6.0%	30.5%	21.9%	23.8%	17.9%
AVERAGE PERCENTAGE FOR TECHNOLOGY	4%	21.9%	23.6%	32.4%	18.1
COMBINED AVERAGE PERCENTAGE FOR	25.9%		23.6%	50.5%	
How would you rate your business' future/long-term survival under increased free labour movement due to relaxed immigration laws?	1.3%	6.6%	25.2%	49.7%	17.2%
How would you rate your business' future/long-term growth under increased free movement of labour due to relaxed immigration laws?	0.7%	5.3%	27.8%	49.0%	17.2%
How would you rate your business' future/long-term survival under further lowering of foreign trade barriers?	6.6%	29.1%	20.5%	31.1%	12.6%
AVERAGE PERCENTAGE FOR TECHNOLOGY	2.9%	13.7%	24.5%	43.2%	15.7%
COMBINED AVERAGE PERCENTAGE FOR	16.6%		24.5%	58.9%	
OVERALL AVERAGE PERCENTAGE	14.8%		17.9%	67.3%	

Having presented the assessment by owners of the future prospects of their businesses, it is thus important to analyse the data for possible differences and to interrogate further if there are any differences. The basis of the analysis was done accordingly for selected owners/managers and business characteristics. The results of the analysis are presented in Table 5.4 under long-term performance expectations versus background factors of owners/managers.

5.5.1 Long-term performance expectations versus background of owners/managers and businesses

ANOVA test was done to determine if there are factors that discriminate future business performance forecast of owners/managers and if any, what could be the nature of these differences. The analysis found that some of the indicators affect the long-term performance expectations of businesses. A high total score indicates very promising long-term expectations for business performance under increased globalisation. Table 5.4 presents the comparison of mean scores on the “long-term performance expectations” index by respondents and business characteristics.

Table 5.3: Long-term performance expectations versus respondents and business characteristics

Characteristics		Mean score (out of 30)	Standard deviation	Significance testing	Post-hoc comparisons (Bonferroni)
Highest academic qualification	None	17.8	3.5	F = 11.952, p<0.05 (sig)	[Tertiary qualification > None; NSC & below] [Diploma/degree > None; Primary; Matric & below]
	Primary	18.5	3.2		
	NSC & below	18.6	3.9		
	Tertiary qualification	22.1	4.5		
	Diploma/degree	24.7	4.8		
	Postgraduate	22.4	6.5		
Highest level of education for business Management skills	High school	20.5	4.7	F = 12.579, p<0.05 (sig)	[Diploma/degree > High school; Short courses; None]
	College	21.3	5.5		
	Diploma/degree	25.3	4.6		
	Postgraduate	22.6	6.8		
	Short courses	18.6	3.7		
	None	18.3	3.4		
Highest level of education for agricultural skills	High school	20.3	4.4	F = 10.030, p<0.05 (sig)	[College > None] [Diploma/degree > High school; Short courses; None]
	College	23.2	5.8		
	Diploma/degree	25.3	4.2		
	Postgraduate	20.8	7.3		
	Short courses	19.1	4.3		
	None	18.6	3.8		
Highest level of education for engineering skills	High school	18.6	5.1	F = 7.544, p<0.05 (sig)	[College > None] [Diploma/degree > High school; None]
	College	23.8	5.3		
	Diploma/degree	25.7	4.4		
	Postgraduate	18.5	6.3		
	Short courses	22.3	4.9		
	None	19.4	4.2		
Highest level of education for entrepreneurial skills	High school	18.4	4.3	F = 8.859, p<0.05 (sig)	[Diploma/degree > High school; College; None] [Postgraduate > None] [Short courses > None]
	College	17.4	1.3		
	Diploma/degree	24.8	4.4		
	Postgraduate	24.3	6.3		
	Short courses	21.5	5.0		
	None	18.8	4.0		
Longevity of business operation	Up to 1 year	17.8	3.9	F = 4.558, p<0.05 (sig)	[11 to 20 years > Up to 1 year; 2 to 5 years; Over 20 years]
	2 to 5 years	19.3	3.7		
	6 to 10 years	21.5	4.9		
	11 to 20 years	22.9	5.7		
	Over 20 years	19.3	4.4		
Type of business activity	Agric-processing	24.5	5.6	F = 14.131, p<0.05 (sig)	[Agric-processing > Livestock farming; Crop farming] [Crop farming > Livestock farming]
	Livestock farming	18.2	3.4		
	Crop farming	21.5	5.3		
	Both livestock & crop farming	22.5	4.1		

Characteristics		Mean score (out of 30)	Standard deviation	Significance testing	Post-hoc comparisons (Bonferroni)
					[Both livestock & crop farming > Livestock farming]
Form of business ownership	Sole proprietor	20.0	4.4	F = 11.442, p<0.05 (sig)	[Close Corporation > Sole proprietor; Partnership; Cooperative society] [Private company > Sole proprietor; Partnership; Cooperative society]
	Partnership	17.8	5.2		
	Close Corporation	25.4	4.1		
	Private company	25.2	4.9		
	Cooperative society	16.9	4.3		
Number of employees including owner/ manager	1 to 5	18.9	3.6	F = 13.147, p<0.05 (sig)	[21 to 30 > 1 to 5; 6 to 20] [31 to 40 > 1 to 5; 6 to 20] [41 to 50 > 1 to 5; 6 to 20]
	6 to 20	19.5	5.6		
	21 to 30	24.8	4.0		
	31 to 40	25.6	4.5		
	41 to 50	23.6	5.6		
	No	18.2	3.5		
% Growth in pre-tax profit over the past five years	Declining (11-20%)	17.1	3.8	F = 13.823, p<0.05 (sig)	[Growing (1-10%) > No change (0%)] [Growing (11-20%) > Declining (11-20%); Declining (1-10%); No change (0%); Growing (1-10%)]
	Declining (1-10%)	18.4	3.1		
	No change (0%)	17.9	4.1		
	Growing (1-10%)	21.0	4.7		
	Growing (11-20%)	25.2	4.7		
Growth in employment over the past five years	Declining (11-20%)	18.6	1.3	F = 3.321, p<0.05 (sig)	[Growing (1-10%) > No change (0%)]
	Declining (1-10%)	19.8	4.7		
	No change (0%)	19.6	4.5		
	Growing (1-10%)	22.5	5.7		
	Growing (11-20%)	22.8	4.1		

5.5.1.1 Long-term performance expectations by qualifications and management skills

The mean scores on the impact of academic qualifications and business management skills on long-term performance expectations were computed to reveal their long-term effects on globalisation of SSABs in the Vryburg-Pokwani study area. The results showed a low mean score for owners/managers with no qualification and business skills and highest mean scores for owners/managers with postgraduate qualifications in business skills. The analysis also revealed that the level of qualifications of owners/managers was significant (at $F = 11.952$, $p < 0.05$) while the level of business managements skills obtained was also significant (at $F = 12.579$, $p < 0.05$) indicating a positive level of impact / influence on the ability of enterprises to compete globally. The implication may be that managers/owners who have higher qualifications and who have acquired skills in business can better interpret the laws and regulations governing international trade. They can also better direct their enterprises to meet global standards or requirements. There is empirical evidence/literature to support the view that the acquisition of high qualification and skills fosters the survival, growth and better performance of businesses (Nene, 2011; Pickernell et. al. 2011; Geete and Deasai, 2014).

5.5.1.2 Long-term performance expectations based on years of operation

The numbers of years of operation was analysed and grouped (up to 1 year, 2 to 5 years, 6 to 10 years, 11 to 20 years and over 20 years). The mean scores of the duration of different SSABs were calculated and the results reveal that businesses which are at their early stage of operation (< 5 years), have lower mean scores while those that have been operating for over twenty years, have the highest mean scores. The analysis also shows that the number of years of operation has a positive and significant impact (at $F = 4.558$, $p < 0.05$) on the ability of the enterprises to enter the global market. An additional year of operation by an enterprise may increase its chances of performing better and becoming globalised due to the experience gained during the long period of operation.

5.5.1.3 Long-term performance expectations by business activity

The mean scores of the impact of the type of business activities (agro-processing, livestock farming, crop farming, both livestock and crop farming) on the long-term performance expectations of the agro-based businesses were calculated. The results show that SSABs specialising in processing activities had the highest mean scores followed by those engaged in both livestock and crop farming. The findings demonstrate that SSABs specialising in primary activities (livestock farming and crop farming) have the lowest scores. The implication is that the chance of an enterprise specialising in processing activities to be globalised is higher than that of a firm that specialises solely in primary activities. The study also found the type of agro-based activities to have a positive and significant impact (at $F = 14.13$; $p < 0.05$) on the globalisation of agro-based enterprises in the study area. The implication is that a shift by any SSABs in the study area from primary activities to processing activities will increase the chances of the SSABs becoming globalised by 14.2%.

5.5.1.4 Long-term performance expectations by form of business ownership

The influence of forms of business ownership on performance expectations was analysed and the results were found to be significant (at $F = 11.442$, $p < 0.0$). This is an indication that formally registered SSABs in the study area have a better chance of becoming globalised as opposed to SSABs that are not formally registered. This may be due to the fact that foreign firms prefer to do business with formally registered businesses as this reduces investment risks through avoiding the financing of ghost

businesses. However, business types have different advantages and limitations and each will relate differently when it comes to long-term expectations, especially on profitability, growth and survival.

5.5.1.5 Long-term performance expectations by size (number of employees)

Analysis of the impact of firm size/number of employees on the long-term performance expectations was conducted. This is consistent with the fact that the number of employees in a firm is generally used to determine the size of the business – that is, whether it can be regarded as small-scale, micro or medium agro-based businesses. According to the Department of Trade and Industry (DTI) of South Africa, any business with 1 and 50 employees is classified as small-scale business. From the study, sampled businesses were grouped in terms of these ranges (1 to 5, 6-20, 21 to 30, 31 to 40 and 41 to 50). The results suggest that the number of employees, including the owner/manager, has a significant impact (at $F = 13.147$, $p < 0.05$) on long-term performance expectations of SSABs. This is an indication that an increase in the number of employees in a firm will result in a 16% chance increase in the level of growth in the long-term. A study by Becker- Blease et al. (2010) produced a similar result.

5.5.1.6 Long-term performance expectations by growth in pre-tax profit

The influence of percentage growth in pre-tax profit on the long-term performance of SSABs was investigated. Analysis of variance for the last five years was conducted on pre-tax profit for small-scale agro-based businesses in the study area in order to indicate whether they are declining, growing or have remained stagnant. The percentage growth in pre-tax profit was found to be significant (at $F = 13.823$, $p < 0.05$). The findings suggest that companies that have higher percentages growth in pre-tax profit were more inclined to believing that they have better long-term performance expectations than those with lower pre-tax profit. The implication is that as firms engaged in international trade, and become globalised, they might become more efficient and reduce their costs of production while increasing sales volume. Profit levels may also increase as the firms become larger. Evidence is provided by Jabbour (2010) in support of this finding.

5.6 IMPORTANCE OF GLOBALISATION TO FIRMS

If SSABs have to consider the ramifications of the forces of globalisation, it is imperative for them to attach some importance to the concept and its implications. This section focuses on determining the importance that SSABs in the Vryburg-Pokwani area attach to selected elements of trade liberalisation.

Table 5.4: Perceived importance of globalisation on profitability, growth and survival of SSABs

ASPECT OF GLOBALISATION	INDIVIDUAL IMPORTANCE					OVERALL IMPORTANCE	
	Very unimportant	Unimportant	Don't know	Important	Very important	IMPORANT	UNIMPORANT
Availability of foreign technology to profitability?	0.0%	10.6%	15.2%	35.1%	39.1%	Very important + Important	Very unimportant + Unimportant
Availability of foreign technology to the survival businesses	0.7%	10.6%	13.2%	38.4%	37.1%	74.2%	10.6%
Availability of foreign technology to the growth of businesses	0.0%	9.3%	16.6%	37.1%	37.1%	75.5%	1.3%
IMPORTANCE OF FOREIGN TECHNOLOGY						74.6%	7.07%
Lowering of foreign trade barriers to the profitability of business	2.6%	11.3%	36.4%	25.8%	23.8%	49.6%	13.9%
Lowering of foreign trade barriers to the growth of business	2.6%	11.3%	36.4%	27.8%	21.9%	49.7%	13.9%
Lowering of foreign trade barriers to the survival of business	4.0%	9.3%	37.1%	28.5%	21.2%	49.7%	13.3%
IMPORTANCE OF LOWERING TRADE BARRIERS						49.7%	13.5%
Relevance of free movement of labour to the growth business	14.6%	48.3%	9.3%	25.2%	2.6%	27.8%	62.9%
Relevance of free movement of labour to the survival of business	14.6%	47.0%	11.3%	24.5%	2.6%	27.1%	61.6%
Relevance of free movement of labour to the profitability of business	14.6%	49.0%	9.3%	25.8%	1.3%	27.1%	63.6%
IMPORTANCE OF FREE MOVEMENT OF LABOUR						27.3	62.7%
IMPORTANCE OF GLOBALISATION						50.5%	27.8%

Respondents were asked to express the relevance (relative importance) of selected aspects of globalisation (availability of foreign technology, lowering foreign trade barriers and free movement of labour) to the performance (profitability, growth and survival chances) of their businesses. Responses from the participants were scaled as follows: very unimportant, unimportant, do not know, important and very important. The results of the analysis are presented in Table 5.5.

From the analysis, no one (0.0%) indicated that foreign technology was very unimportant and 15.2% have no idea about foreign technology. Furthermore, 35.1%

indicated that foreign technology was important and 39.1% agreed foreign technology was very important for globalisation respectively. The combined percentages for important and very important accounted for 74.2% aggregate. Hence, the majority (74.2%) of participants agreed that foreign technologies are important for profit making. This finding is in line with the findings of Hoekman and Javorcik (2004) and Redding (2007) who concurred that the introduction of more modern foreign technology reduces operational costs, increases efficiency and output, thus resulting in increased profitability. In a similar manner, it is evident from Table 5.4 that the majority (75.5%) of participants agreed that foreign technology is important for business survival while majority (74.2%) agreed that foreign technology is important for the growth of business.

5.6.1 Comparing mean scores for “importance of 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 go global than others. Table 5.6 summarises the comparison of mean scores on the “importance/relevance of globalisation” index and business characteristics.

5.6.1.1 Gender versus importance of globalisation

ANOVA results in Table 5.6 shows that 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.

5.6.1.2 Age versus importance of globalisation

Table 5.6 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 5.6 show 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.

Table 5.5: Importance/relevance of globalisation by business characteristics

Characteristics		Number	Mean score (out of 30)	sd	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 & below] [Diploma/degree > None; Primary; NSC & below] [Postgraduate > None; Primary; Matric & below]
	Primary	22	13.1	3.9		
	NSC & below	35	14.7	4.4		
	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] [Diploma/degree > High school; Short courses; None] [Postgraduate > High school; Short courses; None] [Short courses > None]
	College	14	21.2	4.7		
	Diploma/degree	37	22.7	4.1		
	Postgraduate	7	23.1	5.0		
	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] [Diploma/degree > High school; Short courses; None] [Postgraduate > None]
	College	15	22.8	4.3		
	Diploma/degree	30	22.6	4.3		
	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] [Diploma/degree > High school; None] [Short courses > None]
	College	13	21.7	6.6		
	Diploma/degree	16	23.3	3.4		
	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] [Postgraduate > High school; College; None] [Short courses > None]
	College	6	15.6	7.0		
	Diploma/degree	25	22.5	4.2		
	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 to 5 years	24	16.0	4.7		
	6 to 10 years	35	18.2	5.5		
	11 to 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] [Crop farming > Livestock farming] [Both livestock & crop farming > Livestock farming]
	Livestock farming	61	14.4	4.5		
	Crop farming	43	18.9	5.7		
	Both livestock & 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] [Private company > Sole proprietor; Partnership]
	Partnership	15	16.5	3.3		
	Close Corporation	16	21.6	4.3		
	Private company	17	22.8	5.1		

Characteristics		Number	Mean score (out of 30)	sd	Significance testing	Post-hoc comparisons (Bonferroni)
	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] [31 to 40 > 1 to 5; 6 to 20] [41 to 50 > 1 to 5; 6 to 20]
	6 to 20	28	17.0	5.7		
	21 to 30	22	21.9	4.3		
	31 to 40	10	24.2	5.0		
	41 to 50	18	21.9	5.4		
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 five years:	Declining (11-20%)	6	13.9	2.9	F = 13.680, p<0.05 (sig)	[Growing (11-20%)>Declining (11-20%); Declining (1-10%); No change (0%); Growing (1-10%)]
	Declining (1-10%)	21	16.1	4.3		
	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 five years:	Declining (11-20%)	3	15.3	2.9	F = 4.836, p<0.05 (sig)	[Growing (1-10%) > No change (0%)] [Growing (11-20%) > No change (0%)]
	Declining (1-10%)	14	17.9	5.4		
	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.

5.6.1.3 Academic qualification versus importance of globalisation

The results in Table 5.6 show 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 in the last column of Table 5.6 show 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 (Pickernell et al. 2011; Nene, 2011; Geete and Deasai, 2014).

5.6.1.4 Business age versus importance of globalisation

The number of years the sampled companies have been in operation were analysed and grouped (up to 1 year, 2 to 5 years, 6 to 10 years, 11 to 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 twenty years, have the highest mean scores. The results of the Bonferroni analysis (see Table 5.6) 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 (2012) suggests that high performance firms are not necessarily newly founded entrepreneurial start-ups, but rather tend to be more mature firms.

5.6.1.5 Business activity versus importance of globalisation

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 Table 5.6 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 5.6 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.

5.6.1.6 Business ownership versus importance of globalisation

ANOVA based 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 in the last column of Table 5.6 shows that Pty's 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 Pty's and CC's because this reduces the level of risk and loss of their investments.

5.6.1.7 Number of employees numbers versus importance of globalisation

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 and 50 employees is classified as a small-scale business. During the study, sampled businesses were grouped into the following categories: 1 to 5, 6-20, 21 to 30, 31 to 40 and 41 to 50. The results in Table 5.6 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 5.3 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 (greater than 20 employees, See Table 5.6) 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 (Douglas and Craig, 2011).

5.6.1.8 Foreign alliances versus importance of globalisation

Results of the analysis in Table 5.6 show 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.

5.6.1.9 Importing versus importance of globalisation

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.

5.6.1.10 Exporting versus importance of globalisation

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.

5.6.1.11 Pre-tax profit versus importance of globalization

Analysis of variance was conducted on pre-tax profit for SSABs in the study area in the last five 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.

5.6.1.12 Growth in employment versus importance of globalisation

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.

5.7 SUMMARY OF CHAPTER

The previous chapter presented the research methodology used in the study while the current chapter has presented the findings and discussed the results. Demographic and firm characteristics of SSABs in the Vryburg-Pokwani area were presented. Aspects discussed included: gender and age distribution, level of academic qualification of owners/managers, number of years in business, type of business activities, form of business ownership, number of employees, engagement with foreign businesses, growth in pre-tax profit as well as employment growth of businesses over the past five years.

The chapter also tested for differences in extent of globalisation based on certain demographics and firm characteristics. The demographic and firm characteristics discussed included: gender and age distribution versus globalisation, level of academic qualification of owners/managers versus globalisation, number of years in business versus globalisation, type of business activities versus globalisation, form of business ownership versus globalisation, number of employees versus globalisation, engagement with foreign businesses versus globalisation, growth in pre-tax profit versus globalisation as well as employment growth of businesses over the past five years versus globalisation.

Furthermore, an analysis was performed on the impact of globalisation elements on the performance of SSABs in order to determine the extent of the impact of foreign technology usage, trade liberalisation and free movement of labour on the performance of SSABs in the study area. The differences in performance by level of globalisation were also analysed using ANOVA. The discussion also examined if there are any significant differences in the performances of businesses based on the extent of foreign technology usage, establishment of foreign alliances (exportation and importation of products), and free movement of labour and if so, what were the nature of the differences. The chapter further rated how successful some of the strategies relating to globalisation are effective in countering its adverse effects on SSABs while taking advantage of opportunities presented by globalisation. Finally, the long-term performance expectations against background factors of owners/managers was performed with respect to qualifications and management skills, years of business

operation, type of business activities, pre-tax profit and foreign alliances. The chapter concluded by analysing the importance of globalisation to SSABs in the study area. The next and final chapter presents the conclusions and recommendations.

CHAPTER SIX: CONCLUSION AND RECOMMENDATIONS

6.0 INTRODUCTION

This study provides insights into the effects of aspects of globalisation on the performance of small agricultural businesses also referred to in this study as SSABs in a rural South African setting. Chapter 5 presented and discussed the findings of the empirical study. This chapter provides the conclusions and recommendations for practice, policy and research. The area of the study was the Vryburg-Pokwani area of the North West and Northern Cape provinces of South Africa. The area provides a perfect setting in order to understand the effects of globalisation on small rural agricultural businesses. Its rural nature and the dominance of SSABs constitute the main drivers of its economy. For the purposes of placing the chapter into proper perspective, it is considered important to first recapitulate the problem.

6.1 RECAPPING THE PROBLEM

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 dealing 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 also affect the performance (profitability, growth and survival) of SSABs operating in rural areas of South Africa. As discussed in the literature review (Chapters 2 and 3), no business is immune to the vagaries of the forces of globalisation. To understand the situation as far as South African SSABs in

the rural setting are concerned, the following research questions asked in the study were discussed and addressed.

Based on the problem statement mentioned above, the main research question was: *what impact does globalisation have on the performance of SSABs in the Vryburg-Pokwani area?* In order to investigate trade liberalisation, exports as percentage of gross turnover and number of foreign alliances were used. In order to investigate free labour movement, the number of foreign employees was used. In order to investigate foreign technology usage, foreign technology as a percentage of gross turnover was used. The following research questions were asked:

The following specific research questions were explored in order to answer the main research question:

1. To what extent do SSABs in Vryburg- Pokwani use foreign technology?
2. To what extent do SSABs in Vryburg- Pokwani establish foreign alliances?
3. To what extent do SSABs in Vryburg- Pokwani export products?
4. To what extent do SSABs in Vryburg- Pokwani use foreign labour?
5. Are there significant differences in firm's performance based on the extent of foreign labour usage? If so, what is the nature of the difference?
6. What impact does foreign technology usage have on the performance of SSABs in the Vryburg- Pokwani area?
7. Are there significant differences in firm performance based on the extent of foreign technology usage?
8. What impact does trade liberalisation (establishment of foreign alliances and exportation of products) have on performance of SSABs in the Vryburg-Pokwani area?
9. Are there significant differences in firm performance based on the extent of establishment of foreign alliances? If so, what is the nature of the difference?
10. Are there significant differences in firm performance based on the extent of exportation of products? If so, what is the nature of the difference?
11. What impact does the free movement of labour (use of foreign labour) have on the performance of SSABs in the Vryburg-Pokwani area?
12. How successful have SSABs in the Vryburg-Pokwani area been in countering threats and taking advantage of globalisation?

13. What are the long-term business performance expectations of SSABs according to owner/manager and business characteristics?
14. What can be done to enable SSABs improve their long-term performance prospects in the global market?

To answer the above questions, data were collected from participants using a structured questionnaire. During the administration of the questionnaire, it was found that there were approximately 3879 small businesses in the study area. Out of this number, 899 were identified to be SSABs. The sample size was computed out of the population (899) using the Macorr Sample Calculator (at 95% confidence level) to select a sample size of 269 SSABs for investigation. Primary data generated from responses obtained in the field was analysed using SPSS and Excel.

The data obtained from the field was grouped into three broad dimensions; total scores were computed for each of the three broad dimensions (i.e. “importance/relevance”; “impact”; “long-term performance expectations”). The three indexes of the respective maximum theoretical values (i.e. 36, 54 and 36) differed because of differences in the number of response categories used. The index scores were therefore standardised by converting all values to a score out of 30. After standardisation, all index scores ranged between 0 (minimum) and 30 (maximum). The study utilised the Analysis of Variance (ANOVA) to test the dispersion from the means score on factors that affect globalisation and their effects on the performance, growth and survival of SSABs in the study area.

Having presented the context of the study, the next section provides conclusions arrived at based on the results presented and discussed in Chapter 5.

6.2 CONCLUSIONS

6.2.1 Use of technology by SSABs

Research question 1: *To what extent do SSABs in the Vryburg-Pokwani area use foreign technology?* The results presented in Figure 5.12 show that 41% of SSABs do

not use any foreign technology while the majority (59%) use some form of foreign technology. The extent of usage ranged from **little** (28%) – **much** (31%).

Based on this information, it can safely be concluded that although SSABs use technology, the extent of usage is quite low. In other words, there is a low level of foreign technology uptake by SSABs in the study area.

6.2.2 Formation of foreign alliances by SSABs

Research question 2: *To what extent do SSABs in the Vryburg- Pokwani area establish foreign alliances?* The results in Figure 5.13 revealed that although a high proportion (48.3%) of SSABs have no foreign alliances, the majority (51.7%) have some form of foreign alliances (even if only a few). The results as depicted in Figure 5.13 also show that as many as 18.5% have only 1-2 alliances; 11.9% have more than 10 alliances; and 6.6% had 6-10 alliances. These figures show that majority (51.7%) of the businesses have foreign alliances but at a minimal level.

Based on this information, it is concluded that although the SSABs have foreign alliances, the extent of alliances is low. In other words, there is a low level of foreign alliance for SSABs in the study area.

6.2.3 Level of exporting by SSABs

Research question 3: *To what extent do SSABs in the Vryburg- Pokwani area export products?* To answer this question, the export of SSABs as a percentage of gross turnover figures was used. The results in Figure 5.14 show that a very high percentage(60.3%) of SSABs in the Vryburg-Pokwani area do not export their produce/products. Figure 5.14 also shows that even for those that export, only a very small proportion (13.2% of SSABs) export any appreciable percentage of gross turnover (21-30%). It therefore appears that exporting of products does not appeal to SSABs in the region.

On the basis of this information, it is concluded that the level of exporting by SSABs in the region is low.

6.2.4 Extent of usage foreign labour by SSABs

Research question 4: *To what extent do SSABs in the Vryburg-Pokwani use foreign labour?* Figure 5.15 revealed that the majority (70.9%) of SSABs do not employ any foreign worker. This is an indication that most of the employees of SSABs in the study area are South Africans.

On the basis of this information, it is concluded that the level of foreign labour usage by SSABs in the region is quite low.

6.2.5 Impact of foreign technology usage on the performance of SSABs

Research question 5: *What impact does foreign technology usage have on the performance of SSABs in the Vryburg-Pokwani area?* To answer this research question, respondents' views on the perceived impact of technology usage on their business performance (profitability, growth and survival) was analysed. This involved analysing foreign technology as a percentage of total assets. The results in Table 5.2 revealed that an overwhelming majority (79%) believe foreign technology usage had a positive effect on the performance of their business while only a small proportion (19.7%) indicated that it had no impact. A smaller proportion (1.3%) indicated that it had a negative impact.

On the basis of this information, it is concluded that foreign technology usage has a positive impact on the performance of SSABs in the region.

Research question 6: *Are there significant differences in firm performance based on the extent of foreign technology usage? If so, what is the nature of the difference?* Results of further analysis of the performance/foreign technology usage (see Table 5.3) show significant differences at $p < 0.05$ (sig). Post-hoc comparisons (Bonferroni) reveal that: (i) SSABs that have introduced 6-10% foreign technology as a percentage of their total asset are moderately better than those that have introduced 0% (None); (ii) SSABs that have 11-15% of foreign technology as a percentage of their total asset have much better performance than those with 0% (None) and 1-5% (Just a little) respectively; and SSABs that have 16-20% of foreign technology as a percentage of their total asset are very much better than those with 0% (None); 1-5% (Just a little);

and 6-10% (Moderately) respectively. This is an indication that SSABs that use more foreign technology perform better than those with lesser usage of foreign technology.

On the basis of this information, it is concluded that there is a significant positive relationship between foreign technology usage and the performance of SSABs in the region. That is, the higher the percentage of the foreign technology usage, the better the performance of the SSAB.

6.2.6 Impact of trade liberalisation on the performance of SSABs

Research question 7: *What impact does trade liberalisation in general have on the performance of SSABs in the Vryburg-Pokwani area?* While recognising the obvious negative ramifications of importation of foreign agricultural products for local SSABs, it is also true that trade liberalisation opens the doors of foreign markets to South African SSABs. In fact, Collins (2013) found that trade liberalisation leads to expansion in output and exportation of wine, hence performance improvement in wine companies. Thus, trade liberalisation can be regarded as a double edged sword. It is therefore important to know how trade liberalisation has impacted on the performance of SSABs. To answer this research question, respondents' views on the perceived impact of the lowering of trade barriers since 1994 on their business performance (profitability, growth and survival) was analysed. The results in Table 5.2 showed that the greatest proportion (49.3%) 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. A smaller proportion (12.03%) indicated that it had a negative impact.

On the basis of this information, it is concluded that consistent with the literature, trade liberalisation has *mixed fortunes* as far as the performance of SSABs in the region is concerned.

As mentioned above, trade liberalisation promotes the exportation of goods and services (Collins, 2013). However, for any business to export, it must also establish foreign alliances. Therefore, trade liberalisation also promotes the formation of foreign alliances. It is therefore imperative that in the general analysis of the impact of trade

liberalisation, the impact of exporting and foreign alliance formation be investigated. To this end, research questions 8 and 9 also emerged.

Research question 8: *Are there significant differences in firm performance based on the extent of establishment of foreign alliances? If so, what is the nature of the difference?* The results in Table 5.3 show that the formation of foreign alliances significantly and positively related to the performance of SSABs in the Vryburg-Pokwani study area at $p < 0.05$ (sig). Furthermore, Post-hoc comparisons (Bonferroni) results in Table 5.3 show that SSABs with 1 to 2 foreign alliances are better than those with 0 (None) foreign alliances while SSABs with 6 to 10 foreign alliances are better than those with 0 (None), 1 to 2 and 3 to 5 foreign linkages respectively. This is an indication that the more the foreign alliance created by a business, the better its performance.

On the basis of this information, it is concluded that there are significant positive differences in the performance of SSABs based on the extent of the formation of foreign alliance. That is, the more the foreign alliances created by an SSAB, the better its performance.

Research question 9: *Are there significant differences in firm performance based on the extent of exportation of its products? If so, what is the nature of the difference?* Table 5.3 revealed significant differences in firm performance at $p < 0.05$ (sig) based on the extent of exportation of its products. Post-hoc comparisons (Bonferroni) results in Table 5.3 revealed that SSABS with 30% or more of their product exported, perform better than those that export below 30% of their products This is an indication that SSABs with a greater proportion of export perform better than those that export a smaller proportion.

It is concluded that there are significant positive differences in the performance of SSABs based on the extent of exporting products. That is, the higher the proportion of products exported by an SSAB, the better its performance.

6.2.7 Impact of free movement of labour on the performance of SSABs

Research question 10: *To what extent has the free movement of labour (use of foreign labour) impacted on the performance of SSABs in the Vryburg-Pokwani area?* The study measured the extent to which the free movement of labour impact on the performance of SSABs in the study area. Respondents were asked to indicate how the free movement of labour impacts on the profitability of their businesses. The results revealed that a good majority (over 70%) of respondents agreed that the free movement of labour has no impact on the growth, profitability and survival chances, hence the overall performance of the business.

On the basis of this information, it is concluded that the free movement of labour across national borders does not influence the performance of SSABs in the region.

Research question 11: *Are there any observable significant differences in firm performance based on the extent of the usage of foreign labour? If so, what is the nature of the difference?* Results of the analysis of the actual usage of foreign labour (Table 5.3) show significant differences in performance at $p < 0.05$ (sig). The nature of the differences also reveals that SSABs with 1-5% (Just a little) of foreign labour force perform better compared to businesses with 0% (None) of foreign labour. Also, SSABs with 6-10% (Moderately) of foreign labour force perform much better compared to businesses with 0% (None) and 1-5% foreign labour work force respectively. This result suggests that there is a significant positive relationship between the usage of foreign labour and firm performance.

On the basis of this information, it is concluded that there are significant differences in the performance of SSABs based on the extent of usage of foreign labour. That is, the more an agricultural business uses foreign labour, the better its performance.

6.2.8 Success of strategies in dealing with globalisation

Research question 12: *How successful have SSABs in the Vryburg-Pokwani area been in countering threats and taking advantage of globalisation?* Results of analysis of rating of success of strategies in dealing with forces of globalisation as revealed in Figure 5.16 show that there is apathy towards strategizing for the effects of

globalisation. The figures for all the five strategy categories show majority or the greatest proportion reporting 'Not Applicable'. The results also show that even when the businesses strategize, they have been mostly unsuccessful, with the exception being taking advantage of foreign technology.

On the basis of this information, it is concluded that:

- (i) Most SSABs in the region are apathetic towards strategizing for globalisation**
- (ii) SSABs in the region do not have strategies in place to successfully deal with globalisation elements**

6.2.9 Long-term performance expectation of SSABs

Research question 13: *What are the long-term business performance expectations of SSABs according to owner/manager and business characteristics?* An ANOVA was performed to establish the extent to which the performances of SSABs are affected by trade liberalisation, the free movement of labour and technology transfer. In order to achieve this, the mean scores of the importance/relevance, impact and long-term expectations of the same variables under each category were computed. The aim was to test if there are any observable significant differences among the same variables across categories. The findings revealed that most of the variables used were positive and significant across the three categories. However, the extent of significance differed with respect to categories (importance/relevance, impact and long-term expectations). For example, relevance of foreign labour to globalisation was found to be positive and significant at $p < 0.05$ with respect to importance/relevance, impact and long-term expectation on globalisation.

Further analysis was done to determine the relative importance of selected aspects of globalisation (availability of foreign technology, lowering foreign trade barriers, free movement of labour) to the performance (profitability, growth and survival chances) of their businesses based on responses from owners/managers. From the analysis, none (0.0%) indicated that foreign technology was very unimportant while 15.2% indicated that they have no idea about foreign technology. Furthermore, 35.1% indicated that foreign technology was important and 39.1% agreed foreign technology was very important for globalisation respectively. The combined percentages for

important and very important produced 74.2% aggregate. Hence, the majority (74.2%) of participants agreed that foreign technologies are important for profit making.

6.2.10 Enabling SSABs to improve long-term performance

Research question 14: *What can be done to enable SSABs to improve their long-term performance (growth and profitability) prospects in the global market?* In order to answer this research question, the conclusions arrived at, based on the empirical results, as well as insights gained from the literature review were considered.

On the basis of the information from the above conclusions arrived at as well as insights gained from the literature review, it is concluded that implementation of the recommendations below can improve long-term performance of SSABs.

6.3 POLICY AND PRACTICE RECOMMENDATIONS

The aim of the study was to determine the impact of globalisation on small-scale agro-based businesses in the Vryburg-Pokwani area. Using an appropriate methodology and a scientific analysis, the study was able to unearth a number of policy challenges that affect small-scale agro-based businesses in the study area. Given the developmental role small-scale businesses play in solving the triple challenges of poverty, unemployment and inequality in the South African context, the economic importance of these businesses cannot be over emphasised.

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.

- SSABs in the study area must be encouraged to export their products in order to expand their markets as the study revealed that the SSABs that operate in the foreign perform better than those which are in the local market; this will enhance their profitability position. This promotion programme can be achieved through the initiation of special government programmes such as export guarantee schemes, tariff reductions and negotiating free trade agreements with foreign countries.
- The government should also review current immigration laws, especially those that prohibit the employment of skilled foreign workers. Such review will encourage SSABs to employ skilled and technically efficient foreign workers. This can subsequently result in improved performance.
- Businesses with export linkages must be promoted by way of subsidies, tax rebates, transportation and shipping cost discounts. The promotion of SSABs products through South African High Commissions in foreign countries is also another option.
- Government should establish information centre(s) to act as sources of information on the opportunities that exist globally for small-scale agro-based businesses. Too few agro-based businesses surveyed are taking advantage of the opportunities provided by trade liberalisation.
- Government should promote research and development on issues pertaining to SSABs. The government can also employ experts on the challenges relating to trade liberalisation, the free movement of people and technology transfer and acquisition. At the moment, labour laws do not favour the free movement of cheap labour across the borders. As such, these laws restrict the internationalisation of labour and affect the performance, growth and survival of agro-based businesses.
- Initiatives from rural and peri-urban communities in support of the globalisation of small-scale agro-based businesses should be enhanced by government, private and civil society institutions. Such support should include education and

skills training, technology support and access to credit guarantee by government in order to ensure easy access to investment funds.

- Owners/managers of small-scale agro-based businesses could benefit from resource centres that provide information on finance, technological changes, skills development and other vital support provided to members.
- Women constitute the majority in rural areas and are more vulnerable to economic shocks than their male counterparts. Government should provide support such as land, irrigation facilities, machinery and equipment that could serve as collateral security for women to acquire loans from financial institutions. This may go a long way in increasing women participation and empowerment, improving their income, reducing poverty and bringing about the much needed development in rural areas. The provision of government support to women would certainly go a long way in addressing the finding that too few women are involved in agro-based businesses.
- The level of involvement of the youth in agro-based businesses is too low. Government needs to provide facilities and incentives that will entice them to the land in rural areas.

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: (i) support for technological development and diffusion; and (ii) promotion of both internal and export marketing programmes.

6.4 RECOMMENDATIONS FOR FURTHER RESEARCH

Small-scale businesses are regarded as the engine for economic growth and development in both developing and developed countries. Countries therefore need to pay greater attention in identifying challenges confronting these businesses with a view to solving them in order to improve their performance. Research is the backbone of finding solutions to these challenges. Based on the findings of the study, the following areas are identified for further research.

- I. There is a need to broaden the scope of the research to cover the entire country. The present study is limited to a small geographical area and the results obtained may be limited with respect to different locations within the country.
- II. The aspects of globalisation discussed in this study are exploratory and broad. Any research that will focus on individual aspects of globalisation could produce more detailed results that may be completely different from the findings of the current study. It is crucial that a nationwide research should be conducted on **free movement of labour** as the issue of foreign workers in South Africa has resulted to violent xenophobic attacks leading to loss of lives. The findings of the study may produce lasting solutions to the migrant worker issue.
- III. The fourth aspect of economic globalisation, **capital transfer/flow**, is not covered by this study; its impact on the conduct of agro-based businesses could be investigated as it could be an important source for financing these export-oriented businesses.
- IV. The impact of globalisation on service businesses can be another fertile area of research.

Research on successful initiatives on rural and peri-urban community support towards globalisation can help improve the perceptions of business towards globalisation and also enhance their performance.

6.5 CONCLUDING REMARKS

Through the extensive literature review, descriptive and quantitative analyses of the importance/relevance, impact and long-term performance expectations of SSABs in the study area were revealed. Specific emphasis was on how trade liberalisation, the free movement of labour and technology transfer impact on some demographic (age, gender) variables in order to establish the performance, growth and survival of SSABs in the Vryburg-Pokwani area of the North West and Northern Cape provinces of South Africa. Furthermore, the number of years of operation, type of business ownership, type of business activities, number of employees, engagement in foreign businesses, import and export of technology and products, influence of foreign labour and pre-tax profit were analysed using ANOVA to establish the significance to which globalisation affects the performance of SSABs in the study area.

From the analysis, small businesses, especially agro-based businesses are considered as the engine that drives economic growth and development in both developed and developing countries. These businesses are more relevant to developing countries when one considers that the bulk of their population reside in rural areas and the major economic activity is agriculture. The majority of these people involved in agriculture are poor and vulnerable, especially when it comes to household food security. The processing of primary agricultural products may drastically reduce the vulnerability of these people and increase their contribution to the gross domestic production of a nation. The aim of the study was to determine the importance/relevance, impact and long-term performance expectations of trade liberalisation, free movement of labour and technology transfer on the performance of small-scale agro-based businesses in order to provide practical methods of intervention on the challenges faced by these businesses in the study area.

It was assumed in the study that: there are differences in the level of performance among small-scale agro-based businesses in the study area; businesses in the study area that have adopted globalisation perform better; globalisation triggers the adoption of new technologies, promotes trade liberalisation, technology transfer, free movement of labour; and businesses that have gone global experience better

performance, growth and survival. The study achieved these through the use of descriptive statistics in combination with Analysis of variance (ANOVA).

In the study, three broad dimensions (i.e. “importance/relevance”; “impact” and “long-term performance expectations”) were created with respect to variables or characteristics that determine trade liberalisation, free movement of labour and technology transfer. Total scores were computed for each of the three broad dimensions and the three indexes of respective maximum theoretical values (i.e. 36, 54 and 36) differed because of differences in the number of response categories used. These indexes were used to analyse the impact of globalisation on small-scale agro-based businesses in the study area. It was evident from the results that demographic factors (age, gender, education), number of years of operation, and business considerations, that is, type of business ownership, type of business activities, number of employees, engagement with foreign businesses, import and export of technology and products, influence of foreign labour and pre-tax profit impacted positively on the globalisation of small-scale agro-based businesses in the study area.

The study found that a significant relationship exists between importance/relevance, the impact and long-term performance expectations of businesses that import technology, export products and have linkages with foreign businesses. An analysis of variance (ANOVA) established that contrary to what many think that globalisation negatively affects business performances, growth and survival, the reverse is true because businesses that can compete globally are more efficient, have greater market share, have lower production costs and consequently, higher profitability. Globalisation affects inefficient and poorly managed businesses and kills them off. This finding is consistent with that of Audretsch and Alvari (2006). However, for globalisation to be fair, policies that favour home enterprises such as selective protectionism policies against foreign companies, subsidies on agro-based enterprises, imposition of tariffs on foreign agro-based products, institution of sanctions on foreign enterprises that subsidise their inefficiencies (dumping) must be encouraged. The study therefore, lays the groundwork through which solutions to the challenges that confront small-scale agro-based businesses due to globalisation could be found. These interventions can make meaningful contributions to employment, food

security and generate a multiplier effect leading to a vibrant local economic development in the study area.

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ANNEXURE 1: QUESTIONNAIRE

SECTION A: DEMOGRAPHIC DATA						
A1 Information on the owner/manager						
1	Please tick your gender	1 (Male)			2 (Female)	
2	What is your age group?	1 (20yrs & below)	2 (21-30)	3 (31-40)	4 (41-50)	5 (51-60)
3	What is your highest academic qualification?	1 None	2 Primary	3 Matric & below	4 Tertiary certificate	5 Diploma/ degree
4	Indicate the highest level of education at which skill was acquired by ticking the appropriate column for questions 4,5,6,& 7.	1 High school		2 College	3 Diploma/degree	4 Postgraduate
5	At what highest level of education have you acquired business management skills?	1	2	3	4	5
6	At what highest level of education have you acquired agricultural skills?	1	2	3	4	5
7	At what highest level of education have you acquired engineering skills?	1	2	3	4	5
8	At what level of education have you acquired entrepreneurial skills?	1	2	3	4	5
A2 Business information						
9	For how long has the company been in operation?	1 (up to 1yr)	2 (2 - 5 yrs)	3 (6-10yrs)	4 (11 - 20yr)	5 (over 20 yrs)
10	What type of business activity is the company engaged in?	1 Agric-processing	2 Livestock farming	3 Crop farming	4 Horticulture	5 Both livestock & crop farming
11	What form of business ownership do you practise?	1 Sole proprietor	2 Partnership	3 Close corporation	4 Private company	5 Cooperative society
12	Number of employees including owner/manager.	1 (1-5)	2 (6-20)	3 (21-30)	4 (31-40)	5 (41-50) +
13	Please indicate whether your company is engaged in foreign business or not by ticking 'yes' or 'no'	1 (Yes)			2 (No)	
14	What type of foreign business activity is the firm engaged in, if you are engaged in foreign business activity?	1 Exporting products	2 Importing inputs from other countries	3 Exporting and importing products	4 Purchasing foreign inputs locally	5 Exporting/importing technical services
15	Please indicate the % growth in pre-tax profit over the past five years.	1 Declining (11-20%)	2 Declining (1-10%)	3 No Change (0%)	4 Growing (1-10)	5 (11-20%) +
16	Please indicate the % growth in size/employment over the past five years.	1 Declining (11-20%)	2 Declining (1-10%)	3 No change (0%)	4 Growing (1-10)	5 (11-20%) +

SECTION B: GLOBALISATION AND THE AGRICULTURAL SMALL BUSINESS

B1 Indicate your assessment of the importance/relevance of the following aspects of globalisation to the performance of your business

		1 Very unimportant	2 unimportant	3 Don't know	4 Important	5 Very important
17	In your opinion, how important is lowering of foreign trade barriers to your business survival?					
18	In your opinion, how relevant is lowering of foreign trade barriers to your business profitability?					
19	In your opinion, how relevant is lowering of foreign trade barriers to your business growth?					
20	In your opinion, how relevant is free labour movement due to relaxed immigration laws to the survival of your business?					
21	In your opinion, how relevant is free labour movement due to relaxed immigration laws to the profitability of your business?					
22	In your opinion, how relevant is free labour movement due to relaxed immigration laws to the growth of your business?					
23	In your opinion, how relevant is availability of foreign technology to the survival of your business?					
24	In your opinion, how relevant is availability of foreign technology to the profitability of your business?					
25	In your opinion, how relevant is availability of foreign technology to the growth of your business?					

B2 Indicate how you believe the following aspects of globalisation have impacted on the performance of your business

		1 Very negative	2 Moderate negative	3 Low negative	4 None	5 Low positive	6 Moderate positive	7 Very positive
26	How has the lowering of foreign trade barriers actually impacted on your business' profitability?							
27	How has the lowering of foreign trade barriers actually impacted on the survival of your business?							
28	How has the lowering of foreign trade barriers actually impacted on your business' growth?							
29	How has free labour movement due to relaxed immigration laws impacted on your business' survival?							
30	How has free labour movement due to relaxed immigration laws impacted on your business' profitability?							
31	How has free labour movement due to relaxed immigration laws impacted on your business in terms of growth?							
32	As far as you can tell, how has the availability of foreign technology actually impacted on your business' survival?							
33	As far as you can tell, how has availability of foreign technology actually impacted on the profitability of your business?							
34	As far as you can tell, how has availability of foreign technology actually impacted on the growth of your business?							
35	How would you rate your business' future/long-term survival under further lowering of foreign trade barriers?	1 Very unpromising	2 Unpromising	3 Do not know	4 promising	5 Very promising		
36	How would you rate your business' future/long-term profitability under further lowering of foreign trade barriers?							
37	How would you rate your business' future/long-term growth under further lowering of foreign trade barriers?							
38	How would you rate your business' future/long-term survival under increased free labour movement due to relaxed immigration laws?							
39	How would you rate your business' future/long-term profitability under increased free labour movement due to relaxed immigration laws?							

40	How would you rate your business' future/long-term growth under increased free movement of labour due to relaxed immigration laws?	1	2	3	4	5
41	How do you rate their future/long term survival under increased availability of foreign technology?	1	2	3	4	5
42	How do you rate their future/long term profitability under increased availability of foreign technology?	1	2	3	4	5
43	How do you rate their future/long term growth under increased availability of foreign technology?	1	2	3	4	5

B3 Indicate your Long-term performance expectations for business performance under increased						
44	How would you rate your business' future/long-term survival under further lowering of foreign trade barriers?	1 Very unpromising	2 Unpromising	3 Do not know	4 promising	5 Very promising
45	How would you rate your business' future/long-term profitability under further lowering of foreign trade barriers?	1	2	3	4	5
46	How would you rate your business' future/long-term growth under further lowering of foreign trade barriers?	1	2	3	4	5
47	How would you rate your business' future/long-term survival under increased free labour movement due to relaxed immigration laws?	1	2	3	4	5
48	How would you rate your business' future/long-term profitability under increased free labour movement due to relaxed immigration laws?	1	2	3	4	5
49	How would you rate your business' future/long-term growth under increased free movement of labour due to relaxed immigration laws?	1	2	3	4	5
50	How do you rate their future/long term survival under increased availability of foreign technology?	1	2	3	4	5
51	How do you rate their future/long term profitability under increased availability of foreign technology?	1	2	3	4	5
52	How do you rate their future/long term growth under increased availability of foreign technology?	1	2	3	4	5

B4 Extent of globalisation						
53	To what extent have you actually used foreign labour in your business?	1 (0%) None	2 (1-5%) Just a little	3 (6-10 %) Moderately	4 (11-15 %) Much	5 (16-20 %) + Very much
54	To what extent have you actually introduced foreign technology into your business as percentage of total assets?	1 (0%) None	2 (1-5%) Just a little	3 (6-10 %) Moderately	4 (11-15 %) Much	5 (16-20 %) + Very much
55	To what extent have you established foreign alliances	1 (0%) None	2 (1-2)	3 (3-5)	4 (6-10)	5 (More than 10)
56	How much do you export as a percentage of gross turnover	1 (0%) None	2 (1-10%)	3 (11-20%)	4 (21-30%)	5 (More than 30%)

B5 Strategies used and their effectiveness						
57	What is the most important threat that the lowering of foreign trade barriers posed to your company?					
58	What actions did you take to counter the threat of lowering foreign trade barriers?					
59	And how successful has the strategy been?	1 Very unsuccessful	2 Unsuccessful	3 Do not know	4 Successful	5 Very successful
60	What is the most important opportunity that your company took advantage of after the lowering of foreign trade barriers?					

61	What actions did you take to take advantage of the opportunity presented by lowering the trade barriers?						
62	And how successful has the strategy been?	1 Very unsuccessful	2 Unsuccessful	3 Do not know	4 Successful	5 Very successful	6 Not applicable
63	What is the most important threat that is posed to your company due to the relaxation immigration laws?						
64	What action has your company taken to counter negative impact of free movement of labour?						
65	And how successful has the strategy been?	1 Very unsuccessful	2 Unsuccessful	3 Do not know	4 Successful	5 Very successful	6 Not applicable
66	What is the most important opportunity that your company has taken advantage of due to the free movement of labour?						
67	What action has your company taken to take advantage of the opportunity presented by free movement of labour?						
68	And how successful has the strategy been?	1 Very unsuccessful	2 Unsuccessful	3 Do not know	4 Successful	5 Very successful	6 Not applicable
69	What is the most important opportunity presented to your company by availability of foreign technology?						
70	What action has the company taken to take advantage of the opportunity presented?						
71	And how successful has the strategy been?	1 Very unsuccessful	2 Unsuccessful	3 Do not know	4 Successful	5 Very successful	6 Not applicable