

**Chapter One: Introduction****1.1 Background**

The purpose of this study is to contribute, from an agribusiness perspective, to the design of agribusiness-small-scale farmer contracting partnerships in South Africa. This study will attempt to demonstrate that contracting, modified to suit country and commodity specific conditions, can be used as a vehicle to overcome the historical legacies of the South African agricultural sector. More specifically, this study will attempt to demonstrate that the institution of contracting can be used as a mechanism to overcome the barriers of transaction cost, technology, competition, low prices, the inelasticity of demand and the inherent instability of agriculture, as suggested by Bonnen & Schwiekhart (1998). The need to design new approaches to link small-scale farmers and agribusiness is underlined by the changing nature of farming. The modern agricultural sector is, increasingly, changing from an industry dominated by family farms, to one that is characterised by larger, industrialised firms that are more tightly aligned across the supply chain (Boehlje, 2000). The dilemma facing small-scale farmers in many developing countries is that, despite the opportunities that have emerged as a result of the industrialisation of agriculture, they are confronted by the possibility of being marginalised as a result of the changing structure and requirements of the farm sector.

The increasingly industrialised nature of agriculture is thought to be largely the result of biological and information technologies (Schrader, 1986), economic growth, mechanisation, the increasing scale of organisation and the modernisation of production, processing and distribution systems (Sofranko *et al*, 2000). Drabenstott (1995) argues that there are two powerful forces driving this process of industrialisation: a new consumer and a new producer. The new consumer is typified by high levels of product specific requirements, whilst the new producers are equipped with modern technology and management tools that enable them to engineer food from farm to table. Furthermore, increased levels of processing, improved productivity, new technology and market forces have expanded the range of products (Von Braun & Kennedy, 1994; Royer, 1995) that are customised and aimed at separate market niches (Davis & Langham, 1995; Drabenscott, 1995; Fronmueller & Reed, 1996; Boehlje, 2000). Food production has, thus, become an industrialised,

vertically integrated, capital intensive business, that operates in a highly competitive and unpredictable global market (Reardon & Barrett, 2000) which is relatively inelastic and is confronted with increasing levels of supply (Huffman & Just, 1994; Meliczek, 2000).

Increased levels of vertical co-ordination have been a crucial feature of the industrialisation and globalisation of agriculture (Williams, 1985; Watts, 1994; Von Braun, 1994; Eicher & Staatz, 1998). Vertical co-ordination, in general, can be likened to a value added partnership (VAP), or a loose form of vertical integration that exists in many business sectors. This institution includes a set of independent partners that work closely together to manage the flow of goods and services along the entire value added chain (Glover, 1984; Johnstone & Lawrence, 1988). In the agricultural sectors of developed countries this structural response has, mostly, been related to a profit motive (Royer, 1995; Pasour, 1998) where a central objective includes the structuring of the organisation in its most efficient form (Frank & Henderson, 1992; Mahoney, 1992; D'Aveni & Ravenscroft, 1994; Aust, 1997; Rehber, 1998; Pasour, 1998; Sofranko et al, 2000). The need for economies of scale, product differentiation, increased levels of co-ordination, combined with the need to develop and protect technology, are thought to have contributed to the higher levels of vertical co-ordination (Rhodes, 1993; Royer, 1995; Pasour, 1998). Agriculture has, therefore, experienced a move away from open market production and has become increasingly vertically co-ordinated with agribusiness, in order to produce a greater range of high quality differentiated products (Babb, 1992; Sporleder, 1992; Royer, 1995; Peterson & Wysocki, 1998; Pasour, 1998; Pritchett & Liu, 1998; Goodhue, 1999; Sofranko et al, 2000). This structural change has resulted in fewer, larger farms and the concentration and specialisation of farming (Schrader, 1986; Frank & Henderson, 1992; Rhodes, 1993; Ling & Liebrand, 1995; Pasour, 1998).

There has also been a widespread increase in the incidence of vertical co-ordination in many developing countries (Eicher & Staatz, 1998). However, unlike developed countries, the increased levels of vertical co-ordination in developing countries have been pursued for both equity and economic reasons (Glover, 1984; 1987; 1994, Von Braun & Immink, 1995; Little, 1994; Watts, 1994). Contract farming, in this regard, has been cited as an important vehicle to contribute towards development in Sub

Saharan Africa (Eicher & Staatz, 1998; Coulter et al, 1999). The rapid growth of vertical integration in developing countries can be partially explained by growing food dependence, the need to generate foreign exchange (Little & Watts, 1994) and as a means to industrialize and restructure agriculture (Goodman, Sorj & Wilkinson, 1987). Moreover, contracting has been seen as a way to modernize traditional production systems (Vergopolous, 1985; Binswanger et al, 1993), a means to provide missing or imperfect markets (Runsten & Key, 1996; Delgado, 1999) and, finally, as a vehicle to achieve the restructuring of the demographics of ownership of the agricultural sector (Glover, 1984; Glover, 1987; Watts, 1994; Rehber, 1998). The use of contracting, however, has been associated with the exploitation of farm labour, family conflict, loss of farmer independence, land degradation and the increased production risk of non traditional crops (Little & Watts, 1994; Key & Runsen, 1999).

Recent developments in economic theory, like the new institutional economics, have contributed to a better understanding of the managerial economics of the firm. These studies have revealed crucial new insights into the economic rationale for higher levels of managed co-ordination as a choice of governance structure to co-ordinate the activities of the firm (Petersen & Wysocki, 1997; Wysocki & Petersen, 1998). The structural changes in industry are, in this respect, matched with higher levels of recognition of the importance of the economics of organisational architecture (Brickley et al, 2001). Various empirical studies in the United States, for instance, have concluded that vertical co-ordination strategies are the result of transaction cost economies where the most influential transaction characteristics are uncertainty, input supplier concentration, asset specificity and internalisation costs (Frank & Henderson, 1992). Finally, idiosyncratic investments, asymmetric information and the costs of administering contractual relationships are seen as additional factors explaining the economics of vertical co-ordination (Joskow, 1988; Royer, 1995; Pasour, 1998).

In the process of stimulating agrarian transformation in South Africa, a number of innovative schemes have been devised to integrate black farmers into the commercial farm sector. These innovations include a range of agricultural participation models, such as farm worker equity schemes, build-operate-transfer schemes, lease and buy schemes, share production schemes, agricultural village

schemes and contract farming. Partnership approaches, involving the emergent farmer and the agribusiness-commercial sector, have appeared to be less costly in terms of cost per beneficiary than state led farmer settlement models (Van den Brink, 1996; Ngqangweni & Van Rooyen 1998; Van Rooyen, 1999). In particular, a wide range of small-scale farmer contracting arrangements operate in South Africa. These examples include contracting in the tea, fruit, sugar, flower, cotton, vegetable, timber, tobacco, mariculture and beverage sectors. A range of issues have been linked to the emergence of contracting in South Africa. The effects of colonialism and apartheid on black-white relations remain a vital consideration with respect to the establishment of contract farming, where small-scale farmers, mostly, see this arrangement as a means to participate in high value crop production, as well as to secure access to inputs like credit and fertiliser. Other issues that have emerged in South African small-scale contracting partnerships are the unequal power relationship between agribusiness and the farmers, the high level of transaction cost, the potential problems over company control of water, the leading role in production played by women and the low level of food self sufficiency in the farmer household because of family labour concentrating on contract production. Finally, the existence of managed small-holder contracting schemes has been associated with top-down management structures, political economy objectives and agribusiness paternalism (Levin, 1988; Porter & Howard, 1997a; 1997b; Van Rooyen, 1999; Karaan, 1999; Tregurtha & Vink, 1999; Kirsten & Sartorius, 2002; Sartorius and Kirsten, 2002).

## **1.2 The Problem Statement**

The industrialisation of agriculture in many developed countries has resulted in the polarisation of the industry, as a result of the need for continuity of supply and economies of scale. It has been suggested that this feature is likely to be replicated in other parts of the developing world. There is, thus, a danger that a majority of farmers in developing countries could be excluded from the profitable niche markets and continue to produce only homogenous commodities with low returns, that are prone to the price volatility of world commodity markets. In this respect, Boehlje and Doering (2000) argue that smaller operations, not associated with an industrialised system, will have increasing difficulty in gaining the economies of size and the access to technology that is required in order to be competitive. Moreover, the trade

liberalisation efforts, as well as the harmonisation of standards, might also make it more difficult for small-scale producers to participate in new marketing opportunities presented under the reforms (Stanton, 2000). Although the process of industrialisation has created opportunities for smallholders in developing countries to produce a wider range of horticultural commodities under contract (Kandiwa, 1999), there is still the danger that the process of agro-industrialisation, globalisation and market integration will exclude these farmers from high value markets (Reardon and Barrett, 2000). Currently, only the well-endowed and skilled have the ability to be incorporated in modern organisation structures, illustrating how quality requirements, and the regulations of developed countries, have acted as effective barriers to participation by small farmers in developing countries. The potential polarisation of developing country agriculture is emphasised by the fact that fresh food products often account for half the total value of food and agricultural exports (Unneveher, 2000). Finally, there is general consensus that development in rural Africa will have to overcome many historic, socio-economic and physical constraints that include a legacy of missing markets. The constraints confronting farmers have often been exacerbated by government policy and poor infrastructure that have contributed to raising the barriers of entry to many high value crop sectors (Delgado, 1999). Merely implementing changes in policy will not remove these barriers to entry, that include a lack of education, a lack of access to information, missing markets and disproportionate patterns of asset ownership and infrastructure development (Currie & Ray, 1986; Delgado, 1999).

The setting of the problem in South African agriculture is rooted in a long history of the systematic oppression of black farming, combined with the active support of the White commercial farm sector (Bundy, 1979; Kirsten & van Zyl, 1996; Mbongwa et al, 1996; Schirmer, 2000). Currently, there is still a dual structure in the agricultural sector that displays a highly skewed distribution of assets and income, combined with high levels of inefficiency promoted by decades of government legislation (Fenyés et al, 1988; Van Zyl et al, 1996). In addition, agrarian transformation has been slow and less than 2% of white commercial farmland has been transferred to the Black farming sector since 1994 (Van Zyl & Kirsten, 1999).

The assumption that the commercialisation of small-scale producers will be efficient, should not be automatically concluded (Von Braun & Kennedy, 1994) and it has been suggested that small-scale farmers in the modern farm sector in South Africa, like their counterparts in many other post colonial and Latin American countries, are increasingly being confronted with low levels of productivity (Fenyés et al, 1988; Binswanger & Deiniger, 1993; Mbongwa et al 1996). The problem, in terms of its South African context, is that despite the changes in legislation, agribusiness could be unwilling to involve small-scale farmer supply chains because of the higher cost of co-ordinating this category of farmer. In conjunction with a lack of public finance, the barriers of entry to many value added crop sectors are prohibitive for small-scale farmers. These barriers to entry include the cost of modern production and processing facilities, that include high levels of capitalisation, running costs and skills. In addition, historical legacies have resulted in the establishment of unequal power relationships, skewed development patterns and unequal access to markets, infrastructure and services. The removal of these barriers has been compromised by the limited ability of government to rectify the current status quo (Binswanger et al, 1993; Mbongwa et al, 1996; Kirsten & van Zyl, 1996; Delgado, 1999; Kirsten & Sartorius, 2002). As a result of these problems, allied to the polarisation of the modern farm sector, the black farmer in South Africa is confronted with the prospect of exclusion from agribusiness supply chains. This process of marginalisation is emphasised by the low level of agribusiness investment in small-scale supply operations (Machethe et al, 1997; Van Rooyen, 1999; Van Rooyen et al. 1999). The question remains as to how agribusiness can make the process of dealing with smallholders cost effective and sustainable whilst, at the same time, contributing to poverty alleviation and development.

### **1.3 The Research Questions**

The central research problem of this study is, whether or not small-scale farmers can be linked to agribusiness in developing countries. Five sub-questions are generated as a result of the principal problem. The first research question is, whether or not the organisation structure of the grower-processor supply chain is a function of its transaction characteristics. The second research question is, whether or not the transaction characteristics of the grower-processor supply chain are a function of the

prevailing institutional framework. The third research question is, whether or not small-scale growers generate a higher level of transaction cost than medium or large scale producers in the same grower-processor supply chain. The fourth research question is, whether or not contracted small-scale growers in an agribusiness supply arrangement can successfully compete with medium, large and company growers in terms of the cost efficiencies of production. Finally, the fifth research question, is whether or not the institution of contracting reduces the transaction cost of contracted small-scale growers and allows them to overcome the barriers of entry to high value cash crop sectors.

#### 1.4 The Hypotheses

- The first research question examines whether the transaction characteristics of grower-processor supply chains influence the governance structure that is required to co-ordinate the respective activities. The relationship between the transaction characteristics of the firm and organization structure can be hypothesised as follows:

$$OS = f(U, F, ASP)$$

Where OS = organisation structure, U = uncertainty, F = Frequency and ASP = asset specificity.

- The second research question tests whether the transaction characteristics of grower-processor supply chains are a function of social-historical variables influenced by the prevailing institutional framework. The relationship between the transaction characteristics of the firm and certain social-historical variables can be hypothesised as follows:

$$TC = f(BEH, CONC, EQU, REG, ME, NR)$$

Where BEH = Human Behaviour, CONC = The historic concentration of industry and infrastructure, EQU = The social-equity objectives of the founders

of industry, the Government, foreign investors and international development organisations. REG = the prevailing property rights regulation, the judiciary. ME = macro-economic factors influencing the economy. NR = the Natural Resources and Physical Environment influencing an economy.

- The third research question tests whether small-scale growers generate a higher level of integrator transaction cost in the grower-processor supply chain than medium to large scale suppliers. The relationship between small-scale grower and medium-large scale grower transaction cost can be hypothesised as follows:

$$TC/TON_{SF} > TC/TON_{LF}$$

Where TC/TON= Transaction Cost per ton of raw commodity supplied,  
SF = Small-Scale Farmer, LF = medium to large scale grower.

- The fourth research question tests the ability of small-scale growers, in the sugar and timber industries, to compete favourably, in terms of cost efficiency, with medium and large scale growers in the supply operation. The inverse relationship between productivity and farm size suggests smaller farmers, in many instances, are more competitive than larger farmers (Binswanger et al, 1993: Van Zyl, 1996). The relationship can be hypothesised as follows:

$$GC/TON_{SF} < GC/TON_{LF}$$

Where GC/TON= Raw commodity production cost per ton, SF = Small-Scale Farmer, LF = medium to large scale grower.

- The fifth research question tests whether the institution of contracting allows small-scale farmers to overcome the barriers of entry to the value added crop sector, by reducing the transaction costs involved. This study hypothesises that without the institution of contracting, small-scale farmers would be unable to participate in the value added crop sector.



## 1.5 The Objectives

The purpose of this study is to design an agribusiness-small-scale farmer contracting model that can be employed in South Africa. This study attempts to demonstrate that contract farming can be used, on an economic efficiency criteria basis, to involve small-scale farmers in the industrial farm sector. The objectives of the study are to demonstrate that:

- The transaction characteristics of a grower-processor supply chain influence the governance structure that is employed to co-ordinate the players.
- The transaction characteristics of a grower-processor supply chain, in turn, are influenced by the prevailing institutional environment.
- Contracted small-scale growers generate a higher level of transaction cost to the agribusiness partner than contracted medium or large scale growers.
- Contracted small-scale grower cost per unit of the raw commodity is equal to or less than that of medium, large and company estate growers.
- The institution of an agribusiness small-scale contracting partnership reduces the transaction cost of the small-scale growers, as well as allowing them to overcome the barriers of entry to certain high value crop sectors.

## 1.6 The Significance and Rationale of the Study

This study will contribute to the design of agribusiness small-scale farmer linkages, by developing a model that combines the lessons of history with a unique transaction cost based methodology of analysing raw commodity supply chains. The importance of the study is emphasised by the sheer magnitude of marginalisation, poverty and a lack of research in Africa, combined with the need to introduce measures that contribute towards economic development (Little, 1994; Watts, 1994; Binswanger et al, 1993; Delgado 1999). The relative lack of empirical studies in Africa underlines

the importance of conducting further research (Little & Watts, 1994; Eicher & Staatz, 1998) in a continent where it is estimated that some 110 million subsistence farmers exist (Von Braun, 1994). The gravity of the problem is also highlighted by the high level of failure of small-scale farmer contracting projects in developing countries (Watts, 1994, Little, 1994; Glover, 1994; Von Braun & Kennedy, 1994; Runsten & Key, 1996; Delgado, 1999). The need to investigate alternative sources of capital inputs, including the institution of contracting, is, moreover, underlined by an international trend of economic reform programs that have drastically reduced public expenditure in the agricultural sector (Key and Runsten, 1999). The slow pace of agrarian reform in South Africa since 1994 (Van Zyl & Kirsten, 1999) has highlighted the urgent need to develop small-scale farm access to commercial farming opportunities (Ministry for Agriculture and Land Affairs, 1998). Finally, the importance of restructuring the agricultural sector in South Africa, in conjunction with land reform, are seen as key measures that need to be addressed in order to modernise the farm sector, as well as achieve greater levels of social equity (van Zyl, 1996; Kirsten & van Zyl, 1996).

Research in one hundred and seventeen other countries supports the consensus that small to medium sized family farms are often more productive than large scale mechanised farms (Van Zyl, 1996). The validity of promoting small and medium size farm production is further supported by a general history of small farm response to profit incentives (Schultz, 1998; Hayami, 1998) and a long history of sustained entrepreneurial ability in the often marginalised small-scale farm sector in South Africa (Bundy, 1979; Schirmer, 2000). The use of contracting has been widely cited as a way to achieve transformation and modernise traditional farming systems (Eicher & Staatz, 1998) and South Africa, in particular, has the potential for the development of small-scale farmer contracting given the well developed structure of agribusiness, combined with the growth of the food processing industry. This growth potential of processing is emphasised by the fact that only 15% to 27% of all fruit and vegetable production is being processed by some seventy nine processors (National Department of Agriculture, 2000).

## 1.7 The Methodology

A case study approach is employed to test the research questions because of the qualitative nature of the data, in addition to the ability to explore a wider range of variables that affect the structure and performance of agricultural contract grower-processor operations. The research questions are independently tested in two different case studies. The first case study includes two examples of small-scale grower-processor supply chains in the Southern African sugar industry and the second an example of micro-contracting in the timber industry.

A number of reasons have prompted the choice of a combined case study in the Swaziland and South African sugar industries. Firstly, the sugar industry in Southern Africa is widespread and has the potential to link with large numbers of small-scale growers. The incidence of small-scale farmer contracting with agribusiness in the sugar industry, has increased markedly in recent years in both South Africa and Swaziland and, in 2000, over 50 000 small-scale sugar growers were registered in South Africa. Secondly, the two case studies were chosen because small-scale growers compete with medium-large scale growers in both sets of grower-processor supply chains. A third reason for the choice was the complex logistics required to coordinate the harvesting and delivery of large volumes of a perishable raw commodity in order to make constant use of high fixed cost processing facilities. Finally, the case studies were chosen because of the opportunity to demonstrate that the structure and performance of the sugar industry have been influenced by a complex set of social-historical and physical variables.

The case study on the timber industry was selected because of the widespread nature of contracted small-scale farmers as suppliers. The industry has, in this regard, promoted the development of some 18 876 small-scale growers, occupying in excess of 43 000 hectares in Zululand, the Natal Midlands, Southern Natal and the Eastern Cape. The timber industry has developed strategic plans to significantly expand small-scale growers. The case study was also selected because small-scale growers compete with both company plantations and medium-large farmers. The timber case study, like its counterpart in the sugar industry, involves complex co-ordination and logistics requirements. Finally, the timber industry case study was also selected because the

structure and performance of this industry have been particularly influenced by the prevailing institutional environment.

A theory of the firm approach, illustrated in Chapter Three, has been used as the basis to construct a conceptual framework, developed in Chapter Four, in order to test the research questions in a case study application. More specifically, Chapter Four develops a unique approach to operationalise the transaction cost theory developed in chapter Three.

### **1.7.1 Research Question One**

The case studies employ the historical records of the selected companies, as well as personal interviews, to identify the actual transaction characteristics of the respective grower-processor supply chains. The historical records of the selected case studies are analyzed to determine the frequency of these transactions, the degree to which the processing assets of the integrator are specific to the transaction and the level of supply uncertainty that exists. The frequency of the supply transactions is determined by counting the total number of raw commodity deliveries. The asset specificity of the supply transaction is determined on the basis of the current net book value of the processing plant and the degree of co-ordination required to synchronize the processing of the raw commodity. Finally, the degree of supply uncertainty is evaluated on the basis of a qualitative analysis of the medium-long term factors that could influence the continuity of supply. In each case, the transaction characteristics of frequency, asset specificity and uncertainty are graded as low, medium or high on the basis of the methodology developed in Chapter Three.

In order to test if the actual transaction characteristics have influenced the actual governance structure of the supply operations, the following steps are taken. Firstly, the actual transaction characteristics of frequency, asset specificity and uncertainty are identified in the historical records of the case studies before being classified and graded. Next the actual contract conditions, located in the historical records of the company are classified and graded. The conceptual linking of transaction-contract characteristics to a continuum of governance structures has been guided by transaction cost theory, developed in Chapter Three, and the development of a conceptual

framework in Chapter Four. On this basis, the actual transaction-contract characteristics of the raw commodity supply operations are matched with the most suitable governance structure within the confines of a conceptual framework. The actual governance form of the case study application, identified in the historical records and plotted in the conceptual framework, is then compared with the theoretically optimum governance form. On the basis of a suitable match between the actual and theoretically optimum governance forms, a qualitative argument is developed to test whether the actual transaction characteristics of the raw commodity supply operation have influenced the actual governance form as represented by a specific form of contracting. A crucial question, in this regard, is whether the processor could co-ordinate the supply of the raw commodity on an open market basis.

### **1.7.2 Research Question Two**

The case studies examine the historical records of their respective industries in order to identify significant variables that have influenced industry level transaction costs. The relationship between firm level transaction cost and these social-historical variables, is based on the assumption that history has a long term pervasive influence on the property rights economics and institutional framework of an economy (Williamson, 2000). The selection of data and methodology employed to demonstrate the relationship between variables in the prevailing institutional framework and transaction cost, is based on a schema of theories approach developed by Williamson (2000) in Chapter Three and operationalised by the proposed conceptual framework in Chapter Four. This approach demonstrates how historical legacies influence the prevailing institutional framework which, in turn, influences the transaction cost of the individual firm. The case studies therefore evaluate how historical legacies have influenced human behaviour, the concentration of industry, the property rights economics and the balance of equity-economic objectives in the prevailing institutional framework. The related transaction cost is then traced to the historical records of the case studies to better explain the economics of transaction cost.

### **1.7.3 Research Question Three**

The study analyses the historical records of the selected case studies with respect to three elements of transaction cost that are generated as a result of the raw commodity supply-delivery operations. The transaction cost elements include start up cost, harvesting-delivery costs and the administration of growers' affairs. The development of transaction costs, largely quantified in terms of transaction frequency, have also been guided by the conceptual framework developed in Chapter Four. The transaction costs of small-scale growers are separately assembled and compared with larger growers before a qualitative argument is developed to test whether or not small-scale grower transaction cost is greater than that of larger suppliers.

### **1.7.4 Research Question Four**

The historical grower production cost records of the selected case studies have been accessed to calculate the average total production cost per ton of the raw commodity. The cost data, maintained by the accounting divisions of the respective companies, have been assembled for each cost element of production. Separate cost records for both the company estates-plantations have been developed and compared to those of contracted small-medium suppliers. The cost data, representing a three to five year period, have been restated in terms of 1999 prices and averaged. In order to compare the long term performance of the growers. The cost data are supported by some comparative results of similar studies of small-scale grower performance in the same crop sector. Finally a qualitative argument is developed to test whether small-scale farmers can compete on a sustainable basis with larger growers in terms of cost efficiency

### **1.7.5 Research Question Five**

The fifth research question tests whether the institution of contracting acts as a mechanism to allow small-scale farmers to overcome the barriers of entry into a high value cash crop sector. The historical data of the case studies are used to test this research question. The methodology tests this research question on the basis of a qualitative description of the historical position of the grower, versus their current

situation as a contracted grower. This section also describes the extent to which the agribusiness partner has assisted the contracted small-scale grower to obtain missing inputs and whether these actions have contributed to the small-scale farmer overcoming the barriers of entry to the sugar and timber industries.

### **1.8 The Data**

The data for each case study are separately discussed in each of Chapters Five and Six. In general, however, the data relating to each case study include historical information relating to the industry concerned, the agribusiness partner and the grower. The data have been obtained from the historical records of the agribusiness companies, the respective industries and the grower associations respectively. Historical data have also been obtained by way of interviewing various company officials. Further historical data, including cost surveys have been obtained from the South African Sugar Growers Association, the South African Timber Growers Association and Forestry Economic Services (Pty) Limited. Although the data are largely of a qualitative nature, certain quantitative data have been assembled to assess the extent of trust in one of the case studies.

### **1.9 The Delimitation's**

The nature of the contracting relationship is restricted to any arrangement whereby a farmer is formally or informally contracted to supply an agribusiness processor with a raw commodity.

This study has assumed the processor-marketer in the contractual relationship is an agribusiness partner that operates as a profit seeking entity in the private sector. Farmer supply arrangements to other types of organisations have not been included in the study.

### **1.10 The Outline of the Study**

The outline of the research design is as follows: Chapter Two develops a historical survey of contract farming literature in order to debate the research problem in an

international context and to establish an economic rationale for contracting. Further objectives of this chapter include the identification of key success factors and the establishment of a set of lessons that can be incorporated in the resolution of the research problems and the design of agribusiness-smallholder contracting models. Chapter Three employs a conceptual historical survey to illustrate how transaction cost theory can be employed to explain the economics of both organization structure and their related transaction characteristics. Chapter Four develops a conceptual framework that expands on the operationalisation techniques of transaction cost theory. The conceptual framework will provide a methodology to test the research questions in the case studies. Chapter Five develops a case study in the Swaziland and South African sugar industries in order to test the research questions. Chapter Six employs a case study in the South African timber industry to further evaluate the research questions. Chapter Seven constructs a proposed model for agribusiness-small-holder contracting partnerships in South Africa. This chapter combines the lessons of history and the economic rationale for contracting, developed in Chapter Two, the economics of organization structure, developed in Chapters Three and Four, and the results of the case studies in Chapters Five and Six, in order to propose the design of a suitable smallholder contracting model. Finally, Chapter Eight will develop a summary and conclusion to this study and comment on the future direction of vertical coordination in developing countries, as well as suggest avenues for future research.