

CHAPTER NINE

STRATEGIES TO ENHANCE THE COMPETITIVENESS OF THE AGRIBUSINESS SECTOR IN SOUTH AFRICA

9.1 INTRODUCTION

The fifth step in the framework developed in Chapter three, to analyse the competitiveness of the agribusiness sector in South Africa, is to use the intelligence gathered from the previous four steps, and develop strategies to enhance the competitiveness of the agribusiness sector in South Africa.

What are strategies? Strategy is a universal concept. It is not only something every business does, or needs to do; it is a process that occurs at every level of society, from the individual planning his/her life or career, right up to the State considering how to lay the foundations for its economic and social development. This means that strategy is as much about willpower, belief and vision as it is about analysis, planning and execution (Holder & Nicholson, 2004). Strategies, in the sense of global competitiveness, are visions, beliefs, analyses and plans that affect the overall pattern of competition – how businesses can increase their ability to compete successfully in order to achieve sustainable growth within the global environment.

In the previous chapters, both micro and macro factors were identified that are either constraints or enhancements to the competitiveness of the agribusiness sector in South Africa. In this Chapter, a range of strategies at business, government and sector level will be derived, based on the analyses in the previous chapters, to increase the ability of the agribusiness sector in South Africa to compete in a global environment.

9.2 FACTORS THAT INFLUENCE THE COMPETITIVENESS OF THE AGRIBUSINESS SECTOR

There is a strong positive correlation between increased competitiveness of the agribusiness sector in South Africa and the deregulation of the sector. Labour productivity, the exchange rate, investment and R&D also have a direct influence on the competitiveness of the agribusinesses sector in South Africa.

According to the Porter analysis, the following major factors were identified as being constraints to the competitiveness of the agribusiness sector in South Africa. These are:

- ? The quality of unskilled labour;
- ? The availability of skilled labour;
- ? Burdensome administrative regulations;
- ? The competence of personnel in the public sector;
- ? The land reform policy;
- ? The tax system in South Africa;
- ? The labour policy;
- ? The BEE policy;
- ? The trust in the political systems;
- ? Developments in Zimbabwe;
- ? Crime; and
- ? Aids.

The major factors enhancing the competitiveness of the agribusiness sector in South Africa, as identified according to the Porter analysis, are:

- ? The quality of infrastructure in South Africa;
- ? The availability of capital;
- ? The quality and availability of technology;

- ? The sophistication of local buyers;
- ? The availability and competitiveness of local suppliers;
- ? Electricity suppliers;
- ? Internet service providers;
- ? Specialised information technology services;
- ? Regulatory standards;
- ? Effective supply chain management;
- ? Intense competition in the local market;
- ? Biotechnology;
- ? Unique products, services and processes;
- ? Quality products;
- ? Environmentally friendly products;
- ? Investment in human resources; and
- ? Innovation.

The sustainability of the competitiveness status of the agribusiness sector in South Africa is, however, being jeopardised by negative changes to the decision-making environment of agribusinesses. The impact of these changes is captured in the Agribusiness Confidence Index, which indicates a decline in the confidence of the agribusiness sector since 2003.

These factors will be used as bases to develop strategies to enhance the competitiveness of the agribusiness sector in South Africa. The strategies will be divided according to the role of government, agribusinesses and the sector.

9.3 THE CENTRAL ROLE OF GOVERNMENT

From the analysis in this study it is clear that government does have a central role in promoting competitiveness performance in the agribusiness sector through a particular set of rules, policies and initiatives. There are some basic principles that government should embrace to serve the proper supportive role that will enable sectors to increase their

competitiveness. Firstly, government must encourage change in an orderly manner and through appropriate incentives; secondly, government must promote domestic rivalry and thirdly, government must stimulate innovation (Cho & Moon, 2002). Government is an important actor in international competition, but rarely does it have the starring role (Porter, 1998). From the analysis in this study, specific policy approaches for the South African government to enhance the competitiveness of the agribusiness sector, include the following:

- (i) ***Focus on specialised education and knowledge development.*** Apart from government's role to promote basic national infrastructure and research in areas of broad national concern, such as health care, government has critical responsibilities in fundamentals such as primary and secondary education systems. The quality of unskilled labour and the availability of skilled labour are currently constraining the competitiveness of the agribusiness sector in South Africa. Capacity is required to manage sustained productivity. Improved labour relations, a reduction in the administration of labour regulations and training across a broad frontier need to be highlighted.

However, generalised efforts for factor creation rarely produce a competitive advantage. The factors that are able to transform into competitive advantage are advanced, specialised and connected to specific industries and industry groups. Mechanisms, such as specialised apprenticeship programs, research efforts in universities related to a specific industry, trade association activities and, most importantly, the private investments of companies, ultimately create the factors that will yield competitive advantage.

- (ii) ***Avoid intervening bluntly in factor and currency markets.*** Currently, the strong Rand is constraining the competitiveness of the agribusinesses sector in South Africa. However, government must avoid intervening in factor and currency markets. By intervening in factor and currency markets, governments hope to create lower factor costs or a favourable exchange rate that will help companies

compete more effectively in international markets. Evidence from around the world indicates, though, that these policies are counterproductive (Cho & Moon, 2002).

The transformation agenda requires certain direct actions by government regarding BEE, land and labour legislation. Policies developed to intervene in such factor markets could work against the upgrading of industries and the search for more sustainable competitive advantage. A fine balance between this requirement and the transformation agenda must be established.

- (iii) ***Enforce strict product safety and environmental standards.*** Strict regulatory standards and the production of environmentally friendly products are currently enhancing the competitive success of the agribusiness sector in South Africa. Stringent standards for product performance, product safety and environmental impact, pressure companies to improve quality, upgrade technology and provide features that respond to consumer and social demands. This strategy must continue.
- (iv) ***Promote sustained investment.*** Government has a vital role to play in shaping the environment which directly influences the goals of investors, managers and employees through policies in various areas. The manner in which capital markets are regulated, for example, shapes the incentives for investors and, in turn, the behaviour of companies. Government should aim to encourage sustained investment in human skills, innovation and physical assets needed by the agribusiness sector. A powerful tool in raising the rate of sustained investment in sectors is a tax incentive for long-term (five years or more) capital gains restricted to new investment in corporate equity.
- (v) ***Fight crime.*** Crime has been identified by the agribusiness sector as the most constraining factor to their competitiveness. Government and businesses alike have a huge responsibility to fight crime in South Africa. Crime has a negative

influence on investment and the confidence of people and businesses in the future of South Africa. Crime can nullify the competitive advantage established by the agribusiness sector.

- (vi) ***Promote competition, avoid monopolies.*** Regulation of competition through such policies as maintaining a state monopoly, controlling entry into an industry, or fixing prices has two strong negative consequences: It stifles rivalry and innovation, as companies become preoccupied with dealing with regulators and protecting what they already have; and it makes the industry a less dynamic and less desirable buyer or supplier.

As already mentioned, there is a direct correlation between increased competitiveness in the agribusinesses sector in South Africa and the deregulation of the sector, as indicated during the early nineties.

Rivalry among local firms in a country is beneficial for a variety of reasons. Domestic rivalry creates pressure on firms to improve and innovate. Local rivals push each other to lower costs, improve quality and services, and create new products and processes. Vigorous local competition not only sharpens advantages at home but puts pressure on domestic firms to sell abroad in order to grow. Toughened by domestic rivalry, the stronger domestic firms are equipped to succeed abroad. It is rare that a company can meet tough foreign rivals when it has faced no significant competition at home (Porter, 1998). New business formation is also vital to the continuous upgrading of competitive advantage, because it feeds the process of innovation into an industry. New companies serve new segments and try new approaches that older rivals have failed to recognise or to which they are too inflexible to respond to.

An adequate competition policy is thus necessary, one which seeks to strengthen international competitiveness by exposing firms to competition in the local market. Competition in the local market is impeded by hurdles such as licensing

agreements, tariff and quota protection and collusive behaviour (resulting in price fixing). Such entry barriers restrict competition internally and result in a misallocation of resources that retards international competitiveness.

The removal of quotas and licensing requirements is thus a critical aspect of competition law and policy. A related aspect is the prevention of collusive behaviour, such as horizontal agreements that result in price fixing and restrictions on outputs. A competition policy much seeks to streamline regulation of mergers, acquisitions and joint ventures. While it is fashionable today to call for mergers and alliances in the name of globalisation and the creation of national champions, these can often undermine the creation of competitive advantage. They can, however, enhance efficiency by allowing large merged firms to enjoy scale economies or by replacing inefficient, entrenched management. Competition authorities need to conduct technical and economic analyses before permitting mergers, acquisitions or joint ventures in order to forecast their effect on competition in the agribusiness sector.

- vii) ***Support fair trade in an unfair environment:*** The international trade environment is by no means fair and equal. The South African agribusiness sector is a small player in this global environment. The big industrial country trade blocs are highly competitive, aggressive and subsidised. The agribusiness sector in South Africa, in co-operation with government, needs to develop focussed strategies in this context. Both export strategies and anti-dumping measures are important. A stronger “new market” development thrust between the agribusiness sector and government is required. A “South African Identity”, depicting South African agribusinesses as worthwhile and high quality business partners and the current “proudly South African” and “Brand SA” marks, will support such a “globalisation impact strategy”.

9.4 THE ROLE OF AGRIBUSINESSES

Today's world is competitive. In order to survive the competition, and to thrive on it, businesses must perform in ways that provide them with a competitive edge over their competitors – that will make people want to buy from the business and do repeat business with them. Businesses must display a driving will to be chosen over and above their competitors.

In order to survive and thrive, today's agribusiness managers have to think and act strategically. Today's customers are well educated, aware of their options, and demand excellence. For this reason, agribusiness managers today must think constantly about how to build a capable workforce and how to manage it in a way that it delivers the goods and services in a manner that provides the best possible value to the customer.

Ultimately, only the companies themselves can achieve and sustain competitive advantage. In particular, they must recognise the central role of innovation – and the uncomfortable truth that innovation grows out of pressure and challenge. It takes leadership to create a dynamic, challenging environment. It takes leadership to recognize the all-too-easy escape routes that appear to offer a path to competitive advantage, but are actually short-cuts to failure. For example, it is tempting to rely on cooperative research and development projects to lower the cost and risk of research. This can, however, divert the company's attention and resources from proprietary research efforts and may all but eliminate the prospects for real innovation (Cho & Moon, 2002).

Labour regulations, crime, the quality of physical infrastructure and labour costs are externally manipulated factors over which agribusiness have relatively little control. Product quality, cost of production, managerial capacity and labour skills, however, are factors over which firms have a large degree of control. From the analyses in the previous chapters, a number of key focus areas emerge for success at firm level and over which agribusinesses have some control. These include the following:

- (i) ***Create internal pressures for innovation.*** Innovation at firm level is the introduction of new goods and services. The agribusiness sector in South Africa rated innovation as a major enhancement to their ability to compete. However, the agribusinesses need to adapt continuously to changes in consumer demands and to new sources of competition. Products do not sell forever; in fact, they don't sell for nearly as long as they used to, because so many competitors are introducing so many new products all the time.

Agribusinesses in South Africa should seek out competitive pressure and challenge, not avoid them. Part of this strategy is to take advantage of the domestic market to create the impetus for innovation. In order to do that, agribusinesses should sell to the most sophisticated and demanding buyers and channels; seek out those buyers with the most difficult needs; establish norms that exceed the toughest regulatory hurdles or product standards; source from the most advanced suppliers; treat employees as permanent in order to stimulate upgrading of skills and productivity.

- (ii) ***Increase productivity.*** To sustain competitive advantage, the agribusiness sector in South Africa must achieve more sophisticated competitiveness over time, through providing higher-quality products and services or producing more efficiently. This translates directly into productivity growth (Porter, 1998).

Productivity defines competitiveness for a particular sector, industry or firm (Porter, 2002). Productivity, rightly understood, encompasses both the value that an industry's products command in the marketplace and the efficiency with which they are produced. Improving efficiency on its own, or producing more units per unit of labour or capital, does not necessarily elevate wages and profits unless the prices of the products or services are stable or rising. As global competition places greater pressure on the price of standard goods, efficiency alone is insufficient. Advanced industries improve their competitiveness more by driving up the value of their products and services (because of better technology,

marketing and associated services, for example) and moving into new fields through innovation, rather than by producing standardised products at a lower cost (Porter, 1998).

- (iii) ***Increased flexibility.*** Across every industry, today's business environment is becoming more complex, fast paced and unpredictable. These market dynamics give rise to the need for business flexibility to cope with constant change and to get ahead of the competition. From the analyses it was clear that South African agribusinesses is not flexible enough to exploit business opportunities that originate from a changing environment.

Flexibility often separates the winners from the losers in the world of competition. Agribusinesses in South Africa can increase their flexibility by aligning business production, processes and infrastructure, and by using integration to connect people, processes and information across the value chain.

- (iv) ***Embrace domestic rivalry.*** Intense competition in the local market is rated by the agribusiness sector in South Africa as the third most enhancing factor to its competitiveness. A strategy to welcome domestic rivalry must prevail. A company requires capable domestic rivals and vigorous domestic rivalry to compete successfully globally. Vigorous domestic rivalry creates sustainable competitive advantage. It is, however, also important to grow internationally and seeking international partners and acquisitions. Agribusinesses should therefore clarify their strategic approaches in local and global markets.

- (v) ***Participate in supply chain management.*** From the Porter analyses it was clear that the efficiency of supply chain management among agribusinesses in South Africa has increased. This indicates that agribusiness managers are alert to this particular challenge. This factor will, however, require more attention. Spekman, Kamauff & Myhr (1998) remarked that success is no longer measured by a single transaction; competition is, in many instances, evaluated as a network of co-

operating companies competing with other firms along the entire supply chain. This strategy is not just a strategy to cope with risk, but it is also a source of sustainable competitive advantage. Van Rooyen, Esterhuizen & Doyer (2001) also altered this view with the paper: “Creating a chain reaction – a key to increased competitiveness in South African agribusiness”.

Boehlje (1996) stated that: “The expanding use of contractual and other forms of negotiation-based linkages, and the decline in impersonal market based transactions, reduces price and other risks”. This approach, also known as “supply chain management”, could increase the efficiency with which consumer needs are being met and recognised.

Supply chain management is an integrated approach for planning, controlling and optimising the flow of goods and information through a distribution channel from suppliers to end users. Generally, several independent firms are involved in the activities from producing and manufacturing of product to placing it in the hands of the end users. The network, through which these firms pass goods and simultaneous information, can also be referred to as a supply chain or network. Supply chain members may include customers, suppliers, farmers, carriers, vendors, distribution centres, and other third parties.

According to Dyer (1996) transformation to efficient supply chain management requires changing processes of choosing and working with suppliers and the personal relationships between employees of firms in the supply chain. All the firms in the supply chain must have a common vision of how to collaborate in order to create value jointly. They have to recognise that trust in relationships will prosper only if both parties share in the rewards in a fair and sustainable manner.

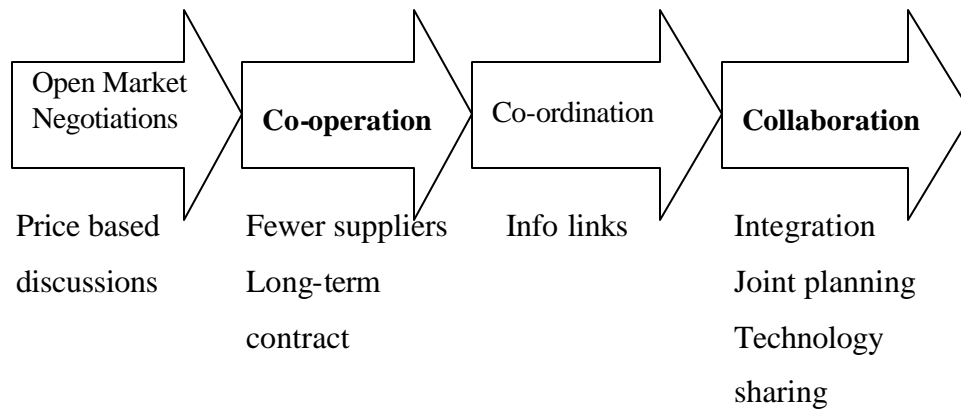


Figure 9.1: The key transformation from open-market negotiation to collaboration

Source: Spekman *et al*, 1998

The transformation from a relationship consisting merely of open market negotiations to being supply chain partners is depicted in Figure 9.1. To move from one level to another require changes in mind set and strategic orientation among supply chain partners. A transformation from open market negotiations to co-operation is considered as a starting point for supply chain management and it requires the partners to engage in longer-term contracts.

A further transformation from co-operation to co-ordination requires strong information linkages, trust and commitment. The final stage of this transition is the movement from co-ordination to collaboration, which requires higher levels of trust, commitment and information sharing. They must also share a common vision of a future goal and plan jointly to reach such goals (Spekman *et al*, 1998).

However, it must be stressed that not all relationships must result in collaboration. The level of intensity of the relationship will depend on the relative complexity and importance of the transactions, only complex and important transactions will result in a collaborative relationship as illustrated in Figure 9.2.

		High	Complexity	Low
Strategic Importance	High	Collaboration		Co-ordination
	Low	Cooperation		Open-Market Negotiation

Figure 9.2: Supply chain management strategy

Source: Spekman *et al*, 1998

Supply chain management is basically converts the supply chain from a “push” to a “pull”. A “push” is to create and produce products through the chain from which the customer or consumer can select, while a “pull” is to produce products through the chain, which were designed or selected by the customer or consumer. Thus, the product is “pulled” through the chain by collaboration and co-ordination between members in the chain.

In many cases, the primary motivation for this more integrated system is to provide more accurate signals to producers and input suppliers as to what the ultimate end user, the consumer, wants in his food products (Boehlje et al., 1995).

Therefore, in order to be competitive in the global economy, a supply chain management strategy should be of the utmost importance for agribusiness in South Africa. The transformation to efficient supply chain management requires trust and integrity and changing processes of choosing and working with suppliers as well as improved personal relationships between employees of different firms in the supply chain. All the firms in the supply chain must therefore have a common vision of how to collaborate to create value jointly. They have to

recognise that trust in relationships will only flourish if both parties are confident about sharing in the rewards in a fair, sustainable manner.

- (vi) ***Drive for quality.*** Agribusinesses identified quality of their products as the most important enhancement to their competitive success. This strategy must continue. Quality embodies the excellence of a product, flaunting its attractiveness, lack of defects, reliability and long-term dependability. The importance of quality and the standards expected as acceptable quality has increased dramatically in recent years. Companies cannot get away with offering poor-quality products anymore as they used to a few years ago.

Customers now demand high quality and value and will accept nothing less. Providing world-class quality requires a thorough understanding of what quality really is. Quality can be measured in terms of performance, additional features, reliability, conformance to standards, durability, serviceability and aesthetics. Only by moving beyond broad, generic concepts like “quality” towards identifying the more specific elements of quality, can companies identify problems, target needs, set performance standards more precisely and deliver world-class value.

- (vii) ***Lower cost of production.*** Cost competitiveness means that your costs are kept low enough so that you can realise profits and price your products (goods and services) at levels that are attractive to consumers. Needless to say, if a desirable product is offered at a low price, it is more likely to sell.

Low prices can be offered by managing your costs and keeping them down. This means being efficient - the accomplishment of goals by using resources wisely and minimising waste. If a company's cost structure is competitive (as low as or lower than its competitors'), success is not guaranteed, but a company cannot be successful without a competitive cost structure.

Costs include money spent on inputs, transformation processes and delivery of outputs to the market. Raw materials, equipment, capital, manufacturing, marketing, delivery and labour are just some of the costs that need to be managed carefully.

The agribusinesses sector in South Africa indicated that the high cost of production in South Africa is constraining its ability to compete successfully. Rationalisation, cost cutting, labour management and cost effectiveness are important strategies that need to be implemented more efficiently. The agribusiness sector also indicated that the high cost of acquiring technology has been constraining its competitiveness. Joint ventures with the R&D and the technology industry need to be prioritised to allow firms to maintain “cutting edge” positions in a competitive world.

(viii) *Know and understand the size of the world economy and its markets.* At the very least it is important that agribusinesses must have a basic understanding and knowledge of the world economy. Which countries are the ‘movers and shakers’? Which countries are displaying significant economic growth? There are some 230 countries in the world, with a total population of approximately 6.2 billion (Roux, 2002).

Table 9.1 provides a bird’s-eye view of the world economy and population. From this table it is clear that three-quarters of the world’s population - i.e. three out of every four people on this planet – have a GDP per capita of US\$8 per day or less. 85% of the world’s population produces about 22% of the world’s economy, which obviously means that 15% of the world’s population account for 78% of the world’s production of goods and services. It is pretty clear where the world’s economic power is concentrated. It’s also clear that the distribution of income, wealth and opportunities in the world is highly skewed.

Table 9.1: A bird's-eye view of the world economy and population

Region	Annual GDP per capita in 1999 US\$	Population as % of world population	GDP as % of world GDP	Surface area as % of world surface area
Low-income countries	< 756	40.5	3.5	25.6
Lower middle-income countries	756 – 2 995	35.0	8.5	33.5
Upper middle-income countries	2 996 – 9 265	9.6	9.7	16.9
High-income countries	> 9 265	14.9	78.3	24.0

Source: World Bank, 2000

Table 9.2 provides some interesting information on the twenty largest economies in the world. From Table 9.2 it is clear that five countries in the world out of 230 countries produce half of the world's entire output of goods and services. These countries are the United States of America, China, Japan, India, and Germany. The ten largest economies produce two-thirds of the world economy, the fifteen largest countries produce three-quarters of the world economy and the twenty largest countries produce virtually 80% of the world economy (Roux, 2002).

South Africa has the twenty largest economy in the world. However, having a large economy does not necessarily imply a rich and wealthy economy. The measurement of the size of a country's economy is simply an indication of the total volume or quantity of goods and services produced. This measurement does not give an indication of how these goods and services are shared or distributed among the inhabitants of the country. Although South Africa boasts one of the larger economies in the world, the combination of a fairly large population and a much skewed distribution of economic activity results in a rather modest GDP per capita.

Despite having a "large" kind of economy, South Africa's share of the world economy is a modest 0.9%. This means that when engaging in economic and

financial relations with major players in the world, South Africa, like most other countries in the world, has to more or less abide by the ‘rules of engagement’. It also means that economic, financial and other events in the world can have a distinct bearing on South Africa’s economic and socio-economic fortunes (and misfortunes). In brief: South Africa is not in a position to set the “rules of the game” – if we want to play the game, we have to accept the rules as they are and play accordingly, or get out of the game (Roux, 2002).

Table 9.2: The who’s who of the world economy

Rank	Country	GDP as % of world GDP	Cumulative % of world GDP	Population as % of world GDP	Cumulative % of world population	GDP per capita (PPP US\$)
1	USA	21.8	21.8	4.8	4.8	31 872
2	China	11.1	32.9	21.5	26.3	3 617
3	Japan	7.7	40.6	2.2	28.5	24 898
4	India	5.5	46.1	16.9	45.4	2 248
5	Germany	4.8	50.9	1.4	46.8	23 742
6	France	3.3	54.2	1.0	47.8	22 897
7	UK	3.2	57.4	1.0	48.8	22 093
8	Italy	3.1	60.5	1.0	49.8	22 172
9	Brazil	2.9	63.4	2.9	52.7	7 037
10	Russian Fed.	2.7	66.1	2.5	55.2	7 473
11	Mexico	2.0	68.1	1.7	56.9	8 297
12	Canada	2.0	70.1	0.5	57.4	26 251
13	Korea, rep	1.8	71.9	0.8	58.2	15 712
14	Spain	1.8	73.7	0.7	58.9	18 079
15	Indonesia	1.5	75.2	3.6	62.5	2 857
16	Australia	1.1	76.3	0.3	62.8	24 574
17	Argentina	1.1	77.4	0.6	63.4	12 277
18	Turkey	1.0	78.4	1.1	64.5	6 380
19	Netherlands	0.9	79.3	0.3	64.8	24 215
20	South Africa	0.9	80.2	0.7	65.5	8 908

Source: Roux, 2002

- (ix) ***Design for Social responsibility and successful BEE.*** Social development and upliftment must be one of the most important strategies that will influence the sustainability of a competitive advantage in the agribusiness sector of South Africa. It is a major challenge to change the South African historical dualism with its legacy of exclusion and discrimination along racial and gender lines, as well as to redress the characterisation of the agribusiness sector as having skewed levels of ownership, managerial and technical skills and a lack of access to economic opportunities. The core focus of this strategy must be economic development in general, to support black economic empowerment and to enable historically disadvantaged groups in the agribusiness sector to acquire economic ownership, gain access to assets and to exploit and participate in business opportunities along the full agribusiness value chain.

Successful social empowerment requires new initiatives in the sphere of social responsibility programmes, by empowering those who cannot, but aspire to, participate as entrepreneurs in the agribusiness sector. This includes efforts to improve the living conditions of labourers, to enhance life skills in the broader labour community through education and training programmes as well as to ensure a more balanced relationship between employee representatives and employers in the sector. These new initiatives must ensure that historically disadvantaged groups are integrated into the sector in such a way that they can make a constructive contribution to the competitive success of the agribusiness sector and to the country at large.

- (x) ***Managing for competitive advantage.*** Management is about aiding a firm's survival and to obtain victory in competition with other companies. If agribusinesses are well managed, it is far more likely that they will be successful and become leaders in the highly competitive business world. In order to survive and obtain victory, agribusinesses have to gain advantage over competitors. Agribusinesses need to be better than their competitors at doing valuable things for their customers. Agribusinesses could gain competitive advantage by

adopting management approaches that would satisfy customers through cost competitiveness, high quality products, speed and innovation.

Competitive advantage arises from leadership that harnesses and amplifies the forces in the diamond to promote innovation and upgrading. Too many companies and top managers misperceive the nature of competition and the task before them by focusing on improving financial performance, soliciting government assistance, seeking stability and reducing risk through alliances and mergers.

Today's competitive realities demand leadership in the agribusiness sector of South Africa. Leaders believe in change; they energise their organisations to innovate continuously; they recognise the importance of their home country as integral to their competitive success and work to upgrade it. Most importantly, leaders recognise the need for pressure and challenges. They are prepared to sacrifice the easy life for difficulty to obtain, ultimately, sustained competitive advantage. This must be the goal, for the agribusiness sector in South Africa: not to merely survive, but to achieve international competitiveness on a sustainable basis.

9.5 RESPONSIBILITY AT SECTOR LEVEL

The complexity of creating a competitive and equitable South African agribusiness sector is far reaching. Collective action will be required to initiate, focus, align, coordinate, monitor and evaluate initiatives. Value adding through collective action should guide the choice of sector level initiatives. From the analyses the following activities should be considered:

- (i) *Develop a strategic partnership between government and the agribusiness sector.* The agribusiness sector in South Africa indicated that trust in the political systems, are currently constraining their ability to compete effectively. The

Agricultural Business Chamber (ABC), the umbrella body for the agribusiness sector in South Africa, have as its main task to facilitate positive, constructive and proactive discussions between the government and the sector. In performing this task the ABC is actively involved in the formulation of policy, strategy and legislation to increase the agribusiness sector's competitiveness on a sustainable basis.

However, it is clear that this process must involve more collective action and efficient communication in order to establish trust and confidence in the political systems.

- (ii) ***Generic action to improve the national diamond.*** The agribusiness sector in South Africa has a vital stake in making their domestic environment a better platform for international success. Part of the sector's responsibility is to play an active role in working with its domestic buyers, suppliers and channels to assist them in upgrading and extending their own competitive advantages. The health and strength of the national diamond will only enhance the South African agribusiness sector's own rate of innovation and upgrading. In nearly every successful competitive sector, companies take collective action towards creating specialised factors such as human resources, scientific knowledge and infrastructure in the sector (Porter, 1998).

Activities to be considered by the agribusiness sector in South Africa will include generic, market development and promotion, the mobilisation of appropriate training and education strategies and systems, sector level knowledge and information provision, development of BEE and other transformation strategies and models, investigation of cost factors constraining business development, focussed investigation and analysis of constraints to competitiveness and the development and direction of sector level strategies and investments in research and innovation, etc. It is also important for the agribusiness sector to develop a strategic plan within which Sector Education and Training Agencies (SETAS)

could function. A clear demand statement by the agribusiness sector should be developed to guide human capital development funded by SETAS.

(iii) *Towards an “Agribusiness Development Policy” for South Africa.* The agribusiness sector will operate increasingly as integrated business networks. Supply chain relationships will dominate business contracts. Industries within this sector will have to collaborate with the public sector, science councils and universities to promote and finance cutting edge R&D and technology development. For this purpose, the agribusiness sector should push for an “Agribusiness Development Policy”. Currently, agribusiness falls between the agriculture, trade and industry policy. No clear agribusiness policy focus exists. A more focussed approach to policy development and implementation will provide a more favourable environment for the agribusiness sector in South Africa to operate more competitively.

The Agricultural Business Chamber accepted a brief by its members to promote an agribusiness policy framework for South Africa aimed at “creating competitive advantage for South African agribusinesses”. The following strategic programmes were identified (ABC, 2001):

- ✍ Market driven innovation focussed on consumer demands, locally and in the international market.
- ✍ Capacity development, which includes improved business intelligence systems, training, black empowerment initiatives, and network development.
- ✍ Rationalisation of efforts to mobilise public sector support, and to stimulate R&D and technology development, etc., and

- ✍ A strong and positive “South African Identity” in the international environment, by promoting South African agribusiness as worthwhile, reliable and quality partners to do business with.

9.6 CONCLUSION

The competitiveness of the agribusiness sector in South Africa will increase and be sustained when the business environment of agribusinesses in South Africa become dynamic, stimulating and intensely competitive. On the other hand, agribusinesses will experience a negative trend in competitiveness if the local business environment excludes agribusinesses from innovation and productivity.

The key opportunity for the agribusiness sector in South Africa has, and always will, be new and expanding markets within South Africa and around the globe combined with a shift towards value-added commodities. Changes in the global marketplace result from increased and changing global food consumption, trade liberalisation and increasing demands for environmentally-sustainable agricultural products. The challenge for the agribusiness sector in South Africa will be to identify and secure these markets. An equal challenge is to identify production systems that are economically unsustainable, and to eliminate the individual and regional dependency on them. The agribusiness sector in South Africa must be aggressive, innovative, adaptable, diverse and responsible.

CHAPTER TEN

SUMMARY AND CONCLUSIONS

10.1 INTRODUCTION

In today's global economy, agribusinesses face an increasingly competitive trade and production environment. Government interventions and support also impact heavily on this environment. This requires continued vigilance to stay ahead of rivals. Competitiveness is therefore a major preoccupation of national, regional and local governments, representative sector and industry groups and agribusiness managers worldwide, as they seek to strengthen the ability of their countries, specific sectors and businesses to compete successfully. There is growing recognition for the fact that competitiveness requires more than merely the exploitation of a liberal or free trade environment. Domestic policies and institutions have a critical influence on countries and sectors that wish to reap the full benefits of trade liberalisation.

The main focus of this study was to answer the following question: "Can the South African agribusiness sector successfully compete on a sustainable basis within the global environment?". Specific issues that the study attended to included: a description of the theoretical foundation of competitiveness and the development of a clear definition and measurement methodology of competitiveness; the development of a framework for measuring, explaining and analysing competitiveness; the development of a framework to determine and analyse the status of the decision-making environment; and to apply this framework on the agribusiness sector in South Africa. This study also provided a contribution to structural strategic analysis and development in the agribusiness sector of the South African economy.

In this Chapter the study is summarised and concluded. A discussion on the contribution this study has made to the Agricultural Economic profession and an agenda for further research is also included.

10.2 SUMMARY OF STUDY

The agribusiness sector worldwide is changing profoundly, and the changes appear to be accelerating. Global food trends are driven by consumer behaviour and technology. No one doubts that the food consumer is more demanding in terms of attributes of their food products (quality, safety, nutrition, convenience, etc.) and services surrounding their eating experience. Furthermore, the agribusiness sector is being rapidly transformed from a transactional market with limited loyalty to a relationship market with tighter linkages, alliances and trust across the food chain from input suppliers to consumption. The distribution channel from input manufacturing to producer and food processor to retailer is also being consolidated to reduce costs, streamline logistics, accelerate product flow, maintain and enhance quality and respond more quickly to customer demands.

The rapid transmission of consumer demands through the supply chain to primary producers and input suppliers is of great importance if agribusinesses want to compete effectively and add value to their product. The need to comply with consumer demands also forces the producers to put certain demands to input suppliers in terms of environmental, cultural and social requirements. Information flows, research and development and new innovations are important components to allow supply chains to function effectively and efficiently.

Globalisation is not a recent phenomenon it merely represents another step in the journey of a thousand years of human progress. However, the escalation in globalisation over the past two decades is a result of one of the most fundamental basics of our democratic society, namely competition, especially on the economic side of human activity.

World trade is driven by the competitive advantage that firms and supply chains in countries have in producing different goods and services. In general, South Africa's agribusiness sector is currently marginally competitive. To compete in a global economy, South African agribusinesses will have to be competitive, scarce resources will need to be optimally utilised and the focus will have to be on the creation of pockets of excellence embracing the concept of the agricultural value chain. The focus is on each input supplier, producer and processor's ability to compete globally, i.e. it is not good enough anymore for farmers to merely compete at farm gate level, whilst the locally processed commodity that is sold to the consumer, is not competitive in the world market.

The main objective of this study was to conduct a comprehensive analysis on the competitiveness of the agribusiness sector in South Africa. Neither a clear definition of competitiveness nor a comprehensive framework for analysing competitiveness has been developed for agriculture in South Africa. Hence, a definition for competitiveness has been formulated as being *the ability to compete successfully in order to achieve sustainable growth within the global environment, while earning at least the opportunity cost of returns on resources employed*. The definition is driven by factors related to the comparative and competitive advantages of an industry and the manner in which this is manifested by sustainable trade.

A 5-step framework was developed for measuring and analysing competitiveness in the agribusiness sector. Three instruments emerged from this viz the Agribusiness Competitiveness Status index (ACS) based on the Relative Trade Advantage (RTA) method; the Agribusiness Executive Survey (AES) based on the determinants of competitiveness, as described by Porter; and the Agribusiness Confidence Index (ACI) measuring the status of the decision-making environment in which agribusinesses are positioned to perform. Using the 5-step framework, the four hypotheses investigated by the study were all found to be true:

Firstly, a trend analysis (ACS) of the competitiveness of the agribusiness sector reveals a remarkable achievement, namely that, despite difficult conditions, the sector generally succeeded in operating more competitively during the past ten years. Agribusinesses in South Africa clearly began to focus on the right competitive factors. These includes, improved business know-how of South African agribusinesses; the 2nd phase of deregulation of the agricultural sector, which amongst others resulted in a change in business form from co-operatives to companies; the elimination of non-competitive business; the delivery of quality products and an increase in labour productivity in the agribusiness sector.

Secondly, both micro and macro factors are impacting on the competitiveness status of the agribusiness sector in South Africa. The AES was used to determine the views and opinions of executives in the agribusiness environment on factors constraining and enhancing competitiveness. The high cost of crime, inflexible labour policy and the competence of the personnel in the public sector are some of the factors constraining the competitiveness of the sector. The production of affordable, high quality products, intense competition in the local market and continuous innovation are some of the important key success factor enhancing the competitiveness of the sector. The sector also demonstrates a positive trend in the determinants of competitiveness. These factors have a direct impact on the sustainability of the competitiveness status of the agribusiness sector in South Africa.

Thirdly, there exists a clear relationship between changes in the decision-making environment of the agribusiness sector in South Africa and the competitiveness performance of the sector. These changes in the decision-making environment of the agribusiness sector in South Africa have a direct influence on the status of business confidence in the sector. The business confidence of agribusinesses, on the other hand, has a direct influence on the competitive performance of the sector. This relationship influences the sustainability of the competitiveness status of the sector.

Fourthly, the ACI reveals that changes in the decision-making environment of the agribusiness sector in South Africa are directly in correlation with the climatic conditions of the country. This demonstrates the nature and particular risks of agriculture and distinguishes agribusiness activities from other businesses. There is also a direct correlation between the changes in the decision-making environment of agribusinesses and changes in macro economic influences such as, interest rates, the exchange rate and economic growth. Micro economic expectations like an increase or decrease in turnover, an increase or decrease in nett operating income, employment trends and capital investments also influence the confidence of the agribusiness sector in South Africa.

The framework developed in this study combine quantitative and qualitative analyses and was used to developed strategies to enhance the competitiveness of the agribusiness sector in South Africa. The analytical and empirical content and the resulting findings therefore enable this study to act as a basis for strategic planning, policy development and strategic positioning by the agribusiness sector in South Africa and will allow for future monitory and evaluation of competitive performance.

10.3 CONTRIBUTION TO THE AGRICULTURAL ECONOMIC PROFESSION

“Should the agricultural economics profession in South Africa be concerned with the increasing importance attached to agribusiness and especially the disciplines of competitiveness? With the increasing industrialisation of agriculture in South Africa and globally, there is no doubt that agribusiness issues will become more important and the profession in South Africa probably needs to get involved in teaching and research in this area to keep its relevance.”

- Ortmann, 2001

Competitiveness is widely discussed, in the media, by politicians, by businessmen and by economists. Regrettably, they do not all speak the same language. There is a considerable misunderstanding between these groups regarding the precise meaning of

the term competitiveness. One major source of confusion arises due to the different angles and levels at which competitiveness can be measured. After a comprehensive study of the evolution of the competitiveness theory, a universal definition of competitiveness was developed in this study that can be used by all groups.

Competitiveness is not a clear theoretical economic notion but rather a business concept, however, the notion of sustainability clearly requires – and this is the contribution to agricultural economics – to situate competitiveness in an economic context to ensure a sustainable process of *the ability of a sector, industry or firm to compete successfully in order to achieve sustainable growth within the global environment while earning at least the opportunity cost of returns on resources employed. To compete means to try to gain or win something by defeating other competitors.*

A review of various methodologies for measuring competitiveness is also given in this study. Consequently, a framework for analysing competitiveness is developed. This framework can be used to explain competitive trends and develop comprehensive statements on competitiveness.

The principle methodologies used to explain the competitiveness status and factors impacting on the competitiveness of the agribusiness sector of South Africa have been that of Bela Balassa and Michael Porter. Both of these methodologies have been used by analysts worldwide, however, in South Africa, only limited studies using these methodologies can be found in agricultural economic research.

The study contributes to the debate regarding Balassa's Revealed Comparative Advantage model and Volrath's Relative Trade Advantage (RTA) method as measures of competitiveness. From the study it is clear that to measure how competitive a sector is, it is necessary to determine how successful the sector sold its products over time in the local and global environment relative to other competitors. The Relative Trade Advantage method allows for the measurement of competitiveness under real world conditions and is therefore the most suited for measuring competitiveness status.

There is some academic controversy regarding the model derived by Porter, and the principal elements of this debate were discussed in Chapter two. While the study finds some merit in the criticisms of Porter's explanatory model, it is believed that the Porter approach to the analysis of the sources of competitiveness is still the best available as it is comprehensive and accommodative while this approach is essentially qualitative and multi-faceted.

The study has also made a contribution to the debate concerning the Porter model, particularly in relation to the application of the Porter methodology to sector level and in trend analysis. The crucial role of supply chain management as a component of the competitiveness of the agribusiness sector is also particularly evident.

The study's overall conclusion is that Porter has provided a useful tool for the analysis of international competitiveness. In particular, it provides a checklist of items that should be taken into consideration, as well as a guide to the ways in which they may successfully interact to create competitive dynamics. The method also highlights the value of qualitative analysis at executive level applied through the business survey approach.

Another contribution made to competitiveness analysis is the incorporation of business confidence as a factor that directly impacts on competitive performance. A framework is developed to analyse the business confidence of the agribusiness sector in South Africa. The confidence of business leaders plays an important role in their next business decision. Most of the important role players in the agricultural sector of South Africa, such as the media, government, agricultural industry organisations and agribusiness managers have demonstrated a huge interest in the Agribusiness Confidence Index. The Agribusiness Confidence Index is accepted as an important barometer measuring the impact of the agricultural environment on the business confidence of agribusiness managers in South Africa.

I hope that the results of this study will be of interest to colleagues in universities and research institutes and to consultants practising in the agribusiness sector. I believe that

useful tools in the analysis of the competitiveness of sectors were illustrated in this study and that these tools can be used in the training of agricultural economists and young researchers in universities and business schools.

10.4 AN AGENDA FOR FURTHER RESEARCH

Two major forces influence the strategic environment in which farmers and agribusinesses in South Africa operate. Firstly, the socio-political forces which *inter alia* emphasise land reform and the integration of “historically disadvantaged groups” such as small scale agriculture into the main stream of decision-making, accumulation, governance and economic participation (Van Rooyen, Greyling & Esterhuizen 1999); and secondly, the drive towards economic globalization and the movement towards geopolitical co-operation through trade blocs/agreements/common markets driven by multiple forces of technology, economies of size and specialisation (Tweeten, 1993; Zuurbier, 1999).

No inherent conflicting positions should necessarily exist between the first force and sustained competitiveness. From the policy directives as set out by the Broad-based Black Economic Empowerment legislation, the DTI Codes of Good Practice and the AgriBEE charter and scorecard, it is clear that BEE strategies should primarily focus on achieving long-term sustainable competitiveness while broadening the participative capacity of historically disadvantaged groups. In this context, BEE must be viewed as (a) one of the major strategies to be introduced to achieve sustained economic performance; and (b) a set of particular outcomes to be achieved through competitive performance.

The second force, the globalisation of markets and trade through specialisation and co-operation in regions, however, poses a major challenge, in terms of competitiveness, not only to the entire agro-food and fibre complex in South Africa, but also to the southern Africa region. In this context competitiveness is such an important concept and pre-request for the long term success of the industries operating in the agro-food and fibre

complex. It is therefore imperative to analyse the competitive status and factor impacting on the competitiveness status of each agro-food and fibre industries.

Agriculture constitutes an important economic sector in the majority of countries in the southern African region. This is measured by the share that agriculture adds value to the GDP and also by agriculture's share in employment. Based on these facts alone, it is obvious that sustained agricultural performance plays a significant role in economic growth and in the improvement of food security and livelihoods in the region. The "New Economic Partnership for Africa's Development" (NEPAD), a strategic framework for the socio-economic development of Africa with the primary objective to eradicate poverty and promote economic growth, relies heavily on the agricultural sector. Member countries of the Southern Africa Development Community (SADC) share this vision of sustainable economic success and prosperity in Southern Africa through regional cooperation and economic integration (SADC, 2005).

What are the real competitive advantages and opportunities for agricultural business, trade and co-operation in Southern Africa? The current turmoil in Zimbabwe obscures the real opportunities for collaborative partnerships and co-operation between agribusiness firms in the region by exploiting competitive positions and to allow agribusiness partnerships to operate at a competitive cutting edge within the global economy.

For further research it is firstly recommended that the framework developed in this study be used to do a comprehensive industry analyses on the competitiveness of the most important food chains in South Africa. This can then act as bases for discussion, strategic planning, policy development and strategic positioning by the industries. The framework also allows for continues monitoring and evaluation of competitive performance.

Secondly, the framework can be used to investigate competitive positions of different countries and agro-food industries in the Southern Africa region. This information can be used to investigate opportunities for supply chain integration in Southern Africa, allowing

for agribusiness partnerships and co-operation to operate at a competitive cutting edge within the global economy. By focusing on competing at the cutting edge the Southern African region can provide the agricultural drive required by NEPAD to be successful.

Thirdly, it is recommended that research be done on how this competitiveness framework and results can serve as inputs in elaborating a business or corporate strategy for a particular company operating in Southern Africa.

10.5 CONCLUSION: FINDING WINNERS

The competitive spirit is a positive force in the economy. It also contribute to social progress, but, at the same time, it can also lead to frustration and anger with the realisation that not all the competitors are endowed with the same resources and bound by the same rules. The awareness that it is not an equal playing field, could give rise to anxiety and, in some cases, undemocratic or illegal behaviour.

The current line-up of leading agribusinesses is likely to change significantly over the next 5 to 10 years as further consolidation takes place into fewer, larger corporations. A common prediction is that the agribusiness sector will have two or three main players holding the greatest market share, followed at a distance by a host of much smaller companies. Some prominent industry experts go as far as to predict that as few as five to ten chains will dominate global food retailing within 10 years.

The agribusiness sector's future in South Africa will depend on the competitiveness of integrated supply chains. If they want to count, agribusinesses will have to seriously reconsider their positioning and strategic partnerships. More and more food companies are sourcing their raw materials and products globally. A fundamental challenge for domestic agribusinesses will be to seek out these business opportunities and develop sustainable win-win relationships in a business climate where transportation, logistics and information technology enables product movement and competition to be increasingly global.

Agribusiness in South Africa now faces the challenge of identifying winning teams within the links of chains. It can play a leading role in forming a “winning chain” as it serves the primary producer directly. All the participants in this chain must then pay special attention to the chain’s critical success factors in order to develop and sustain a competitive advantage as successfully as possible.

New demands will, however, be made on the structure and management skills of agribusinesses. Lateral thinking, the ability to negotiate, networking, business intelligence and new incentive systems will be required. Consumer-orientation, as opposed to producer-orientation, will be the main challenge. New-generation co-operatives and companies will have to emerge with this as their overriding *raison d’être*.

So, who will win? Those agribusinesses that understand and manage the challenges of operating in the global village. Those agribusinesses who seek competitive advantage, but at the same time recognise their social and environmental responsibilities regarding food safety, ethics, etc. and therefore integrity. Those agribusinesses operating within a business environment that is dynamic, stimulating and intensely competitive. Those agribusinesses whose productivity levels increases. Those agribusinesses that approach world best practices in areas such as production processes, technologies, marketing methods and management techniques. Those agribusinesses that have winning partnerships in the food chain. Those agribusinesses that shift the basis for competition from comparative advantage (low-cost labour or natural resources) to competitive advantages by creating unique products and processes guided by distinctive strategies. Those agribusinesses that operate within a quality national business environment.