A proposed consolidation strategy for agri-businesses in South Africa

JC Meintjes BCom, BCom (Hons)
10717765

Mini-dissertation submitted for the degree *Masters in Business Administration* at the Potchefstroom Campus of the North-West University

Promotor: Prof SP van der Merwe

November 2012

Innovation through diversity ™

NORTH-WEST UNIVERSITY
YUNIBESITI YA BOKONE-BOPHIRIMA
NOORDWES-UNIVERSITEIT
POTCHEFSTROOM CAMPUS

ACKNOWLEDGEMENTS

Above all, I want to give thanks to God for the strength to accomplish anything I put my mind to.

- Philippians 4:13 -

I would also like to take this opportunity to recognise and express my sincere gratitude towards the following people and institutions:

People whose continued love, support, patience and encouragement enabled me to make a success of my studies:

- My lovely wife, Charmaine, and our two beautiful daughters, Chané and Chenique.
- The members of my study group who have all become dear friends. They are: Deon Geldenhuys, Derick Dahms, Henry van Antwerpen and Nico van der Merwe.
- Prof. Stephan van der Merwe, my study leader, for everything.
- My parents for all their motivation throughout my life.
- All my close relatives, friends and colleagues.

Institutions and its personnel whose involvement, support and participation made it possible to achieve my personal goals with these studies:

- Senwes and its extended management team for their support and input.
- The Potchefstroom Business School.
- The officials of all the agri-businesses and other stakeholders whose participation contributed towards this study.

ABSTRACT

Agriculture has always been a very volatile industry, mainly due to fluctuating commodity prices (specifically white maize) and irregular rainfall patterns. Furthermore, the agricultural industry is confronted with finite resources of which limited arable land and water scarcity are among the most troubling. Many agri-businesses in the industry have also achieved a level of maturity as far as market share is concerned, leaving little room for further growth. On the other hand, most of these agri-businesses are organisations with shareholders and investors demanding acceptable and sustainable returns on their investments. This situation invariably creates challenges relating to growth, profitability and sustainability.

One of the few ways of addressing this problem is for stakeholders in the industry to combine their resources, capabilities and efforts through consolidation strategies, like acquisitions, mergers and strategic alliances, among others. This includes an extended presence and involvement throughout the value chain by means of forward and backward integration. The aim of such consolidation activity is to improve the long-term sustainability of agri-businesses and the agricultural industry as a whole. Agriculture is extremely important in terms of its contribution to the national economy, employment and job creation, earning foreign exchange through exports and improving food security and safety as well as the affordability of and access to food.

Agri-businesses fulfil the functions of handlers, processors and marketers of agricultural produce, suppliers of production inputs and services including mechanisation solutions and support as well as being financiers of farmers and farming activities. However, there are too many role players and intermediaries involved in the agricultural industry which only aggravates the problem of limited growth potential within the industry. This study focuses on one of the leading agri-businesses in the industry while at the same time aiming to obtain the opinions of other industry stakeholders regarding the desirability of such consolidation strategies, the nature and extent thereof and the probability of successfully executing such strategies within the industry.

Qualitative empirical research was performed by using a semi-structured interview schedule and conducting personal or telephonic interviews with a selection of executives, directors and other senior managers of several agri-businesses, regulators and controlling bodies associated with the South African agricultural industry. The themes covered included growth and sustainability, strategic leadership, consolidation as strategy, the different consolidation approaches, consolidation methods to be used, motives for consolidation, possible legislative restrictions on consolidation, the steps in the consolidation process and the preferred business approach to execute a consolidation strategy.

The results of the empirical study indicated that consolidation does support growth and sustainability and that sound strategic leadership is of strategic importance to agri-businesses. The majority of participants confirmed that consolidation does form part of their current strategies and agreed that a combination of the three different consolidation approaches will be most effective in the execution of a consolidation strategy. Of the different consolidation methods, strategic alliances was the most preferred method as well as being selected as the method most likely to successfully achieve industry consolidation. Value creation was the overwhelming choice as being the primary motive for consolidation and was also selected as the motive with the highest probability of achieving success in consolidating the agricultural industry. The restrictive nature of the South African Competition Act (89 of 1998) and the competition authorities was highlighted by the responses obtained from the interviewees. Even though the negotiation phase was described as the most important step in the consolidation process, the results showed that is critically important to accommodate all the different steps in the process to ensure the success of the entire consolidation project. Finally, there was no clear preference regarding the business approach to apply in executing a consolidation strategy, being either a focuses business approach or an integrated business philosophy.

The recommendations contained suggestions to increase consolidation activity among stakeholders in the industry and to develop and establish sufficient consolidation skills and capacity to aggressively pursue a consolidation strategy. It was also suggested that agri-businesses should reverse previous decisions to limit shareholding within these organisations. Any consolidation approach and consolidation method which is based on willing and amicable participation of the parties involved, benefits these

stakeholders and the industry. These transactions must hold some benefit or value for those parties involved as well as other stakeholders in the industry. The principle of embracing the competition authorities and the requirements of the South African Competition Act (89 of 1998) as part of the consolidation process was strongly advocated. Ultimately, the business approach which best supports the organisation's strategy is the obvious choice, but the reality is that it might include characteristics of both an integrated and a focussed approach.

Key words: Strategy; consolidation strategy; consolidation approaches; consolidation methods; consolidation process; strategic management; strategic leadership; mergers and acquisitions; agri-business.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

CHAPTER 1

NATURE AND SCOPE OF THE STUDY

1.1 INTRODUCTION

Agriculture is not only a way of life, but also a primary economic and social activity in Africa with more than 80% of the continent's population dependant on agriculture for subsistence, employment or income (Poggiolini, 2004:19; Van Rooyen, 2004:559). It is against this background that South Africa has cultivated an environment in which various agricultural co-operatives have been able to establish themselves and have grown over the last century. During this time, many changes and challenges had to be overcome for co-operatives to remain viable and sustainable.

One of the most prominent changes came with the introduction of the Marketing of Agricultural Products Act (47 of 1996) which resulted in the deregulation of the agricultural industry and also the demise of the Control Boards. This new legislation caused commodity prices to fluctuate significantly. Many farmers were unable to accommodate this volatility and therefore the number of farmers has declined by more than 25% since 1996 due to the consolidation of farms to form larger and more feasible production units (Roberts, 2009).

After the deregulation in 1996, most of the former co-operatives converted to private and public companies (Jacobs, 2007:3; CCSA, 2006:31). Many mergers and acquisitions have also taken place within the agricultural industry since 1996 (CCSA, 2006:33). For the purposes of this study, these co-operatives and converted companies will form part of the broader term "agri-businesses". The agri-businesses involved in this study are also some of the largest and most prominent, with turnover figures in excess of R10 billion per annum and net profits running into hundreds of millions each year, these agri-businesses will also be referred to as organisations. The financial performance of most agri-businesses, as portrayed in its annual financial statements over the last decade, has also been highly volatile. Consolidation is the strategy which stakeholders may follow in an effort to establish greater stability in performance and therefore sustainability by mitigating the risks it is exposed to.

1.2 PROBLEM STATEMENT

Agriculture forms a very important part of the South African economy. Even though its contribution to the gross domestic product (hereafter referred to as "GDP") is relatively small, the agricultural industry is a significant earner of foreign exchange through the export of produce and is a substantial employer to the national labour force (Department of Agriculture, Forestry and Fisheries, 2012a; Liebenberg & Pardey, 2010:383). The industry also has a key role to play in the job creation initiatives of government (Department of Agriculture, Forestry and Fisheries, 2011a:14). The agricultural industry can make a significant contribution towards addressing the challenges posed by food security and safety as well as the concerns regarding the availability and affordability of food in our country, the continent and the world (Future Directions International, 2012).

The agricultural industry is an established and mature industry with limited resources as far as arable land is concerned (Goldblatt, 2009). The total hectares planted and processed each year remains unchanged and the average quantities of input products used in the production of soft commodities do not fluctuate much (Liebenberg, Pardey & Kahn, 2010). Therefore, stakeholders in the industry will find it increasingly difficult to achieve business volume and market growth in the future which may negatively affect the sustainability of these stakeholders and the industry as a whole.

The industry has also become extremely competitive with farmers and informal farmer groups gaining direct access to various input suppliers without having to involve agri-businesses at all (Terblanche & Willemse, 2009:12). Grobler (2007:2) confirms this and further states that modern farmers also attempt to vertically integrate their activities in the grain supply chain through alternative financing sources, alternative storage facilities and the direct marketing of their produce. Agri-businesses thus faces a long term survival challenge and is finding it more and more difficult to maintain its levels of revenue while inflation pressures result in annual increases in the majority of its expenses and therefore its profitability declines. Many of these organisations have shareholders who demand a certain return on the investment they hold in the entity. Declining profits and the resulting reduced dividends and lower share values are something shareholders have very little tolerance for. Consolidation of the efforts and activities of stakeholders in the industry may very well be a worthwhile strategy to pursue in order to overcome these challenges.

Senwes is one of the leading agri-businesses in the South African agricultural industry with an extensive history stretching over more than a century. Although consolidation has been part of Senwes' history and that of the industry for decades (Van Eeden, 2009:102), the extent of such approaches were limited and the success thereof remains dubious. In 2010, Senwes adopted a new growth, expansion and consolidation strategy also known as the Senwes 2020-growth strategy. The study will be approached from a Senwes perspective, to ascertain whether such consolidations are desirable by the different stakeholder groups in the industry. This study attempts to establish whether future consolidation efforts and the approaches and processes followed to achieve this, may result in the growth, improved performance and sustainability of the agricultural industry and all its stakeholders.

1.3 OBJECTIVES OF THE STUDY

This study aims to achieve the primary and secondary objectives set out below.

1.3.1 Primary objective

The main objective of the study is to analyse the perceptions and opinions of industry leaders on consolidation within the agricultural industry and to present suggestions and recommendations on a proposed consolidation strategy for the industry.

1.3.2 Secondary objectives

To achieve the primary objective, these secondary objectives will be pursued. To:

- Define strategy and explaining the strategic management process.
- Analyse the motives for consolidation and the different strategic consolidation approaches.
- Examine the different consolidation methods to be used.
- Gain an understanding of the consolidation process and the steps it involves.

- Understand the view of the Competition Commission South Africa (CCSA) towards such consolidations.
- Acquire an understanding of agri-businesses in the agricultural industry.
- Investigate the ideas, opinions and perceptions of the various industry stakeholders regarding major consolidations within the industry.
- Assess and interpret the results of this investigation.
- Propose suggestions and recommendations as to the desired consolidation strategy for stakeholders in the industry.

These secondary objectives will be achieved through performing or formulating:

- A literature study on the topic of strategy and consolidation, the requirements thereof, motives for embarking on such efforts, the different approaches to consolidation, methods to follow in executing consolidation activities as well as the steps involved in the consolidation process.
- An overview of the research environment which is the South African agricultural industry, its contribution to the economy, the challenges faced by the industry, the function of agri-businesses and other stakeholders therein.
- An empirical study to obtain, process, analyse and interpret the gathered data with the aim of achieving the set objectives of the study.
- Conclusions and recommendations, based on the results of the data analysis and the interpretation thereof, on a proposed consolidation strategy for agri-businesses in South Africa as well as a business approach to support the consolidation strategy and the successful execution thereof.

1.4 SCOPE OF THE STUDY

The scope of the study covers both the field of the study and the specific industry which is to be investigated.

1.4.1 Field of the study

The field of study is that of strategic management, including strategy formulation and implementation, with specific focus on a consolidation strategy which involves mergers, acquisitions and joint-ventures, among others.

1.4.2 The industry under investigation

The study was focused on the agricultural industry in South Africa and more specifically on agri-businesses within the industry. Agri-businesses, as referred to in this study, is essentially intended to concentrate on co-operatives and former co-operatives or converted companies. However, it does not exclude other agriculturally related entities such as suppliers to the industry and other associated industries like the food sector. Senwes may be the primary instigator of any negotiations or actions launched based on the outcomes of this study.

1.5 RESEARCH METHODOLOGY

The research methodology followed is described below.

1.5.1 Literature review

A literature review was conducted to define and analyse strategy and strategic management with specific emphasis on consolidation strategies, including historical mergers and acquisitions within the agricultural industry and the Competition Commission's approach to and view on possible consolidations in the agricultural industry. The second part of the literature review focused on the agricultural industry, its history, development and contribution to the South African economy as well as the role or function of agri-businesses within the industry.

Sources which were utilised to obtain a comprehensive understanding of these topics will include:

- Internet articles.
- Scientific journals.
- Text books.
- Annual reports and financial statements.
- Reports on previous research performed.

1.5.2 Empirical study

Empirical research focuses on the methods of collecting original data and the analysis, interpretation and application of such data (Riley, Wood, Clark, Wilkie & Szivas, 2005:9). This study was qualitative in nature with the specific purpose of personally obtaining the required data from the industry leaders and to gain insight into their ways of thinking and reasoning on the different aspects and concepts of the topic. The empirical research in this study consisted of the research design, study population, sample size, collection of data and statistical data analysis.

1.5.2.1 Research design

Research was performed by means of interviews conducted with members of the executive and senior management of various stakeholders in the agricultural industry through the use of a semi-structured interview schedules with open-ended questions which investigated the perceptions and opinions of stakeholders. Qualitative research design is a continuous process of assessing the implications of research objectives, theories, research questions, methods and validity threats in and amongst the different components of the research process (Maxwell, 2005:3). The data obtained was analysed and the results were interpreted and used to formulate recommendations and suggestions towards achieving the primary objective of the study.

1.5.2.2 Research instrument

A semi-structured interview schedule was compiled and used during the interviews with participants to the study. The interview schedule consisted of two sections, containing the:

- Biographical and background information (Section A) – Seven variables are examined in this section, including gender, age group, management level, management experience, highest academic qualification, industry involvement and industry exposure.
- Interview questions (Section B) – This section consists of 18 questions researching the topic of consolidation and relating issues, such as growth, sustainability, strategic leadership, review or reformulation of business strategies, consolidation approaches, consolidation methods, motivations for

consolidation, legislative restrictions regarding consolidation, the consolidation process and the preferred business approach for agri-businesses in which to accommodate consolidation.

The interview schedule was structured in such a way as to ensure all the pertinent concepts and issues are sufficiently covered while still attempting to limit the time required to complete the interviews. The interview questions contained various Likert-type scale responses, for example “strongly disagree”, “disagree”, “agree” and “strongly agree”, and furthermore present the respondents ample opportunity to motivate each answer. Selective and ranking options were also incorporated into the interview schedule to establish preferences regarding certain aspects of the topic.

To accommodate respondent’s convenience, the English interview schedule (see Annexure A) was translated in Afrikaans (refer to Annexure B) and appointments were made according to the availability of respondents and their diaries. Some interviews were conducted telephonically, because of logistical, availability and other issues preventing a personal visit.

1.5.2.3 Study population

The population for this study consisted of most of the major stakeholders and industry leaders in the agricultural industry, including:

- Agri-businesses, like Senwes, Afgri and Kaap Agri, among others.
- Regulatory and legislative bodies associated to the industry, for example the Department of Trade and Industry (hereafter referred to as the “DTI”), the Department of Agriculture, Forestry and Fisheries (also known as “DAFF”), the Competition Commission South Africa, Agri SA and Grain SA.
- Other roll players, such as suppliers of seed, fertilizer, crop protection and other agricultural products.

The study population was selected by using a non-probability sampling technique, namely purposive sampling, whereby a researcher relies on his/her experience, ingenuity and/or previous research findings to purposely identify and obtain units of analysis in such a manner that the sample may be accepted as being representative of the relevant population (Welman, Kruger & Mitchell, 2005:69). An evaluation of the annual turnover and total group assets of the various agri-businesses was performed in order to identify the five market leaders. These agri-businesses, together with the relevant regulatory and constitutive bodies (specified above) and the most prominent suppliers to the industry, were combined to form the study population.

Once the population was identified, every effort was made to obtain the details of the executive or top management structure of all these entities either from its annual reports, from its internet web pages or from its human resources departments. This list of Chief Executive Officers (CEO's), Managing Directors (MD's), Financial Directors and Operational Directors constituted the second study population. No sampling technique was required in this process, since all the targeted executive and top managers were included in the sample.

1.5.2.4 Sample size

From the study population, a sample of 25 potential respondents were identified which included at least one, but preferably two or three executives from each entity depending on its size and management structure. The obvious and first choice was the CEO or MD of the organisation and then the Financial Director and Operational Director. If these individuals referred me to another member of their management teams, those were also approached. This sample consisted of 15 individuals from agri-businesses, four from regulatory or governing bodies and six input product suppliers. Each of the potential respondents was contacted by e-mail via their Personal Assistants, Contact Persons or Public Relations Officers. An introductory message was compiled and, together with the semi-structured interview schedule, was distributed to these individuals.

1.5.2.5 Collection of data

The quantitative data for the study was collected through the following process:

- A letter was compiled and sent to the Chief Executive Officers (CEO's) or Managing Directors (MD's), or their Personal Assistants, of the various entities included in the study population detailing the purpose and extent of the study and requesting their approval to participate in this study. The letter also required their permission for questionnaires to be distributed among the members of the executive or top management teams of these organisations.

- After obtaining the approval and permission required, a contact person was nominated which in most cases were the Personal Assistants of the CEO's of the respective organisations. These individuals were involved with the distribution and follow-up of the interview schedules.
- Appointments were then made with each of the respondents to conduct the personal interviews during which the opinions of these stakeholders were obtained. Where personal visits could not be accommodated, interviews were conducted telephonically.

The initial messages and invitations to participate in the study were continuously followed up via e-mail as well as telephonically over a four week period. Consideration was given to the fact that these individuals each manage an extremely demanding schedule. Willing respondents replied to arrange appointments during which the research instrument would be discussed and worked through.

1.5.2.6 Data analysis

Personal or telephonic interviews were conducted with the individuals who participated in this study. The biographical data was processed and analysed using mainly frequency distribution. For the interview questions, the interview notes made during these sessions were converted into write-ups and during the entire process of data collection certain themes or "umbrella" constructs were identified (Welman *et al.*, 2005:211). These themes were mostly identified through the use of two methods:

- Counting words or repetitions of words which appears more frequently than others.
- Indigenous categories and keywords in context which refers to important words used by a group of people and the meaning that the group attaches to these words (Welman *et al.*, 2005:212).

1.6 LIMITATIONS TO THE STUDY

This study attempts to apply the principles of existing knowledge on strategy formulation and implementation and strategic management to formulate a consolidation strategy for the agri-businesses in South Africa. The contribution this study attempts to make is to provide suggestions and recommendations which agri-businesses might consider in its efforts to consolidate its activities within the agricultural industry. Although some of the most prominent industry leaders are targeted in the study, the sample size is limited and care should be taken to apply the outcomes of this study to the broader group of stakeholders in the industry. The research was limited to agri-businesses, primarily co-operatives and converted co-operatives, within the agricultural industry with specific focus on Senwes as the instigator or driver of the consolidation attempts in the industry. Vertical and horizontal integrations were also considered, but did not extend beyond the boundaries of the agricultural industry and other directly associated industries.

1.7 LAYOUT OF THE STUDY

The dissertation was laid out as follows (depicted in Figure 1.1 below):

- Chapter two consists of a literature review on the topic of strategy and strategic management, with specific emphasis on consolidation strategies, and include previous research and related knowledge and information as well as any and all applicable definitions.
- Chapter three contains an overview and exposition of the environment in which the empirical research will be conducted, namely the agricultural industry and its contribution to the South African economy, with specific focus on agri-businesses and its role and function within the industry as well as other stakeholders to this environment.
- Chapter four covers the empirical research performed, including the collection of data and the analysis, interpretation and discussion of the results.
- Chapter five, the final chapter, presents the conclusions drawn from the results of the study, recommendations and suggestions presented as possible solutions to the problem and an evaluation of whether the research objectives were achieved.

Figure 1.1: Layout of the research project

Chapter 1	Chapter 2	Chapter 3	Chapter 4	Chapter 5
Nature and scope of the study	Literature review	Overview of research environment	Empirical research	Conclusions
Introduction	Strategy/ Strategic Management	Agricultural industry	Collection of data	Recommen-dations and suggestions
Problem statement	Motives for Consolidation	Contribution to South African economy	Analysis, discussion and interpretation of results	Evaluations
Objectives	Consolidation Strategies	Agri-businesses' role and function		
Scope	Related and previous research and examples	Other stakeholders		
Research methodology	Competition Commission SA			
Limitations				

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

The term “strategy” is greatly misused and is often applied to a simple activity or series of activities aimed at achieving or attaining a desired outcome or goal when, in fact, it implies so much more (Bamford & West III, 2010:9). A common saying comes to mind which states that if *one fails to plan, one plans to fail*. Similarly, organisations without a clear and decisive strategy may often find it difficult or even impossible to achieve expected levels of performance.

When setting or selecting a strategy, an organisation is making certain choices between alternative ways of doing business and thereby indicates how it intends to distinguish itself from competitors in the market. Reeves and Deimler (2011:138) argue that this competitive advantage should be capitalised on, since it is not permanent and others will soon be able to acquire or duplicate the benefits thereof. Success is achieved when an organisation is able to achieve sustainable growth and profitability, adapt to and continue to thrive in the ever changing economic environment and perform better that its rivals in the industry (Thompson, Peteraf, Gamble & Strickland, 2012:51).

In this chapter strategy is defined together with a description of what strategic management entails as well as depicting the different steps in the strategic management process. The importance of strategic leadership is explained and the motives for consolidation are discussed. An overview of the most important legislation relevant to the topic is presented, followed by an analysis of the most prominent consolidation approaches with an indication of the advantages and challenged presented by each of these methods. Finally, the different steps in the consolidation process are described in an attempt to gain an understanding of the nature and extent of the entire process. This approach will be followed in order to provide a basis for and structure to the process of focussing on consolidation strategies as a sub-discipline of the broader topic of strategy.

2.2 DEFINING STRATEGY

According to Bamford and West III (2010:9), strategy is the comprehensive concept of organising a business and its activities in such a way as to conduct its activities profitably and sustainably, outperform competitors, achieve growth and exceed the return expectations of its shareholders. It is an integrated and coordinated set of commitments and actions devised to harness core competencies, manage resources optimally and obtain a competitive advantage (Ireland, Hoskisson & Hitt, 2009:5).

Thus, strategy is an action plan for competing responsibly and successfully and operating profitably on the basis of a selection of choices made (Thompson *et al.*, 2012:52; Jones & Hill, 2010:3; Lasserre, 2007:34). An organisation's strategy is normally captured within its vision, mission and values statements. The vision is compiled to describe management's aspirations for the future with a portrayal of the long-term strategic course which directs all efforts and activities towards realising the vision. The mission statement explains the organisation's current business and purpose and helps target present efforts in specific focus areas and on specific opportunities (Bamford & West III, 2010:69). Values are those beliefs, characteristics and behavioural standards which guide the conduct of management and employees in the pursuit of the organisation's recorded vision and mission (Reference for Business, 2012). Furthermore, the strategy specifies certain financial and strategic objectives to motivate everyone involved to remain focussed and concentrated on achieving the desired outcomes.

Any strategy has to be adaptable to allow modifications to be made on such grounds as varying market conditions, technological advances, changing customer needs, new actions from competitors and emerging opportunities, to name a few. Reeves and Deimler (2011:136) state that, since all of these factors are in a constant state of change, it invariably means that every strategy has a limited life cycle and has to evolve with changes in its environment.

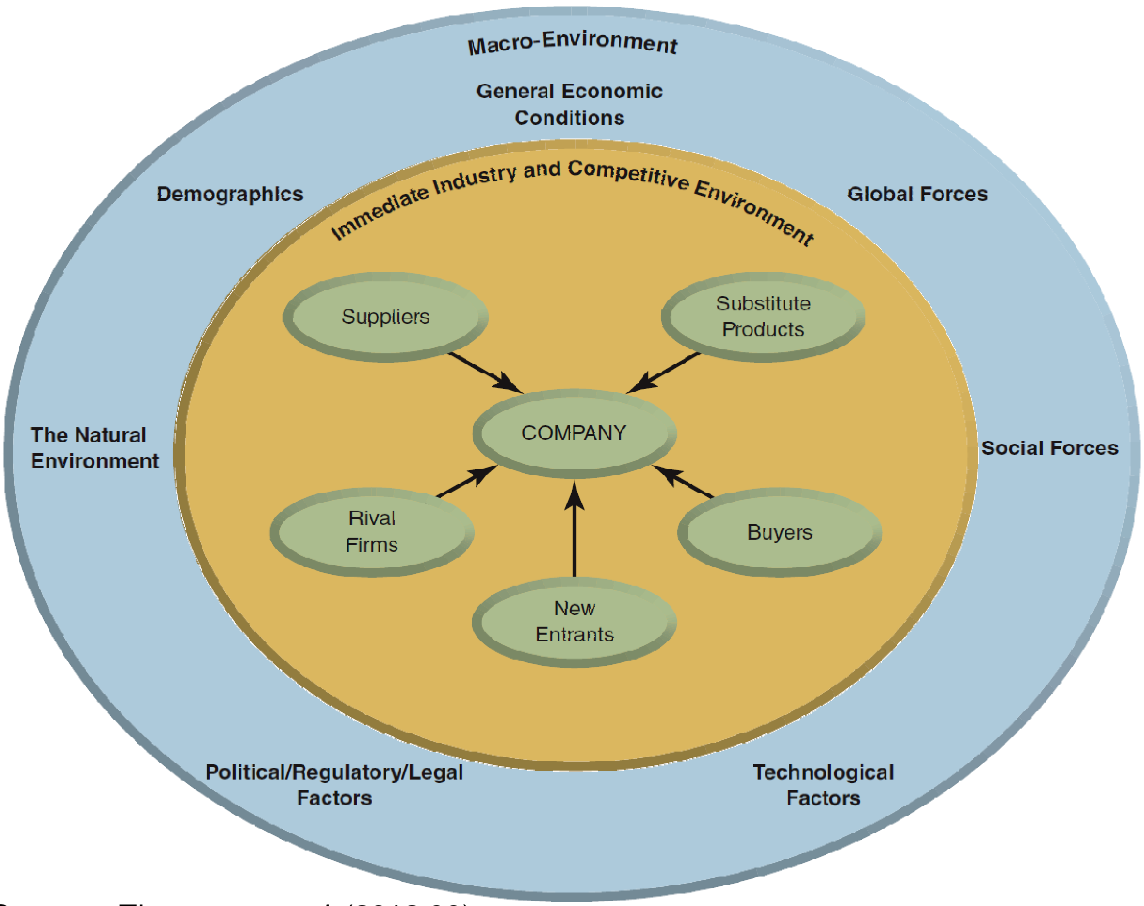
2.3 STRATEGIC MANAGEMENT

Strategic management is the process which includes a complete set of commitments, decisions and actions necessary for an organisation to be strategically competitive and deliver above-average returns to all its stakeholders (Ireland *et al*., 2009:6). It is thus the process through which a strategy is developed, executed and evaluated. This process contains four typical stages, namely analysis, formulation, implementation and evaluation. Each of these stages will be discussed briefly.

2.3.1 Analysis

Organisations operate in a far greater environment than just the immediate industry in which it functions. Figure 2.1 illustrates the industry and competitive environment as well as the macro-environmental factors influencing the operations of a business.

Figure 2.1: Components of a company's macro-environment



Source: Thompson *et al*. (2012:99)

The macro-environment, as seen in figure 2.1, consists of seven basic components, being (Thompson *et al*., 2012:98; Kaplan & Norton, 2008:48):

- Demographics such as population size, age structure, geographic distribution, ethnic composition and income distribution.

- Societal forces, including cultural values, attitudes and lifestyles.
- Political, regulatory and legal factors.
- The natural environment with its ecological factors.
- Technological factors which focuses on the rapid pace of technological advancement and the applications and implications thereof.
- General economic conditions, with its changes and trends.
- Global forces, like new global markets and important international events.

Jones and Hill (2010:63) propose that each of these macro-economic components may influence the industry in which the organisation competes, directly or indirectly. Some components may have a greater effect on the business than others. It is management's responsibility to analyse and assess the degree of strategic relevance or importance of each of these factors and direct any decisions accordingly (Kaplan & Norton, 2008:47).

Next, the industry environment in which the organisation operates is analysed through the application of Porter's five forces model of competition (Kaplan & Norton, 2008:48). Generally, the stronger these competitive forces are, the lower the profit potential for competitors in that industry (Ireland *et al.*, 2009:55). Another tool to use in this analysis is the competitive profile matrix (CPM) which identifies major competitors and takes the critical success factors specified and compares the strengths and weaknesses between rivals (David, 2011:81). The objective of this analysis is to ascertain the potential for creating value and generating above-average returns for stakeholders. The five forces are as follows (Porter, 2008:27):

- Threat of new entrants to the market.
- Bargaining power of suppliers.
- Bargaining power of buyers.
- Threat of substitute product.
- Intensity of rivalry among competitors.

Finally, an analysis of the organisation's internal environment is performed which includes its resources, capabilities, activities and competitiveness. Various analytical tools may be used in this process, such as resource and capability analysis, SWOT analysis, value chain analysis, benchmarking and competitive strength assessment

(Thompson *et al.*, 2012:139). Another prominent method advocated by David (2011:122), is to use the internal factor evaluation matrix (IFE) which summarises and measures the strengths and weaknesses in the functional areas of business and also presents a foundation of assessing relationships among these functions. The aim of this analysis is to determine how well the organisation's strategy is matched or aligned to its environment, circumstances, resources and capabilities (Ehlers & Lazenby, 2010:235).

Once all three of these analyses have been performed and the results have been interpreted, the process of formulating a strategy can begin.

2.3.2 Formulation

Crafting a strategy is a collaborative process and a team effort with managers at all levels within the organisation actively participating and making contributions (Thompson *et al.*, 2012:82). St. John and Harrison (2010:7) propose that it describes the way a business competes and the selection of business areas in which the organisation competes. Mantere and Vaara (2008:341) are of the opinion that organisations with diversified activities have little option but to include down-the-line managers in the strategy formulation process due to their direct responsibilities towards these divisions and subsidiaries. They often have a greater deal of direct authority and influence over their areas of responsibility, based on their knowledge and familiarity of the prevalent market and economic conditions, customer needs, competitive environment, operational challenges and various other relevant factors affecting the business on a strategic level (Mantere & Vaara, 2008:341). In such diversified organisations, strategy formulation involves four distinct levels of strategy and each level determines the management structure which will participate in the formulation of that particular strategy (Thompson *et al.*, 2012:82).

The levels of strategy consist of the following:

- **Corporate strategy** at a multi-business level to gain a competitive advantage through different businesses and business units competing in different products or markets and is orchestrated by the Chief Executive Officer (CEO) and other senior executives (Freeman, 2010:106; Ireland *et al.*, 2009:154).

- **Business strategies** for separate business units or subsidiaries which function or compete in specific, well-defined industries, industry segment or market domains and are compiled by general managers, other senior managers and divisional heads (Carpenter & Sanders, 2009:35).
- **Functional area strategies** (within each business or business unit) focuses on the activities and approaches applied in the management of that particular function in the business and are composed by functional managers and heads of specific business activities in collaboration with other key personnel (Thompson *et al.,* 2012:84; Ehlers & Lazenby, 2010:214).
- **Operating strategies** (within each business or business unit) are narrow and focussed strategic approaches to managing the activities of key operating units and operating centres of significant strategic importance and are framed by the various operational managers and other key individuals (Brown, Squire & Lewis, 2010:4180).

Li, Guohui and Eppler (2008) indicate that organisations involve every manager, including some key employees, in crafting the strategy due to the role they play in the actual implementation and execution thereof. This inclusive and participative approach also contributes towards the required commitment to and motivation levels for the attainment of the strategy and the strategic goals (Mantere & Vaara, 2008:342). It also promotes accountability and individuals accepting ownership of their responsibilities.

2.3.3 Implementation

Thompson *et al*. (2012:86) state that the implementation of a strategy is an operations, task and action-oriented activity intended to execute the core business functions in a strategy-supportive way. This process "involves translating strategic thought into organisational action" (Pearce II & Robinson, 2011:266). It implies a structural approach to achieving operating excellence through activities consistent with and aligned to the organisation's strategy in an effort to realise the financial and strategic performance objectives set for the organisation. This step in the strategic management process is often the most challenging and also the most time-consuming. Strategy implementation is the key requirement for superior business performance and most critical problems in the strategic management process is caused by poor implementation efforts (Jooste & Fourie, 2009:52). Other causes of failure in strategy execution is attributed to the approach of going straight to structural reorganisation and neglecting the most powerful drivers of effectiveness, being decision rights or responsibilities and the flow of information (Neilson, Martin & Powers, 2008:61).

Strategy implementation involves deciding on and establishing a structure of resources, assigning decision making responsibilities, directing organisational activities, motivating people, managing diversity, developing competencies and competitive capabilities, formulating procedures and controls and creating a strategy-supportive work environment with the aim of exceeding performance goals (Bamford & West III, 2010:325).

The process of strategy execution includes the following principal aspects:

- Staffing and human resource requirements with the necessary capabilities and experience (Thompson *et al.*, 2012:87).
- Creating and strengthening strategy-supportive resources and competitive capabilities (Warren, 2008:46).
- Guiding actions and operations towards best practice standards (Ehlers & Lazenby, 2010:323).
- Resource management according to strategic importance and achieving strategic success (Jooste & Fourie, 2009:53).
- Ensuring that policies, procedures and controls facilitate and support the proficient execution of the strategy and not hamper it (Jones & Hill, 2010:362).
- Installing information and operating systems which promotes effectiveness and efficiency (Jones & Hill, 2010:393).
- Motivating people and connecting incentives and rewards directly to achieving performance targets (Ehlers & Lazenby, 2010:298; Jones & Hill, 2010:356).
- Establish an organisational culture and climate which fosters successful strategy implementation (Ehlers & Lazenby, 2010:394).
- Harness and develop the leadership required to propel implementation forward and drive continuous improvement of the strategy implementation process (Jooste & Fourie, 2009:65; Amos, 2007:41).

Kaplan and Norton (2008:160) wrote that a successful strategy implementation effort demands the unwavering pursuit for operational excellence. Success is achieved when the organisation outperforms its financial and strategic objectives and fulfils the organisation's strategic vision. Various tools exist which may be used in the planning and execution of the strategy implementation process, such as the balanced scorecard model, value-driver-action model and the 7-S framework, among others.

2.3.4 Evaluation

Various authors, such as Thompson *et al*. (2012:87) and David (2011:286), argue that strategy evaluation involves monitoring changes and developments in the external environment, assessing the organisation's progress against its financial and strategic objectives and making corrective adjustments. Evaluation is a process which provides evidence to initiate, shape and direct future decisions and is only effective when the results from the process are fed back into policymaking and operations (NERC, 2011).

2.4 THE IMPORTANCE OF SOUND STRATEGIC LEADERSHIP

Strategic leadership is the ability to anticipate, envision, prepare and maintain flexibility and to empower others to create strategic change as necessary (Ireland *et al*., 2009:340; Wheeler, McFarland & Kleiner, 2007:4). It is the capability to guide and lead a team to achieving success through the actualisation of the financial and strategic objectives within a challenging, competitive and constantly changing environment. This requires such abilities as strategic thinking which involves being able to identify, diagnose, define and solve problems as well as emotional intelligence which implies managing oneself and managing relationships with others (Haines, 2006; Rosete & Ciarrochi, 2005:390). Amos (2007:40) claims that the leadership of every organisation has to acknowledge that the organisation cannot exist without people, because people is the only active resource to utilise and transform the other more passive resources into need satisfying goods and services.

The lack of sound strategic leadership is one of the primary barriers to effective strategy implementation (Jooste & Fourie, 2009:65; Hrebiniak, 2005:17). Serfontein and Hough (2011:405) contend that there is a direct and positive association between strategic leadership and both operational excellence and organisational performance in South Africa. Little doubt exists around how essential strategic leadership is to the performance of every organisation. The capacity to establish the practice of strategic leadership is also viewed by the South African government and both the private and public sectors as instrumental towards the future success of South Africa (Serfontein & Hough, 2011:394).

2.5 MOTIVATIONS FOR CONSOLIDATION

Scholars have proposed various motivations for organisations to consolidate, but they can all be split into four broad categories: value creation, managerial self-interest, environmental factors and firm characteristics (Haleblian, Devers, McNamara, Carpenter & Davidson, 2009:472). Each of these is discussed in more detail hereafter.

2.5.1 Value creation

There are three tests to determine whether consolidation endeavours add sustainable economic value to shareholders, being the (Thompson *et al*., 2012:295):

- Attractiveness test which involves the target entity being attractive enough to produce consistently acceptable performance.
- Cost-of-entry test, meaning the costs of obtaining ownership or control should not erode the profit potential of the venture.
- Better-off test, accepting that the combined entity performs better as a whole than the stand-alone businesses would have been on their own.

Increased market power is an endeavour to appropriate more value from the market and entails being able to sell goods and services above competitive levels or realising lower cost levels on support activities than industry competitors (Ireland *et al*., 2009:184). This includes enhancing the organisation's scale of operations and increasing its market share and is thus growth oriented. There is evidence supporting market power as a consolidation motive (Haleblian *et al*., 2009:473).

Shaver (2006:962) suggests that improved efficiency, with the aim of reducing costs or increasing turnover, is another value creating reason to consolidate. This phenomenon is commonly known as synergy and is aimed at reducing the cost of capital, establishing operational synergies through the combination of business units, including knowledge transfers, transferring best practices and core competencies (Carpenter & Sanders, 2009:356) and implies the two parties working together (Reed, Lajoux & Nesfold, 2007:27). It is the proverbial one-plus-one-equals-three concept where the combined total is greater than the sum of its parts. In support hereof, research indicates that efficiency considerations overwhelm anti-competitive motives in most contexts and the evidence of anti-competitive harm is not strong (Lafontaine & Slade, 2007).

Redeploying assets and transferring competencies for the purpose of creating economies of scope and improving competitiveness is a further motivation factor (Haleblian *et al.*, 2009:474). It involves the alignment or realignment of strategic resources and expanding resource sets by strengthening existing resources as well as extending to or penetrating new resource areas.

The market discipline motive suggests that value is enhanced when consolidations cause ineffective and underperforming managers to be disciplined, demoted, removed or replaced by accessing new or applying existing superior managerial abilities (Trautwein, 2006:9).

2.5.2 Manager self-interest

A substantial number of studies propose that consolidations may also destroy value as a result of managers who attempt to maximise their own utility and self-interests (Haleblian *et al.*, 2009:475; Trautwein, 2006:12). Senior managers sometimes make decisions based on personal gains and not in the best interest of the organisation and its shareholders (Carpenter & Sanders, 2009:354). Executive compensation is often linked to growth and earnings, but these do not necessarily create value or wealth for shareholders. It is clear that a greater effort should be made to insure alignment between managers' and shareholders' interests.

Carpenter and Sanders (2009:355) explain that managerial hubris refers to excessive pride, overconfidence and arrogance and this ego gratification premise influences the consolidation behaviour in senior managers and executives (Haleblian *et al.*, 2009:475). It leads to very high premiums paid or overpayments due to the fact that these executives are overly optimistic or they are blindly committed to making the transaction work. Such actions and decisions are purely driven by pride and cannot, under any circumstances, be justified.

Managers of targeted organisation also employ defensive tactics during consolidation negotiations through delaying the process and thereby decreasing the likelihood of an agreement being reached which would have benefited shareholders (Gaughan, 2011:185). Another approach is for target executives with illiquid shares in their companies to foster consolidation offers which put the target entity's shareholders at a disadvantage. According to Haleblian *et al.* (2009:476), such executives attempt to have their shares become vested after an exchange of control, permitting them to sell those shares and increasing their personal wealth at the cost of the shareholders of the company.

2.5.3 Environmental factors

Uncertainty in the external environment is seen as sufficient grounds for consolidation, specifically for diversified organisations, in an effort to enhance stability and maintain consistent financial performance. Another external factor playing a role in the consolidation efforts of organisations in the South African context is that of the regulatory restrictions of the CCSA. However, little research has been performed on the role and impact of the Competition Commission on consolidation attempts nationally or on cross-border endeavours. Although similar legislation exists in other countries, such as antitrust laws, research has proven that it does not appear to impede consolidation activity (Haleblian *et al.*, 2009:477).

Imitation is also viewed as a reason for consolidations and amounts to larger competitors absorbing smaller organisations with initiated innovations to gain access to those innovations (Hannaford, 2007:108). After the consolidation, the organisation achieves such success through the innovation that it becomes a recipe others want to imitate. Similarly, organisations with a high resource dependency on others will likely initiate negotiations to consolidate the owners or manufacturers of those resources into their structures with the aim of gaining control over such resources to sustain production and performance (Schildt, Laamanen & Keil, 2010:106).

Haleblian *et al*. (2009:477) affirm that network ties are also an important motive and implies that the level of consolidation activity of companies are congruent to the consolidation activity of other organisations with which it has network links and ties through interlocking directorships or partners. It is based on the desire of managers to achieve peer isomorphism.

2.5.4 Organisational characteristics

Consolidation experience has been shown by research to increase the probability of subsequent or continuous consolidation efforts (Haleblian, Kim & Rajagopalan, 2006:365). Prior experience encourages repetitive behaviour, particularly when such efforts were rewarded (Haleblian *et al*., 2009:478). Vicarious knowledge gained from other organisations' experiences also influences the consolidation behaviour of companies. It is important to keep the following in mind when digesting the concepts of experience and learning, namely that (Barkema & Schijven, 2008:612):

- Not all experience is good (negative experience transfer) and it affects performance.
- Learning does not automatically flow from experience, but includes deliberate steps towards gaining knowledge.
- Organisations do not only learn from its own experiences, but may apply imitation and vicarious learning techniques to obtain insight and understanding.

An organisation's strategy and its position in the market also determine the extent and nature of its consolidation activities. Recent studies have indicated that an organisation's strategic positions and intents have a strong influence on its consolidation behaviour (Haleblian *et al*., 2009:478).

2.6 APPLICABLE LEGISLATION AND REGULATORY BODIES

The following section explains certain legislative and regulatory issues of particular relevance to the concept of business consolidation.

2.6.1 Companies Act 71 of 2008 and Companies Amendment Act 3 of 2011

Davids and Hale (2011:543) state that the cornerstone of the South African legislative framework regarding mergers and acquisitions is the Companies Act (71 of 2008) which was promulgated in 2008 and took effect on 1 May 2011. The Companies Amendment Act (3 of 2011) also has to be consulted. It regulates certain fundamental transactions related to a consolidation strategy, including (South Africa, 2008):

- Proposals to dispose of all or the greater part of assets or undertaking (section 112).
- Proposals for amalgamations and mergers (section 113) which is a new addition to the South African Companies Act.
- Proposals for schemes of arrangement (section 114) which has historically been the most popular method of facilitating a takeover.

In terms of section 115(2)(a) of the Companies Act, any proposed fundamental transaction requires the approval of shareholders possessing at least 75% of all the voting rights which are entitled to be exercised on the matter, in accordance with the requirements for a special resolution to be passed (South Africa, 2008). Furthermore, the Companies Act established the Takeover Regulation Panel under section 196 and it is responsible for overseeing all affected transactions as well as the Takeover Special Committee founded in terms of section 202 of the Companies Act to hear and decide on any matter referred to it.

2.6.2 Competition Act 89 of 1998

An important piece of legislation in South Africa pertaining to consolidations is the Competition Act (89 of 1998). It instructs the Competition Commission and the Competition Tribunal to determine, primarily, whether a proposed consolidation transaction is likely to substantially prevent or lessen competition (Davids & Hale, 2011:551; South Africa, 1998). If so, the competition authorities have to consider whether the proposed transaction may result in a technological, efficiency or other pro-competitive advantage which outweighs the effects of the prevention or lessening of competition and if not, the Competition Commission must prohibit the implementation of such a proposed consolidation. Public interest grounds which may be considered as justification of a proposed transaction, includes assessing the effect of such a consolidation on (South Africa, 1998):

- A particular industry or region.
- Employment in the broad South African context.
- The ability of small businesses, controlled or owned by historically disadvantaged individuals or groups, to become competitive.
- The ability of national industries to compete in international markets.

In terms of this legislation, the Competition Commission has to be notified of any proposed fundamental transaction which satisfies all of the following criteria, being it (South Africa, 1998):

- Constitutes a consolidation as defined in the Competition Act.
- Meets the asset and turnover thresholds set by the Minister of Trade and Industry (the “Minister”) in consultation with the Competition Commission.
- Has an effect within South Africa.

Such a merger, acquisition or consolidation may be achieved in a number of ways as described in section 12 of the Competition Act, including (South Africa, 1998):

- The purchase or lease of the shares, interests or assets of the other party.
- The amalgamation or combination with the other party.
- Any other manner.

Another concept to understand is that of control as depicted in section 12(2) of the Competition Act indicating that one party controls another when that party (Davids & Hale, 2011:550; South Africa, 1998):

- Beneficially holds more than half of the issued share capital of the other.
- Is entitled to cast the majority of votes at a general meeting of the other party or has the ability to control the majority of votes either directly or through a controlling entity.
- Is able to appoint or veto the appointment of the majority of directors of the entity.
- Is a holding company and the entity is a subsidiary of the holding company as provided for in the Companies Act.

- In case of a trust, has the ability to control the majority of votes of trustees, appoint the majority of trustees and to appoint or change the majority of beneficiaries of the trust.
- Has the ability to materially influence the policies of the other party.

The current asset and turnover thresholds requiring mandatory notification to as well as the approval of the Competition Commission are set out below (Davids & Hale, 2011:550; South Africa, 1998):

- Intermediate mergers where the acquiring entity and the target entity have combined assets or turnover in South Africa of at least R 560 million and the target firm alone has assets or turnover in South Africa of at least R 80 million.
- Large mergers where the acquiring entity and the target entity have combined assets or turnover in South Africa in excess of R 6.6 billion and the target firm alone has assets or turnover in South Africa of at least R 190 million.

Davids and Hale (2011:551) indicate that failure to comply with the mandatory notification requirements and proceeding with implementation without approval from the Competition Commission may result in a maximum administrative penalty of 10% based on the total annual turnover of the entity in South Africa and its exports from South Africa during its preceding financial year.

Mergers which do not meet the mandatory notification thresholds are classified as small mergers, but the Competition Commission may demand notification of such transactions if it is of the opinion that it substantially prevents or reduces competition or that it cannot be justified on substantial public interest grounds (South Africa, 1998).

The Competition Commission has also set certain service standards towards the anticipated number of days the review process of a proposed transaction will take from the business day following the date on which the completed notification was filed (CCSA, 2010). Depending on the complexity of the proposed transaction as measured according to various characteristics, the services standards are set at 20, 45 and 60 days for non complex, complex and very complex consolidations respectively (refer to table 2.1).

Davids and Hale (2011:551) wrote that during 2010/2011 the Competition Commission considered 229 consolidation notifications of which the composition and outcomes were as follows:

- 19 small transactions of which 16 were approved unconditionally, three were approved conditionally and none were prohibited.
- 150 intermediate transactions of which 135 were approved unconditionally, four were approved conditionally and two were prohibited.
- 60 large transactions of which 49 were approved unconditionally, six were approved conditionally and none were prohibited.

Table 2.1: Differentiating factors and Competition Commission service standards

Characteristics	Phase 1	Phase 2	Phase 3
Combined market shares of parties	< 15%	< 30%	> 30%
Multiple markets involved	No	Yes	Yes
Deregulated markets	No	Yes	Yes
Control structure complexity	No	No	Yes
Complex market definition	No	No	Yes
Significant documentation and information needs	No	No	Yes
Likely or potential extent of anti-competitive harm	**No**	**No**	**Yes**
Complexity of investigation	**Non complex**	**Complex**	**Very complex**
Service standard (days to complete review)	**20**	**45**	**60**

Source: CCSA (2010)

2.6.3 Broad-Based Black Economic Empowerment Act 53 of 2003

One of the foremost drivers of consolidation activity in South Africa in recent years has been black economic empowerment (hereafter referred to as "BEE") which is a unique piece of legislation applicable to the South African environment (Davids & Hale, 2011:545; Horwitz & Jain, 2011:312). The Broad-Based Black Economic Empowerment Act (53 of 2003) was created to establish a legislative framework for the economic empowerment of previously disadvantaged individuals or groups. It also authorised the Minister to issue codes of good practice, to publish transformation charters and to establish the Black Economic Empowerment Advisory Council. The aims of this act are to (South Africa, 2003):

- Promote the achievement of the constitutional right to equality, increase broad-based and effective participation of black people in the economy and promote a higher growth rate, increased employment and more equitable income distribution.
- Establish a national policy on broad-based black economic empowerment so as to promote the economic unity of the nation, protect the common market, and promote equal opportunity and equal access to government services.

Osae (2010:109) believes that it is a vital commercial imperative of any organisation attempting to conduct business in South Africa to ensure that it conforms to and complies with this legislation and to obtain sufficient credentials in terms thereof. One of the main objectives pertaining to consolidations is set out in section 2(b) of the act which stipulates the desire to "achieve a significant change in the racial composition of ownership and management structures and in the skilled occupations of existing and new enterprises" (South Africa, 2003). As a result most of the bigger organisations in South Africa have finalised deals to sell substantial equity stakes to black shareholders, generally up to 25.1% (Davids & Hale, 2011:545). Another objective stated in section 2(g) of this act is to promote access to sources of finance for BEE transactions in order to assist and facilitate such ownership transactions.

2.6.4 Other legislation to take note of

Other key and related legislation include the Securities Services Act (36 of 2004) which regulates insider trading and market manipulation activities as well as the JSE Listing Requirements when companies are involved which are listed on the Johannesburg Securities Exchange (Davids & Hale, 2011:544). In cross-border consolidation transactions, the Currency and Exchanges Act (9 of 1933) applies from which a system of exchange controls was set out in the Exchange Control

Regulations, promulgated in December 1961, which needs to be considered when contemplating such transactions (South Africa, 1933).

2.7 CONSOLIDATION APPROACHES

This part of the chapter is dedicated to gaining an understanding of the different strategic consolidation approaches. Consolidation is an important strategy for gaining higher market share, rapid market penetration and economies of scale (Karuranga, Asti, Musonera & Mohiuddin, 2011:25). It is defined by section 12 of the Competition Act as being "the direct or indirect acquisition or direct or indirect establishment of control over all significant interests in the whole or part of the business of a competitor, supplier, customer or other person".

2.7.1 Horizontal integration

Horizontal integration involves combining or integrating the operations of organisations within the same general industry which is an effective means of increasing the scale and horizontal scope of its core business (Thompson *et al.*, 2012:226; Reed *et al.*, 2007:18). According to Ireland *et al.* (2009:186), research suggests that higher performance is achieved when the two organisations have similar characteristics.

The benefits of horizontal integration include strengthening the business and increasing its profitability in a number of ways, namely:

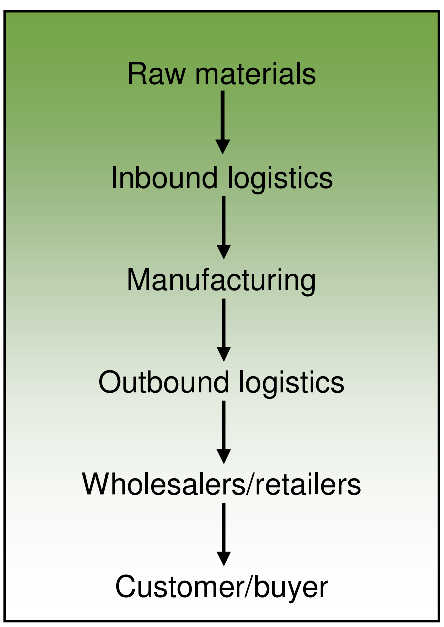
- Improving the efficiency of operations through economies of scale, expanding geographic coverage, increased market share, cost savings, improved utilisation of resources, eliminating excess capacity and assets which do not support core business activities (Ehlers & Lazenby, 2010:209).
- Increasing product differentiation by broadening and extending the product range offered to customers (Jones & Hill, 2010:288).
- Reducing market rivalry by integrating, absorbing and acquiring rival businesses and thereby decreasing the number of competitors in the market (Jones & Hill, 2010:290).
- Improving bargaining power over suppliers and buyers through the combined procurement and product volumes attained (Ravhugoni & Ngobese, 2010).

- Enhancing its flexibility and dynamic capabilities by gaining access to new technologies and complimentary resources and capabilities (Thompson *et al.*, 2012:227).

2.7.2 Vertical integration

Sudarsanam (2003:140) describes vertical integration as the combination of separate or successive activities in a vertical chain under the common coordination and control of a single organisation. It is when an organisation incorporates the business activities of manufacturers, suppliers and distributors of one or more of its goods or services, into its own operations (Ireland *et al.*, 2009:186). Such an organisation is directly involved and takes part in multiple stages or segments of the vertical value chain of its particular industry (as illustrated in figure 2.2). The aim can be full integration where there is direct participation in all the stages of the vertical value chain or partial integration when a presence is established in selected stages of the vertical value chain (Thompson *et al.*, 2012:230).

Figure 2.2: Vertical value chain



Source: Sudarsanam (2003:141)

Ehlers and Lazenby (2010:208) point out that backward integration involves the company performing value chain activities which were previously performed by suppliers, manufacturers and other enterprises engaged in the earlier stages of the value chain. It makes sense when the organisation is able to achieve similar economies of scale as other suppliers as well as being able to match or exceed the production efficiency of competitive suppliers without compromising quality in any way (Thompson *et al.*, 2012:231). Forward integration implies taking part in the value chain activities in the later stages of the value chain which is closer to the buyer or customer. Cost savings can be achieved through increased efficiency and economies of scale (Lafontaine & Slade, 2007; Riordan, 2005) and higher bargaining power and it allows organisations better access to end customers, it strengthens brand awareness and it broadens product differentiation (Thompson *et al.*, 2012:232).

The most significant benefits presented by a vertical integration strategy are:

- The addition of material technological capabilities and other technical efficiencies (Thompson *et al.*, 2012:231).
- Improved product quality and logistical scheduling (Jones & Hill, 2010:296).
- It strengthens the organisation's competitive position within the industry or sector (Ehlers & Lazenby, 2010:208).
- It enhances the profitability of the business by means of generating cost savings and other coordination efficiencies (Prakash & Deshmukh, 2010:57).

There are also some concerns when considering vertical integration which goes beyond possible value chain conflict, which include:

- Increased business risk due to the higher capital investment in the industry (Ehlers & Lazenby, 2010:208).
- Being slow to embrace advanced technologies or more efficient production practices due to the significant captured investment in older technology and facilities (Thompson *et al.*, 2012:233).
- Less flexibility to accommodate and facilitate changes in buyer or customer preferences (Jones & Hill, 2010:299).
- Possible capacity matching issues in manufacturing according to production requirements.
- The need for radical new skills, experience and business capabilities not possessed in the existing organisation (Thompson *et al.*, 2012:233).

2.7.3 Diversification

Based on the premise that most organisations are multiproduct or multidimensional entities, value can be created or improved through diversification. Carpenter and Sanders (2009:242) are supported by Jones and Hill (2010:313) when defining diversification as the process of increasing the degree to which organisations conduct business in multiple industry arenas. The focus is on reducing business risk and achieving more stability regarding revenue streams and profitability, especially when the dominant or controlling organisation functions in a cyclical or seasonal oriented industry. Such expansions can be into industrys closely associated with the current business or into totally different industries which present scope and opportunities to improve overall performance. In general, organisations employing related diversification strategies outperform those which use unrelated diversification alternatives (Ireland *et al*., 2009:194).

Related diversification refers to business opportunities within the existing industry or in organisations of which the operations are highly related or closely linked to that of the controlling entity (Bamford & West III, 2010:296; Carpenter & Sanders, 2009:251). Businesses are related when the value chains in which it operates exhibit competitively important relationships (Thompson *et al*., 2012:300). The objective of related diversification is to expand the organisation's market share in its existing market (Ehlers & Lazenby, 2010:205) by taking advantage of the commonalities between these related opportunities (Jones & Hill, 2010:320). Homburg and Bucerius (2006:349) maintain that research has proven that a low internal relatedness between the consolidating parties, referring to factors within the businesses, has detrimental effects on the consolidation performance. It is important to ensure that such opportunities contain a strategic fit to the organisation in the following ways (Bamford & West III, 2010:298):

- Market fit which involves taking advantage of the existing relationships with suppliers and customers within the value chain.
- Operational fit, implying the combination of similar and supporting primary value chain activities.
- Management fit, being the degree to which synergistic advantages and benefits from the administrative and support activities can be unlocked.

Unrelated diversification occurs when an organisation enters a different industry from that in which it functions and there are no expectations of achieving value chain synergies (Bamford & West III, 2010:300; Ehlers & Lazenby, 2010:206). Businesses are unrelated when their resource requirements and primary value chain activities are dissimilar to such an extent that no competitively meaningful relationships exist (Thompson *et al.*, 2012:300). Jones and Hill (2010:323) are convinced that the intention is not to transfer or leverage competencies or to share resources, but to utilise the general organisational capabilities to strengthen the various businesses in its respective industries. It is important to note that these opportunities must contain a strategic fit to and be aligned with the corporate strategy of the controlling entity. However, unrelated diversification presents its own difficulties, being:

- Demanding managerial requirements brought about by the responsibility to manage a set of fundamentally dissimilar businesses operating in fundamentally different industrys and competitive environments which is an exceptionally challenging and extremely difficult task (Ehlers & Lazenby, 2010:206).
- Limited competitive advantage potential beyond that which each organisation is able to generate by itself due to the lack of cross-business synergy benefits that can be transferred into improved efficiency and effectiveness (Thompson *et al.*, 2012:311).

Corporate venturing is the internal development of new businesses and is an increasingly important way for organisations to diversify (Thompson *et al.*, 2012:297). It implies establishing a business from scratch and although it may be a very time-consuming and risky process, it provides the opportunity to enter emerging industries and the potential to realise higher profits (Jones & Hill, 2010:331). It is an appealing alternative under the following circumstances (Thompson *et al.*, 2012:297; Jones & Hill, 2010:331-332):

- The organisation possesses the skills, capacity, knowledge and other resources required to create the new business and compete effectively.
- There is sufficient time to create and launch the business.
- The costs of the internal development are lower than that of other alternatives such as acquisitions.

- There is a lack of larger and more powerful rivals in the industry which make competing easier during the start-up and subsequent life-cycle stages of the business.
- Adding new capacity is not likely to negatively affect the supply-demand balance in the industry.
- Existing competitors in the market are likely to be slow or unable to respond to the organisation's entry into that market.

2.8 METHODS TO FACILITATE CONSOLIDATION AND DIVERSIFICATION

Lesserre (2007:137) reckons that consolidation strategies are for the most part proactive in nature and involve deliberate steps taken by organisations to facilitate growth and expansion and to improve performance. Its focus is on growing, diversifying and expanding with and into existing businesses with established infrastructures and favorable performance histories. Although consolidations form a significant part of the global economy as far as foreign direct investment (FDI) is concerned (UNCTAD, 2011), the failure rate of consolidation efforts remains alarmingly high. Some of the most prominent methods will be discussed next.

2.8.1 Mergers

A merger occurs when one or more organisations are combined, integrated or absorbed into another single entity (Thompson *et al.*, 2012:226; Reed *et al.*, 2007:3). Mergers typically occur between organisations of relatively equal size and market share that fuse into a new or bigger entity (Carpenter & Sanders, 2009:354). However, Ireland *et al.* (2009:184) suggest that only a few true mergers occur since one party is usually more dominant in respect to market share and organisational size. It is a purposeful relationship with the aim of generating wealth and value for the business and all parties and stakeholders involved.

The advantages of mergers as a method to consolidate are, among others:

- Efficiency related gains in establishing best practices in the target entity's processes, procedures and controls (Bernile, Lyandres & Zhdanov, 2011; Kumar, 2009:3).

- Disciplining target management in situations where there has been poor or insufficient performance (Jones & Hill, 2010:445).
- The opportunity to eliminate key weaknesses in the organisation by merging with targets which will strengthen those aspects (Jones & Hill, 2010:446).
- Coordinating product marketing strategies to gain the optimum benefit from such actions (Kumar, 2009:5).
- Increased market power and market share achieved by reducing the number of competitors in the industry (Bernile *et al.*, 2011).

There are various issues involved when choosing mergers as consolidation option and it resembles those of acquisitions to a large extent. Therefore, it will not be expanded on here, but will be discussed in detail in the following section of the study.

2.8.2 Acquisitions

The term acquisition implies that a transfer of ownership takes place and that one organisation purchases the whole business or a controlling interest in another firm (Carpenter & Sanders, 2009:354; Ireland *et al.*, 2009:184). It results in the management of the acquired organisation having to report to the business that now controls it. Acquisitions provide an organisation with a rapid entry into other industries or economies, since it purchases existing businesses which are operating successfully (Carpenter & Sanders, 2009:304).

Lajoux and Nesfold (2004:5) define buyouts as a form of acquisitions in which the buyers purchase a subsidiary of a group of companies "out" from its parent. When a significant amount of debt is used in financing the transaction it is referred to as a leveraged buyout (or "LBO") and if the transaction is done by the management or the employees of the business it is commonly known as a management buyout (MBO) or an employee buyout (EBO) respectively.

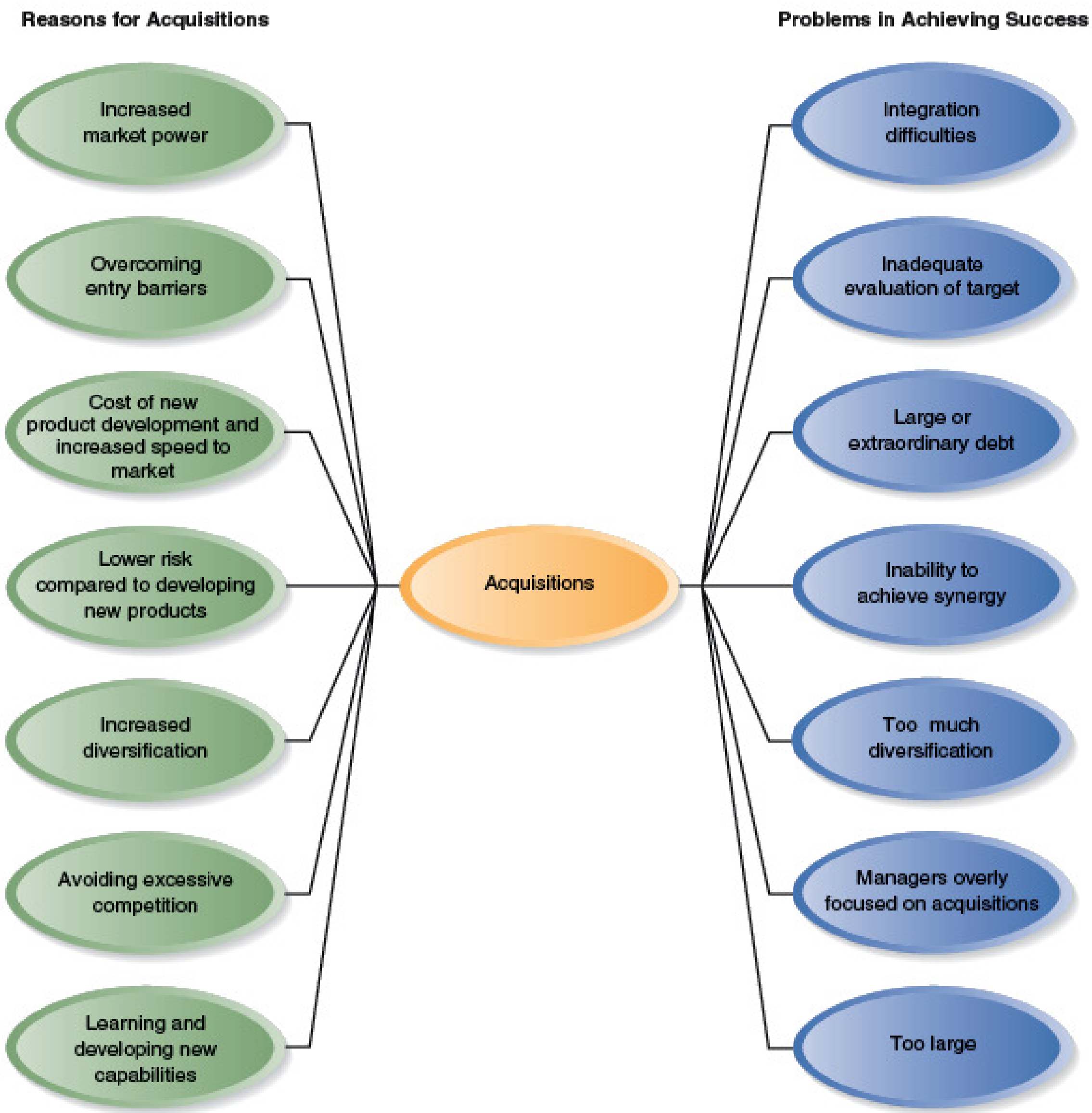
The benefits of acquisition include:

- Speed of establishing ownership and control compared to developing such structures, resources and capabilities internally which can take years (Carpenter & Sanders, 2009:360).

- Critical mass through entering a business of significant size and substantial competitive strength (Thompson *et al*., 2012:227).
- Access to complimentary strategic assets, resources and capabilities with the ability to further develop and expand thereon (Jones & Hill, 2010:334).
- Creating an environment with fewer competitors, since the buyer effectively eliminates a competitor that would have been a direct opponent.

There are various challenges involved with going the acquisition route to consolidation, which are depicted in figure 2.3 and include:

Figure 2.3: Reasons for acquisitions and problems in achieving success



Source: Ireland *et al*. (2009:191)

- Integration difficulties which should not be underestimated and pertains to disparate corporate cultures, interfacing different financial and information systems, building effective working relationships, different management styles and the roles and status of the executive management of the target company (Jones & Hill, 2010:335; Lasserre, 2007:138).
- Inadequate evaluation of the target during the due diligence process which may result in the acquiring firm paying an excessive premium or other significant risks and obligations being overlooked which creates unwanted exposure for acquirers (Jones & Hill, 2010:337).
- Large or extraordinary debt due to organisations having to increase its levels of debt in order to finance acquisitions which increases the risk of bankruptcy and may preclude required investments in existing activities which contribute towards the organisation's profitability and success (Jones & Hill, 2010:336).
- Inability to achieve synergy as a result of misjudging or overestimating the extent and nature of identified synergies as well as underestimating the direct and indirect transaction costs of the acquisition (Jones & Hill, 2010:336).
- Too much diversification can have an adverse effect on the sustainable performance of the organisation due to managers relying on financial rather than strategic controls to evaluate the performance of the various business units and the tendency for acquisitions to become substitutes for innovation (Kenny, 2011:18).
- Managers are overly focused on acquisitions and spend too much time, energy and effort on acquisition opportunities and neglect the other core strategic activities of the organisation (Ireland *et al.*, 2009:192).
- Too large and at some point the additional costs of managing the larger organisation exceeds the benefits of growth through economies of scale and enhanced market power since more bureaucratic controls have to be put in place to monitor and manage the broad spectrum of businesses and all the activities it perform (Ireland *et al.*, 2009:193).

2.8.3 Strategic alliances

Alliances, as described by Carpenter and Sanders (2009:304), is a method of consolidation which enables an organisation to maximise the existing knowledge that the other party has with regards to local market conditions in terms of both production and market demands. It is a purposive partnership between two or more entities and it involves the pooling of capabilities, knowledge and resources with the aim of creating value and competitive advantage for every party concerned (Kale & Singh, 2009:46).

Such cooperative or collaborative strategies are often used to penetrate other local industries or foreign markets (Thompson *et al.*, 2012:265) and provide the following benefits:

- Provides access to resources, like finances and distribution channels as well as risk sharing.
- Utilises the knowledge of and familiarity with local government and legal regulations.
- Gaining skills, experience and other capabilities by performing joint research and development, marketing and other activities and sharing technological know-how (Jones & Hill, 2010:273).

Strategic alliances have different forms and structures it can take, namely:

- Joint ventures which entails two or more organisations making equity investments in the creations of a separate and third business which operates as an independent legal entity (Carpenter & Sanders, 2009:325).
- Equity alliances in which two or more companies have different or unequal ownership percentages in the new entity formed or when one partner takes partial ownership of the other partner (Carpenter & Sanders, 2009:325; Ireland *et al.*, 2009:249).
- Non-equity alliances that involves two or more organisations forming a contractual relationship to share some of their unique capabilities or resources without making significant ownership investments (Carpenter & Sanders, 2009:326; Ireland *et al.*, 2009:249).

Carpenter and Sanders (2009:304) are of the opinion that the economic environment or market conditions may dictate the consideration of alliances as the method to consolidate, because of:

- Local content laws with requirements to have specified proportions of local materials and content in products if it is to be exported (an approach followed by developing countries like Brazil and China for example).
- Required scale efficiencies to motivate and justify the investment needed for expansion when the combined production volumes of two or more parties vindicate the costs of new manufacturing or other operating facilities. In other words, the production volumes of the individual entities are not sufficient for it to afford the investment in and the costs of operating new facilities on its own and it therefore joins forces with another company.

This strategy is very attractive, because the parties involved are able to preserve their independence which is not the case with mergers. Organisations also do not have to commit or invest substantial financial resources, including obtaining or increasing debt, as would be required by acquisitions. Furthermore, organisations retain power and control over the way the alliance functions and enjoy the protection and flexibility of being able to disengage from the alliance if it proves to be a failure or when the purpose of the alliance has been achieved (Thompson *et al.*, 2012:266).

There are various risks and hazards to consider in the alliance design and it should not be entered into lightly. Some of these risks are:

- Partners not having a full appreciation and clear understanding of the required resource investments, time and dedication and other obligations of the parties to the alliance as well as the expected benefits from and performance of the allied efforts (Bamford & West III, 2010:278).
- Poor contract development specifically relating to negotiating rights pertaining to the termination of the contract prior to the intended maturity date (Carpenter & Sanders, 2009:334).
- Misappropriation of resources and capabilities occurs when one alliance partner takes something of value to the alliance or to the other partner (Carpenter & Sanders, 2009:335).
- Being held hostage through specific investments meaning that one of the partners become so dependent on the resources made available that it is virtually held hostage (Carpenter & Sanders, 2009:336).

2.8.4 Takeovers

Takeovers are a consolidation approach wherein the target organisation's management or board of directors are opposed to or do not solicit the acquiring entity's offer or bid for outright ownership (Ireland *et al.*, 2009:184; Reed *et al.*, 2007:6). Bamford and West III (2010:292) view this method as a bid to buy a business and replace the management team in order to effectuate the necessary change. Researchers have concluded that corporate takeovers create value, but more importantly that both the target organisation's and the bidding company's shareholders benefit from the transaction (Carpenter & Sanders, 2009:486). However, the degree of success of this method is highly dependent on the takeover premium paid. Unsolicited takeovers are a more common phenomenon during economic recessions, because poorly managed and undervalued companies, relative to their assets, are easier to identify (Ireland *et al.*, 2009:184).

In terms of corporate governance and implementation, Carpenter and Sanders (2009:486) feel it is one of the most costly and emotion-wrenching methods and may be seen as a signal that the organisation's board and management team have been ineffective. It is for this reason and others that the Takeover Regulation Panel has been established in term of the Companies Act (71 of 2008).

2.8.5 Greenfield ventures

A greenfield venture is a diversification strategy of establishing a new, wholly owned subsidiary business in an unknown, unrelated or foreign market by creating the entire operational infrastructure, resources and systems from the ground up (Thompson *et al.*, 2012:264; Ireland *et al.*, 2009:228). As such, Carpenter and Sanders (2009:304) believe it is the strategy that usually contains the greatest risk, costs and time.

Benefits associated with greenfield ventures are (Thompson *et al.*, 2012:265; Ireland *et al.*, 2009:228):

- Immediate and high levels of control.
- The opportunity to learn by doing through operating in an unfamiliar environment and getting to know how to best serve local demand, navigate the local politics and to be effective in competing against local rivals.

- The highest potential for above-average returns for investors linked to the higher risks involved.
- Enabling the organisations to maintain the proprietary nature of its processes and systems.

It also presents a number of problems which have to be overcome, such as (Thompson *et al.*, 2012:265; Ireland *et al.*, 2009:228):

- High levels of capital investment and cash flow requirements which is also subject to high levels of risk.
- Requiring substantial resources of which some are diverted from other operational uses.
- A time-consuming process requiring well-functioning markets and regulators which protects the rights of investors.

2.8.6 Blue ocean strategies

Blue ocean strategies do not really fall within the scope or focus of this study, which concentrates on consolidation, and will therefore only be briefly mentioned. A blue ocean strategy is one of establishing an industry which is currently not in existence and therefore not tainted by competition and in which demand is created rather than being fought over (Kim & Mauborgne, 2005). It refers to uncharted waters or unknown market territories which have not been penetrated or explored yet.

2.9 THE CONSOLIDATION PROCESS

The consolidation process consists of many interdependent sub-activities such as due diligence, negotiation, financing and integration. Each of these is briefly discussed below.

2.9.1 Due diligence

Due diligence is the process of evaluation of the target business and is a very comprehensive exercise. It spans from the intended financing alternatives for the transaction, the different organisation cultures of the parties involved and tax implications to implementation challenges identified (Ireland *et al.*, 2009:192; Lasserre, 2007:145). Reed *et al.* (2007:381) indicate that the purpose of a due diligence investigation is to access the potential risks of a possible consolidation by inquiring into and reviewing all relevant aspects regarding the past, present and foreseeable future of the party or parties involved. Many of the due diligence activities are performed internally, but specialists still play an important and significant role in large consolidations. These specialists include accountants, lawyers and management consultants, among others.

The normal activities performed during a due diligence evaluation are the following (Reed *et al.*, 2007:381; Sudarsanam, 2003:6):

- Financial statements and tax review to corroborate the existence and value of assets, liabilities and equity in the balance sheets and to determine the financial health, profitability and sustainability of the organisation by analysing the income statements and possible tax obligations.
- Management and operational analysis to ascertain the reliability and quality of financial reporting, the management and organisational structures and delegated authority and to gain an understanding of contingencies beyond the scope of the financial statements, such as production technologies, controls, processes and systems (Reed *et al.*, 2007:381).
- Legal compliance review to verify the adherence to relevant legislation and regulations to reduce the risk of future legal action against the organisation stemming from the past, including product and environmental liabilities.
- Verifying commercial information pertaining to the organisations' competitive position in the market, market share statistics and customer relations information.
- Human resources inquiry relating to skills, capabilities, compensations structures, employment contracts, training and employee relations (Sudarsanam, 2003:7).
- Information systems review to evaluate issues of performance, costs, complexity, functionality and compatibility.
- Document and transaction confirmation to ensure that the administrative aspects of the consolidation are satisfactory as well as the appropriateness of the structure of the deal (Reed *et al.*, 2007:382).

The investigation starts the moment an organisation becomes aware of a potential consolidation target and the information gathering process begins which involves the screening, valuation and financing activities. There are two milestones indicating the official onset of the due diligence process which are the signing of the confidentiality agreement and the letter of intent after which the due diligence review formally commences (Reed *et al.*, 2007:383). The letter of intent stipulates the respective preliminary understandings of the parties concerned relating to the basic terms of the transaction.

It must be a thorough, but reasonable investigation performed within the context of unattainable perfection and being realistic regarding the time requirements or constraints facing the evaluation. The duration of the review differs from one transaction to the next and may last from a few weeks to more than a year.

2.9.2 Negotiations

The legal centrepiece of any consolidation effort is the consolidation or acquisition agreement (hereafter referred to as "the agreement"). It is a definitive and legally binding agreement which aims at achieving four basic objectives, namely (Reed *et al.*, 2007:464):

- It stipulates the structure and terms of the transaction.
- It contains all the significant legal and financial details of the target's operations.
- It obligates all parties involved to do their best to complete the deal and instructs the target not to make any material changes to its business before the transaction is finalised.
- It governs the outcome of the discovery of any undisclosed problems during the negotiation process.

The main component of the agreement on which this study focuses is the price or valuation and the mechanics of the transfer. Reed *et al.* (2007:469) assert that it depicts the structure of the transaction and describes the methods to be used to transfer the property from the target to the buyer. The purchase price is determined by a number of specific factors, like (Carpenter & Sanders, 2009:365; Lasserre, 2007:145):

- Market value is the current market capitalisation of the organisation and is a theoretical estimation of the current value of the organisation's future cash flows.
- Intrinsic value is the present value of business' future cash flows from its existing assets and operations and it might differ from the market value due to a number of reasons, including future growth expectations and discounts for poor management or excessive diversification.

Carpenter and Sanders (2009:366) indicate the acquisition premium as being the difference between the price paid for a target entity and its pre-acquisition market value. Put differently, it is the portion with which the acquisition price exceeds the market value of the target organisation. A consolidation is in most cases attempted when there is a realistic expectation to unlock synergies and create value through improvements implemented through the consolidation efforts. In order for value to be created for both parties involved, the value of such improvements must be greater than the premium paid for the target organisation (Dobbs, Huyett & Coller, 2010:72; Hitt, King, Krishnan, Makri, Schijven, Shimizu & Zhu, 2009:525). If the value of the improvements is less that the expected premium, then more negotiations need to take place to establish which portion of the premium can be shared to generate value for both parties.

Something to bear in mind is the fact that research has indicated that hostile acquirers create and deliver significantly higher shareholder value for the acquiring organisation than friendly negotiators do (Ireland *et al.*, 2009:184).

2.9.3 Closing

Closing is the event when the parties to the consolidation consummate the transaction through the execution and delivery of documentation and the transfer of assets and funds (Reed *et al.*, 2007:613). The same authors indicate that most financing agreements are concluded at the closing, since the commitment letters and the terms and lending arrangements would have been agreed upon between the borrowers and lenders during the negotiation process.

2.9.4 Integration

According to Cogman and Tan (2010:21), it can be argued that integration is the most challenging step in the consolidation process and the determining factor for the successful completion of a consolidation attempt. Integration refers to the combination of all elements that enables the organisations to function or operate as one (Reed *et al*., 2007:646). It is important to have an accurate understanding of the extent and cost of integration to avoid unnecessary surprises and delays in the integration process. Efficient integration planning is critically important and should include (Reed *et al*., 2007:651):

- Objectives of the new business.
- Ways in which the combined resources, systems, responsibilities and activities will support the achievement of these goals.
- A clear and realistic timetable for the integration process.

The quick implementation of changes is desirable due to the fact that it limits the amount of uncertainty among members of the combining organisations (Homburg & Bucerius, 2006:348). This view is supported by Smeets, Ierulli and Gibbs (2012) when they indicate that early planning and fast execution improve the likelihood of successful integration. The success of integration requires the commitment of the management structures of all parties concerned and the process should be managed as a project with a detailed project plan, time-tables with set milestones and dedicated champions assigned to and responsible for various aspects of the integration plan. It should also be mentioned that the larger the size of the target organisation, the greater the uncertainty surrounding integration success (Alexandridis, Petmezas & Travlos, 2010:1690).

2.10 SUMMARY

This chapter began with a broad exposition of strategy as a concept by defining it and explaining the different aspects involved in the course of formulating a strategy, being the vision, mission and values statements as well as determining strategic and financial performance objectives. The strategic management process facilitates the development, execution and monitoring of the strategy and this process is analysed and each step is discussed which include the analysis, formulation, implementation and evaluation phases. The importance of and need for sound strategic leadership is emphasised due to the direct positive associating it has with operational excellence and organisational performance.

Next, the various motives for an organisation to consider a consolidation strategy were presented. These motives may be value creating, but it can also destroy value if the consolidation is not pursued in the best interests of the business and its shareholders. Consolidation is also contemplated due to other reasons such as environmental factors and organisational characteristics. Multiple pieces of legislation apply to the phenomenon of business consolidations in the South African environment, including some regulatory bodies called into being by these laws. Some of these and the impact thereof are described, including the Companies Act (71 0f 2008), Competition Act (89 of 1998) and the Broad-Based Black Economic Empowerment Act (53 of 2003).

Consolidation is defined in terms of the Companies Act (71 of 2008) and the different consolidation approaches are analysed, being horizontal integration, vertical integration and diversification. The benefits and issues of concern of each of these approaches were indicated. Furthermore, the varied methods of facilitating consolidation were presented, each with its advantages and the challenges associated with it. The different methods referred to in detail are mergers, acquisitions, strategic alliances, takeovers and greenfield ventures.

Finally, the consolidation process was portrayed with a detailed breakdown of what each phase entails as well as the importance of each of these phases. The phases are the due diligence evaluation, negotiation process, financing considerations and challenging integration process.

CHAPTER 3

AN OVERVIEW OF THE SOUTH AFRICAN AGRICULTURAL INDUSTRY AND THE FUCTION OF AGRI-BUSINESSES IN THE INDUSTRY

3.1 INTRODUCTION

Agriculture is an important primary industry in the South African economy (Department of Agriculture, Forestry and Fisheries, 2012a). Production activities in the industry consist of three main categories, namely field crops, horticulture and animal production with the latter comprising the largest component (Vink & Van Rooyen, 2009).

This chapter firstly presents an overview of the South African agricultural industry and briefly touches on influential or significant historic events. An analysis of the economic contribution of the industry follows with an exposition of the major challenges facing the industry. Next, the role and function of agri-businesses within the industry are discussed together with an indication of the competitiveness in the industry. Finally, the motivations for the study are presented.

3.2 OVERVIEW OF THE AGRICULTURAL INDUSTRY

An overview of the South African agricultural industry is presented below.

3.2.1 The history of agriculture in South Africa

Farming in South Africa dates back to 1652 when Jan van Riebeeck landed on the shores of our country. One of the first references made as to the fertility of its soil was by John Jourdain in 1608 when he noted in his diary that he was convinced that the soil would bear anything that was sown or planted in it (Van der Linde & Pitse, 2006:1). However, commercial farming started playing a significant role in the 1890's and the early 1900's. According to Van Eeden (2009:5), this led to the forming of many co-operatives after the adoption of the Agricultural and Pastoral Societies Act (4 of 1908) by the government in August of that year. Shortly after the establishment of the Union of South Africa in 1910, legislation was consolidated into national laws and it was supplemented by other farming policies (Vink & Kirsten, 2000:2). Some of the more important and relevant pieces of legislation was the Land Bank Act (18 of 1912), the Land Act (27 of 1913), the Co-operative Societies Acts (28 of 1922 and 29 of 1939), the new Land Act (18 of 1936) and the Marketing Act (26 of 1937 and 59 of 1968).

The Co-operative Societies Act secured the supply of input products (seed and fertiliser) and the marketing services function for farmers through farming co-operatives (South Africa, 1922). The Marketing Act (26 of 1937) tightened controls over farming produce marketing and was seen as the cornerstone of commercial agricultural policy with its primary function being the regulation of access to markets for the various groups of farmers (Van Eeden, 2009:36; South Africa, 1937). This provided the farmers with some advantage and protection, because farming produce could only be marketed through the relevant Control Boards and its agents, the co-operatives. Fixed prices schemes were used to compensate farmers for their produce delivered to co-operatives. Vink and Kirsten (2000:2) indicate that this practice brought about the cross-subsidy of those farmers who were located further from the market by those who were closer to it.

Van Eeden (2009:41) asserts that the costs involved with the handling of grain in bags were high, especially for maize and wheat, and there was a general shortage in the availability of grain bags during the late 1940's and early 1950's. This resulted in several stakeholders in the industry requesting government to encourage the conversion of existing storage facilities as well as the construction of new grain silos to accommodate the handling and storage of bulk grain products (Grain Silo Industry, 2001:1). Parliament approved a scheme in 1952 in terms of which co-operatives, grain traders and millers could apply for long-term financing trough the Land and Agricultural Bank to erect silos. Approximately 15.4 million tons of storage capacity was created at 266 sites across the country of which 60% of the financing was obtained through the scheme (Grain Silo Industry, 2001:4).

Agricultural mechanisation was introduced after World War II to assist farmers in soil preparation, planting and harvesting activities with combine harvesters being utilised from the late 1960's. There was a significant expansion in cultivated farm land due to the use of mechanisation, improved biological technology resulted in increased crop yields and more labour was required to harvest these crops. Farmers were subsidised in terms of disaster relief, the establishment of irrigation infrastructure, water subsidies and research and more indirectly through pricing policies and interest rate subsidies (Vink & Kirsten, 2000:4). Subsidies protected farmers from foreign competition and fluctuations in global commodity prices. These factors, together with rising inflation during the 1970's and 1980's, the decline in the value of the Rand which resulted in the prices of input products rising faster than grain produce prices despite attempts to keep domestic prices above parity with imports and the high increase in farm land prices all caused the industry to become inflexible and vulnerable (Department of Agriculture, Forestry and Fisheries, 2011b:7). In addition, countrywide commodity price wars were gaining momentum during this troubled period (Van Eeden, 2009:66).

Along with mounting political pressures to address the prevailing racial and economic inequalities, the 1980's saw increasing pressure on agriculture to undo certain policies implemented in the past. Agricultural policy was largely determined by the 1983 Constitution and the White Paper on Agricultural Policy tabled in 1984 with the primary aim of self-sufficiency on a national basis in most commodities (Vink & Kirsten, 2000:6). There was a drive towards the liberalisation and deregulation of the agricultural industry which was influenced and incited by the extensive liberalisation of the financial sector (OECD, 2006). The agricultural industry was directly affected through the declining foreign exchange value of the country's currency and the increased interest burden on farm loans due to rising interest rates which had a negative impact on the profitability of farming activities in general, but specifically on crop-farming (Vink & Kirsten, 2000:16).

According to Meyer (2005:3), there was a general move towards more market-based pricing systems, since many farmers were becoming increasingly distressed by the limitations of the controlled marketing of many agricultural products in terms of Marketing Act (59 of 1968). There was a need to (South Africa, 1996):

- Reduce the distortions created by the quantitative control mechanisms.

- Establish a more commercial and competitive environment for import and export facilitation.
- Increase access to and competition within the industry.
- Improve the efficiency and performance of the industry (Department of Agriculture, Forestry and Fisheries, 2011b:4).

As a result of the report of the Kassier Committee of Inquiry into the Marketing Act and the promulgation of the new Marketing of Agricultural Products Act (47 of 1996), many of the Control Boards were abolished and a free market system was created within the agricultural industry and effectively ended the protection and subsidising of farmers (Meyer, 2005:4; South Africa, 1996). A formal and uniform tariff structure was created which is maintained by the South African Futures Exchange (SAFEX) (Van Eeden, 2009:87). This ultimately brought about a certain level of stability to the industry.

3.2.2 Agricultural conditions in South Africa

Lotz (2009:153) professes that South Africa has less than favourable conditions for fostering agricultural activities. Land available for farming consists of 100.7 million hectares or 82.3% of the total land area of which arable land utilised is limited to 12.9 million hectares (10.5% of the total surface area within our borders) and grazing fields another 83.9 million hectares or 68.6% of the country's land resources (Department of Agriculture, Forestry and Fisheries, 2012b). In addition, the general rainfall patterns vary considerably from season to season and also within different geographical regions.

These and other facts and the reality that certain parts of the country have a propensity towards droughts make agriculture a risky and demanding industry to be involved in. It is interesting to note that the number of commercial farming units have decreased from 60,938 in 1996 to 39,966 in 2007 and that a little less that 1.4 million hectares of crops and orchards are under irrigation (Department of Agriculture, Forestry and Fisheries, 2012b). Although the number of farms has decreased, the average farm size has increased from about 1,006 hectares in 1910 to 1,400 hectares in 2007 (Department of Agriculture, Forestry and Fisheries, 2011b:11).

3.2.3 Composition of agricultural production in South Africa

As mentioned in the introduction, production activities in the industry consist of three main categories, namely field crops, horticulture and animal production with the latter comprising the largest component as shown in figure 3.1. Vink and Van Rooyen (2009) noted that horticulture production has steadily increased while field crop production has declined significantly over the past few decades. Factors such as weather conditions, commodity prices, input costs, stock levels, consumption demand as well as exchange rates will increasingly influence agricultural production in the country (Department of Agriculture, Forestry and Fisheries, 2012c:6).

Table 3.1: Agriculture sub-sector share of output

Period	Field crops	Horticulture	Animal production	Total
1966-1970	42.5	16.2	41.3	100
1971-1975	44.9	16.4	38.7	100
1976-1980	47.1	16.4	36.5	100
1981-1985	42.0	16.4	41.6	100
1986-1990	37.7	19.1	43.2	100
1991-1995	32.6	22.9	44.5	100
1996-2000	33.0	25.1	41.9	100
2001-2005	30.4	26.9	42.7	100
2006-2010	26.9	25.3	47.8	100

Source: South Africa (2012c:2); Vink and Van Rooyen (2009)

3.3 CONTRIBUTION OF AGRICULTURE TO THE SOUTH AFRICAN ECONOMY

Agricultural productivity measures the efficiency and performance of the industry (Department of Agriculture, Forestry and Fisheries, 2011b:4; Conradie, Piesse & Thirtle, 2009:10). South Africa uses the Tornqvist-Theil indexing method for measuring agricultural productivity (Department of Agriculture, Forestry and Fisheries, 2011b:13). Even though agriculture forms a small part of the total economic activity, it remains a major earner of foreign exchange through exports and a prominent provider of employment, especially in rural areas (Department of Agriculture, Forestry and

Fisheries, 2012a). It is an important industry in the economy and represents an essential vehicle for economic growth.

3.3.1 Gross domestic product (GDP)

The total value of agricultural production for 2011 was R147.3 billion which resulted in a contribution to the GDP of about R64 billion and equated to an increase of 11.5% from the previous year (Department of Agriculture, Forestry and Fisheries, 2012a). Since 2005, agriculture has contributed between 2.4% and 2.8% of the country's GDP (Liebenberg & Pardey, 2010:384). The contribution of agriculture to South Africa's GDP was an astonishing 19.3% in 1910, but the declining share of GDP does not necessarily means the agricultural industry is declining, rather that it is indicative of the fact that the services sectors are growing faster (Vink & Van Rooyen, 2009).

Meijerink and Roza (2007) stated that the role of the industry extends to other sectors. Some procurement activities link backwards to the manufacturing industry through the acquisition of input products like fuel, seed, fertiliser and chemicals as well as farming equipment and implements. On the other hand, a significant portion of the production output from agriculture is linked forward to the manufacturing industry as raw materials or intermediate products in the production of food, feed and related products (Department of Agriculture, Forestry and Fisheries, 2012a; Vink & Van Rooyen, 2009).

3.3.2 Gross and net farming income

Gross farming income (GFI) is the total value of farming sales and production for other uses (Department of Agriculture, Forestry and Fisheries, 2012b). GFI generated by commercial farmers during 2010 was R121.8 billion which represents a slight improvement of 2.2% compared to 2009 (StatsSA, 2011a). There has been a general and consistent increase in the total gross farming income figures over the past few years as can be seen in table 3.2 showing the comparative GFI figures for the period 2007 to 2010.

Net farming income (NFI) is calculated after deducting all production expenditure, excluding expenditure on fixed assets and capital goods. The NFI figure for 2011 amounted to R33.2 billion which is substantially lower than the previous year mainly due to the increase of 10.4% in the cost of intermediate production inputs and services (Department of Agriculture, Forestry and Fisheries, 2012d:3).

Table 3.2: Gross farming income detail from 2007 to 2010 (Rand)

Period	2007	2008	2009	2010
Gross farming income	**79 604 784**	**95 224 237**	**119 193 813**	**121 765 972**
Field crops	16 479 832	19 839 530	27 855 687	26 650 633
Horticulture	19 080 627	24 045 202	29 237 110	29 851 775
Animal products	43 436 607	51 339 505	62 101 016	63 273 602
Other farming income	607 718	-	-	1 989 962

Source: StatsSA (2011a)

3.3.3 Employment, employment equity and labour relations

According to the World Bank (2011), agriculture represents the most common form of employment in the economy. The South African agricultural industry employed more than 1.32 million farm workers in 2006 which equated to about 10.6% of the total labour force (Liebenberg & Pardey, 2010:384). However, this figure has subsequently decreased significantly to 624,000 by September 2011, which represented almost 4.7% of total employment in the country (Department of Agriculture, Forestry and Fisheries, 2012b). The recent decline can be primarily attributed to the global recession of 2008/2009 and the lingering effects of the economic downturn.

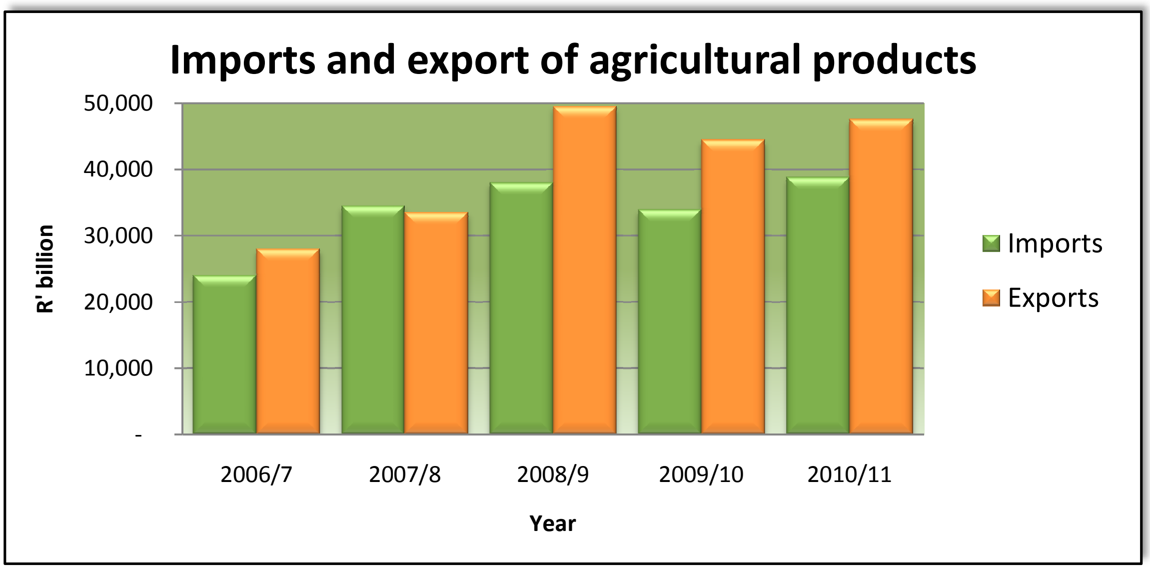
The AgriBEE charter is aimed at generating equitable access and participation in a globally competitive, profitable and sustainable South African agricultural industry, contributing to a better life for all (Department of Agriculture, Forestry and Fisheries, 2004:2). In terms of the Employment Equity Act (55 of 1998), the AgriBEE framework promotes the commitment towards the achievement of progressive employment equity targets. These targets are geared to achieve a representative employment and management outlook in all agricultural enterprises by 2014 (Department of Agriculture, Forestry and Fisheries, 2005; Department of Agriculture, Forestry and Fisheries, 2004:13).

Agri SA (2008) claims that the issue of farm evictions remains a very sensitive, emotionally charged and complex issue and the relevant legislation which governs this issue are somewhat deficient and the implementation thereof is problematic. The following laws apply, namely the Labour Tenants Act (3 of 1996), the Extension of Security of Tenure Act (62 of 1997) and the Prevention of Illegal Eviction and the Unlawful Occupation of Land Act (19 of 1998) (Mohlaloga, 2008). The National African Farmers Union of South Africa supports the need to review and tighten applicable legislation for both occupiers and owners (NAFU, 2008). Research has shown that decisions made by farmers to evict farm workers are based largely on economic reasons, since labour is the one production cost which can be cut or reduced with relative ease (Nkuzi Development Association, 2005).

3.3.4 Exports

Agricultural exports accounted for about 7.9% of the total exports during 2010 (Department of Agriculture, Forestry and Fisheries, 2012b). Manufacturers and agri-businesses represent roughly 70% of all world exports (World Bank, 2011). The value of agricultural product exports increased by 6.9%, from R44.469 billion in 2009/10 to R47.561 billion in 2010/11 (Department of Agriculture, Forestry and Fisheries, 2012c:12). The comparative total agricultural import and export figures for the last 5 years are depicted in figure 3.1.

Figure 3.1: Imports and exports of agricultural products 2006/7 to 2010/11



Source: Department of Agriculture, Forestry and Fisheries (2012d:12)

From figure 3.1, it is clear that South Africa is a net exporter of agricultural goods. This means that the country produces more agricultural products than is needed to satisfy national demand and that the excess agricultural produce is being exported to help meet the global demand thereof.

3.4 CHALLENGES FACING THE INDUSTRY

This section will deal with some of the most significant issues facing the South African agricultural industry at present. All of these challenges remain a strategic focus of all the stakeholders in the industry (Department of Rural Development and Land Reform, 2009).

3.4.1 Job creation

StatsSA (2012) reports that recent unemployment statistics indicate that South Africa's unemployment rate has increased to 25.2% in the first quarter of 2012 which translates to more than 4.5 million jobless individuals. One of the priorities of the South African government is that of job creation and in terms of the New Growth Path (NGP), the agricultural industry was identified as one of the key industries in which there is significant potential to create jobs and not only in primary agriculture, but throughout the entire agricultural value chain (Department of Agriculture, Forestry and Fisheries, 2011a:7). The AgriBEE framework is complementary to this key strategic initiative of creating employment and to ensure the sustainable management and use of the natural resources (Department of Agriculture, Forestry and Fisheries, 2004:3). The number of workers employed in the agricultural industry has consistently dwindled since 2006 to only 624,000 which represents a decline of more than 40% over the six year period (as can be seen in table 3.3 below).

As such, the challenge of job creation is an arduous one which will require the commitment of every stakeholder connected to the industry (Department of Trade and Industry, 2011). However, the World Bank (2011) feels there is hope through agri-businesses which provide many opportunities for learning, absorbing technology and job creation.

Table 3.3: Employment in agriculture, hunting, forestry and fishing and total employment (expressed in thousands)

Number of workers	2006	2007	2008	2009	2010	2011
Workers in agriculture, hunting, forestry and fishing	1,088	1,041	767	653	640	624
Skilled agriculture (included in above figures)	432	341	99	72	76	61
Total employment in all sectors	12,800	13,306	13,655	13,844	12,975	13,318

Source: StatsSA (as quoted by Department of Agriculture, Forestry and Fisheries, 2012b)

3.4.2 Food security, access to food and affordability

Food security and safety is one of the biggest challenges faced by the South African economy (Future Directions International, 2012). The country has about 11.5 million people who are experiencing inadequate to severely inadequate access to food (Department of Agriculture, Forestry and Fisheries, 2012c:viii). Goldblatt (2009) is of the opinion that, although there have been no real food shortages, unless the food production capacity of the country increases in direct relation to population growth, shortages may become a real problem in the not too distant future. There is a general recognition of the need to enhance the country's food security through a broader base of agricultural production (StatsSA, 2011b).

With general high food inflation and high food prices, another issue is affordability with a substantial portion of the population earning low wages, a significant number of individuals being dependant on government grants and the high unemployment rate (Goldblatt, 2009; McLachlan & Thorne, 2009). If the country should experience food shortages it will not only lead to famine due to insufficient food supplies, but the prices of food will further increase which will in turn aggravate the situation due to food becoming even more unaffordable (Altman, Hart & Jacobs, 2009).

3.4.3 Land reform

Lotz (2009:160) explains that the land reform policy in South Africa consists of land restitution, tenure reform and redistribution programmes. Briefly, restitution addresses historical land rights and rightfully returning them, tenure reform examines forms of land holding, while redistribution focuses on the transformation of existing, racially biased land ownership patterns (McLachlan & Thorne, 2009; Roux, 2009). The Land Reform Programme has certainly reduced social tensions in certain areas and has redressed some previous wrongs, but progress has been slow (Vink & Van Rooyen, 2009). However, land reform projects have shown a 90% failure rate, leading to a reduction in agricultural output in certain areas (Goldblatt, 2009).

3.4.4 Industry security

Criminal activity within the industry poses a threat to food security, economic growth and stability (Department of Agriculture, Forestry and Fisheries, 2011a:2). The most prominent of these criminalities and those regularly and widely publicised in the national media are farm attacks and murders, illegal evictions of farm labourers and the exploitation of vulnerable farm workers (SAHRC, 2010). Although the South African Police Service has been fairly ineffective in curbing the occurrence of farm attacks and murders, government is analysing ways in which to respond to this national concern with the help of the Security Cluster (Department of Agriculture, Forestry and Fisheries, 2011a:2).

3.4.5 Weather patterns and climate change

The performance of the South African agricultural industry is highly dependent on weather patterns and extreme climatic events (UNEP, 2006). The most common and regularly occurring event is that of countrywide droughts with one such drought in almost every decade of which the most severe was during 1966, between 1982 and 1984 and from 1992 to 1993 (Department of Agriculture, Forestry and Fisheries, 2011b:9; Van Eeden, 2009:88; Vink & Kirsten, 2009:7; Vink & Van Rooyen, 2009). South Africa has experienced a significant impact on a socio-economic level as a result of these droughts, floods and severe cold conditions and on agriculturalists and the rural communities in particular (Department of Agriculture, Forestry and Fisheries, 2011a:5).

3.4.6 Competing in a global market

The industry is highly exposed to international markets, because commercial farmers are not subsidised by government and their incomes are therefore significantly influenced by fluctuations in the exchange rate and on changes in the global economic environment (Vink & Van Rooyen, 2009). In many other countries, agriculture continues to receive significant protection in the form of subsidies and high tariffs (World Trade Organisation, 2011:66; Esterhuizen, 2006:9).

3.5 THE ROLE AND FUNCTION OF AGRI-BUSINESSES IN THE INDUSTRY

The following part of the study addresses the role, function and importance of agri-businesses in the entire agricultural value chain.

3.5.1 The importance and function of agri-businesses to the industry

The Agricultural Business Chamber proposes that agri-businesses fulfils a significant function in the agricultural industry and the South African economy as handlers, processors and marketers of agricultural produce, suppliers of production inputs and services as well as major employers, developers and sources of added value (as quoted by Esterhuizen, 2006:24). Agri-businesses are exposed to global market trends and shoulder its own responsibilities and risks in agricultural markets (Doyer, D'Haese, Kirsten & Van Rooyen, 2007:495).

Agri-businesses include organisations which have a direct interest in primary agriculture as well as value adding enterprises further down the agricultural value chain, with its core business in one of the following areas (Esterhuizen, 2006:26):

- Intermediaries which supply basic agricultural inputs directly to agricultural producers, like fuel, fertilisers, seed, mechanisation and other general farming requisites as well as crop and other financing and insurance services.
- The manufacturers of basic agricultural inputs and its suppliers as well as the distributors thereof to farmers, either directly or through intermediaries.

- Intermediaries providing market access to primary agricultural produce through handling, storage, preparation for market readiness and further processing.
- Marketing agencies and freelance traders of primary agricultural produce or commodities.
- Processors of agricultural produce into food, animal feed and other products.
- Transporters and distributors of basic agricultural inputs and primary agricultural produce.

3.5.2 Senwes' history as agri-business

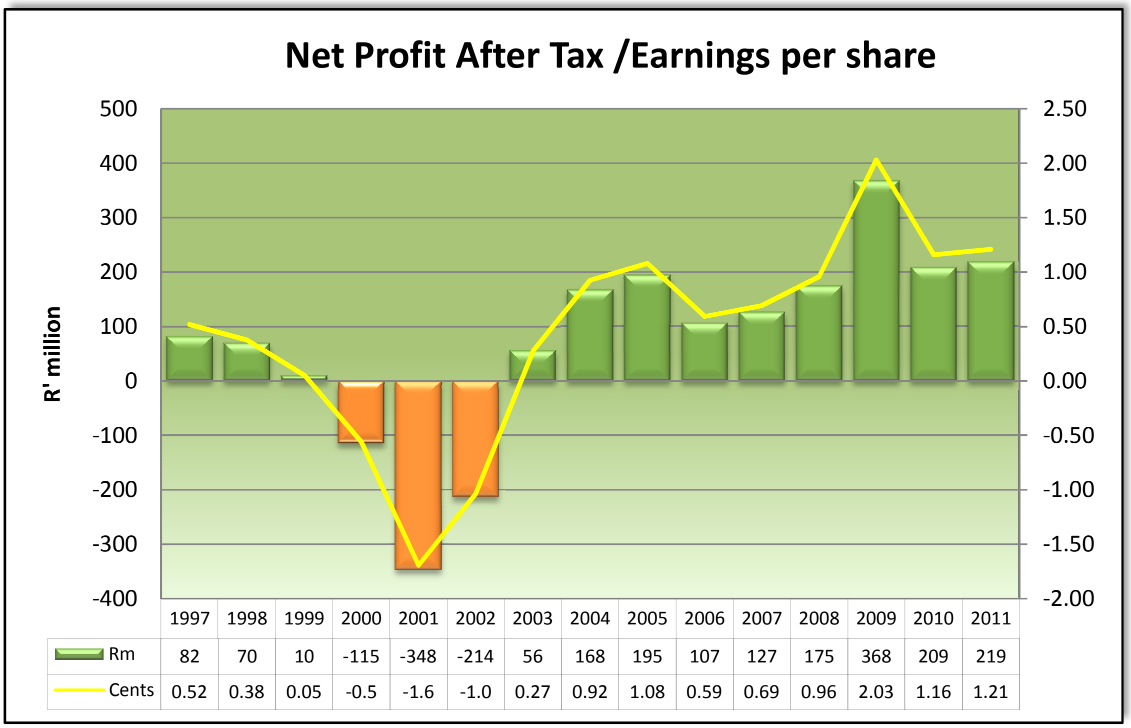
Senwes has been a major role player in the agricultural industry in South Africa for over 100 years. It has experienced many highs throughout its history as well as some lows. The organisation operates in a very challenging and constantly changing environment with many external factors influencing its performance, climatic conditions and rainfall patterns being some of the most important. However, the primary driver of its performance is the commodity prices at which grain produced by farmers, can be traded on the South African Futures Exchange (SAFEX). Profitable commodity price levels determine whether farmers will plant and how much grain will be planted. This translates to the extent of credit granted to members, the quantities of input supplies sold to customers and the volumes of grain products handled, stored and traded by the organisation.

From 1945 to 2001, Senwes aggressively expanded by means of consolidation and diversification into related and unrelated sectors (Van Eeden, 2009:102). Many of these diversification initiatives were not successful and realised substantial losses over extended periods of time which adversely affected the company's overall financial performance. One of the major reasons for this was attributed to the lack of relevant and experienced management of the various ventures.

In August of 2001, Johan Dique was appointed as CEO and was charged with the responsibility to turn the organisation around by returning to the core business, being agriculture oriented. The lingering effects of the previous diversification strategy lasted until 2002 and by 2003 the turnaround strategy was successfully concluded (as illustrated in figure 3.2).

From 2004, a value creation strategy was implemented to recover the R2 billion in lost shareholder value and to start creating shareholder wealth. This was achieved by sustainably generating sufficient profits to grow both the net asset value of the company as well as the share price, while continuously paying acceptable dividends to its shareholders. After the appointment of the new CEO, Francois Strydom, a diversification and growth strategy was adopted in 2011 which is aimed at taking the company to new heights.

Figure 3.2: Successful completion of Senwes' turnaround strategy



	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Rm	82	70	10	-115	-348	-214	56	168	195	107	127	175	368	209	219
Cents	0.52	0.38	0.05	-0.5	-1.6	-1.0	0.27	0.92	1.08	0.59	0.69	0.96	2.03	1.16	1.21

Source: Van Eeden (2009:186)

To remain profitable on a sustainable basis, Senwes realised that it has to adapt to the changing environment and explore new strategies to expand its income streams in order to sustainably improve its financial performance. Senwes has a growth plan, called the Senwes 2020 strategy, which focuses on "consolidation, reorganisation and diversification at various levels and expansion to adjacent markets" in an attempt to present a more competitive value proposition to all its stakeholders (Senwes, 2011:19). The consolidation implied is not only limited to acquisitions and mergers between co-operatives and converted co-operatives, but includes prominent agricultural suppliers of input products and other goods with the primary aim of unlocking and utilising synergies, gaining economies of scale in most products and services presented and to optimise infrastructures with an accompanying benefit being transferred to the consumers.

Various other consolidation and integration possibilities exist, such as:

- Joint ventures.
- Strategic partnerships through the vertical integration of and upstream investment in the agricultural supply chain.
- Diversification into the integrated food industries and other related sectors.
- The responsible utilisation of resources linked to agriculture and food by means of scrupulous investments in existing enterprises.

The four Senwes business units, namely Grainlink, Village, Credit and Corporate & Centralised Services, will be mobilized to unlock their inherent value. The demographical focus of the strategy will be South Africa and Sub-Saharan Africa. Successful implementation will result in the achievement of the set strategic and financial objectives (Senwes, 2011:20).

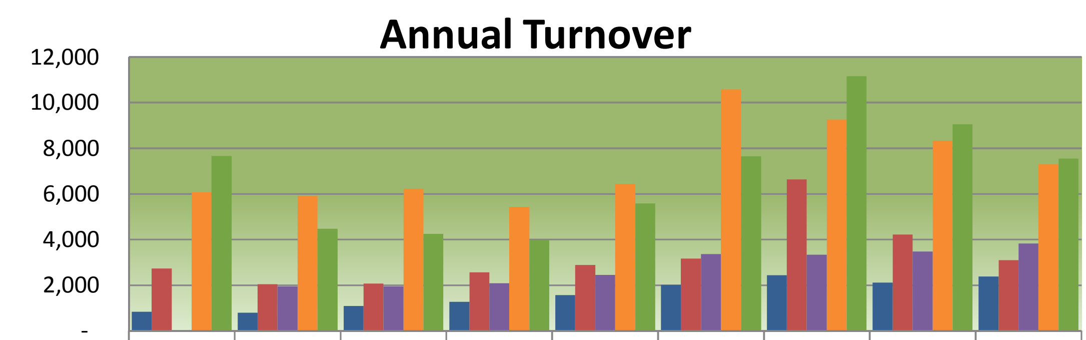
3.5.3 Competitor analysis of some major industry role players

Other agri-businesses also have growth and expansion strategies outside its existing business activities and geographic areas (Kaap Agri, 2011). Afgri (2011) also intends to expand and diversify further into the food sector with additional consolidation of several of its business interests. It seems as if there is general consensus that agri-businesses cannot simply keep doing business the way it has in the past.

Another reality is the extent of the inefficiencies in the industry as far as the physical infrastructure and geographical presence of agri-businesses are concerned, with specific focus on the duplication of various agri-businesses' footprint or trademark in the same towns and cities. This fact not only applies to the bigger urban centres, but also to the rural areas where two or more different agri-businesses have retail branches in the same town. A few examples can be mentioned, like Lichtenburg, Ottosdal, Wesselsbron and Bultfontein. Game, one of the biggest retailers in the South African economy, has only 81 stores in 11 countries in Africa (Game, 2011). If one combines all the retail outlets of the three biggest agri-businesses in South Africa, it already exceeds that of Game.

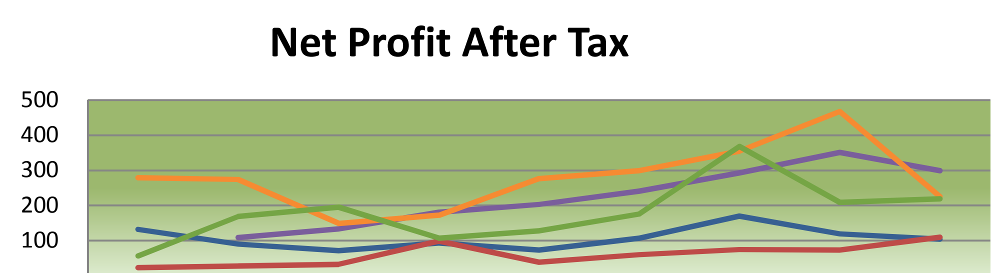
In an effort to compare a selection of agri-businesses with one another, the financial performance of five agri-businesses (as displayed in its annual reports) were analysed and is presented in the two figures illustrated below (refer to figure 3.3 and 3.4).

Figure 3.3: Chart of annual turnover of selected agri-businesses (R millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011
OVK	836	796	1,078	1,264	1,560	2,016	2,435	2,108	2,374
NWK	2,735	2,044	2,078	2,555	2,874	3,163	6,632	4,218	3,083
Kaap Agri		1,936	1,945	2,090	2,461	3,367	3,336	3,471	3,830
Afgri	6,069	5,914	6,237	5,431	6,436	10,577	9,264	8,326	7,290
Senwes	7,663	4,479	4,250	3,979	5,578	7,640	11,157	9,039	7,550

Figure 3.4: Annual profit after tax of selected agri-businesses (R millions)



	2003	2004	2005	2006	2007	2008	2009	2010	2011
OVK	132	90	71	93	72	107	169	119	104
NWK	23	27	32	98	38	60	75	73	110
Kaap Agri		109	133	181	203	240	293	351	298
Afgri	279	274	149	172	276	299	354	467	225
Senwes	56	168	195	107	127	175	368	209	219

These agri-businesses include Afgri, NWK (North-West Co-operative), Kaap Agri and OVK (Eastern Freestate Co-operative). Only the annual turnover figures and the net profit after tax figures were compared for the financial periods from 2003 to 2011 (all these figures were taken from the annual reports of the various agri-businesses). As far as turnover is concerned, Senwes and Afgri are clearly the two leading competitors in the market and when looking at net profit, Kaap Agri is another industry leader in its own right.

3.5.4 Other stakeholders in the agricultural industry

For the purposes of this study, other stakeholders in the South African agricultural industry include the relevant governmental and regulatory authorities as well as the national and provincial industry focused interest groups and bodies. These entities are, amongst others:

- The Department of Agriculture, Forestry and Fishing.
- The Department of Trade and Industry.
- The Department of Rural Development and Land Reform.
- The Competition Commission South Africa.
- Agri SA.
- The Agricultural Business Chamber.
- Grain South Africa.
- Grain Silo Industry.

3.6 SUMMARY

The chapter started with an introduction to the South African agricultural industry and gave a brief exposition of the history of the industry, with specific focus on the most prominent events, legislative and policy changes as well as significant market and industry trends over the decades. The agricultural conditions in the country were highlighted in an effort to gain an understanding of the limitations applicable and climatic restraints the industry has to deal with. The composition of agricultural production was also analysed which is composed of three major parts, being field crops, horticulture and animal production together with statistics regarding the sub-sector portions to total production output over the last half century.

Next, the contribution of the industry to the South African economy was presented with specific attention to the contribution to the country's GDP. Other factors which were investigated, included the growth in the gross and net farming income generated within the industry and employment related issues such as the employment figures of the industry compared to total employment in South Africa, the employment equity stance and the AgriBEE charter adopted by the industry as well as labour relations issues within the agricultural arena. The role which agriculture plays in the country's exports as being a net exporter of agricultural goods was also reviewed.

The study then focussed on the challenges facing the agricultural industry. These challenges included the issues of job creation, food security which goes further to also entail access to food and affordability, land reform, industry security, weather patterns and climate change as well as the issue of competing in a global market. Job creation is a primary area of focus and is strategically important to the industry and the country as a whole. Agricultural production also has to increase in relation to population growth if food security, access to food and affordability concerns are to be addressed. Land reform remains a very sensitive and emotional issue which has achieved little success and progress with the land reform policy is slow. Industry security, with specific reference to farm attacks and murders, is a major concern for all stakeholders in the industry. Changing weather patterns and the effects of climate change on agriculture and farming activities, significantly influences agricultural production. South African agricultural producers also have to contend in a global market where some countries still subsidise farmers for their agricultural produce.

Finally, the role and function of agri-businesses within the agricultural industry is analysed. The importance of the agri-businesses as handlers, processors and marketers of agricultural produce, suppliers of production inputs and services as well as major employers, developers, service providers and sources of added value, cannot be stressed enough. The history of Senwes as agri-business is presented. The organisation has been operating for more than a century and had to adapt and evolve with the changing environment to remain relevant and successful. It is currently focussed on the implementation and execution of its new growth, expansion and consolidation strategy which will support the achievement of the strategic and financial objectives it set during 2011. A competitor analyses was performed to compare Senwes with other major role players in the industry. Lastly, the various other relevant stakeholders in the South African agricultural industry were listed to be included in the empirical part of this study.

CHAPTER 4

EMPIRICAL RESEARCH

4.1 INTRODUCTION

The preceding chapters have reviewed the literature regarding consolidation strategies and the agricultural industry as well as the function of agri-businesses in the industry. It laid the foundation for the empirical research to be performed in anticipation of the results of this study.

This chapter addresses the responses and response rates achieved with the data collected during the empirical study. Then the results of the data analyses of both the biographical and background information as well as the interview questions are interpreted and discussed.

4.2 RESPONSE RATE

The sample consisted of 25 CEO's, MD's, Financial Directors, Operational Directors and other Senior Managers employed at the organisations targeted for participation in the study (refer to par. 1.5.2.3 in Chapter 1). Of the respondents approached, 15 represented agri-businesses (converted co-operatives), four performed the function of regulating or legislative bodies and six represented input suppliers to the agricultural industry (refer to table 4.1 below).

Table 4.1: Sample and response composition of the study

Responses	Sample	Responses	Response %
Agri-businesses	15	9	60.0%
Regulating/Legislative bodies	4	1	25.0%
Suppliers	6	2	33.3%
TOTAL	**25**	**12**	**48.0%**

After 28 days of continuous monitoring and follow-up, a total of 12 interviews were completed and the data captured which represents an average response rate of 48.0%. Of these responses, nine originated from agri-businesses (a response rate of 60.0%), one from regulatory and governing bodies (a response rate of 25.0%) and two from suppliers to the industry (a response rate of 33.3%).

4.3 ANALYSIS AND DISCUSSION OF RESULTS

The results of the data obtained and the analysis thereof are presented next.

4.3.1 Biographical and background information

Seven biographical and background variables were investigated (refer to Section A of the semi-structured interview schedule). In order to give structure to the information, each of these items will be presented by providing the purpose for including the variable in the study, explaining and illustrating the results obtained and then portraying an analysis of the results of the study.

4.3.1.1 Gender

- **Purpose**

The purpose of question 1 in Section A of the semi-structured interview schedule (refer to Appendix A) was to establish the gender composition among the participants.

- **Results obtained**

Table 4.2 illustrates the gender composition of the participants in the study.

Table 4.2: Gender distribution of respondents

Gender	Frequency	Percentage
Male	12	100.0%
Female	0	0.0%
TOTAL	**12**	**100.0%**

- **Analysis of results**

It is clear from the results above that all the interviewees (100.0%) were male and that there was not a single female among them.

4.3.1.2 Age group

- **Purpose**

The aim of question 2 in Section A of the semi-structured interview schedule (refer to Appendix A) was to determine the age group compilation of the interviewees. The various age groups classifications were predetermined and divided into five different options, each spanning a decade and the last group catering for those above 60 years old.

- **Results obtained**

The age group classification of the interviewees who participated in the study is presented in table 4.3 below.

Table 4.3: Age groups of participants

Age group	Frequency	Percentage
20 – 29 years	0	0.0%
30 – 39 years	2	16.7%
40 – 49 years	8	66.6%
50 – 59 years	2	16.7%
60 + years	0	0.0%
TOTAL	**12**	**100.0%**

- **Analysis of results**

The majority of interviewees (66.6%) represent the age group of 40 to 49 years of age. Two other age groups were also involved in the study, being that of 30 to 39 years old and 50 to 59 years old each representing 16.7% of the interviewees. There were no interviewees who fell in the age groups of 20 to 29 years or above 60 years of age.

4.3.1.3 Management level

- **Purpose**

Question 3 in Section A of the semi-structured interview schedule (refer to Appendix A) was included with the purpose of differentiating between the various levels of management in which the interviewees function. Interviewees were given a choice between four specific levels of management and were also presented with the opportunity of specifying another level not provided for in the choices given.

- **Results obtained**

In table 4.4, the results of the data gathered pertaining to the management level of the interviewees is portrayed.

Table 4.4: Management levels of respondents

Management level	Frequency	Percentage
Director	6	50.0%
Executive Management	4	33.3%
Senior Management	2	16.7%
Middle Management	0	0.0%
TOTAL	**12**	**100.0%**

- **Analysis of results**

The highest concentration of interviewees indicated that they were employed as Directors (50.0%) followed by the next management level, that of Executive Management (33.3%). Senior Management represents 16.7% of the participants to the study. The group of interviewees did not include any individuals employed at Middle Management level.

4.3.1.4 Management experience

- **Purpose**

The inclusion of question 4 in Section A of the semi-structured interview schedule (Appendix A) was aimed at establishing the extent of the management experience gained by interviewees during their careers. A selection could be made between five distinguished alternatives split in 5 year intervals with the last option being 21 and more years of combined management experience.

- **Results obtained**

Table 4.5 conveys the extent of management experience gained by interviewees throughout their entire careers.

Table 4.5: Management experience composition

Management Experience	Frequency	Percentage
1 – 5 years	0	0.0%
6 – 10 years	0	0.0%
11 – 15 years	5	41.7%
16 – 20 years	4	33.3%
21 + years	3	25.0%
TOTAL	**12**	**100.0%**

- **Analysis of results**

All interviewees have more than 10 years of experience at management level. The management experience interval of between 11 and 15 years has the highest representation of 41.7%. The next interval, being that of between 16 to 20 years of management experience, represents 33.3% of the participants with another 25.0% having obtained more than 21 years of management experience.

4.3.1.5 Highest academic qualification

- **Purpose**

The purpose of question 5 in Section A of the semi-structured interview schedule (see Appendix A) was to determine the highest level of academic qualification completed or obtained by the interviewees. The question supplied options varying from a grade 12 certificate to post graduate degrees. Once again, participants were given the opportunity to indicate and specify any other qualification which they felt were not covered by the selections provided.

- **Results obtained**

The distribution of the highest academic qualifications obtained by interviewees is expressed in table 4.6 below.

Table 4.6: Highest academic qualifications obtained by participants

Highest Academic Qualification	Frequency	Percentage
Grade 12 certificate	0	0.0%
College certificate	0	0.0%
Degree	2	16.7%
Post graduate degree	10	83.3%
TOTAL	**12**	**100.0%**

- **Analysis of results**

Ten interviewees expressed that they obtained at least one post graduate degree (83.3%) and the other two (16.7%) successfully completed their degrees.

4.3.1.6 Industry involvement

- **Purpose**

The aim of question 6 in Section A of the semi-structured interview schedule (refer to Appendix A) was to discern between the various stakeholder groups involved in the agricultural industry. Participants had to indicate whether they functioned primarily as a supplier, retailer or wholesaler, controlling body, regulator or another capacity which then had to be specified.

- **Results obtained**

In table 4.7, the results of the data gathered relating to the capacity or involvement of the participants in the agricultural industry are depicted.

Table 4.7: Different industry involvement categories among respondents

Industry Involvement	Frequency	Percentage
Supplier	2	16.7%
Retailer/Wholesaler	9	75.0%
Controlling body	1	8.3%
Regulator	0	0.0%
TOTAL	**12**	**100.0%**

- **Analysis of results**

Stakeholders functioning in the capacity of retailers and/or wholesalers represented the majority (75.0%) of interviewees, followed by suppliers to the industry with 16.7% representation. Only one participant is involved with controlling bodies functioning within the industry which equates to 8.3% of the interviewees. Unfortunately, no response was obtained from any of the regulators invited to participate in the study.

4.3.1.7 Industry exposure

- **Purpose**

Question 7 in Section A of the semi-structured interview schedule (see Appendix A) was included with the goal to establishing a sense of the extent to which interviewees have been directly exposed to the agricultural industry. Interviewees were asked to choose between four exposure intervals of 5 years each with the last interval applicable when the total industry exposure exceeded 21 years.

- **Results obtained**

Table 4.8 illustrates the distribution of the exposure of participants to the agricultural industry.

Table 4.8: Industry exposure of participants to the study

Industry Exposure	Frequency	Percentage
1 – 5 years	0	0.0%
6 – 10 years	2	16.7%
11 – 15 years	3	25.0%
16 – 20 years	4	33.3%
21 + years	3	25.0%
TOTAL	**12**	**100.0%**

- **Analysis of results**

Most (33.3%) of the interviewees have been exposed to the agricultural industry for a period of 16 to 20 years. The exposure intervals of 11 to 15 years and above 21 years each represents 25.0% of participants with those involved for between 6 and 10 years representing 16.7% of the interviewees. All participants have been exposed to the industry for more than 5 years.

4.3.2 Interview questions

The second section of the semi-structured interview schedule contains 18 interview questions relating to the topic of the study and the various concepts, approaches and processes connected thereto (see Section B of Appendix A). Each of these questions will be handled separately by first including the question contained in the interview schedule and then composing a summary of the answers from all of the interviewees, of which the detail is contained in the write-ups (refer to Appendix C). These summaries contain themes or constructs derived from concepts or key words which were conveyed and repeated by many of the participants.

4.3.2.1 Agri-businesses will find it difficult to achieve future growth

Do you agree with the view that agri-businesses will find it increasingly difficult to achieve business volume and market growth in the future? Why do you say so?

The four options available to interviewees were "strongly disagree", "disagree", "agree" and "strongly agree". All participants (100.0%) indicated that they "strongly agree", thereby verifying that agri-businesses face a challenging future with regards to business volume and market growth (see table 4.9 below).

Table 4.9: Agri-businesses will find it difficult to achieve future growth

Troublesome future growth	Frequency	Percentage
Strongly disagree	0	0.0%
Disagree	0	0.0%
Agree	0	0.0%
Strongly agree	12	100.0%
TOTAL	**12**	**100.0%**

From the answers gathered during the interviews, the South African agricultural industry is an established and mature market in which the following applies:

- Increasing and fierce competition among stakeholders. In an already saturated market with too many active role players and intermediaries, the situation is aggravated further with the addition of new entrants to the industry, both local and international competitors.

- Limited potential and agricultural resources. The availability of arable land is limited and there is some concern regarding the impact of Land Reform policies on the industry. Furthermore, the average number of hectares processed as well as the average volumes of input products used to cultivate a hectare of land, remains the same. The long term average harvest per hectare has also remained relatively unchanged.

The result is that any market share gains made by one competitor invariably comes from that lost by other competitors in the industry. This negatively affects stakeholders' performance due to lower gross margins realised which leads to decreased net profits. One interviewee explained that agri-businesses still operate within set geographic areas based on the previously regulated and protected legacy of the Control Boards, almost two decades after these bodies were abolished. These geographic areas are difficult to penetrate which makes growth in market share difficult to capture.

4.3.2.2 Business volume and market growth improves sustainability

Would you say that business volume and market growth contribute towards sustainability for agri-businesses? Kindly justify your answer?

Participants could choose between three options, being "yes", "no" or "not applicable". Every interviewee (100.0%) answered "yes" to this question, confirming the connection between growth and sustainability (refer to table 4.10).

Table 4.10: Business volume and market growth improves sustainability

Growth improves sustainability	Frequency	Percentage
Yes	12	100.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

Business volume and market growth do contribute towards sustainability and many of the interviewees touched on the following to motivate their answers:

- Achieving increased economies of scale and critical mass. The agricultural environment is one of high volumes at low margins. Increasing the volumes and scale of operations to the extent where critical mass is achieved will most certainly improve sustainability.
- Improved performance and increased profitability. Cost platforms are ever increasing due to inflation, thus growth achieved should at least outperform the effects of inflation to contribute to sustainability. It is also important that growth has to be achieved at acceptable gross margins in order to support the organisation's financial objectives as well as the return expectation of its shareholders. Only then will the balance sheet be strengthened to allow the agri-business to capture and capitalise on other growth opportunities which in turn will further improve sustainability. Smaller stakeholders are struggling even more to achieve growth and improved performance and their opportunities are thus more limited.

Two of the participants accentuated that there is a qualification to improving sustainability through growth which is that the growth achieved must in itself be sustainable and once achieved, should be retained and maintained. Otherwise, the growth achieved is only temporary in nature and does not support long term sustainability.

4.3.2.3 Sustainability is strategically important

In your opinion, is sustainability of strategic importance to all stakeholders in the agricultural sector? Please elaborate?

Interviewees were given three options to answer the first part of the question, being "yes", "no" or "not applicable". Every participant (100.0%) answered a resounding "yes" to this question, thereby emphasising the incredible strategic importance of the sustainability of the agricultural industry and its stakeholders to the country as a whole (table 4.11 refers).

Table 4.11: Sustainability is strategically important

Sustainability of strategic importance	Frequency	Percentage
Yes	12	100.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

The general responses from all the interviewees are summarised below and stresses that the sustainability of agriculture is strategically important not only to the stakeholders in the industry, but to the country as a whole based on:

- The contribution made by agriculture to the national economy, support of other local industries as well as employment provided to so many people.
- The dependency of so many people (employees and investors and their families) and businesses (agri-businesses and others in the agricultural value chain, investors and related industries) on agriculture for their/its income, welfare, prosperity and future survival, especially in rural areas.
- The ever increasing demand for improved food security and safety to feed the growing national and global population.

One participant expressed his disappointment that, although the South African government realises and acknowledges the importance of the agricultural industry, it neglects and refuses to give the industry the support it deserves. Another interviewee felt that the competency of the members of the Executive Management teams and the Boards of Directors of the various agri-businesses were somewhat lacking, because they do not fully understand the concept of sustainability and how to accomplish it.

4.3.2.4 Sound strategic leadership leads to success and sustainability

Is sound strategic leadership from agri-business' executives important for the success and sustainability of organisations? Why do you think so?

Three possible answers could be chosen from by the interviewees, namely “yes”, “no” or “not applicable”. Every one of them (100.0%) answered “yes” to the question on sound strategic leadership, confirming the connection thereof to growth and sustainability (see table 4.12 below).

Table 4.12: Sound strategic leadership leads to success and sustainability

Strategic leadership needed	Frequency	Percentage
Yes	12	100.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

The interviewees felt that proper strategic leadership is vital to the success and sustainability of organisations. The views of the participants covered these important aspects pertaining to strategic leadership:

- The guidance, vision, direction and purpose which it gives to the organisation and its employees. It aligns all resources, efforts and activities towards achieving the strategic and financial objectives set for the organisation and to overcoming challenges faced by the industry and its stakeholders.
- Motivation and communication of the strategy. Strategic leaders should communicate the strategy and goals to all levels within the organisation to establish insight and ownership thereof and they have to motivate and inspire those responsible for effectuating the strategy to remain focussed on the goals.
- Continued relevance and performance of stakeholders and the entire industry. It pro-actively stimulates performance which ensures the future survival of the organisation and the agricultural industry.

Interestingly, a different interviewee from one of those referred to in point 4.3.2.3 was convinced that the agricultural industry lacks leaders who really think big and that most of these leaders tend to miss the bigger picture. As he put it: “They focus on the trees without seeing the forest”.

4.3.2.5 Regular review and reformulation of strategy

Should agri-businesses review or reformulate its business strategy on a regular basis in an effort to maintain and improve its performance? Please elaborate?

Interviewees could select among four possible answers, being “yes”, “maybe”, “no” and “not applicable”. All participants (100.0%) answered “yes”, thereby explicating that organisations have to review and reformulate its strategy regularly to maintain and improve its performance (see table 4.13 below).

Table 4.13: Regular review and reformulation of strategy

Regular review and reformulation of strategy	Frequency	Percentage
Yes	12	100.0%
Maybe	0	0.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

The interviewees were of the opinion that strategies have to be reviewed often and reformulated regularly due to the continuously and sometimes fast changing environment within the agricultural industry as well as the national and global economy. Some of these changes are completely unexpected. The strategy has to be modified to adapt to the changing circumstances for the organisation to overcome or conquer these challenges and maintain its competitive advantage and levels of performance.

A flexible strategy is therefore needed. The participants specified that the review process should be performed annually with more extensive strategic sessions held every three years or so. One CEO in particular believes that it is also crucial to monitor the execution of the strategy and the progress made in terms of the strategic and financial objectives.

4.3.2.6 Consolidation is one of the primary strategies to achieve growth

Do you consider industry consolidation as one of the primary strategies for agri-businesses to achieve future growth? Kindly motivate your answer?

Participants were given a choice of three possible answers, being “yes”, “no” or “not applicable”. Every interviewee (100.0%) answered “yes” to this question, corroborating that industry consolidation is in fact one of the main strategies to achieve growth (refer to table 4.14).

Table 4.14: Consolidation is one of the primary strategies to achieve growth

Primary strategy for growth	Frequency	Percentage
Yes	12	100.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

From the participants’ perspective, the following benefits or advantages are linked to consolidation within the agricultural industry as a strategy for future growth:

- Obtaining critical mass in business volumes which will result in a greater level of performance, stability and sustainability for stakeholders.
- Optimisation of the entire agricultural value chain. There is an oversupply of active role players, especially intermediaries, in the industry.
- Combining and gaining access to other skills, capabilities and resources in support of the realisation of the strategic and financial objectives of the organisation.

One of the Financial Directors concluded that it is possible to achieve immediate and quantum growth through consolidation. He also conveyed his concern regarding the loss of identify of the parties involved in the consolidation and indicated that consolidation will only be considered on condition that the different parties retain their separate identities. However, other interviewees appraised it more important that greater value is created for and delivered to stakeholders in the industry by unlocking and capitalising on synergies.

4.3.2.7 Consolidation is part of the current strategy

Does consolidation form part of the current strategy or strategic objectives of your organisation? If not, please supply reasons therefore?

Interviewees were given three options to answer the first part of the question, being “yes”, “no” or “not applicable”. The majority of participants (83.3%) answered “yes” to this question, attesting to the fact that consolidation forms part of their current strategy or strategic objectives with only two interviewees (16.7%) indicating the contrary (table 4.15 refers).

Table 4.15: Consolidation is part of the current strategy

Current consolidation strategy	Frequency	Percentage
Yes	10	83.3%
No	2	16.7%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

Of the two participants who answered “no” to this question, one represents a controlling body to the industry and indicated that consolidation does not form a definite part of their current strategy and explained that their structures meet the market’s current demands and expectations. The other interviewee, a supplier of input products to the industry, expressed their aim to achieve growth through product innovation and maximising their core competencies and competitive advantage.

4.3.2.8 Consolidation will be considered as a strategy to pursue

Is consolidation a strategy that you would pursue for your organisation? Please explain your answer?

Participants could choose among four possible answers, being “yes”, “maybe”, “no” and “not applicable”. The majority of interviewees (75.0%) indicated that they would consider consolidation as part of their strategy with a further 16.7% expressing that they might possibly do the same. No-one refused to ponder the issue, while only one participant (8.3%) was convinced that consolidation does not apply to them (see table 4.16 below).

Table 4.16: Consolidation will be considered as a strategy to pursue

Consolidation as strategy	Frequency	Percentage
Yes	9	75.0%
Maybe	2	16.7%
No	0	0.0%
Not applicable	1	8.3%
TOTAL	**12**	**100.0%**

When analysing the answers obtained, it became clear that the majority of participants believed that consolidation presents various opportunities and benefits which relates to:

- Significant growth and extended involvement throughout the value chain.
- Long term sustainability and survival.
- Continued relevance in the industry and the bigger economy.
- Improved performance and continued success.
- Value creation and wealth generation.
- Increased productivity and effectiveness within the industry.

As long as there are opportunities with the potential benefits and advantages mentioned above, consolidation will be pursued as part of the broader organisational strategy.

Of the two interviewees who indicated that consolidation may be considered, one agreed with the views expressed by the majority of the participants, while the other claimed that it depended on the probability that the identities of the different parties to the consolidation transactions would remain intact.

4.3.2.9 Approaches to follow in executing a consolidation strategy

Which consolidation approach(es) would you most likely follow in executing a consolidation strategy? Why is that?

The four options from which interviewees could choose were “horizontal integration”, “vertical integration”, “diversification” and “a combination of these”. Most of the participants (58.4%) indicated that they would most likely follow a combination of the different approaches in executing a consolidation strategy, while 25.0% expressed their inclination towards using vertical integration to facilitate consolidation. Only one interviewee (8.3%) each described their willingness to achieve consolidation through the other approaches, being horizontal integration and diversification (table 4.17 refers).

Table 4.17: Approaches to follow in executing a consolidation strategy

Consolidation approach	Frequency	Percentage
Horizontal integration	1	8.3%
Vertical integration	3	25.0%
Diversification	1	8.3%
A combination of these	7	58.4%
TOTAL	**12**	**100.0%**

The majority of participants agreed that a combination of the different consolidation approaches is more desirable and more likely to result in the successful execution of a consolidation strategy, since:

- The environment and circumstances surrounding each consolidation opportunity differs from the next.
- The nature, scope and extent of the different consolidation opportunities vary from each other.

The interviewees confirmed that the specific situation or parties involved may prescribe or determine the most appropriate approach to follow in accommodating the particular characteristics of and unique requirements or demands associated with it.

The participants also revealed other issues to consider when deciding on an approach, including strategic and operational fit, objectives of the specific consolidation effort, risks involved, management's skills at negotiating, management's experience with consolidation activities, the different organisational cultures involved as well as different business approaches and values, among others. It comes down to which approach is most likely to result in successfully completing the consolidation effort or project.

One interviewee stated that it may very well be that everything starts with horizontal integration in the pursuit of critical mass, combining the activities of similar organisations irrespective of its size. He believes that once integrated and critical mass is attained, opportunities will arise for vertical integration, both forwards and backwards, based on increased bargaining power. Only then will he consider value-adding diversification opportunities, which support and improve margins and profitability in the pursuit of the organisation to optimise its return yielding potential and its ability to generate and distribute wealth among stakeholders in the agricultural industry.

4.3.2.10 Preferred consolidation method used in executing the strategy

Which consolidation method would you prefer using in the execution of a consolidation strategy? Kindly elaborate?

There were six alternatives from which participants could select, namely "mergers", "acquisitions", "strategic alliances", "takeovers", "greenfield ventures" and "other" which had to be specified. The majority of participants (58.4%) indicated that they would probably use strategic alliances in the execution of a consolidation strategy. A further 33.3% expressed their propensity towards using acquisitions while only one interviewee (8.3%) chose mergers as consolidation method (refer to table 4.18).

Table 4.18: Preferred consolidation method used in executing the strategy

Consolidation methods	Frequency	Percentage
Mergers	1	8.3%
Acquisitions	4	33.3%
Strategic alliances	7	58.4%
Takeovers	0	0.0%
Greenfield ventures	0	0.0%
TOTAL	**12**	**100.0%**

According to the majority of the interviewees, strategic alliances are the most preferable consolidation method to use when executing a consolidation strategy, because of:

- Forming strategic partnerships with willing parties entering into amicable negotiations. Mutually beneficial and friendly consolidations benefit not only the parties directly involved, but also the industry as a whole. This concept applies to some of the other methods as well, like acquisitions and mergers.
- Enabling the partners to access the other's knowledge, skills, technologies, experience, capabilities and core competencies, thereby increase their competitive advantage over other stakeholders in the industry.
- Increases the balance sheet capacity and access to financing which can be used to fund operations and growth.
- It mitigates and shares the risks the parties are exposed to.

Many of the participants confirmed that a definite attempt is made to obtain management control of the strategic alliance entity for obvious reasons relating to decision making power and the consolidation of its financial results. However, the entrepreneur or management of the other organisation will be bound and retained in the new partnership for continuity purposes and to ensure that, together, the venture is taken to new heights.

Acquisition is the second most favoured option, mainly due to reasons of control and ownership. The four interviewees selecting this particular method of consolidation also believe that it avoids potentially difficult and exhausting issues relating to differences in organisation culture, values and principles. It is interesting to note that both respondents representing suppliers of input products to the industry, selected acquisitions as the preferred method to execute a consolidation strategy.

4.3.2.11 Method most probable to successfully achieve industry consolidation

Please classify these consolidation methods in order of the probability of successfully achieving industry consolidation – from most to least probable with the highest probability scored as 1 and the least as 6? Please give reasons for your choices?

Interviewees were asked to rank the following six consolidation methods, namely "mergers", "acquisitions", "strategic alliances", "takeovers", "greenfield ventures" and "other" which had to be specified. The majority of participants (75.0%) ranked strategic alliances as the method with the highest probability of successfully achieving industry consolidation. Acquisitions were selected twice (16.7%) and mergers only once (8.3%) as being the method which is most likely to result in success as far as industry consolidation is concerned (see table 4.19).

Table 4.19: Method most probable to successfully achieve industry consolidation

Consolidation methods	Frequency	Percentage
Mergers	1	8.3%
Acquisitions	2	16.7%
Strategic alliances	9	75.0%
Takeovers	0	0.0%
Greenfield ventures	0	0.0%
TOTAL	**12**	**100.0%**

To summarise the views of the majority of the participants, strategic alliances are the method with the highest probability of successfully achieving industry consolidation, since it:

- Involves friendly and mutually beneficial negotiations.

- Entails less complex and challenging negotiations and integration.
- Combines the capabilities, core competencies and resources of different parties and therefore improves competitiveness.
- Shares and mitigates the risks the parties are exposed to.
- Presents further growth, expansion and consolidation opportunities.

Two interviewees ranked acquisitions as the method most likely to achieve success through consolidation for much the same reasons given above, but more importantly for purposes of control and ownership.

4.3.2.12 Primary motives for consolidation

What would you consider as prime motive for implementing a consolidation strategy? On what do you base your conviction?

Interviewees could choose among four possible answers, being "value creation", "manager self-interest", "environmental factors" and "organisational characteristics". All participants (100.0%) selected "value creation" as the primary motive for pursuing a consolidation strategy (table 4.20 refers).

Table 4.20: Primary motives for consolidation

Motives	Frequency	Percentage
Value creation	12	100.0%
Manager self-interest	0	0.0%
Environmental factors	0	0.0%
Organisational characteristics	0	0.0%
TOTAL	**12**	**100.0%**

Agriculture, according to one interviewee in particular, is totally undervalued and therefore the agri-businesses in the industry are also undervalued. In general, the participants were convinced that shareholders and owners or entrepreneurs will only support consolidation if it holds some benefits and advantages which create additional value to the stakeholders involved, otherwise it is not worth the time, energy and resources utilised to achieve consolidation. They believe that the aim should be to unlock the value which the individual or separate entities were unable to capture, since it is generally agreed that together these parties can achieve much more through their combined efforts. In their view, value creation also relates to:

- An improved value proposition to customers.
- Capitalising on and capturing the synergies conjoined in the consolidation opportunity, like cost management and cost structure optimisation.
- Reducing and mitigating the business and concentration risks of the parties concerned.

One specific interviewee was of the opinion that the controlling structure of agri-businesses will have to be addressed, since these controlling or holding companies tend to limit the tradability of these agri-businesses' shares. The organisational structure and composition of these groups may also have to be reconsidered to allow for easier consolidation.

4.3.2.13 Motive most likely to lead to growth and sustainability

Which consolidation motive would most likely lead to growth and sustainability? Why do you say so?

Participants were presented the option of four possible answers, being “value creation”, “manager self-interest”, “environmental factors” and “organisational characteristics”. All interviewees (100.0%) chose “value creation” as the motive which is most likely to result in successfully achieving industry consolidation (see table 4.21).

Table 4.21: Motive most likely to lead to growth and sustainability

Motives	Frequency	Percentage
Value creation	12	100.0%
Manager self-interest	0	0.0%
Environmental factors	0	0.0%
Organisational characteristics	0	0.0%
TOTAL	**12**	**100.0%**

The unilateral conviction of the participants was that value created for some or all stakeholders as well as for the industry in general, will result in growth and sustainability. They indicated that it generates wealth, improves lives and boosts the economy. Profitability and performance improves resulting in increased shareholders equity and shareholder value which in turn creates an attractive environment for other potential investors and lures skills, capabilities and talents to the industry. This, in turn, will stimulate further growth, expansion and consolidation activity within the agricultural industry.

Once again, two of the interviewees qualified their view that the growth achieved should be sustainable, while another participant mentioned that the growth gained has to outperform inflation on a continuous basis to really create value.

4.3.2.14 Possible legislative restrictions on consolidation

Can legislative requirements restrict the likelihood of successfully implementing a consolidation strategy? Please explain your answer?

Participants could select among four possible answers, being “yes”, “maybe”, “no” and “not applicable”. All interviewees (100.0%) answered “yes”, thereby affirming that legislative requirements can restrict consolidation efforts (refer to table 4.22).

Table 4.22: Possible legislative restrictions on consolidation

Consolidation can be restricted by legislation	Frequency	Percentage
Yes	12	100.0%
Maybe	0	0.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

The interviewees were all convinced that the requirements of the South African Competition Act (89 of 1998) and the authority it gives to the Competition Commission places significant restrictions on consolidation efforts within the agricultural industry. One of the participants expressed the Competition Act and its enforcement as being an obstacle. In general, the participants concluded that the Competition Commission has the legal power to prohibit consolidation opportunities based on certain grounds provided for in the act. The general interpretation of this restriction was that if competition amongst rivals is threatened, reduced or hampered in any way, the Competition Commission can and will put an end to any such consolidation activity.

4.3.2.15 Legislation presenting challenges to consolidation strategies

In your opinion, the requirements of which of these pieces of legislation presents the biggest challenge for successfully implementing a consolidation strategy? Please motivate your answer?

The four options from which participants could choose were the “Companies Act”, “Competition Act”, “B-BBEE Act” and “other” which then had to be specified. All interviewees (100.0%) indicated that the Competition Act and its enforcement presents the greatest challenges to successfully executing a consolidation strategy (table 4.23 refers).

Table 4.23: Legislation presenting challenges to consolidation strategies

Restrictive legislation	Frequency	Percentage
Companies Act	0	0.0%
Competition Act	12	100.0%
B-BBEE Act	0	0.0%
TOTAL	**12**	**100.0%**

In the opinion of the interviewees, the Competition Act is the single greatest challenge to consider when pursuing a consolidation strategy. According to the participants, the reality is that:

- The Competition Commission may prohibit any consolidation efforts which could lead to market dominance or threatens, reduces or hampers competition in any way.

- The Commission may also approve proposed consolidation applications with various conditions connected to the approval and these conditions may not be acceptable to the parties involved which effectively puts an end to those consolidation opportunities.

The competition authorities, according to one interviewee, also seem to have a quarrel with the agricultural industry which is politically motivated. Another participant expressed his concern that the competition authorities have far reaching powers, which appears to stretch beyond the boundaries of the Competition Act, while a third interviewee felt that some of the Competition Commission's finding and verdicts are unfounded.

4.3.2.16 Importance of steps in the consolidation process

Please rank these steps in the consolidation process in order of importance for successfully concluding a consolidation project? Scoring should be from 1 for the most important step to 4 being the least important. Kindly provide reasons for your choices?

Participants were requested to rank the four steps in the consolidation process according to its importance in completing a consolidation project successfully, being the "due diligence investigation", "negotiations of transaction", "financing and closing of transaction" and "integration and implementation". The majority of participants (75.0%) ranked the negotiations of the transaction as the most important step in the consolidation process. The due diligence investigation was chosen twice (16.7%) and the integration only once representing 8.3% of the interviewees (see table 4.24).

Table 4.24: Importance of steps in the consolidation process

Steps in consolidation process	Frequency	Percentage
Due diligence investigation	2	16.7%
Negotiations of transaction	9	75.0%
Financing and closing of transaction	0	0.0%
Integration and implementation	1	8.3%
TOTAL	**12**	**100.0%**

The interviewees indicated that the negotiations of consolidation transactions are the most important step in the consolidation process. These participants believe that the initial discussions and negotiations are crucial for both parties to understand the mutual benefits of the proposed transaction and reaching agreement in principle that all parties are willing and committed to the proposed consolidation project. Without successful negotiations, they feel convinced that none of the other steps in the process will be necessary.

Two participants expressed their view that the due diligence investigation is more important than the other steps in the consolidation process, because significant problems or risks identified during the performance of the investigation may result in the withdrawal of either party from the proposed transaction. Only one interviewee described the integration and implementation step as most important due to the potential for losses suffered by the different parties should there be any serious difficulties experienced during this phase of the project.

4.3.2.17 Necessity to facilitate all the steps in the consolidation process

Is it necessary or important to facilitate all the different steps in the consolidation process for successful strategy execution? Kindly explain why?

Participants were given a choice of four possible answers, being "yes", "maybe", "no" and "not applicable". All interviewees (100.0%) answered "yes", thereby emphasising the importance of accommodating all the different steps in the consolidation process (refer to table 4.25).

Table 4.25: Necessity to facilitate all the steps in the consolidation process

Legislative restrictions	Frequency	Percentage
Yes	12	100.0%
Maybe	0	0.0%
No	0	0.0%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

The general sentiment of the interviewees was that there is a significant risk in skipping or neglecting even one step in the consolidation process. They explained that missing or neglecting any step in the process may result in one or more or even all of the parties involved suffering losses or damages due to the oversight. It was emphasised that failing to perform each step thoroughly may lead to the failure of the entire process.

One interviewee expressed the need to afford due care and effort to everything relating to the transaction at the appointed time to avoid any surprises which could jeopardise or derail the project.

4.3.2.18 Focussed business approach versus integrated business philosophy

In your opinion, is a focussed business approach preferable above that of an integrated business philosophy? Please motivate your answer?

Interviewees had to choose among four options, being “yes”, “maybe”, “no” and “not applicable”. There was an equal split between participants indicating that a focussed business approach was preferable, that maybe it was and that is was not preferable to that of an integrated business philosophy with all choices obtaining 33.3% representation (table 4.26 refers).

Table 4.26: Focussed business approach vs. integrated business philosophy

Focus vs. integration	Frequency	Percentage
Yes	4	33.3%
Maybe	4	33.3%
No	4	33.3%
Not applicable	0	0.0%
TOTAL	**12**	**100.0%**

Some interviewees believe that to a large extent, the South African agricultural industry has been one in which an integrated business approach has been followed with relative success mainly due to the interdependency of the various functions, being financing of farming production, input supply, mechanisation supply and support as well as grain handling, storage and marketing. These participants expressed a great concern that if these interdependent functions were to be separated to function independently from one another, that the combined performance thereof will suffer damage or harm due to there being so many other role players or competitors in the market who specialises and focuses on those individual functions. One interviewee accentuated that the benefit of an integrated philosophy is primarily based on the shared services platform supporting the operational functions which presents cost saving advantages.

On the other hand, there are those participants who believe that a focussed business approach is the more desirable due to the specialisation in and dedication to a specific function, either on its own or in conjunction with other focussed partners with the aim of improving performance. The focussed core should form the basis of its performance and sustainability, with any integration or diversification supporting and complimenting the core activities and the already good performance as well as improving its sustainability.

There are also those participants advocating that is depends on the specific organisation or stakeholder within the industry and its long-term strategy concerning growth and expansion.

4.4 SUMMARY

The results of the research performed, with reference to the set research objectives and the methodology followed in obtaining the data, including the interpretation thereof were presented in this chapter.

The analysis of the biographical and background data (Section A of the research instrument) covered seven variables, namely gender, age group, management level, management experience, highest academic qualification, industry involvement and industry exposure. The results indicated that the participants to the study consisted exclusively of males of which the majority (66.6%) were between 40 and 49 years of age. The interviewees occupied management positions as directors (50.0%) with executive management representing a further 33.3%, while most of the participants

(41.7%) have management experience spanning between 11 and 15 years and a total of 75% has management experience of between 11 and 20 years. As far as academic qualifications are concerned, the majority (83.3%) has obtained a post graduate degree and 75% of them are involved in retail and wholesale within the industry. The majority of interviewees (83.3%) have gained industry exposure of 11 years and longer.

Section B of the semi-structured interview schedule contained the 18 interview questions. All of the interviewees (100.0%) strongly agreed that agri-businesses will find it increasingly difficult to achieve future growth and confirmed that growth contributes to sustainability, that sustainability is strategically important to all stakeholders in the industry and that sound strategic leadership is crucial for the success and sustainability of agri-businesses. Every one of them also indicated that business strategies should be reviewed regularly and that they considered consolidation as one of the primary strategies through which agri-businesses could achieve future growth.

About 83.3% of the participants affirmed that consolidation formed part of their current strategies with the majority (75.0%) also indicating that consolidation is a strategy which will be pursued in the future. Most of the interviewees (58.4%) emphasised that the approach followed in executing a consolidation strategy would be a combination of horizontal integration, vertical integration and diversification with the same representation declaring that they would prefer using strategic alliances as consolidation method. Interestingly, strategic alliances also received 75.0% representation as the consolidation method most likely to successfully achieve industry consolidation.

All participants (100.0%) confirmed that value creation is the primary motive for pursuing a consolidation strategy and that value creation is the motive with the highest probability for leading to growth and sustainability. Everyone agreed that legislation can restrict consolidation efforts, specifically the requirements of the Competition Act (89 of 1998). Once again, all interviewees were convinced that all the different steps in the consolidation process have to be facilitated for the successful execution of the strategy, while the majority (75.0%) indicated that the negotiations of the consolidation transaction was the most important step in the entire process.

On the issue of whether a focussed business approach is preferable to that of an integrated business philosophy, no definitive result was obtained. The next and final chapter contains the conclusions, recommendations and suggestions made, based on the results of the research discussed above.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

The previous chapter contained the analysis and interpretation of the results obtained from the empirical research. This chapter presents the conclusions drawn from the empirical study and discusses the recommendations based thereon. Furthermore, a critical evaluation is made of whether the study objectives were achieved and concludes with suggestions to consider in future research.

5.2 CONCLUSIONS FROM THE EMPIRICAL RESEARCH

The study included stakeholders involved throughout the agricultural value chain. The conclusions which follow are based on the literature review presented in Chapters 2 and 3 as well as the empirical research presented in Chapter 4. Conclusions will be structured to accommodate the biographical and background information and the different themes or constructs associated with the topic of consolidation which was addressed in the interview questions contained in the research instrument.

5.2.1 Conclusions on biographical data

A total of 12 interviewees participated in the study and represented all of the different research groups specified in the study population in Chapter 1. The biographical and background variables analysed in the study, included the following seven factors:

- Gender.
- Age group.
- Management level.
- Management experience.
- Highest academic qualification.
- Industry involvement.
- Industry exposure.

The gender of all participants to this study was male (100%) and the majority of interviewees (83.3%) were between 40 and 59 years of age, with 66.6% aged 40 to 49 years and 16.7% from 50 to 59 years. It is clear that the executive and top management structures of the stakeholders in the agricultural industry in South Africa are dominated by middle-aged men. It would appear that the agricultural industry has not made much progress in addressing the gender inequalities as far as management representation at this level is concerned and remains a practical challenge to overcome.

Management representation consisted of a majority of participants (83.3%) functioning as executives or directors. There were four Chief Executive Officers and Managing Directors involved in the study representing 33.3% of the participants and six Financial and Operational Directors representing a further 50.0% of the interviewees. Most of the participants (75.0%) have attained between 11 and 20 years of management experience in their careers with the majority (41.7%) having between 11 and 15 years of experience at management level. This is a testimony to the vast extent of management capabilities and experience dedicated to the development, growth, performance and sustainability of the industry and its stakeholders.

The leadership of agriculture in South Africa is also very well qualified with the majority of interviewees (83.3%) having obtained at least one post graduate degree from a recognised tertiary academic institution and the remaining two participants have successfully completed their degrees. Most of the participants (83.3%) have also been involved with and exposed to the agricultural industry for 11 years and longer with 58.3% between 11 and 20 years of agricultural exposure. In addition, when looking at the age group composition and the extent of management experience (discussed in the two previous paragraphs), it seems as if there is sufficient succession potential, more than adequately qualified and with extensive industry exposure, among the industry's management structures to take agriculture to new heights over the next decade and beyond.

5.2.2 Growth, sustainability and review and reformulation of strategies

The Department of Agriculture, Forestry and Fisheries (2012c) expressed its concern regarding the industry's limited or decreasing resources, such as arable land available for cultivation. Based on these limitations, the results of the empirical research emphatically attest to the fact that future business volume and market growth will be difficult, if not impossible, to achieve in the agricultural industry. The interviewees clearly indicated that volume and market growth contributes towards improved sustainability, which is of significant strategic importance to all stakeholders in the agricultural industry. The same applies to sound strategic leadership and the strategic importance thereof to the success and sustainability of any organisation and this view is supported by facts discussed in the literature study (Serfontein & Hough, 2011:405).

This situation presents a definite and substantial challenge to these stakeholders, since it appears that new, other and more intensive strategies will have to be formulated and executed to overcome the problem of limited growth potential. According to Kummer and Steger (2008:45), consolidation may be the only way in which organisations can generate growth in the absence of other alternatives, such as internal growth initiatives failing to materialise or underperforming when measured against expectations or when there are no other organic growth options. Consolidations started picking up during 2010 and this trend has continued with all indications suggesting even more consolidation activity in the market in the near future (Davids & Hale, 2011:543). The pressure on organisations to grow and improve its performance may have increased even further as a result of the global economic crisis of 2008/2009 and the economic downturn and aftermath thereof, the effects of which are still being felt today.

The agricultural industry in South Africa has not experienced many consolidations among its stakeholders for a while. As Kummer and Steger (2008:45) explained, these periods with low consolidation activity are normally used by the entire industry to develop new ideas and strategies which will later give rise to an increase in the number of consolidation transactions. This seems to be exactly what has happened with the announcement of the initiation or conclusion of several consolidation projects over the last 18 months between:

- Bunge and Senwes which successfully established a joint venture for the international procurement, marketing and trading of grain and oilseeds (South Africa, 2012:22; Coleman, 2011:17).

- Senwes and DM Tomlinson & Co to establish a joint venture, called JD Implements (Pty) Limited, focussing on mechanisation supply and support under the John Deere brand in the Southern Cape region (Senwes, 2012:25).
- Senwes and NWK which merged its insurance units in an effort to improve the competitiveness of this entity in the insurance and financial services market (Radebe, 2012:12; Senwes, 2012:22).
- Senwes and MGK ("Magaliesbergse Graan Koöperasie") with the main aim of combining the grain operations of these two agri-businesses, but the deal fell through due to the Competition Commission not reaching a decision on the matter within the time limits agreed upon by the two parties involved in the transaction (Farmers Weekly, 2011).
- Senwes and MKB ("Moorreesburg Koringboere") in which Senwes made an offer to buy an influential stake in the agri-business. Not enough shareholders could be persuaded to vote in favour of amending the statutory share ownership restrictions applicable to the organisation, thus the attempt was warded off (Hasenfuss, 2012:28).
- Senwes and Afgri agreed on merging its retail businesses into an equally owned venture depending on Competition Commission approval of the proposed transaction of which the application has already been submitted to the competition authorities (Bloomberg, 2012).
- Pannar and Pioneer Hi-Bred obtained conditional approval from the Competition Appeal Court for their merger to ensure the continued success of suitable genetics and cutting-edge technology as far as seed cultivars are concerned (Coleman, 2012:36).

Therefore, strategic leadership is required not only in the formulation of such strategies, but certainly also in the execution and monitoring thereof. Strategies also have to be reviewed regularly, on an annual basis seems to be the general consensus, with the necessary reformulation of these strategies as and when the fast and ever-changing environment dictates the demand to do so (Reeves & Deimler, 2011:136).

5.2.3 Consolidation strategies for agriculture

According to Karuranga *et al*. (2011:25), consolidation is definitely one of the primary strategies through which future growth can be achieved, a fact that is corroborated by every single participant to the study. It provides the opportunity to obtain critical mass, optimise the entire agricultural value chain and gain access to desired skills, capabilities and resources. Furthermore, the results confirmed that consolidation already forms part of most agri-businesses' current strategy, that consolidation will remain part of the overall strategy or will be considered part of the strategy for as long as such consolidation opportunities exist trough which growth can be achieved and sustainability can be improved.

5.2.4 Consolidation approaches

The three different consolidation approaches available for executing a consolidation strategy as stipulated in the literature review are horizontal integration (Thompson *et al*., 2012:226), vertical integration (Ireland *et al*., 2009:186) and diversification (Carpenter & Sanders, 2009:242). The predominant tendency among the participants to this research is one of incorporating a combination of these approaches in the execution of the strategy.

The specific consolidation approach best suited for a consolidation opportunity depends on the circumstance surrounding and the environment in which the opportunity originate as well as the nature, scope and extent of the consolidation transaction itself. When multiple consolidation projects are pursued throughout the agricultural value chain, it may invariable included some or all of the different approaches being accommodated within the same agri-business group or group of companies.

5.2.5 Consolidation methods

Among the five different consolidation methods discussed in the literature study, interviewees indicated that they would utilise strategic alliances (Kale & Singh, 2009:46), acquisitions (Carpenter & Sanders, 2009:354) and mergers (Reed *et al*., 2007:3) in executing a consolidation strategy. Of these chosen methods, strategic alliances was the most preferred method to use among the participants as well as being emphasised as the method with the highest probability for successfully achieving industry consolidation.

One or more of the parties involved with the consolidation efforts will attempt to obtain management control of the consolidated entity for reasons pertaining to decision making authority and consolidation of its financial results into that of the controlling agri-business or group. Part of these negotiations will also be to retain the entrepreneurial and management skills of the other or lesser party to the alliance by binding the entrepreneur or owner or management team thereof in an effort to ensure their commitment and dedication to making a success of the alliance and realising the strategic and financial objectives agreed upon during the negotiations.

5.2.6 Motives for consolidating

Value creation was unilaterally supported by the participants as being the primary motive for consolidation as well as being the motive most likely to result in growth and sustainability. It serves to corroborate the belief of many authors that value creation is the first and most common motive for consolidation (Thompson *et al.*, 2012:295; Haleblian *et al.*, 2009:473; Ireland *et al.*, 2009:184). Support from shareholders and owners or entrepreneurs will only come if such efforts hold some benefits and advantages which create additional value for the stakeholders involved. The principle of "together we can achieve more" applies and the value in consolidation is in the ability to unlock the opportunities and potential which the separate entities found difficult to or were unable to access. Capitalising on and capturing the synergies penned up within the transaction is one of the best ways to unlock value.

5.2.7 Legislative restrictions on consolidation

Once again, the interviewees were unanimous regarding their belief that legislation can enforce significant restrictions on consolidation efforts within the agricultural industry, especially the Competition Act. The results therefore confirm that the Competition Commission has the legal power to prohibit consolidation opportunities based on certain grounds provided for in the act, a fact which was explained in Chapter 2 (Davids & Hale, 2011:551). The Commission may also conditionally approve proposed consolidation transactions, but these conditions may be unreasonable or unacceptable to the parties involved which may cause the parties concerned to withdraw from further negotiations or refuse to continue with integration and implementation. Either way, whether through prohibition or conditions set for approval, the competition authorities have the power to restrict or limit proposed consolidation activities.

5.2.8 Importance of the steps in the consolidation process

PricewaterhouseCoopers (2007) stated that it is imperative that every step in the consolidation process is performed properly at the appropriate time, a view that was unanimously supported by the participants to the study. However, the majority of participants indicated that the negotiation of a consolidation transaction is the most important step in the consolidation process. The incipient discussions and negotiations are vital for all parties involved to gain an understanding of the mutual benefits of the proposed transaction and to reach agreement in principle that all parties are willing and committed to the consolidation project. Without successful negotiations, there will be no need for the other steps in the consolidation process.

However, neglecting any of the steps in the process may result in one or more of the parties involved suffering losses or damages as a result thereof. Such negligence may ultimately cause the failure of the entire consolidation project. Needless to say, the possibility of failure or losses associated with not performing every step in the consolidation process thoroughly is simply not worth putting the proposed transaction or any of the resources invested into the project, at risk.

5.2.9 An integrated or a focussed business approach

No clear preference could be identified among the interviewees with regards to whether a focussed business approach is more desirable than that of an integrated business philosophy. Firstly, there are those participants who are convinced that an integrated approach best suits agri-businesses due to the interdependency of the various functions performed and services rendered by these organisations and the cost benefit of sharing a centralised services platform. These individuals are concerned that, should these interdependent functions be separated, the combined performance of the organisation will decrease due to these functions competing against one another as well as against the many other role players or competitors in the market who specialise in these functions.

On the contrary, there are those participants who prefer a focussed business approach due to the specialisation in a specific function or activity, either on its own or in partnership with other focussed organisations. These focussed core units should form the basis of the organisation's performance, with any consolidation and expansion efforts supporting the core activities, its performance as well as improving its sustainability.

There are also those interviewees who do not have a preferred approach. They suggested that it depends on the relevant organisation or stakeholder as well as the situation, circumstances or environmental factors surrounding the execution of its growth and expansion strategy.

To conclude, it seems both unlikely and unrealistic that one business approach should fit all the stakeholders in the agricultural industry. It appears as if the determining factor for the choice of business approach depends largely on the overall strategy of the specific organisation and its approach to facilitating growth and expansion. Other factors which have to be taken into account are that of the size and structure of the relevant organisation or group. The bigger the organisations involved in consolidation efforts, the more challenging the possible integration will be (Alexandridis *et al.*, 2010:1690). The competition authorities may also be more critical in its evaluation of the proposed consolidation of two bigger stakeholders in the industry, because of the possible impact of such a transaction on the other role players within the industry or on competitiveness in general between rivals in the agricultural industry.

5.3 RECOMMENDATIONS

The recommendations are presented based on the sequence of the themes covered in the research instrument of which the results were summarised in Chapter 4 and the conclusions were compiled in the earlier parts of this chapter. These suggestions include the perceptions and views of the interviewees who participated in the study as well as the personal opinion of the author.

5.3.1 Increased consolidation activity among industry stakeholders

Although consolidation activity has increased somewhat, the activity taking place seem to be concentrated around only a few of the stakeholders in the agricultural industry. To reiterate, consolidation may be the only way in which organisations can achieve growth (Kummer & Steger, 2008:45). In paragraph 4.3.2.6, industry leaders participating in this study confirmed that consolidation is one of the few strategies through which organisations can generate or capture significant growth opportunities. However, action is required if there is to be any progress made towards consolidating the efforts and activities of role players in the industry. Purposeful steps need to be taken to identify and evaluate possible consolidation partners after which a tactical approach needs to be followed in narrowing down the list to those with the best strategic fit to the long-term growth and expansion strategy of the organisation. Then the consolidation process has to commence to ensure progress is made towards successfully completing these consolidation projects.

Stakeholders have to carefully consider whether consolidation does support their long-term vision and goals. Having said that, these entities should also realise that its market share and influence within the agricultural value chain will most likely diminish and its performance and sustainability will probably deteriorate as more and more of its competitors consolidate with one another. There are too many role players and intermediaries involved in the agricultural industry, a fact which is corroborated by many of the interviewees (refer to par. 4.3.2.1).

It basically comes down to a simple choice: adapt or perish. **In order for an agri-business to remain relevant and to ensure its long-term sustainability and survival, it is recommended that stakeholders in the agricultural industry act sooner rather than later. Agri-businesses should consider those organisations of which the strategies and business approaches align the best with its own and initiate discussions and negotiations which might ultimately lead to the successful conclusion of consolidation projects.** Those organisations which have indicated its willingness to participate in such activities or are already involved in one or more consolidation projects might be the best or most promising alternatives to get the momentum going.

5.3.2 Obsession with the preservation of separate identities

The issue of the retention of the distinct identities of the different parties involved in consolidation activities in the South African agricultural industry, was raised by a few of the industry leaders who participated in the study (refer to par. 4.3.2.6 and 4.3.2.8). The importance of identity and the preservation thereof is one of the reasons why many agri-businesses made provision for shareholding limitations in its Memorandums of Incorporation (MOI) or in its shareholders agreements in terms of the new Companies Act. To limit shareholding, especially in the context of identity preservation, is a highly emotional approach which definitely influences the tradability of the organisation's shares. Potential investors might be dissuaded from investing in such an organisation due to the fact that the size of their investment is restricted by a legal stipulation.

Furthermore, the author is convinced that although there might have been valid grounds for instituting such limitation, times have changed and the environment is surely different from that during which the decisions to implement such limitations, were made. Proof hereof lies in the failed attempt of Senwes to obtain an influential stake in MKB, a notion which was supported by more than 60% of MKB's shareholders while legislation requires at least 75% (Hasenfuss, 2012). Since the majority of shareholders voted in favour of the Senwes proposal, it would seem as if there might be other factors, motives or agendas behind maintaining such shareholding restrictions. These agendas may be driven by the executive and senior management or even the Boards of Directors of these agri-businesses or even some of the more influential shareholders of these organisations. The point is that these stakeholders are not necessarily acting in the best interest of all of the shareholders or even the majority of the shareholders of these agri-businesses.

As indicated, these shareholding limitations or restrictions invariably encumber consolidation efforts which target such agri-businesses. **The recommendation is therefore that agri-businesses should do away with such shareholding limitations by persuading its shareholders of all the right reasons to do so. The support of the shareholders on such a decision will then be very likely. Different forums and experts in various fields (legal, economics and finances, among others) could be used in the campaign to inform shareholders and**

change perceptions regarding this issue and its effects on consolidation and growth within the agricultural industry in the future. The shareholders should definitely benefit through these actions based on the improved tradability of their shares as well as the increased interest in their shares by stakeholders and investors within the industry and from other sectors.

The issue of the retention of identity is something which can be negotiated between consolidating parties. It might not even be an obstacle, since many agri-businesses have great appreciation for this matter and might demand that the trademark or identity of the organisation be included in the negotiations and valuation as an asset which forms part of the transaction. It all depends on the relative strength of the trademark and the associations or emotional connections thereto.

5.3.3 Sustainability of growth achieved

Many agri-businesses have a myopic or short-sighted view with regard to market share and volume growth gained in order to reach a short term target or to achieve an immediate performance goal. These gains are often accomplished by offering the customer goods and services at reduced margins, excessive discounts or any other allowance or concession which will persuade the customer to take advantage of the proposal.

Such transactions are normally not economically viable from the agri-business's return on investment perspective or deliver an insufficient financial benefit when taking all the effort, administration and other costs into account. Such volume growth or market share gained is only temporary in nature, due to the fact that the agri-business cannot afford to do that kind of business on a continuous basis without destroying shareholder value and causing financial strain on the organisation. As soon as the situation or the value proposition of that organisation returns to normal, the customer will revert back to supporting his/her regular suppliers of goods and services. The only real outcome of such business transactions is that one agri-business inflicts harm on another. Even more astonishing is the fact that the organisation does so to its own detriment. These types of activities only serve to destabilise and complicate the industry even more than it already is and raises questions regarding the actual motives behind such activities.

The maintenance and retention of the growth achieved is actually more important than managing to grow in the first place (par. 4.3.2.2 refers). **The recommendation is that every effort has to be made to ensure that perseverance and the hard work done to claim and exploit growth, results in a recurrent or continuous reward. This should be the only approach to pursuing growth, because only then will it contribute towards improved performance and sustainability.**

5.3.4 Establish and develop consolidation skills and capacity

Concerns were raised by some interviewees regarding the competency and strategic abilities of the Executive Management teams and Boards of Directors of agri-businesses in the agricultural industry (see par. 4.3.2.3 and par. 4.3.2.4 respectively). Although this criticism may be unfounded, it bears mentioning that this is the perception of some of the industry leaders about their peers or equals with whom they associate and interact to an extent. **In view of the expected increase in consolidation activity within the agricultural industry in the future, it is recommended that industry leaders equip themselves with the required knowledge and skills pertaining to consolidation.** It may be that certain concepts only need to be refreshed or updated. These leaders will then be able to approach consolidation transactions with more confidence and greater comprehension regarding all aspects of the different consolidation approaches, methods and the process of facilitating consolidation projects.

5.3.5 Deliberating among the different consolidation approaches and methods

As discussed in paragraph 4.3.2.9, the industry leaders are more inclined to use a combination of the different consolidation approaches, being horizontal and vertical integration as well as diversification, than just focussing on one particular approach in pursuing a consolidation strategy. Furthermore, strategic alliances were indicated as both the preferred method to use in executing a consolidation strategy and the method with the highest probability for successfully achieving industry consolidation (see par. 4.3.2.10 and par. 4.3.2.11). This does not mean that the other methods do not have merit or may not be more appropriate to use under specific circumstances. The important issue in deciding among the different consolidation approaches and methods is the mindset or attitude with which parties come to the negotiating table. Friendly negotiations between willing parties may be the deciding factor of whether a consolidation opportunity succeeds or fails. **Therefore, it is recommended that parties contemplating consolidation enter into the negotiations with a positive attitude and that the discussions and bargaining occur in an amicable way.**

5.3.6 Value creation as motive for consolidation

Value creation is the only consolidation motive which can lead to the successful execution of such a strategy and through which sustainability can be achieved or improved (refer to par. 4.3.2.12 and par. 4.3.2.13). Only through creating value for all parties involved as well as for the customer, can a contribution be made towards the edification and advancement of the agricultural industry. **Thus, the recommendation is to avoid the distractive and destructive issues and motives which may do harm to the stakeholders concerned and to the agricultural industry as a whole.**

5.3.7 The competition authorities are part of the process

In paragraphs 4.3.2.14 and 4.3.2.15, the competition authorities were considered in a restrictive capacity or viewed as being an obstacle which has to be overcome in order to execute a consolidation strategy. However, the agricultural industry and its stakeholders have to comprehend and appreciate the bigger function and responsibility which the competition authorities fulfil. The Competition Act (89 of 1998) was compiled to assist in establishing and regulating an efficient and competitive economic environment in which the interests of workers, owners and consumers are balanced (South Africa, 1998). Everyone should have an equal opportunity for fair participation in the national economy and competition among rivals is encouraged. **It is recommended that the Competition Commission and the other competition authorities are seen as part of the process of consolidations and not as an obstacle. The consolidation project should plan for and accommodate the requirements of the Competition Act and any applications which have to be made to the Competition Commission with regards to obtaining the necessary approval for consolidation transactions.**

5.3.8 Proposed business approach

Those participants who chose neither the focussed business approach nor the integrated business philosophy (refer to par. 4.3.2.18), actually has the right idea about incorporating different consolidation approaches and multiple consolidation methods into their business structures. The consolidation activities and how it fits into or connects to the overall business strategy and organisational or group structure, determines the appropriate business approach for including the consolidated entity into the group. A group can thus consist of organisations of which some follow a focussed business approach while others in the same group pursue an integrated business approach among the functions or divisions within these organisations. A certain level of focus still applies even in those organisations which follow an integrated business philosophy and its management structure should be composed in a manner which facilitates focus on a functional or divisional level.

It seems as if the option between a focussed or an integrated business approach depends largely on the size, extent and complexity of the organisational group as well as the diversity within the group. However, irrespective of whether a focussed business approach is applied throughout an entire group, there has to be a forum or a structure through which each of these focussed entities share or combine its knowledge and information with the others in the group. This connection between the leaders and decision makers of the group translates to something very similar to an integrated business model, because each entity within the group supports and enables the others to improve the overall group performance. Maybe there is a too narrow understanding as to what an integrated business approach entails and a mind shift needs to take place to address this issue.

Chandler's theory that structure follows strategy applies and therefore the decision of which business approach to apply reverts back to strategy. **The recommendation is that the business approach which best supports the group's and then the organisation's strategy is the model which should be used in the pursuit of achieving the strategic goals.**

5.4 CRITICAL EVALUATION OF THE STUDY

A critical evaluation is performed to assess whether the primary and secondary objectives of this study, as stipulated in paragraph 1.3 of Chapter 1, have been satisfactorily achieved.

5.4.1 Achievement of the primary objective

The primary objective of the study was to analyse the perceptions and opinions of industry leaders on consolidation within the agricultural industry and to present suggestions and recommendations on a proposed consolidation strategy for the industry. To address the primary objective, several secondary objectives were formulated.

5.4.2 Achievement of the secondary objectives

The secondary objectives included the following:

- Defining strategy and explaining the strategic management process.
- Analysing the motives for consolidation and the different strategic consolidation approaches.
- Examine the different consolidation methods to be used.
- Gain an understanding of the consolidation process and the steps it involves.
- Understanding the view of the Competition Commission South Africa (CCSA) towards such consolidations.
- Acquire an understanding of agri-businesses in the agricultural industry.
- Investigate the ideas, opinions and perceptions of the various industry stakeholders regarding major consolidations within the industry.
- Assess and interpret the results of this investigation.
- Propose suggestions and recommendations as to the desired consolidation strategy for stakeholders in the industry.

The first secondary objective, **defining strategy and explaining the strategic management process**, was achieved by means of a literature study in Chapter 2 (sections 2.2. and 2.3 refers). Strategy and strategic management were defined and the four stages of the strategic management process were explained. Furthermore, the importance of sound strategic leadership was conveyed.

The second secondary objective, **analysing the motives for consolidation and the different strategic consolidation approaches**, was realised through a literature study of which the detail is explained in sections 2.5 and 2.7 of Chapter 2.

The third secondary objective, **to examine the different consolidation methods to be used**, was attained through the literature review contained in Chapter 2 (refer to section 2.8) stipulating the different consolidation methods which can be used in executing a consolidation strategy.

The fourth secondary objective, **to gain an understanding of the consolidation process and the steps it involves**, was achieved by completing a literature study on the four steps in the consolidation process in Chapter 2 (section 2.9 refers).

The fifth secondary objective, **understanding the view of the Competition Commission South Africa (CCSA) towards such consolidations**, was realised by means of a literature review included in Chapter 2 (refer to sections 2.6). The Competition Act (89 of 1998) as well as other relevant legislation was studied, being the Companies Act (71 of 2008) and the Broad-Based Black Economic Empowerment Act (53 of 2003).

The sixth secondary objective, **to acquire an understanding of agri-businesses in the agricultural industry**, was attained through a literature review captured in Chapter 3 which analysed the South African agricultural industry, detailing the contribution made by the industry to the country's economy as well as the challenges posed to the industry. The role and function of agri-businesses within the industry was also portrayed.

The seventh secondary objective, **to investigate the ideas, opinions and perceptions of the various industry stakeholders regarding major consolidations within the industry**, was achieved through the performance of the empirical research of which the detail and process were explained in section 1.5.2 of

Chapter 1. The data was then captured, processed and analysed for interpretation purposes.

The eighth secondary objective, **to assess and interpret the results of this investigation**, was realised by presenting and discussing the results of the empirical research in Chapter 4. Each of the biographical variables and the interview questions were presented separately and in detail.

The final secondary objective, **to propose suggestions and recommendations as to the desired consolidation strategy for stakeholders in the industry**, was attained through the conclusions reached from the results of the empirical research as well as the recommendations proposed in this chapter (refer to sections 5.2 and 5.3 respectively).

Through the achievement of all the secondary objectives the conclusion is made that the primary objective, being **to analyse the perceptions and opinions of industry leaders on consolidation within the agricultural industry and to present suggestions and recommendations on a proposed consolidation strategy for the industry**, was achieved.

5.5 SUGGESTIONS FOR FUTURE STUDY

Several of the industry leaders who participated in the study mentioned that consolidation has been part of the strategy of many of the stakeholders in the agricultural industry for a long time, but reference was also made to the dubious success rate of the consolidation activities of the past. It would be meaningful for the agricultural industry if future research is performed on:

- The extent of historic consolidation activity within the South African agricultural industry and the different approaches and methods used to facilitate these consolidations.
- Possible reasons or causes for the failure of so many of these consolidation projects.
- The factors contributing towards the success of those consolidation opportunities which were and may still be running profitably.

- Whether previous consolidation experience or skills development efforts in consolidation actually improves the likelihood of successfully completing consolidation projects.
- The positive effects and influence those successful consolidations had on the industry and its stakeholders and possibly the broader economy.
- An analysis of the timeframe involved with successfully completing consolidation projects of different sizes between stakeholders in the industry.
- The effect of the Competition Act (89 of 1998) on the nature and extent of consolidation activity with the agricultural industry or the national economy before and after the inurement of the act.
- The extent of the real growth achieved through consolidations in the agricultural industry by analysing the performance of consolidated entities pre-consolidation and post-consolidation.

The fact that the retention of the identity of the different agri-businesses to a consolidation opportunity is so important to these entities may also be something which is worthwhile performing some further research on.

5.6 SUMMARY

This study and the research performed in it, ascertained that consolidation is one of the few strategies through which agri-businesses can achieve growth. The research revealed that a combination of the different consolidation approaches, namely vertical and horizontal integration as well as diversification, should be accommodated in the pursuit of consolidation within the agricultural industry due to the fact that the circumstances and requirements of every consolidation opportunity differ from the next. It was found that, of the various consolidation methods available to utilise in the execution of a consolidation strategy, strategic alliances were the preferred method to use as well as the method most likely to succeed based on the willingness of the parties to become partners and the friendly negotiations between these stakeholders. Hostile approaches only cause harm and destabilise the industry. Acquisitions were identified as the second most preferred method of consolidation for reasons relating to control and ownership. Furthermore, the research results supported the inclusion and facilitation of all the steps in the consolidation process to give consolidation projects the best chance of success. The results of the research were inconclusive with regards to the preferred business approach between that of a focussed business approach and an integrated business philosophy.

Recommendations were formulated and included the suggestion for stakeholders in the agricultural industry to become actively involved with consolidation in the industry and to stimulate and increase consolidation activity among agri-businesses as a means to achieve growth and improve sustainability. A suggestion was made for agri-businesses to reverse previous decisions which enforce restrictions as far as shareholding is concerned, since these restrictions limit the tradability of its shares and prevents consolidation of these organisations with other willing parties. It was also recommended that every effort should be made to ensure that the growth achieved, is maintained and retained over the long term. Put differently, the growth gained should be sustainable in order to deliver a recurring benefit or advantage and boost the financial performance of the consolidated organisation.

Furthermore, it was recommended that the industry leaders establish and develop sufficient consolidation skills, knowledge and capacity to enable their involvement with and the successful completion of consolidation projects. Suggestions were also made on which consolidation approaches and methods to follow in the execution of consolidation strategies and that agri-businesses should avoid becoming involved with consolidations based on distractive and destructive motives. Agri-businesses were also encouraged to embrace the competition authorities and the function it fulfils and plan to include the Competition Commission applications and submissions as part of the consolidation process. A recommendation was also made on a proposed business approach or structure which accommodates principles of both a focussed and an integrated approach.

The study was also critical evaluated to assess or determine whether the research objectives have been achieved and it was concluded that it was. Even though the objectives of the study were attained, some suggestions were also presented which may be considered for future studies.

BIBLIOGRAPHY

Afgri. 2011. Annual report 2011. Afgri homepage. http://afgri.investoreports.com/afgri_ar_2011/downloads/afgri_ar_2011.pdf Date of access: 15 Jan. 2012.

Agri SA. 2008. Presentation to the portfolio committee on agriculture and land affairs on farm evictions. http://d2zmx6mlqh7g3a.cloudfront.net/cdn/farfuture/mtime:1204881333/files/docs/080304agrisa.htm Date of access: 2 Jul. 2012.

Alexandridis, G., Petmezas, D. & Travlos, N.G. 2010. Gains from mergers and acquisitions around the world: new evidence. *Financial Management*, 39(4):1671-1695.

Altman, M., Hart, T. & Jacobs, P. 2009. Food security in South Africa. http://www.hsrc.ac.za/index.php?module=pagesetter&tid=8&nav=all&alphaval=A&filter=bibtitle^ge^A,bibtitle^lt^AZZ Date of access: 9 Jul. 2012.

Amos, T. 2007. Strategic leadership: key driver for strategic implementation. *Management Today*, 23(4):38-41.

Bamford, C.E. & West III, G.P. 2010. Strategic management: value creation, sustainability and performance. Mason, OH: South-Western Cengage Learning.

Barkema, H.G. & Schijven, M. 2008. How do firms learn to make acquisitions? A review of part research and an agenda for the future. *Journal of Management*, 34(3):594-634.

Bernile, G., Lyandres, E. & Zhdanov, A. 2011. A theory of strategic mergers. http://sws.bu.edu/lyandres/strategic%20mergers%202011%2004%2012%20final.pdf Date of access: 20 Apr. 2012.

Bloomberg. 2012. Afgri and Senwes to merge agricultural retail businesses. http://www.moneyweb.co.za/moneyweb-industrials/afgri-senwes-to-merge-agricultural-retail-business?sn=2009%20Detail Date of access: 18 Oct. 2012.

Brown, S., Squire, B. & Lewis, M. 2010. The impact of inclusive and fragmented operations strategy processes on operational performance. *International Journal of Production Research*, 48(14):4179-4198.

Carpenter, M.A. & Sanders, Wm. G. 2009. Strategic management. A dynamic perspective: concepts and cases. 2nd ed. Upper Saddle River, NJ: Prentice Hall.

CCSA. Competition Commission South Africa. 2006. The South African agricultural industry in context. Pretoria: Government Printer. (Research report compiled.)

CCSA. Competition Commission South Africa. 2010. M&A service standards 2010. http://www.compcom.co.za/assets/Mergers-and-Acquisitions/MA-Service-StandardsFeb-2010.pdf Date of access: 15 Apr. 2012.

Cogman, D. & Tan, J. 2010. A lighter touch for postmerger integration. *McKinsey Quarterly*, 2:21-23.

Coleman, A. 2011. Bunge and Senwes close grains and oilseeds deal. *Farmers Weekly*: 17, 15 Apr. Available: SA Media.

Coleman, A. 2012. The Pannar-Pioneer merger explained. *Farmers Weekly*: 36-37, 20 Jul. Available: SA Media.

Conradie, B., Piesse, J. & Thirtle, C. 2009. What is the appropriate level of aggregation for productivity indices? Comparing district, regional and national measures. *Agrekon*, 48(1):9-20.

David, F.R. 2011. Strategic management: concepts. 13th ed. Upper Saddle River, NJ: Prentice Hall.

Davids, E. & Hale, A. 2011. South Africa. In S. Robinson (Ed.), *The mergers & acquisitions review* (pp. 554-563). London: Law Business Research.

Department of Agriculture, Forestry and Fisheries. ***see*** South Africa. Department of Agriculture, Forestry and Fisheries.

Department of Rural Development and Land Reform. ***see*** South Africa. Department of Rural Development and Land Reform.

Department of Trade and Industry. ***see*** South Africa. Department of Trade and Industry.

Dobbs, R., Huyett, B. & Coller, T. 2010. The CEO's guide to corporate finance. *McKinsey Quarterly*, 4:68-77.

Doyer, O.T., D'Haese, M.F.C., Kirsten, J.F. & Van Rooyen, C.J. 2007. Strategic focus areas and emerging trade arrangements in the South African agricultural industry since the demise of the marketing boards. *Agrekon,* 46(4):494-513.

Ehlers, T. & Lazenby, K. 2010. Strategic management: South African concepts and cases. 3rd ed. Pretoria: Van Schaik.

Esterhuizen, D. 2006. An evaluation of the competitiveness of the South African agribusiness sector. Pretoria: UP. (Thesis – PhD).

Farmers Weekly. 2011. Agri-companies hope for joint venture approval. http://www.farmersweekly.co.za/article.aspx?id=5858&h=Agri-companies-hope-for-joint-venture-approval Date of access: 17 Oct. 2012.

Freeman, R.E. 2010. Strategic management: a stakeholder approach. New York, NY: Cambridge University Press.

Future Directions International. 2012. Food and water security in South Africa: present and future. Strategic analysis paper. http://www.futuredirections.org.au/publications/food-and-water-crises/432-food-and-water-security-in-south-africa-present-and-future.html Date of access: 13 Jul. 2012.

Game. 2011. Stores. Game homepage. http://www.game.co.za/Game_Store.aspx Date of access: 22 Jan. 2012.

Gaughan, P.A. 2011. Mergers, acquisitions and corporate restructurings. 5th ed. Hoboken, NJ: Wiley.

Goldblatt, A. 2009. Agriculture: facts and trends - South Africa. http://awsassets.wwf.org.za/downloads/facts_brochure_mockup_04_b.pdf Date of access: 6 Jul. 2012.

Grain Silo Industry. 2001. Information about the origin, financing and ownership of grain silos (elevators) in South Africa. (Unpublished).

Grobler, M.M. 2007. Intrapreneurship in a South African agricultural organisation. Potchefstroom: NWU. (Dissertation – MBA).

Haines, S. 2006. Becoming a strategic thinker on a daily basis: raise your strategic IQ for 21st century success. http://www.hainescentre.com/systems-thinking/pdfs/abst.pdf Date of access: 16 May 2012.

Haleblian, J., Devers, C.E., McNamara, G., Carpenter, M.A. & Davidson, R.B. 2009. Taking stock of what we know about mergers and acquisitions: a review and research agenda. *Journal of Management*, 35(3):469-502.

Haleblian, J., Kim, J.Y.J. & Rajagopalan, N. 2006. The influence of acquisition experience and performance on acquisition behavior: evidence from the US commercial banking industry. *Academy of Management Journal*, 49:357-370.

Hannaford, S.G. 2007. Market domination! The impact of industry consolidation on competition, innovation and consumer choice. Westport, CT: Praeger.

Hasenfuss, M. 2012. MKB balks at Senwes. *Financial Mail*: 28, 24 Feb. Available: SA Media.

Hitt, M.A., King, D., Krishnan, H., Makri, M., Schijven, M., Shimizu, K. & Zhu, H. 2009. Mergers and acquisitions: overcoming pitfalls, building synergy and creating value. *Business Horizons*, 52(6):523-529.

Homburg, C. & Bucerius, M. 2006. Is speed of integration really a success factor of mergers and acquisitions? An analysis of the role of internal and external relatedness. *Strategic Management Journal*, 27:347-367.

Horwitz, F.M. & Jain, H. 2011. An assessment of employment equity and broad-based black economic empowerment in South Africa. *Equality, Diversity and Inclusion: An International Journal*, 30(4):297-317.

Hrebiniak, L.G. 2005. Making strategy work: leading effective execution and change. Philadelphia, PA: Wharton School Publishing.

Ireland, R.D., Hoskisson, R.E. & Hitt, M.A. 2009. The management of strategy: concepts and cases. 8th ed. Mason, OH: South-Western Cengage Learning.

Jacobs, R. 2007. Agricultural retail businesses in South Africa: the higher demand on competition. Potchefstroom: NWU. (Dissertation – MBA).

Jones, G.R. & Hill, C.W.L. 2010. Theory of strategic management with cases. 9th ed. Mason, OH: South-Western Cengage Learning.

Jooste, C. & Fourie, B. 2009. The role of strategic leadership in effective strategy implementation: perceptions of South African strategic leaders. *Southern African Business Review*, 13(3):51-68.

Kaap Agri. 2011. Annual report 2011. Kaap Agri homepage. http://www.kaapagri.co.za/upload/722_AnnualReport2011.pdf Date of access: 17 Jan. 2012.

Kale, P. & Singh, H. 2009. Managing strategic alliances: what do we know now and where do we go from here? *Academy of Management*, 23(3):45-62.

Kaplan, R.S. & Norton, D.P. 2008. The execution premium: linking strategy to operations for competitive advantage. Boston, MA: Harvard Business School Publishing Corporation.

Karuranga, E., Asti, F., Musonera, E. & Mohiuddin, M. 2011. The impact of foreign direct investment on financial performance: results from the mergers and acquisitions (M&A) experience of Canadian firms from 1999 to 2005. *International Review of Business Research Papers*, 7(4):25-45.

Kenny, G. 2011. Diversification: best practices of the leading companies. *Journal of Business Strategy*, 33(1):12-20.

Kim, W.C. & Mauborgne, R. 2005. Blue ocean strategy. http://www.fearp.usp.br/fava/pdf/pdf244.pdf Date of access: 1 May 2012.

Kumar, N. 2009. How emerging giants are rewriting the rules of M&A. *Harvard Business Review*, 87:115-121.

Kummer, C. & Steger, U. 2008. Why merger and acquisition (M&A) waves reoccur: the vicious circle from pressure to failure. *Strategic Management Review*, 2(1):44-63.

Lafontaine, F. & Slade, M. 2007. Vertical integration and firm boundaries: the evidence. http://wrap.warwick.ac.uk/46/1/WRAP_Slade_jel_paper_may07.pdf Date of access: 19 Apr. 2012.

Lajoux, A.R. & Nesfold, H.P. 2004. The art of M&A structuring: techniques for mitigating financial, tax and legal risk. New York, NY: McGraw-Hill.

Lasserre, P. 2007. Global strategic management. 2nd ed. Basingstoke, Hampshire: Palgrave MacMillan.

Li, Y., Guohui, S. & Eppler, M.J. 2008. Making strategy work: a literature review on the factors influencing strategy implementation. http://www.knowledge-communication.org/pdf/making-strategy-work.pdf Date of access: 23 May 2012.

Liebenberg, F. & Pardey, P.G. 2010. South Africa Agricultural Production and Productivity Patterns. (*In* The Shifting Patterns of Agricultural Production and Productivity Worldwide. The Midwest Agribusiness Trade Research and Information Centre, Iowa State University, Ames, Iowa. p. 383-408).

Liebenberg, F., Pardey, P.G. & Kahn, M. 2010. South African agricultural research and development: a century of change. http://www.instepp.umn.edu/documents/SP-IP-10-01.pdf Date of access: 12 Jun. 2012.

Lotz, H.M. 2009. An assessment of the determinants of corporate entrepreneurship in agricultural businesses: an integrated framework. Potchefstroom: NWU. (Thesis – PhD).

Mantere, S. & Vaara, E. 2008. On the problem of participation in strategy: a critical discursive perspective. *Organisation Science*, 19(2):341-358.

Maxwell, J.A. 2005. Qualitative research design: an interactive approach. 2nd ed. California, CA: Sage.

McLachlan, M. & Thorne, J. 2009. Seeding change: a proposal for renewal in the South African food system. http://www.dbsa.org/Research/DPD%20Working%20papers%20documents/DPD%20No16.pdf Date of access: 12 Jul. 2012.

Meijerink, G. & Roza, P. 2007. The role of agriculture in economic development. Markets, chains and sustainable development and strategy policy paper no. 4. http://www.boci.wur.nl/NR/rdonlyres/98CCE2E3-0FA2-4274-BCA0-20713CA1E125/62608/Fullreport4_Meijerink_Roza.pdf Date of access: 2 Jun. 2012.

Meyer, F. 2005. Modelling the market outlook and policy alternatives for the wheat sector in South Africa. Pretoria: UP. (Dissertation – MSc).

Mohlaloga, M. 2008. Farm evictions: briefings from Deputy Minister, Nkuzi Development, Transvaal Agricultural Union of South Africa, Agri SA & Natio. http://www.pmg.org.za/report/20080304-farm-evictions-briefings-deputy-minister-nkuzi-development-transvaal- Date of access: 2 Jul. 2012.

NAFU (National African Farmers Union of South Africa). 2008. Recommendations presented to the Portfolio Committee. http://d2zmx6mlqh7g3a.cloudfront.net/cdn/farfuture/mtime:1204881333/files/docs/080304nafusa.htm Date of access: 1 Jul. 2012.

Neilson, G.L., Martin, K.L. & Powers, E. 2008. The secrets to successful strategy execution. *Harvard Business Review*, 86(6):61-70.

NERC (Natural Environment Research Council). 2011. Evaluation strategy. http://www.nerc.ac.uk/about/delivery/documents/eval-strategy.pdf Date of access: 18 Apr. 2012.

Nkuzi Development Association. 2005. Summary of key findings from the national evictions survey. http://www.sarpn.org/documents/d0001822/Nkuzi_Eviction_NES_2005.pdf Date of access: 2 Jul. 2012.

OECD (Organisation for Economic Co-operation and Development. 2006. Agricultural policy reform in South Africa. http://www.nda.agric.za/docs/GenPub/SA_policybrief.pdf Date of access: 2 Jul. 2012.

Osae, W.K. 2010. A value assessment of mergers and acquisitions in the South African mining industry. Pretoria: UP. (Dissertation – MEng).

Pearce II, J.A. & Robinson, R.B., Jr. 2011. Strategic management: formulation, implementation and control. 12th ed. New York, NY: McGraw-Hill.

Poggiolini, D. 2004. Deliberating the future of agriculture *a la* Nepad. *S.A. Irrigation*, 3:19.

Porter, M.E. 2008. The five competitive forces that shape strategy. *Harvard Business Review*, 86(6):23-41.

Prakash, A. & Deshmukh, S.G. 2010. Horizontal collaboration in flexible supply chains: a simulation study. *Journal of Studies on Manufacturing*, 1(1):54-58.

PricewaterhouseCoopers. 2007. New voices in M&A: the evolving role of finance and accounting professionals. A silicon valley transaction service roundtable. http://www.pwc.com/en_US/us/transaction-services/assets/062007roundtable.pdf Date of access: 17 Oct. 2012.

Radebe, H. 2012. Senwes and NWK merge insurance units into new firm. *Business Day*: 12, 3 Apr. Available: SA Media.

Ravhugoni, T. & Ngobese, M. 2010. Disappearance of small independent retailers in South Africa: The Waterbed and Spiral Effects of Bargaining Power. http://www.compcom.co.za/assets/Uploads/events/Fourth-Competition-Law-Conferece/Session-3A/Disappearance-of-Small-Independent-Retailers-in-South-Africafinal.pdf Date of access: 29 May 2012.

Reed, S.F., Lajoux, A.R. & Nesvold, H.P. 2007. The art of M&A: a merger/acquisition/buyout guide. 4th ed. New York, NY: McGraw-Hill.

Reeves, M. & Deimler, M. 2011. Adaptability: the new competitive advantage. *Harvard Business Review*, 39:135-141.

Reference for Business. 2012. Encyclopedia of business. http://www.referenceforbusiness.com/management/Mar-No/Mission-and-Vision-Statements.html Date of access: 2 Jun. 2012.

Riley, M.J., Wood, R.C., Clark, M.A., Wilkie, E. & Szivas, E. 2005. Research and writing dissertations in business and management. London: Thomson Learning.

Riordan, M.H. 2005. Competitive effects of vertical integration. Department of Economics discussion paper series, Columbia University, NY, November. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.183.9290&rep=rep1&type=pdf Date of access: 29 Apr. 2012.

Roberts, S. 2009. Food production in South Africa: corporate conduct and economic policy. http://policydialogue.org/files/events/Roberts_Food_production.pdf Date of access: 17 Jan. 2012.

Rosete, D. & Ciarrochi, J. 2005. Emotional intelligence and its relationship to workplace performance outcomes of leadership effectiveness. *Leadership & Organization Development Journal*, 26(5):388-399.

Roux, T. 2009. Land restitution and reconciliation in South Africa. http://www.saifac.org.za/docs/res_papers/RPS%20No.19.pdf Date of access: 12 Jul. 2012.

SAHRC (South African Human Rights Commission). 2010. Farming inquiry foreword. http://www.sahrc.org.za/home/21/files/Reports/farming_inquiry_foreward.PDF Date of access: 14 Jul. 2012.

Schildt, H.A., Laamanen, T. & Keil, T. 2010. Mergers and acquisitions as a response to intra-industry dependence. (*In* Finkelstein, S. & Cooper, C.L., *ed.* Advances in Mergers and Acquisitions. Bingley, UK: Emerald. p. 105-133).

Senwes. 2011. Annual report 2011. (Annual report of the audited financial results for the fiscal year ended 30 April 2011 available at Senwes Head Office and on the web at www.senwes.co.za.) Klerksdorp.

Senwes. 2012. Annual report 2012. (Annual report of the audited financial results for the fiscal year ended 30 April 2012 available at Senwes Head Office and on the web at www.senwes.co.za.) Klerksdorp.

Serfontein, K. & Hough, J. 2011. Nature of the relationship between strategic leadership, operational strategy and organisational performance. *South African Journal of Economic and Management Sciences*, 14(4):393-406.

Shaver, J.M. 2006. A paradox of synergy: contagion and capacity effects in mergers and acquisitions. *Academy of Management Review*, 31(4):962-976.

Smeets, V., Ierulli, K. & Gibbs, M. 2012. An empirical analysis of post-merger organisational integration. http://www.valeriesmeets.com/webpage/Mergers-17January2012.pdf Date of access: 4 May 2012.

South Africa. 1922. The Co-operative Societies Act 28 of 1922.

South Africa. 1933. Currency and Exchanges Act 9 of 1933.

South Africa. 1937. Agricultural Marketing Agreement Act 26 of 1937.

South Africa. 1968. Marketing Act 59 of 1968.

South Africa. 1996. Marketing of Agricultural Products Act 47 of 1996.

South Africa. 1998. Competition Act 89 of 1998.

South Africa. 2003. Broad-Based Black Economic Empowerment Act 53 of 2003.

South Africa. 2004. Securities Services Act 36 of 2004.

South Africa. Department of Agriculture, Forestry and Fisheries. 2004. AgriBEE: broad-based black economic empowerment framework for agriculture. Pretoria.

South Africa. Department of Agriculture, Forestry and Fisheries. 2005. Draft transformation charter for agriculture - AgriBEE. http://www.nda.agric.za/docs/GenPub/AgriBEEcharter.pdf Date of access: 2 Jun. 2012.

South Africa. 2008. Companies Act 71 of 2008.

South Africa. Department of Rural Development and Land Reform. 2009. Strategic plan 2010-2013. http://www.info.gov.za/view/DownloadFileAction?id=123854 Date of access: 6 Jul. 2012.

South Africa. 2011. Companies Amendment Act 3 of 2011.

South Africa. Department of Agriculture, Forestry and Fisheries. 2011a. Annual report 2010/2011. Pretoria.

South Africa. Department of Agriculture, Forestry and Fisheries. 2011b. Agricultural productivity in South Africa. Pretoria.

South Africa. Department of Trade and Industry. 2011. Industrial policy action plan 2011/12 – 2013/14: economic sectors and employment cluster. http://www.info.gov.za/view/DownloadFileAction?id=144975 Date of access: 4 Jul. 2012.

South Africa. 2012. Competition Commission notification to conditionally approve the transaction involving: Senwes Limited and Bunge Senwes Africa (Pty) Limited. (Notice 245). *Government Gazette*, 35166:22, 23 Mar.

South Africa. Department of Agriculture, Forestry and Fisheries. 2012a. Economic review of the South African agriculture 2011. http://www.daff.gov.za/docs/statsinfo/EconReview2011.pdf Date of access: 11 May 2012.

South Africa. Department of Agriculture, Forestry and Fisheries. 2012b. Abstract of agricultural statistics. http://www.daff.gov.za/docs/statsinfo/Ab2012.pdf Date of access: 11 May 2012.

South Africa. Department of Agriculture, Forestry and Fisheries. 2012c. Strategic plan 2012/13-2016/17. Pretoria.

South Africa. Department of Agriculture, Forestry and Fisheries. 2012d. Trends in the agricultural sector 2011. Pretoria.

StatsSA (Statistics South Africa). 2011a. Agricultural survey 2010. http://www.westerncape.gov.za/other/2011/12/agricultural_survey_2010.pdf Date of access: 7 Jul. 2012.

StatsSA (Statistics South Africa). 2011b. Work programme 2011/12. https://www.statssa.gov.za/about_statssa/work_programme_2011.pdf Date of access: 9 Jul. 2012.

StatsSA (Statistics South Africa). 2012. Quarterly labour force survey: Quarter 1, 2012. http://www.statssa.gov.za/publications/P0211/P02111stQuarter2012.pdf Date of access: 7 Jul. 2012.

St. John, C.H. & Harrison, J.S. 2010. Strategic management fundamentals. 5th ed. Mason, OH: South-Western Cengage Learning.

Sudarsanam, S. 2003. Creating value from mergers and acquisitions: the challenges. An integrated and international perspective. London: Prentice Hall.

Terblanche, L. & Willemse, B.J. 2009. Investigation into farmer controlled businesses in South Africa: options and lessons learned. (Final report submitted to and funded by the National Agricultural Marketing Council during November 2009.) Bloemfontein.

Thompson, A.A., Peteraf, M.A., Gamble, J.E. & Strickland, A.J. 2012. Crafting and executing strategy: concepts and cases. 18th ed. New York, NY: McGraw-Hill.

Trautwein, F. 2006. Merger motives and merger prescriptions. In A. Risberg (Ed.), *Mergers and acquisitions: a critical reader* (pp. 8-20). London: Routeledge.

UNCTAD (United Nations Conference on Trade and Development). 2011. World investment report 2011: non-equity modes of international production and development. http://www.unctad-docs.org/files/UNCTAD-WIR2011-Full-en.pdf Date of access: 23 Apr. 2012.

UNEP (United Nations Environment Programme). 2006. Climate change and variability in Southern Africa: impacts and adaptation strategies in the agricultural sector.
http://www.unep.org/themes/freshwater/documents/climate_change_and_variability_in_the_southern_africa.pdf Date of access: 13 Jul. 2012.

Van der Linde, G.J. & Pitse, M.A. 2006. The South African fertiliser industry. Paper presented at the AFA Conference, Cairo, Egypt, February 2006.

Van Eeden, E.S. 2009. Time cultivates winners. Senwes – a century of agriculture. 1st ed. Klerksdorp: Senwes Limited.

Van Rooyen, E.J. 2004. Sustainable agricultural development among the Southern Africa Development Community (SADC): considering integrated development planning practices and institutional arrangements. *Journal of Public Administration*, 39(1):558-573.

Vink, N. & Kirsten, J. 2000. Deregulation of agricultural marketing in South Africa: lessons learned. Sandton: Free Market Foundation. FMF Monograph no. 25.

Vink, N. & Van Rooyen, J. 2009. The economic performance of agriculture in South Africa since 1994: implications for food security.
http://www.agbiz.co.za/LinkClick.aspx?fileticket=VObr5KoA6TE%3d&tabid=257 Date of access: 11 May 2012.

Warren, K. 2008. Strategic management dynamics. Chichester, West Sussex: Wiley.

Welman, J.C., Kruger, S.J. & Mitchell, B. 2005. Research methodology. 3rd ed. Cape Town: Oxford University Press.

Wheeler, S., McFarland, W. & Kleiner, A. 2007. A blueprint for strategic leadership. *Strategy+Business*, 49:1-12.

World Bank. 2011. The Africa competitiveness report 2011. http://www.agbiz.co.za/LinkClick.aspx?fileticket=A2uAqY9Tqvc%3d&tabid=107 Date of access: 9 May 2012.

World Trade Organisation. 2011. Annual report 2011. Geneva, Switzerland: WTO Secretariat.

APPENDIXES

APPENDIX A: ENGLISH SEMI-STRUCTURED INTERVIEW SCHEDULE

A CONSOLIDATION STRATEGY FOR THE AGRICULTURAL INDUSTRY

Dear Respondent

I am a final year MBA student with the Potchefstroom Business School (PBS) at the North-West University. I am conducting research on the topic of *A Consolidation Strategy for Agri-Businesses in South Africa*.

Agriculture has always been a very volatile industry, mainly due to fluctuating commodity prices (specifically white maize) and irregular rainfall patterns. Many role players in the sector have also achieved a level of maturity as far as market share is concerned, leaving little room for further growth. On the other hand, most of these organisations are companies with shareholders demanding acceptable and sustainable returns on their investments. This situation invariably creates challenges relating to growth, profitability and sustainability.

One way of addressing this problem is for stakeholders in the industry to combine their resources, capabilities and efforts through consolidation strategies, like acquisitions, mergers and strategic alliances, among others. This includes an extended presence and involvement throughout the value chain by means of forward and backward integration. Industry stakeholders are asked to give their opinions regarding the desirability of such consolidation strategies, the nature and extent thereof and the probability of successfully executing such strategies within the sector.

The research is performed as partial fulfilment of the requirements for successfully completing an MBA degree under the supervision of Prof. Stephan van der Merwe of the PBS. The interview should take approximately **30 minutes** to complete. The information provided will be treated with the strictest confidence and will only be used for academic purposes.

For any queries please contact the researcher or supervisor at the following addresses:

Researcher/Student	Supervisor/Study Leader
Contact: Jaco Meintjes	Contact: Prof. Stephan van der Merwe
Cell: 082 904 3943	Cell: 082 335 0578
Email: jaco.meintjes1@gmail.com	Email: Stephan.vandermerwe@nwu.ac.za

Your contribution and participation is highly valued and appreciated.

Regards

Jaco Meintjes

Section A: Biographical and Background Information

The following information is required for purposes of statistical data analysis and comparisons between the opinions of the different stakeholder groups of the agricultural industry. All responses will be treated as highly confidential. Your assistance in providing this important information is greatly appreciated.

1. Gender

Male	Female

2. Age Group

20-29	30-39	40-49	50-59	60 +

3. Management Level

Director	Executive Management	Senior Management	Middle Management	Other (Specify)

Specify:

....

4. Management Experience

1-5 years	6-10 years	11-15 years	16-20 years	21+ years

5. Highest Academic Qualification

Gr 12	College Certificate	University Degree	Post Graduate	Other (Specify)

Specify:

....

6. Industry Involvement

Supplier	Retailer/ Wholesaler	Controlling Body	Regulator	Other (Specify)

Specify:

....

7. Industry Exposure

1-5 years	6-10 years	11-15 years	16-20 years	21+ years

Section B: Interview Questions

Please supply your opinion on the following questions regarding the research topic of a consolidation strategy for the agricultural sector. All responses will be treated as highly confidential. Your support in providing your views is greatly appreciated.

1. Do you agree with the view that agri-businesses will find it increasingly difficult to achieve business volume and market growth in the future? Why do you say so?

Strongly disagree	Disagree	Agree	Strongly agree

2. Would you say that business volume and market growth contribute towards sustainability for agri-businesses? Kindly justify your answer?

Yes	No	Not applicable

3. In your opinion, is sustainability of strategic importance to all stakeholders in the agricultural sector? Please elaborate?

Yes	No	Not applicable

4. Is sound strategic leadership from agri-business' executives important for the success and sustainability of organisations? Why do you think so?

Yes	No	Not applicable

5. Should agri-businesses review or reformulate its business strategy on a regular basis in an effort to maintain and improve its performance? Please elaborate?

Yes	Maybe	No	Not applicable

6. Do you consider industry consolidation as one of the primary strategies for agri-businesses to achieve future growth? Kindly motivate your answer?

Yes	No	Not applicable

7. Does consolidation form part of the current strategy or strategic objectives of your organisation? If not, please supply reasons therefore?

Yes	No	Not applicable

8. Is consolidation a strategy that you would pursue for your organisation? Please explain your answer?

Yes	Maybe	No	Not applicable

9. Which consolidation approach(es) would you most likely follow in executing a consolidation strategy? Why is that?

Horizontal integration	Vertical integration	Diversification	A combination of these

10. Which consolidation method would you prefer using in the execution of a consolidation strategy? Kindly elaborate?

Mergers	Acquisitions	Strategic alliances	Takeovers	Greenfield ventures	Other (Specify)

11. Please classify these consolidation methods in order of the probability of successfully achieving industry consolidation – from most to least probable with the highest probability scored as 1 and the least as 6? Please give reasons for your choices?

Consolidation method	**Probability of success**
Mergers	
Acquisitions	
Strategic alliances	
Takeovers	
Greenfield ventures	
Other (Specify)	

12. What would you consider as prime motive for implementing a consolidation strategy? On what do you base your conviction?

Value creation	Managers self-interests	Environmental factors	Organisational characteristics

13. Which consolidation motive would most likely lead to growth and sustainability? Why do you say so?

Value creation	Managers self-interests	Environmental factors	Organisational characteristics

14. Can legislative requirements restrict the likelihood of successfully implementing a consolidation strategy? Please explain your answer?

Yes	Maybe	No	Not applicable

15. In your opinion, the requirements of which of these pieces of legislation presents the biggest challenge for successfully implementing a consolidation strategy? Please motivate your answer?

Companies Act	Competition Act	B-BBEE Act	Other (Specify)

16. Please rank these steps in the consolidation process in order of importance for successfully concluding a consolidation project? Scoring should be from 1 for the most important step to 4 being the least important. Kindly provide reasons for your choices?

Step in the consolidation process	**Order of importance**
Due diligence investigation	
Negotiations of transaction	
Financing and closing of transaction	
Integration and implementation	

17. Is it necessary or important to facilitate all the different steps in the consolidation process for successful strategy execution? Kindly explain why?

Yes	Maybe	No	Not applicable

18. In your opinion, is a focussed business approach preferable above that of an integrated business philosophy? Please motivate your answer?

Yes	Maybe	No	Not applicable

APPENDIX B: AFRIKAANS SEMI-STRUCTURED INTERVIEW SCHEDULE

‘N KONSOLIDASIE STRATEGIE VIR DIE LANDBOU SEKTOR

Geagte Respondent

Ek is ‘n finale jaar MBA student aan die Potchefstroomse Besigheidskool (PBS) by die Noordwes Universiteit. Ek is besig met navorsing oor die onderwerp van *’n Konsolidasie Strategie vir Agri-Besighede in Suid-Afrika*.

Landbou was nog altyd ‘n baie volatiele sektor, hoofsaaklik vanweë fluktuerende kommoditeitspryse (spesifiek wit mielies) en onreëlmatige reënval patrone. Baie van die rolspelers in die industrie het ook ‘n vlak van volwassenheid bereik wat mark aandeel betref, wat min ruimte laat vir toekomstige groei. Aan die ander kant is die meeste van hierdie organisasies maatskappye met aandeelhouers met ‘n verwagting van aanvaarbare en volhoubare opbrengste op hul beleggings. Hierdie situasie veroorsaak gewoonlik uitdagings rakende groei, winsgewendheid en volhoubaarheid.

Een oplossing wat hierdie probleem kan aanspreek is vir belanghebbendes in die sektor om hul hulpbronne, vermoëns en pogings te kombineer deur middel van konsolidasie strategieë, soos aanskaffings (“acquisitions”), samesmeltings (“mergers”) en strategiese vennootskappe (“strategic alliances”), onder andere. Dit behels ook ‘n uitgebreide teenwoordigheid en betrokkenheid dwarsdeur die waarde ketting deur middel van voorwaartse en terugwaartse integrasie. Belanghebbendes in die industrie word gevra vir hul opinies rakende die wenslikheid van sodanige konsolidasie strategieë, die aard en omvang daarvan asook die waarskynlikheid van die suksesvolle uitvoering van sodanige strategieë in die sektor.

Die navorsing word gedoen as gedeeltelike nakoming van die vereistes vir die suksesvolle voltooiing van ‘n MBA graad onder leiding van Prof. Stephan van der Merwe van die PBS. Die onderhoud behoort ongeveer **30 minute** te neem. Die inligting verskaf sal as streng vertroulik hanteer word en sal slegs vir akademiese doeleindes aangewend word.

Vir enige navrae kontak gerus die navorser of toesighouer by die volgende adresse:

Navorser/Student	Toesighouer/Studieleier
Kontak: Jaco Meintjes	Kontak: Prof. Stephan van der Merwe
Sel: 082 904 3943	Sel: 082 335 0578
E-pos: jaco.meintjes1@gmail.com	E-pos: Stephan.vandermerwe@nwu.ac.za

U bydrae en deelname word hoog op prys gestel.

Dankie

Jaco Meintjes

Afdeling A: Biografiese en Agtergrond Inligting

Die folgende inligting word verlang vir doeleindes van statistiese data ontleding en vergelykings tussen die opinies van die verskillende belanghebbendes en belange groepe in die Suid-Afrikaanse landbou sektor. Alle inligting sal as hoogs vertroulik hanteer word. U hulp en ondersteuning met die verskaffing van hierdie inligting word opreg waardeer.

1. Geslag

Manlik	Vroulik

2. Ouderdoms-groep

20-29	30-39	40-49	50-59	60 +

3. Vlak van Bestuur

Direkteur	Uitvoerende Bestuur	Senior Bestuur	Middel Bestuur	Ander (Spesifiseer)

Spesifiseer:

....

4. Bestuurs-ervaring

1-5 jaar	6-10 jaar	11-15 jaar	16-20 jaar	21+ jaar

5. Hoogste Akademiese Kwalifikasie

Gr 12	Kollege Sertifikaat	Universiteit Graad	Na Graads (Hons, M, D)	Ander (Spesifiseer)

Spesifiseer:

....

6. Industrie Bestrokkenheid

Verskaffer	Kleinhandel/ Groothandel	Beheer-liggaan	Reguleerder	Ander (Spesifiseer)

Spesifiseer:

....

7. Industrie Blootstelling

1-5 jaar	6-10 jaar	11-15 jaar	16-20 jaar	21+ jaar

Afdeling B: Onderhoud Vrae

Verskaf asseblief u mening rakende die volgende vrae in verband met die navorsingsonderwerp van 'n konsolidasie strategie vir die landbou sektor. Alle inligting sal as hoogs vertroulik hanteer word. U hulp en ondersteuning met die verskaffing van hierdie inligting word opreg waardeer.

1. Stem u saam met die siening dat agri-besighede dit in die toekoms toenemend moeiliker gaan vind om besigheidsvolume en markaandeel groei te behaal? Hoekom sê u so?

Verskil ten sterkste	Verskil	Stem saam	Stem volkome saam

2. Sal u sê dat besigheidsvolume en markaandeel groei bydrae tot die volhoubaarheid van agri-besighede? Motiveer asseblief u antwoord?

Ja	Nee	Nie toepaslik

3. Na u mening, is volhoubaarheid van strategiese belang vir alle belanghebbendes in die landbou sektor? Brei asseblief uit op u antwoord?

Ja	Nee	Nie toepaslik

4. Is goeie strategiese leierskap deur agri-besighede se uitvoerende bestuur belangrik vir die sukses en volhoubaarheid van daardie organisasies? Hoekom dink u so?

Ja	Nee	Nie toepaslik

5. Moet agri-besighede hul besigheidstrategie op 'n gereelde basis hersien of herformuleer in 'n poging om die algehele prestasie van die organisasies te handhaaf of te verbeter? Brei asseblief uit op u antwoord?

Ja	Moontlik	Nee	Nie toepaslik

6. Beskou u industrie konsolidasie as een van die primêre strategieë waardeur agri-besighede toekomstige groei kan bewerkstellig? Motiveer asseblief u antwoord?

Ja	Nee	Nie toepaslik

7. Vorm konsolidasie deel van u organisasie se huidige strategie of strategiese doelstellings? Indien nie, verskaf asseblief redes daarvoor?

Ja	Nee	Nie toepaslik

8. Is konsolidasie 'n strategie wat u sal nasteef vir u organisasie? Verduidelik asseblief u antwoord?

Ja	Moontlik	Nee	Nie toepaslik

9. Watter konsolidasie benadering(s) sal u mees waarskynlik volg in die uitvoering van die 'n konsolidasie strategie? Hoekom sal dit wees?

Horisontale integrasie	Vertikale integrasie	Diversifikasie	'n Kombinasie hiervan

10. Watter metode(s) van konsoliasie sal u verkies om te gebruik in die uitvoering van 'n konsolidasie strategie? Brei asseblief uit op u antwoord?

Samesmel-ting (Merger)	Aanskaffing (Acquisition)	Strategiese vennootskap	Oorname (Takeover)	Greenfield ventures	Ander (Spesifiseer)

11. Klassifiseer hierdie metodes van konsolidasie volgens die waarskynlikheid vir suksesvolle industrie konsolidasie – die telling van die mees waarskynlike (1) tot die minste (6)? Verskaf asseblief redes vir u keuses?

Konsolidasie metode	**Waarskynlikheid vir sukses**
Samesmeltings (Mergers)	
Aanskaffings (Acquisitions)	
Strategiese vennootskappe (Strategic alliances)	
Oornames (Takeovers)	
Greenfield ventures	
Ander (Spesifiseer)	

12. Wat beskou u as die belangrikste motief vir die implementering van 'n konsolidasie strategie? Waarop baseer u hierdie oortuiging?

Waarde skepping	Bestuur se eie belange	Omgewings-faktore	Organisatoriese karakteristieke

13. Watter konsolidasie motief sal mees waarskynlik lei na groei en volhoubaarheid? Hoekom sê u so?

Waarde skepping	Bestuur se eie belange	Omgewings-faktore	Organisatoriese karakteristieke

14. Kan wetlike vereistes en voorskrifte die waarskynlikheid van die suksesvolle implementering van 'n konsolidasie strategie beperk? Verduidelik u antwoord?

Ja	Moontlik	Nee	Nie toepaslik

15. Na u mening, die vereistes van watter van hierdie wette bied die grootste uitdaging vir die suksesvolle implementering van 'n konsolidasie strategie? Motiveer asseblief u antwoord?

Maatskappy wet	Kompetisie wet	SEB (B-BBEE) wetgewing	Ander (Spesifiseer)

16. Rangskik asseblief hierdie stappe in die konsolidasie proses in volgorde van die belangrikheid vir die suksesvolle afhandeling van 'n konsoldasie projek? Die telling moet wees van 1 vir die mees belangrike stap tot 4 vir die minste belangrik. Verskaf asseblief redes vir u keuses?

Stap in die konsolidasie proses	**Volgorde van belangrikheid**
Noulettendheidsondersoek (Due diligence investigation)	
Onderhandelinge van die transaksie	
Finansiering en sluiting van transaksie	
Integrasie en implementering	

....

....

....

....

....

....

....

17. Is dit nodig of belangrik om al die verskillende stappe in die konsolidasie proses te akkommodeer vir die suksesvolle uitvoering van die strategie? Verduidelik asseblief hoekom u so dink?

Ja	Moontlik	Nee	Nie toepaslik

....

....

....

....

....

18. In u opinie, is ‘n gefokusde besigheidsbenadering verkieslik bo dié van ‘n geïntegreerde besigheidsfilosofie? Motiveer asseblief u antwoord?

Ja	Moontlik	Nee	Nie toepaslik

APPENDIX C: EMPIRICAL DATA AND WRITE-UPS

SECTION A: BIOGRAPHICAL AND BACKGROUND INFORMATION

Interviewee	Q1 (Gender)	Q2 (Age Group)	Q3 (Management Level)	Q4 (Management Experience)	Q5 (Highest Academic Qualification)	Q6 (Industry Involvement)	Q7 (Industry Exposure)
1	1	4	2	4	4	2	5
2	1	2	1	3	4	2	3
3	1	3	3	5	3	2	5
4	1	2	3	3	4	2	3
5	1	3	2	5	4	2	2
6	1	3	2	3	4	2	2
7	1	4	1	5	4	2	4
8	1	3	1	3	4	1	4
9	1	3	2	4	4	2	5
10	1	3	1	4	4	1	3
11	1	3	1	4	4	3	4
12	1	3	1	3	3	2	4
	1 = Male 0 = Female	1 = 20-29 2 = 30-39 3 = 40-49 4 = 50-59 5 = 60+	1=Director 2=Executive Mgmt 3=Senior Mgmt 4=Middle Mgmt 5=Other	1 = 1-5 years 2 = 6-10 years 3 = 11-15 years 4 = 16-20 years 5 = 21+ years	1 = Gr 12 2 = College Cert 3 = Degree 4 = Post Graduate 5 = Other	1 = Supplier 2 = Retailer/Wholesaler 3 = Controlling Body 4 = Regulator 5 = Other	1 = 1-5 years 2 = 6-10 years 3 = 11-15 years 4 = 16-20 years 5 = 21+ years

SECTION B: INTERVIEW QUESTIONS

Interviewee	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8
1	4	2	2	2	3	2	2	3
2	4	2	2	2	3	2	2	3
3	4	2	2	2	3	2	2	3
4	4	2	2	2	3	2	2	3
5	4	2	2	2	3	2	2	3
6	4	2	2	2	3	2	2	3
7	4	2	2	2	3	2	2	2
8	4	2	2	2	3	2	2	2
9	4	2	2	2	3	2	2	3
10	4	2	2	2	3	2	1	3
11	4	2	2	2	3	2	1	0
12	4	2	2	2	3	2	2	3
	1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree	2 = Yes 1 = No 0 = Not apllicable	2 = Yes 1 = No 0 = Not apllicable	2 = Yes 1 = No 0 = Not apllicable	3 = Yes 2 = Maybe 1 = No 0 = Not apllicable	2 = Yes 1 = No 0 = Not apllicable	2 = Yes 1 = No 0 = Not apllicable	3 = Yes 2 = Maybe 1 = No 0 = Not apllicable

SECTION B: INTERVIEW QUESTIONS (CONTINUED)

Interviewee	Q9	Q10	Q11 Mergers	Q11 Acquisitions	Q11 Strategic Alliances	Q11 Takeovers	Q11 Greenfield ventures	Q12
1	1	1	6	4	5	2	3	1
2	4	3	5	4	6	3	2	1
3	4	3	5	4	6	3	2	1
4	2	3	4	5	6	2	3	1
5	3	3	5	4	6	3	2	1
6	4	3	4	5	6	3	2	1
7	2	2	4	5	6	3	2	1
8	2	2	2	4	6	3	5	1
9	4	3	5	3	6	2	4	1
10	4	2	4	6	5	2	3	1
11	4	3	4	5	6	3	2	1
12	4	2	4	6	5	3	2	1
	1 = Horizontal integration 2 = Verticle integration 3 = Diversification 4 = Combination	1 = Mergers 2 = Acquisitions 3 = Strategic alliances 4 = Takeovers 5 = Greenfield ventures 6 = Other						1 = Value creation 2 = Manager self-interest 3 = Environmental factors 4 = Organisational characteristics

SECTION B: INTERVIEW QUESTIONS (CONTINUED)

Interviewee	Q13	Q14	Q15	Q16 Due dilligence	Q16 Negotia-tions	Q16 Finacing and closing	Q16 Integration and implement ation	Q17	Q18
1	1	3	2	3	4	2	1	3	3
2	1	3	2	3	4	1	2	3	2
3	1	3	2	4	1	2	3	3	3
4	1	3	2	4	3	1	2	3	2
5	1	3	2	3	4	1	2	3	1
6	1	3	2	3	4	2	1	3	2
7	1	3	2	1	4	2	3	3	1
8	1	3	2	3	4	2	1	3	3
9	1	3	2	2	4	1	3	3	1
10	1	3	2	3	2	1	4	3	3
11	1	3	2	2	4	1	3	3	2
12	1	3	2	3	4	1	2	3	1
	1 = Value creation 2 = Manager self-interest 3 = Environmental factors 4 = Organisational characteristics	3 = Yes 2 = Maybe 1 = No 0 = Not apllicable	1 = Companies act 2 = Competition act 3 = B-BBEE act 4 = Other					3 = Yes 2 = Maybe 1 = No 0 = Not apllicable	3 = Yes 2 = Maybe 1 = No 0 = Not apllicable

SECTION B: INTERVIEW QUESTION WRITE-UPS

Q1:	**Do you agree with the view that agri-businesses will find it increasingly difficult to achieve business volume and market growth in the future? Why do you say so?**
1	South Africa has a mature agricultural market and the entrance of international competitors to SA markets increase competition in an already languishing market.
2	Increased competition among role players in a limited market results in lower gross and net profit margins. Pressure constantly increases from all sides and the exposure to so many external factors will continue to hamper performance.
3	Agriculture is a mature sector which is fragmented with too many role players active in the market. Therefore, competition is excessive and the market is actually shrinking with less hectares being processed and fewer, but bigger farmers with more bargaining power. This puts tremendous pressure on the middleman who has to contend with all the stakeholders in the industry.
4	The total hectares planted and processed over the last decade and more have remained relatively constant and the long term average harvest per hectare has also remained more or less unchanged. The volumes of the various inputs required to cultivate a hectare of agricultural land have not fluctuated much. Therefore, the potential for volume and market growth is very limited.
5	It's a mature industry which is largely operated on set geographical areas due to the previous regulated/protected legacy of the Control Boards. These geographic areas are difficult to penetrate which makes market share difficult to capture.
6	The market size is limited and remains unchanged while competition increases and international entrants to the local economy influence the industry.
7	All aspects regarding the average agricultural volumes, from input supply to harvest expectations, do not fluctuate much. The market is matured to the extent where the gains achieved by some stakeholders and intermediaries relate directly to the lost business or market share of others within the industry.
8	The local and national agricultural markets are relatively limited as far as growth in volumes is concerned. There are limited agricultural resources and agricultural potential while competition increases continuously (everyone want a share of the cake).
9	Competition increases all the time and there are many new entrants to the local market. On the other hand, the market is limited due to the average hectares planted remaining constant and the availability of arable land is also limited. This is the environment facing agri-businesses and in which these entities must perform.
10	Increased competition among role players in a limited and mature market. No significant increases are expected regarding volume growth, either in the number of hectares planted or the input products utilised.
11	Organised agriculture is an established and mature industry. The available productive arable land is being processed rather effectively given climatic conditions and rainfall patterns, but cannot be expanded much.
12	The agricultural sector is a mature and limited industry in which competition if very fierce. Land reform policies also threaten the industry and when combined with food security demands, is a cause for great concern.

Q2:	**Would you say that business volume and market growth contribute towards sustainability for agri-businesses? Kindly justify your answer?**
1	Cost platforms are increasing, therefore growth will have to compensate for that. Effectiveness and a well-structured strategy which is well executed are required to achieve growth. Africa is also a natural growth area.
2	Business volume and market growth from a significant part of sustainability. Gross profit margins present some scope towards improved sustainability, but it is limited.
3	Definitely, because it is an environment with high volume at low margins. The market is shrinking with producers enjoying increased bargaining power. Therefore, critical mass and growth becomes even more important, both geographic and generic growth.
4	Both volumes and market growth contributes significantly towards sustainability as long as it beats the impact of inflation which constantly drives costs upwards.
5	It provides the opportunity for increased profitability as well as strengthening the balance sheet to further utilise and capitalise on other growth opportunities.
6	Any growth achieved at current and acceptable profit margins contribute towards value creation and sustainability.
7	It increases market share and profitability and therefore also sustainability. The qualification is that the business volume and market growth itself have to be sustainable.
8	Economies of scale benefits have to be utilised to ensure long term viability and sustainability through critical mass. The smaller stakeholders are facing immense challenges and are finding it increasingly difficult to survive on their own.
9	Volume and market growth definitely contribute towards sustainability, because it means an extended client base which creates economies of scale opportunities. The balance sheet of such entities strengthens due to improved profitability and performance.
10	Growth which supports return and performance expectations definitely leads to improved sustainability, but only if the growth can be retained and maintained.
11	It increases performance and profitability and therefore contributes towards improved sustainability.
12	As long as the growth achieved makes economic sense and supports the overall financial objectives of the organisation and the return expectations of shareholders.

Q3:	**In your opinion, is sustainability of strategic importance to all stakeholders in the agricultural sector? Please elaborate?**
1	Definitely, but all role players do not understand this. Board competency in many agri-businesses is not up to standard.
2	Shareholders are mostly connected to the industry. Sustainability is therefore very important for all stakeholders in agriculture, since the entire value chain is dependent on the sector for their existence, future, survival, income and wealth. Government realises that the sector is extremely important, but neglects to show and support it as it should.
3	Long term success and viability is of vital importance and challenge existing capabilities and resources. Thousands of shareholders, employees and their families as well as other industries in the national and global economy are dependent on agriculture for its welfare and prosperity.
4	The contribution which agriculture makes towards the country's economy, the profitability and wealth created by agri-businesses for its shareholders who invest in the industry and livelihood of a large portion of the population through employment opportunities all help towards building South Africa and our nation.
5	The industry is vulnerable due to many macro-economic, political, regulatory and other factors influencing it. Sustainable agricultural production is key to the survival and performance of all stakeholders in the sector. The penetration of Africa through agriculture also has to address this issue as well as the local impact and benefits of such activities on the local communities in these countries.
6	Not only to the stakeholders in the sector, but also to the country as a whole based on employment provided (high unemployment figures), contribution to the national economy and other related sectors.
7	Sustainability is of extreme strategic importance to all stakeholders in the industry if we expect to be able to feed the growing global population.
8	Sustainability is strategically important to every stakeholder in the sector, including the producers, shareholders, suppliers and consumers. Foods security and -safety is becoming more and more important as well as the socio-economic welfare and prosperity of the rural areas.
9	The industry and its stakeholders have a direct or indirect responsibility towards a number of parties, such as employees and their families, the maintenance and survival of the rural areas and the greater South African economy. If this responsibility is neglected, it will lead to increased impoverishment, deterioration of the rural areas and infrastructure and value will be destroyed.
10	Most parties underestimate the contribution that agriculture makes to South Africa as a country, the economy, rural development and the prosperity of so many families. Without sufficient food to feed the growing population, widespread famine and suffering will be the order of the day. Thus, the sustainability of agriculture is extremely important for all its stakeholders.
11	Agriculture is the fuel that drives the economy by producing food for the growing population. With high unemployment and widespread poverty, basic food products sustain the majority of the country's people.
12	So many individuals, families, organisations, investors, adjacent industries and the national economy rely on agriculture for their/its existence and prosperity.

Q4:	**Is sound strategic leadership from agri-business' executives important for the success and sustainability of organisations? Why do you think so?**
1	Leadership refers to real strategic actions and visionary positioning of the organisation for long term sustainability and not short term profits.
2	All aspects of leadership is important, but sound strategic leadership is crucial to the success and sustainability of any business. There are very few big thinkers in the agricultural sector and executives tend to see and focus on trees and miss the forest (bigger picture).
3	Agriculture is a unique environment and is built on relationships of individual/personal attention and service. This is the recipe for success and the culture within the sector. History has proven that Executive and Senior Management with agricultural background/experience are more successful than outsiders entering the industry.
4	The visionary and guiding role which strategic leaders in the industry play and the realisation that only these efforts can result in the continued relevance and future survival of the sector.
5	It is important from both a global and national perspective, that strategic leaders understand the national, international, socio-economic, political and compliance factors influencing the sector since it impacts on performance, profitability and the relevance of agriculture in the bigger economy.
6	Every organisation needs good strategic leaders to formulate the strategy and guide all resources towards achieving the goals set by the strategy. Communication of the strategy is vital to establish insight to and ownership of the objectives set and an understanding of why it is important for the organisation to do so.
7	Good strategic leadership is vital to the success and sustainability of any organisation. Without it there will be no direction or plan to overcome the challenges faced by the organisation.
8	Executive Management has a responsibility to ensure agri-businesses are pro-actively positioned, in advance, to remain relevant and sustainable in the future.
9	The Board and Management of agri-businesses must set the strategy to guide the company's resources and efforts towards a shared goal and communicate it effectively to all the relevant parties and must actively live out this strategy.
10	Strategic leadership gives direction, guidance and purpose to the organisation and all its resources. The ability to motivate and draw people towards shared goals is what makes the difference between success and failure.
11	Sound strategic leadership is critical to the success and sustainability of any organisation.
12	It is vital for any organisation to have excellent strategic leadership. The guidance, vision and strategic imperatives and -objectives they provide or set, ultimately determines the success of the business.

Q5:	**Should agri-businesses review or reformulate its business strategy on a regular basis in an effort to maintain and improve its performance? Please elaborate?**
1	A well thought through and robustly tested strategy would survive the test of time, but continuous review is required. Even more crucial is the tracking of the execution of the strategy.
2	Especially in the agricultural industry. Strategies should be reviewed annually and reformulated every 3 years. Great effort should be made to avoid making stupid and unnecessary mistakes.
3	The industry and environment changes continuously and at a very fast pace and one must adapt quickly to survive. The industry competes in the global economy and many macro-economic factors influence the sector.
4	The economic, environmental and other factors change constantly and sometimes very unexpectedly and very quickly. If the strategy is not flexible, activities and efforts cannot be adjusted to adapt to conquer the changing challenges posed to agri-businesses. One should also attempt to remain one step ahead of the competition.
5	Circumstances change very fast and set the pace for performance. Therefore strategies have to be reviewed at least annually and the necessary changes must be made throughout in an effort to ensure that the organisation adapts to its changing environment and overcome the challenges posed to agriculture.
6	Annual revision is necessary to ensure the strategy is reformulated and amended as and when circumstances demand it to remain relevant and competitive.
7	The review and reformulation of the business strategy is something which should be a continuous process with changes made as and when necessary to address and overcome challenges posed to the organisation and the industry.
8	The environment in which agri-businesses operate, changes continuously and therefore it is necessary to amend the organisation's strategy to address and overcome these challenges.
9	Agri-businesses are exposed to the global economy and international markets which changes continuously. Therefore, strategies have to be flexible to adapt to these changing challenges to maintain its competitive advantage and levels of performance. Annual revisions with reformulations every 2-3 years are requirements for continued sustainability.
10	Every business must have a flexible strategy which should be reviewed regularly and modified when required. The reformulation of the total strategy is something which is done less regularly, say every 3-5 years.
11	Every organisation should review its strategy on a regular basis and should adjust it according to the changing demands of the environment in which it functions to remain relevant and competitive.
12	All strategies have to be reviewed regularly and may need reformulation when changing circumstance dictates that it should be adjusted to adapt and remain relevant and viable.

Q6:	**Do you consider industry consolidation as one of the primary strategies for agri-businesses to achieve future growth? Kindly motivate your answer?**
1	Given the whole value chain consolidation internationally, its imperative. Skills, human capital, resources and asset optimisation is crucial. To do the same and better with less implies growth.
2	There has been extensive consolidation at the top (producers - fewer farmers) and the bottom (off-takers - big conglomerates Tiger, Pioneer, Premier) of the value chain, but everyone in the middle has stayed behind. There is an oversupply of middlemen without anyone having critical mass.
3	It is one of the most important if organisations want to remain competitive. Integration throughout the value-chain is important to minimise the middleman effect and to stimulate demand lower down the value-chain. Critical mass can be obtained through consolidation and geographical expansion.
4	There are too many role players in the sector linking the value chain from producers to off-takers. Consolidation among several of these organisations will result in critical mass being achieved which will result in a greater level of stability and continuity in the sector.
5	It provides opportunities for all stakeholders to grow. Bigger entities can integrate smaller role players in an effort to attain critical mass and the smaller entities can utilise the support structures of the bigger organisations to cope with all the compliances demands regarding costs and resources. Further expansion opportunities into the value chain are also unlocked.
6	The market is limited and competition is increasing. One of the few opportunities for growth is through consolidation and the combination of the efforts of different role players in the industry.
7	As long as the consolidated entity creates and delivers more value for itself and its shareholders as well as to the industry and other stakeholders.
8	Consolidation with other stakeholders in the sector is a constructive method to achieve growth. However, it is imperative that the identity of the different parties remain intact.
9	It holds various advantages like a single, immediate and significant quantum growth. Other benefits are value creation and cost savings through unlocking synergies as well as increased bargaining power.
10	It presents the opportunity for growth and improved performance.
11	Consolidation has been part of the agricultural sector for many years and will remain so until the industry has optimised the entire value-chain given job creation and development initiatives of the national government.
12	Increased scope of operations and volumes attained (critical mass). The agricultural value chain consists of too many role players with duplicated infrastructure which is not effectively utilised.

Q7:	**Does consolidation form part of the current strategy or strategic objectives of your organisation? If not, please supply reasons therefore?**
1	A growth, expansion and consolidation strategy was adopted in 2011 already.
2	Consolidation already forms part of our current strategy. Various successful transactions have been concluded and various other projects are in progress.
3	Already part of the strategy deployed and has attained some success. However, it is a difficult and complex process which takes a lot longer to accomplish than one might expect.
4	It has been a part of many of agri-businesses' strategies for a very long time and seems to come in waves.
5	It forms the basis of the growth and expansion strategy.
6	It forms part the main strategy for growth and expansion.
7	To some degree, but only to the extent that as the right opportunities presents itself, definite and decisive action will be taken to capture and utilise such opportunities.
8	It forms an integral part of the current strategy.
9	It is an important part of the strategy.
10	It is not a strategy which is actively pursued at present. The aim is to achieve growth through product innovation and maximising our core competencies and competitive advantage.
11	The different geographic bodies have been organised according to the requirements and demands of the different areas. The structure currently makes provision for local as well as national representation.
12	It does form part of the current strategy.

Q8:	**Is consolidation a strategy that you would pursue for your organisation? Please explain your answer?**
1	It is one of our key strategies and we were the first to initiate such efforts. It changed the agricultural landscape and forced our competitors to follow.
2	In agriculture, there is little choice but to adopt some form of consolidation as part of the strategy if long term sustainability, performance and survival forms part of the goals.
3	It will definitely form a strategic and integral part of the industry for the next few decades.
4	It will remain an appropriate strategy to follow for as long as there are opportunities to improve performance, create value and generate shareholder wealth.
5	As long as such opportunities exist, this strategy remains relevant for growth and sustainability purposes.
6	Any strategy which is aimed at improved performance should and will be pursued in the quest for sustainability and continued success.
7	Such opportunities are very limited, but as long as these opportunities exist it will be considered as part of the strategy.
8	Conditionally. If there is a significant risk that the identity or values of the various parties may be lost or damaged, consolidation will not be considered.
9	It is one aspect of the greater strategy. There are too many role players in the market, specifically agri-businesses (intermediaries) and many of these are smaller entities. Consolidating some of these parties brings various opportunities. Smaller entities are struggling to perform and survive and this situation will only get worse.
10	If the right opportunity presents itself and it makes sufficient business and strategic sense to incorporate or combine activities, it will definitely be considered.
11	Not applicable.
12	Yes, for as long as the value chain lends itself to greater optimisation and provides opportunities to improve performance and involvement in the industry.

Q9:	**Which consolidation approach(es) would you most likely follow in executing a consolidation strategy? Why is that?**
1	More of the same. It's the best synergy extraction opportunities and incorporates the best of both parties involved.
2	Horizontal integration is inevitable in the pursuit of critical mass. Once integrated and critical mass is attained, opportunities will arise for vertical integration, forwards and backwards, as spin-offs as smaller role players realise the value and business sense behind the approach. Only value-adding diversification opportunities which support and improve margins and profitability (product diversification - wheat; client diversification - concentration and irrigation in which competition is weak; brand diversification and geographical diversification into Africa).
3	It presents the necessary opportunities and vehicles to give execution to the consolidation strategy by identifying possible targets, negotiating transactions and agreements and implementing these efforts successfully.
4	Horizontal integration probably presents the most and best opportunities to facilitate consolidation, because it is a related and familiar environment in which one has certain knowledge, experience, capabilities and skills and can also tap into these resources/benefits from other stakeholders.
5	Geographic-, market-, commodity- and client diversification opportunities contribute towards mitigating concentration risks faced by the company.
6	Every consolidation opportunity is different from the others and circumstances sometimes prescribe or determine the way to approach and negotiate such transactions. The approach which is most likely to lead to successful negotiation and implementation should be followed, taking into account the objectives of such efforts, risks involved, management skills and other issues such as organisational culture and business approach.
7	Increased participation in and control of the value-chain in an effort to shorten and optimise the activities in the chain to the customer/consumer.
8	Greater involvement and control of the value-chain to protect and sustain current business activities and operations.
9	A combination of these approaches, because the environment and situation surrounding each consolidation opportunities differs from the next.
10	It obviously depends on the nature of the consolidation opportunity and the best strategic fit as well as the organisational or group structure which best suites the business.
11	Various consolidation approaches have been followed in the industry over the decades, some more successful than others. However, different approaches will remain relevant, because the nature and extent of each consolidation transaction is different and these differences must be accommodated through the approach followed.
12	The approach will depend on the consolidation opportunity and circumstances surround it. Multiple consolidation efforts will most likely included a combination of different approaches as the extent of involvement within the value chain increases.

Q10:	**Which consolidation method(s) would you prefer using in the execution of a consolidation strategy? Kindly elaborate?**
1	In the agricultural sector mergers have the best success rate given the history of geographically confined footprints of the various role players and very specific roll-out in rural areas.
2	Strategic alliances are the preferred strategic approach followed based on forming partnerships with willing parties and friendly negotiations. An attempt is made to obtain management control for obvious reasons, but to retain or bind the existing management/ownership structures in taking the venture to new heights.
3	Strategic alliances are the chosen route to follow with the aim of obtaining management control through a majority equity share if at all possible. The entrepreneurs/owners/management of the other party should be accommodated or retained in the merged entity for continuity purposes. Acquisitions will be considered for smaller entities to supplement our product range, portfolio and value proposition, as well as strategic alliances which do not include equity shareholding.
4	It addresses various issues relating to the mitigation and sharing of risk, accessing a wider/bigger pool of knowledge, skills, experience and capabilities and negotiating and working with willing partners already puts one ahead of the rest of the competition.
5	It presents benefits regarding retained capabilities and core competencies, shared risks and increased balance sheet capacity for funding operations and growth.
6	Expansion, growth and diversification can be achieved more easily through strategic alliances due to shared risks and retained and/or combined skills, capabilities and resources.
7	The acquisition and control of other successful businesses or ones with potential avoids all the difficult and exhausting issues relating to the other options, like business culture, values and principle differences.
8	Acquisitions results on obtaining an existing business with an existing market or market share. It is also easier and more comfortably incorporated into the acquiring entity than mergers or takeovers.
9	History has proven that certain consolidation tactics or approaches are unlikely to succeed in the agricultural sector, especially if the negotiations are initiated with pre-established agendas or perceptions.
10	Incorporating other and smaller role players or strategic partners in the value-chain through acquisition for control and ownership purposes.
11	Any method used which is based on friendly and mutually beneficial grounds should benefit the sector in the long run. Hostile activity tend to disrupt and destabilise the industry and these effects may continue and be prolonged for extended periods of time, even decades.
12	Gaining immediate volume and market growth as well as control over the acquired entities skills, resources and technologies. Improving competitiveness and performance.

Q11:	Please classify these consolidation methods in order of the probability of successfully achieving industry consolidation – from most to least probable with the highest probability scored as 1 and the least as 6? Please give reasons for your choices?						
	Mergers	**Acquisitions**	**Strategic alliances**	**Takeovers**	**Greenfield ventures**	**Other**	**Reasons**
1	1	3	2	5	4		Mergers have the best success rate and strategic alliances play an important role in performance. Acquisitions will be considered if it presents acceptable performance expectations. Takeovers are not even considered.
2	2	3	1	4	5		Strategic alliances are the preferred strategic approach followed based on forming partnerships with willing parties and friendly negotiations with the best likelihood for success. Strategic partnerships which benefits both parties more or less equally. Where organisational size differs significantly, acquisitions may be the only road to success.
3	2	3	1	4	5		Based on higher likelihood of success, complexity of transactions or negotiations and the extent of such opportunities in the market as well as the ability to retain/obtain management control.
4	3	2	1	5	4		Higher probability for success and continued success and growth through other opportunities which can now be accessed, considered and taken advantage of.
5	2	3	1	4	5		It presents benefits regarding retained capabilities and core competencies, shared risks and increased balance sheet capacity for funding operations and growth. Increased probability for success.

6	3	2	1	4	5		It is the safest and most likely approach for successfully achieving consolidation based on friendly and mutually beneficial negotiations. Entity size and control over such ventures play a very important role as well as the ease of integration or implementation of such efforts.
7	3	2	1	4	5		Shared risk, the degree of control exercised and the funding requirements for such transactions play a major role in the way these efforts are approached. The likelihood of success and the "return on effort" principle should also be taken into account.
8	5	3	1	4	2		Few consolidations are successful due to differences in organisational culture and individual interests. The smaller the interventions, the better the probability that all parties' interests will be taken into consideration and be pursued.
9	2	4	1	5	3		Hostile approaches like takeovers and to a certain degree acquisitions have little chance of success. Mutually beneficial agreements present the highest probability for success, even though mergers are very difficult to accomplish.
10	3	1	2	5	4		It is a clean approach to attain complete control and ownership of strategic resources, capabilities and technologies where the other options relate to combining and incorporating two or more entities into one organisation with possibly different cultures and business values which may cause tension and frustration. Hostile approaches are less likely to deliver long term performance.

11	3	2	1	4	5		Any method used which is based on friendly and mutually beneficial grounds, should benefit the sector in the long run. Hostile activity tend to disrupt and destabilise the industry and these effects may continue and be prolonged for extended periods of time, even decades.
12	3	1	2	4	5		Gaining immediate volume and market growth as well as control over the acquired entities skills, resources and technologies. Improving competitiveness and performance.

Q12:	**What would you consider as prime motive for implementing a consolidation strategy? On what do you base your conviction?**
1	Definitely value creation. It has to generate value on a sustainable scale to be successful.
2	The agricultural sector in its totality is undervalued and therefore most agri-businesses are undervalued. Listed agri-businesses are valued about a 10 PE ratio and unlisted ones at 6 PE. In the broader economy, businesses are valued at between 12 to 14 PE.
3	Mitigation of the business and concentration risks and cost management and cost structure optimisation. It is an economic reality with hectares unchanged and inflation always being part of the equation.
4	Any effort expended which does not generate value or some other benefit for the customers, organisation and its shareholders is not worth the time and energy utilised to complete it. Consolidation efforts should definitely benefit all parties directly involved as well as its shareholders.
5	To unlock value which the individual or separate entities were unable to capitalise on, but together these parties can achieve much more.
6	To increase the value creation capability of the organisation an also the improve the value proposition to customers.
7	Mutual benefits and value creation for all stakeholders concerned by capturing and realising the synergistic benefits contained within the opportunity.
8	Shareholders will only be persuaded to vote in favour of any consolidation effort if it creates additional value. Some of the other factors only makes the process easier if it is in place or if circumstances are favourable.
9	Achieving economies of scale, mitigating and spreading risk through diversification and cost benefits through synergies. The controlling structure of agri-businesses will have to be addressed, since these controlling or holding companies limit the tradability of agri-businesses' shares. The organisational structure and composition of these groups will also have to be reconsidered to allow for easier consolidation.
10	Creating value through improved performance and other gains or benefits is the only way to achieve success through consolidation.
11	It benefits some or most stakeholders in the industry without causing harm or disadvantage to other stakeholders.
12	Value creation is the only viable motive for pursuing consolidation, whether the value is derived from increased volumes and market share, capitalisation on cost and operational synergies or optimisation of the value chain.

Q13:	**Which consolidation motive would most likely lead to growth and sustainability? Why do you say so?**
1	If the transaction creates value for both parties, it will facilitate sustainability.
2	Value creation is the only way to successfully and sustainably create wealth and improve lives and the economy as a whole.
3	It is the most likely approach to improve performance and profitability which increases shareholder's equity and shareholder value. This creates an attractive environment for other potential investors and also lures talent. These resources are then applied to promote and execute further growth efforts. There is also a reputation issue to consider.
4	Only when actions performed and efforts expended creates value, some benefit or advantage for stakeholders will it result in growth and sustainability.
5	All parties, including the customer, must benefit from these efforts for it to be really successful.
6	Activities and efforts which results in value being created or unlocked, will most likely lead to growth, success and sustainability.
7	It is the only motive which holds some benefit, advantage or value for the right parties or stakeholders for the right reasons.
8	Growth and stability is only achieved through value creation activities.
9	Sustainable profitability and performance to at least outperform inflation on a continuous basis.
10	Creating value through improved performance and other gains or benefits is the only way to achieve success through consolidation.
11	Through creating value for a single or multiple stakeholders in the sector, the industry and the economy benefits from it.
12	Value creation is the only viable motive for pursuing consolidation, whether the value is derived from increased volumes and market share, capitalisation on cost and operational synergies or optimisation of the value chain.

Q14:	**Can legislative requirements restrict the likelihood of successfully implementing a consolidation strategy? Please explain your answer?**
1	The Competition laws have a serious effect on consolidation in any industry and can prohibit consolidation on certain grounds.
2	The Competition Commission lawfully has the power to prohibit consolidation efforts based on certain grounds.
3	Competition laws make it very difficult and complex. There is also a lot of internal politics within the industry where many stakeholders are looking after and protect their own interests and can't see the bigger picture.
4	Increased focus and legislation on fair, responsible and healthy competition amongst rivals may be the one issue restricting consolidation activities and efforts via the Competition Commission.
5	The Competition Act is the single biggest issue concerning consolidation due to perceived dominance.
6	Obtaining Competition Commission approval for such transactions is currently the only real issue in consolidation efforts.
7	Getting Competition Commission approval is the single greatest challenge of such efforts.
8	The Competition Act is a significant obstacle.
9	The Competition Commission have significant power over consolidation efforts and may prohibit such activities.
10	The Competition Commission and its different structures regulate and monitor such activities closely and have the authority to put a stop to any consolidation efforts which threatens competitiveness in any way.
11	The Competition Commission and its different structures regulate consolidations and can legally prohibit any consolidation efforts which may reduce or hamper competitiveness in any way.
12	The Competition Act is a serious issue to consider when looking at consolidation. If competition is inhibited in any way, the Competition Commission will prohibit such activities.

Q15:	**In your opinion, the requirements of which of these pieces of legislation presents the biggest challenge for successfully implementing a consolidation strategy? Please motivate your answer?**
1	The lack of fundamental knowledge of the Competition Commission and its far reaching and wide powers stretch beyond the Competition Act.
2	If market dominance is feared, the Competition Commission will prohibit any consolidation efforts. The Competition Commission has an issue with agriculture which is politically motivated.
3	In terms of Competition laws, certain consolidation efforts have to be reported for approval to the Competition Commission which may prohibit certain proposed transactions on the grounds provided for in the Competition Act.
4	The Competition Act makes provision for various grounds on which proposed consolidation transactions may be prohibited or where various conditions may be set for approval which might not be acceptable to the parties involved.
5	The Competition Act is the single biggest issue concerning consolidation due to perceived dominance.
6	The risk of the application for approval being denied by the Competition Commission which effectively ends all possibility of the transaction going further.
7	The power that the competition authorities have to prohibit such activities.
8	The competition authorities can prohibit consolidation transactions and sometimes their findings or verdicts are unfounded or ungrounded.
9	The Competition Act and its application to prevent or bar monopolies from forming or any activities which may limit competition among rivals.
10	The Competition Commission and its different structures regulate and monitor such activities closely and have the authority to put a stop to any consolidation efforts which threatens competitiveness in any way.
11	The Competition Commission and its different structures regulate consolidations and can legally prohibit any consolidation efforts which may reduce or hamper competitiveness in any way.
12	The Competition Act is a serious issue to consider when looking at consolidation. If competition is inhibited in any way, the Competition Commission will prohibit such activities.

Q16:	Please rank these steps in the consolidation process in order of importance for successfully concluding a consolidation project? Scoring should be from 1 for the most important step to 4 being the least important. Kindly provide reasons for your choices?				
	Due Diligence investigation	**Negotiations of transaction**	**Financing & closing**	**Integration & implementation**	**Reasons**
1	2	1	3	4	Identifying possible targets and following a tactical approach to eliminating the unwanted ones and getting those to the negotiating table. Then making sure all indications, assumptions and valuations are accurate to formulate and structure the closing deal and arrange financing for the transaction. Integration and implementation comes last, but it done not mean it is the less important that the others.
2	2	1	4	3	Agriculture is a very sensitive sector as far as consolidation is concerned and initial discussions and negotiations are extremely important. The detailed information of the parties and the transaction can effectively end the project if material issues arise from the due diligence. Successful implementation and integration ultimately determine the future performance and sustainability of the project. Financing rarely is a major concern.
3	1	4	3	2	The transaction should have a sound business case with rational motives, strategic value and economic benefits to allow for the quantum leaps expected. Success lays in the implementation of the venture and should be afforded the due focus, time and resources. It these first requirements are met, then obtaining financing for and negotiating the transaction should not be challenging at all.

4	1	2	4	3	If the due diligence and valuation results are not acceptable, then there cannot be any negotiations of negotiations may be more challenging and if agreements is reached regarding a proposed transaction then there cannot be any integration and implementation activities to perform. Any party initiating consolidation efforts will only do so if they are convinced that financing such ventures will not pose problems or threaten the transaction in any way.
5	2	1	4	3	Understanding the mutual benefits and reaching agreement in principle is the most important step, then the due diligence investigation to familiarise oneself with what one is getting into and identifying possible risks, followed by the integration and implementation activities which ultimately determines the success of the whole venture. Funding is normally not a problem, because only opportunities which can be accommodated are being pursued.
6	2	1	3	4	Everything starts with negotiations after which the due diligence investigation is performed to identify possible issues and risks which may influence the valuations. Acceptable financing options then conclude the deal after which properly planned and executed integration and implementation activities ensures future success.
7	4	1	3	2	Initial negotiations lead to the DD investigation after which a decision is made to continue with and finalise negotiations and the acceptable financing agreements leads to the integration and implementation activities.
8	2	1	3	4	Negotiations form the basis of any transaction and without it the other steps are irrelevant. The Due Diligence investigation frequently serves only to verify things that were already researched in the initial inquiry.

9	3	1	4	2	Negotiations form the basis of any transaction and without it the other steps are irrelevant. The second most important activity is that of integration and implementation which determines the future success of the venture. Compliance regulations and the King III report almost makes this step a formality and since agri-businesses have strong balance sheets, financing such efforts should not be a serious concern.
10	2	3	4	1	The biggest problems in the entire process may be expected in the integration and implementation stage and secondly in the due diligence stage. Any major issues encountered or identified in these steps severely affect the success of the entire process and may result in losses suffered by the parties to the consolidation. Negotiations relate more to the valuation and the financing structure of the deal with should not be a problem.
11	3	1	4	2	Everything starts with the negotiations and the initial gathering of information. The next most important step is that of implementation, since it is often the phase during which difficulties are encountered and ultimately determines the success of the project. Due diligence is more often than not only a formality.
12	2	1	4	3	The negotiations determine whether there will be a transaction or not. Any significant issue of risk identified during the due diligence may effectively end the project and then implementation also poses various challenges which have to be overcome.

Q17:	**Is it necessary or important to facilitate all the different steps in the consolidation process for successful strategy execution? Kindly explain why?**
1	All these steps form an integral part of the entire process to successfully conclude a consolidation project. Miss or neglect any one of the steps and chances are that one or the other party may lose out on the deal and relations between these parties will suffer damage.
2	Focus should be on every step at its appointed time. Miss something serious and either of both parties may end up losing something. Every step is important to avoid surprises.
3	Every step has its particular purpose and contributes towards the success of the entire consolidation process. If any step is ignored of neglected, one runs the risk of losing significant amounts of money and resources invested into such ventures.
4	It is impossible for the process to be completed successfully if all the steps in the process are not thoroughly completed with the necessary and due care it requires.
5	Failure to duly complete each step may result in the failure of the entire project.
6	Very few processes can be completed successfully without performing every step in the process sufficiently. There is a reason for each step in the process.
7	Not taking due care to perform each step in the process with the necessary scrupulousness is a guaranteed recipe for failure.
8	To neglect even the less important steps in the process, may result in the consolidation strategy being derailed or value being destroyed.
9	For transparency and the overall success of these activities, all steps are important to facilitate and complete thoroughly. Otherwise the transaction may be shipwrecked.
10	Attention should be awarded to every step at the appropriate time. Miss something significant and either of both parties may lose something.
11	The risk and potential damages or losses of not properly completing each step in the consolidation process is simply too great.
12	There has to be ensured that every step is duly performed and completed. The success, interests and resources of the parties involved and the project itself are at risk if any negligence, errors or oversights occur.

Q18:	**In your opinion, is a focussed business approach preferable above that of an integrated business philosophy? Please motivate your answer?**
1	An integrated approach work up to a certain point due to a shared platform for shared services which presents certain cost advantages. However, the international approach is one inclined towards the more focussed business philosophy which specialises together with other focussed partners for the purpose of unlocking value.
2	Businesses without integration experience trouble. Too much integration may lead to cross subsidising different activities and one forgets which activity actually generates profits and cash flows. A focussed approach should form the basis of the organisation's performance and sustainability and any integration should be the sweetener added to increased success and performance.
3	The bigger and more successful organisations are focussed businesses. Diversification may contribute towards improved performance, as long as it too is focused and supports or compliments the core focused activities. To achieve this, the best skills, abilities, knowledge and experience should be sourced.
4	This depends on the organisation, circumstances and the industry concerned. Many big international organisations are moving away from the focussed approach to a more integrated approach.
5	The industry determines which is preferable. In agriculture, an integrated approach seems preferable and delivers acceptable performance and profitability.
6	It depends on the specific organisation or stakeholder in the industry as well as the future long term strategy of the entity.
7	Focus leads to performance which paves the way for more and greater opportunities to increase performance.
8	An integrated philosophy guarantees sustainability and acknowledges the interdependency of the entire business structure.
9	The South African agricultural industry is an integrated one in which the various parts are interdependent. The individual parts may and probably will suffer damage if it attempts to function separately from the others, because of other role players and specialised competition in the sector.
10	The focussed approach lends itself to increase performance based on the fact that specialised resources, knowledge and technology are dedicated to achieving set objectives.
11	The circumstance and environment prescribe which of the two approaches it more fitting and will most likely deliver the best performance and the most successful execution of the strategy.
12	Agri-businesses have thrived by applying the integrated philosophy for many decades and the different functions and roles performed by these entities and so interlinked and interdependent that it is unlikely to change in the foreseeable future.