

**EVALUATING THE PERFORMANCE OF FARMWORKER
PARTICIPATION SCHEMES IN THE WESTERN CAPE
PROVINCE**

Thesis presented in partial fulfilment of the requirements for the degree of
Master of Agricultural Management at the University of Stellenbosch



by

Collen Vusi Ndlozi

Supervisor: Dr JP Lombard
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DECLARATION

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Vusi Ndlozi

Date

SUMMARY

It is generally acknowledged that South African commercial agriculture will have to be restructured to integrate the previously disadvantaged communities in the agricultural economy of the country. This is so because of the prevailing disparities between agriculture amongst the black societies and the traditional “white” commercial agriculture. After the inception of the ANC governance in 1994, affirmative action measures *viz* inequalities and inequitable access to resources and markets became necessary to remove these imbalances. However, it is not seen as a quick fix; it will take decades to eradicate the imbalances created during the period of apartheid rule.

A farmworker equity-sharing scheme (FWESS) was first introduced at the Whitehall farm in the Grabouw area of the Western Cape in 1992. The South African Department of Land Affairs adopted this strategy in the face of land reform as one of the major Land Redistribution for Agricultural Development programmes to provide basic support to the farmworkers in order to enable them to participate in the financial stakes of the commercial farming in South Africa.

The main research objective of this study was to evaluate the performance of FWESSs and assess the contribution of the programme to the improvement of the living standards of the previously disadvantaged individuals, *viz* farmworkers. This was achieved through a survey, which included five FWESSs administered by the Cape Town regional office of the Department of Land Affairs (DLA). Interviews were conducted amongst the ordinary farmworkers, members of the board of worker trustees and the original owners. Among other things, the motivations, characteristics of governance, socio-economic factors and financial performance of the schemes were evaluated.

It is evident from the investigation that the original owners are in the forefront in the initiation of the equity-sharing schemes on their farms. Job security was shown as the most important motivation by some farmworkers for their participation in equity-sharing schemes, while other shareholders (original

owners) indicated that the initial capital injection in the business and the empowerment of the farmworkers through capital appreciation and dividends was the most important motivation. Equity-sharing schemes are a relative new concept in farms that were included in this study and after the initial negative impact with the change in the management of the organisation, the schemes are faring good financially.

OPSOMMING

Dit word algemeen erken dat die Suid-Afrikaanse kommersiële landboubedryf herstrukturering sal moet ondergaan om voorheen-benadeelde gemeenskappe by die landbou-ekonomie van die land te integreer. Dit is toe te skryf aan die ongelykhede wat ten opsigte van die landboubedryf tussen swart gemeenskappe en die tradisionele "blanke" landboubedryf bestaan. Na die bewindoorname van die ANC-regering in 1994, is maatreëls vir regstellende aksie ten opsigte van ongelykheid en onregverdige toegang tot hulpbronne en markte in werking gestel om hierdie ongelykhede uit die weg te ruim. 'n Kitsoplossing is egter nie moontlik nie; dit sal tientalle jare neem om die ongelykhede wat gedurende die apartheidsbewind geskep is, uit te wis.

Die eerste plaaswerker kapitaaldelingskema is in 1992 op die Whitehall-plaas in die Grabouw-distrik van die Wes-Kaap ingestel. Die Suid-Afrikaanse Departement van Grondsake het hierdie strategie as een van die hoofprogramme vir grondherverdeling vir die ontwikkeling van die landboubedryf aanvaar, om basiese steun aan die plaasarbeiders te verleen om hulle in staat te stel om 'n deel in die finansiële belang van die kommersiële landboubedryf in Suid-Afrika te verkry.

Die hoof navorsingsdoelwit van hierdie studie was om die uitwerking van die plaaswerker kapitaaldelingskema te evalueer en die bydrae van die program tot die verbetering van die lewenskwaliteit van voorheen-benadeelde individue, naamlik plaasarbeiders, te beoordeel. Dit is bewerkstellig deur middel van 'n opname wat die vyf plaaswerker kapitaaldelingskemas wat deur die Departement Grondsake se streekkantoor in Kaapstad geadministreer word, te betrek. Onderhoude is met gewone plaasarbeiders, lede van die raad van arbeidertrustees en die oorspronklike eienaars gevoer. Evaluering is onder andere gerig op die motivering agter deelname aan die skemas, kenmerke van die bestuur daarvan, sosio-ekonomiese faktore en die finansiële prestasie van die skemas.

Dit het uit die ondersoek duidelik geword dat die oorspronklike eienaars die voortou geneem het met die inisiering van die kapitaaldelingskemas op hul plase. Werksekuriteit is as die belangrikste motivering deur plaasarbeiders

gegee vir die deelneming aan die kapitaaldelingskemas, terwyl die ander deelnemers (oorspronklike eienaars) die aanvanklike kapitaal-inspuiting in die boerdery en die bemagtiging van die plaasarbeiders deur kapitaalappresiasie en dividende as die belangrikste motiverings aangedui het. Kapitaaldelingskemas is 'n relatiewe nuwe konsep by boerderye wat in hierdie studie betrek is en na die aanvanklike negatiewe bēinvloeding met die verandering in die bestuur van die organisasie, is die skemas besig om finansiēl goed te vaar.

DEDICATIONS

This thesis is dedicated to my parents

Mabalane and Linah Ndlozi

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Farmowners who willingly participated in this study deserve a pat on the back: it goes without any saying that this study would not have been possible without their participation.

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ABBREVIATIONS

BEE	Black Economic Empowerment
CGB	Capital Gains Tax
DLA	Department of Land Affairs
DBSA	Development Bank of South Africa
DoALA	Department of Agriculture and Land Affairs
ESOP	Employee Share Ownership Plans
ESSOT	Employee Share Ownership Trust
FFSC	Farm Financial Standards Council
FWESS	Farmworker equity-sharing scheme
GDP	Gross Domestic Product
GM	Gross Margin
ha	Hectares
ILO	International Labour Organisation
LAPC	Land and Agricultural Policy Centre
LRAD	Land Redistribution for Agricultural Development
NAFU	National Agricultural Farmers Union
NFI	Net Farm Income
OPMR	Operating Profit Margin Ratio
PRP	Profit Related Part
PDT	Deciduous Fruit Producers Trust
QC	Quality Circles
PAETA	Primary Agricultural Education and Training Authority
RDP	Reconstruction and Development Programme
ROA	Return On Assets
ROE	Return On Equity

RSP	Profit Sharing Fund
SAYE	Save As You Earn
SLAG	Settlement and Land Acquisition Grant
SPP	Surplus People's Project
SPSAA	Strategic Plan for South African Agriculture
TUC	Trade Union Congress

CHAPTER ONE

INTRODUCTION

In 1991 the Land Acts and related legislation that enforced the racially based segregation of access to land were scrapped. This was the most visible of the policy changes in agriculture following the breaking of the political logjam in February 1990.

Vink, 1993

1.1 BACKGROUND

The South African agricultural industry has been influenced by a 'marathon' history of intensive direct government intervention. This state of affairs has been manifested in racial discrimination in so far as the allocation of resources and support services is concerned. One of the two best-known outcomes of the complex interaction of social, political, and economic factors that characterizes South African agriculture is probably the highly skewed distribution of land ownership (Vink, 1993). Van Rooyen *et al.* (1994) shows that the South African Land Acts were manifested in a lack of opportunities to farming and competition in agricultural markets. According to Kassier and Groenewald (1992), the government interventionist programmes reached a high point around 1980 with a variety of laws, statutes and regulations controlling access to and the use of natural resources, finance, capital, labour, as well as marketing of agricultural products. These components of agricultural policy were effected through, *inter alia*, the Land Acts of 1913 and 1936.

To promote political stability and hence economic growth in South Africa, it is essential that ownership patterns within commercial agriculture should change in a meaningful way without undermining the sector's productivity in the long-run (Knight and Lyne, 2002). Various models for land redistribution

were developed to integrate some of the previously disadvantaged¹ into commercial agriculture. The basic mechanism for land acquisition has been a Settlement and Land Acquisition Grant (SLAG) for households earning below R1 500 a month. The pooling of these grants enables communities to purchase privately owned farm shares as a group (Walker, 2002). Models covered by SLAG encompass farmworker participation² schemes, small farmer settlement schemes, communal farming models, land rental models, and agri-village schemes (Van Zyl *et al.*, 1993). Other unique approaches have been proposed to include contract farming (McKenzie, 1993). These participation models however, are focused on more than land distribution per se as they can provide access to other farming assets. If the scope is extended from land reform to agrarian reform, each of the proposed models will likely be appropriate in a specific set of circumstances (Nel *et al.*, 1995). Van Rooyen *et al.* (1994) argue that the programmes are aimed at redressing the impact of past wrongs, as potential participants would clearly come from black rural society, which has been denied entitlements in the past in terms of apartheid ideology and laws. It is also anticipated that a programme of this nature cannot and will not make an agricultural producer out of every participant, although it should go a long way in creating a viable rural economy within which agriculture and the related linkages can develop. Ultimately, there will be critical, difficult and also emotive choices that will need to be made about the selection of beneficiaries and the focus of such programmes.

Land reform under SLAG and Land Redistribution for Agricultural Development (LRAD) is designed to provide grants to black South African citizens (Africans, Coloureds and Asians) to access land specifically for agricultural purposes. The strategic objectives of the sub-programme include:

- Contributing to the redistribution of 30 percent of the country's agricultural land over 15 years;

¹ Common sense usually suggests that we cannot forge a way ahead to the future without appreciating and respecting the past. It is against this background that these terms "previously disadvantaged" together with "white" have been used in this document. However, they should be understood in the light of South Africa's political and agricultural historical context.

² For the purpose of this study the words "farmworker participation" and "farmworker equity-sharing" will be used interchangeably when referring to the farms that changed their ownership structure to integrate farmworkers.

- Improving nutrition and incomes of the rural poor who want to farm on any scale; decongesting over-crowded former homeland areas; and
- Expanding opportunities for women and young people who stay in rural areas (Ministry of Agriculture and Land Affairs, undated).

Between 1994 and 1999, the government vigorously pursued a policy of market liberalisation in agriculture and, at the same time, implementing the SLAG of R15 000, later increased to R16 000 per beneficiary household. In terms of the SLAG programme, historically disadvantaged South Africans who were landless and poor could apply for a cash grant to purchase and develop farmland (Lyne and Darroch, 2001). The beneficiary households had to pool their grants in order to buy a farm from a willing seller as a group. The group established a legal entity (usually a community land or communal property association) that was formally registered as the owner of the property. In most cases, farms financed with land grants and settled by groups were much too small to support all beneficiaries as full-time farmers.

The Department of Land Affairs (DLA) in South Africa anticipated that emerging farmers would use the grant to leverage loan finance for additional land. However, most creditworthy farmers did not qualify for land grants as the means test applied to potential beneficiaries precluded individuals with a monthly household income greater than R1 500 (Lyne and Darroch, 2001).

In July 1999, the Minister of Agriculture and Land Affairs imposed a moratorium on new SLAG projects while the Department of Agriculture and Land Affairs redesigned the grants. After 18 months the minister released the proposals for the new programme, Land Redistribution for Agricultural Development. The LRAD sub-programme has two distinct parts. Firstly, there is the part that deals with transfer of agricultural land to specific individuals or groups. Secondly, there is the part dealing with commonage projects, which aim to improve people's access to municipal and tribal land, primarily for grazing purposes. These two parts of the sub-programme have in common that they deal with agricultural land redistribution. The proposed LRAD programme differs from SLAG in one major respect: beneficiaries do not have to be poor to qualify for a minimum grant of R20 000 and those who have

more savings and who can raise bigger loans to finance their farms will qualify for larger grants, the maximum grant being R100 000 (Ministry of Agriculture and Land Affairs, undated). Beneficiaries under LRAD can purchase land on offer from any seller, whether public or private. However, the land must be intended for agricultural use of their choice, such as improved production to improve household consumption, grazing, production for markets, and other agricultural activities.

By the end of 2000, the Ministry of Agriculture and Land Affairs had approved projects under the land reform programme, transferring a total of 780 407 hectares (ha) to 55 383 households of which some 14 percent were headed by women (Turner and Ibsen, cited in Lyne and Darroch, 2001). Taken together, land restitution and land redistribution transferred roughly one million hectares or less than 1,2 percent of the 86 million hectares of white-owned farmland, to disadvantaged South Africans over a period of six years.

1.2 PROBLEM STATEMENT AND JUSTIFICATION OF THE STUDY

In 1991, Land Acts and related legislation that enforced the racially based segregation of access to land were scrapped. This was the most visible of the policy changes in agriculture following the breaking of the political logjam in February 1990 (Vink, 1993). One of the most important questions in the debate about a future land policy is whether current land distribution provides a good basis for future growth of output and employment in the agricultural sector and for a gradual elimination of inequalities in access to land, or whether land reform and resettlement are necessary to achieve these goals (Binswanger and Deininger, 1996).

Given the emphasis placed on commercial agriculture in the new land reform dispensation, it is important to consider many challenges facing this sector (Walker, 2002). Inevitably, the greater part of the discussion about land concerns agriculture as the major 'user' of rural land and as the mainstay of the rural economy. So important is agriculture that land reform is often equated with agricultural reform. In practice, land performs many non-

agricultural functions as well, and it is the perception of the existence of these functions and their relative importance that determines the goal and thereby, to a significant extent, the strategy for land reform. Among the most readily identifiable and most important functions of land are its roles as a productive input for economic activity, a place of residence, and a means of access to community membership and thereby to the formal and informal social support mechanisms of that community. Corresponding to these are the criteria of output, and residential security (De Klerk, 1992).

Farmworker participation schemes have emerged as a prominent mechanism for agricultural transformation, specifically in the Western Cape Province, where substantial farmworker participation schemes have already been established. They are privately owned farming operations that are generally restructured as companies. The original owner of the farm and farmworkers become shareholders in the business, sometimes with a third party investor as an additional shareholder. In most cases, the original owner exercises exclusive use rights to the farmland with farmworkers obtaining tradable voting and benefit rights (dividends and capital gains) in proportion to their financial investment. These institutional arrangements help to alleviate the free-and-forced-rider problems that undermine co-operative forms of business organisation (Cook and Illiopoulos, 2000) and therefore encourage investment of money and effort by shareholders. In addition, company law entrenches transparent electoral and reporting processes, making directors accountable for their policy choices.

Many publications (Eckert *et al.*, 1996; Nel *et al.*, 1995; and Van Zyl *et al.*, 1993) assert that farmworker participation schemes can address inequalities in South Africa and receive support from a range of viewpoints aware of:

- Equity-sharing³ being more generally a means by which the poor (who have been excluded historically from property ownership) may obtain entitlement to property and its income. Property ownership and income

³ Eckert *et al.* (1996) define equity-sharing as the situations in which employees purchase or obtain ownership of part of the equity of the farm on which they work.

in turn should encourage savings, and reinvestment among disadvantaged communities;

- New learning opportunities through exposure to a range of skills wider than that acquired as worker;
- Land redistribution and increased rural incomes and access to rural employment opportunities for a growing rural population;
- Improved worker productivity and labour relations; and
- Low risk in the initial phase of entry into commercial farming through skills support of the original owner being continuously available.

Whitehall Farm (in Grabouw district) introduced the first farmworker equity-sharing scheme to be restructured to include farmworkers in commercial agricultural in 1992. The farm was experiencing a difficult time financially. The business plan (submitted to the Cape Town regional office of the DLA) projected financial success reversing the farm's poor performance (Eckert *et al.*, 1996). Unfortunately, according to Knight and Lyne (2002), the scheme was severely affected by a slump in fruit prices, high interest rates and adverse production conditions during the latter half of the 1990s. Other farms that were restructured under land reform programmes (such as the Redelinghuys farmworker equity-sharing scheme in the Piketberg district) had already collapsed due to financial problems (Lotter, 2003). The impression given by the early performance of these schemes is that they are struggling financially.

The Surplus People's Project (SPP) undertook a survey of the performance of farmworker participation schemes on aspects such as power relations between the worker shareholders and the original owner, skills transfer and expectations of beneficiaries. Results of that study were negative about these aspects (power relations, skills transfer, expectations of beneficiaries, etc). It therefore concluded that farmworker participation schemes are just a convenient way of the original owner to leverage cheap capital and increase productivity through co-operation from farmworkers (Fast, 1999). The study conducted by Knight and Lyne (2002) on eight farmworker participation schemes in the Western Cape investigated the same aspects as by SPP. However, it shows more positive results, contradicting results of the study by

Fast (1999). Nevertheless, results from both studies discussed above need to be re-investigated, as they did not include all stakeholders⁴ in their surveys. Furthermore, neither study presented evidence of financial performance. Knight and Lyne recommend that the grants issued by the DLA in South Africa should be awarded only to beneficiaries of schemes that are co-financed by a private investor or commercial bank, as this ensures thorough financial analysis. The present study however, deems it necessary to (further) evaluate the financial position of the respective schemes, in order to reach a consensus on the overall performance of these schemes.

Farmworker shareholders indicated that their expected benefits from these schemes, *inter alia*, included improved housing and free transport (to town, once a week, or to a clinic), free or subsidised crèches, schooling of their children and clinics. They argue that scheme managers are aware of their expectations with regard to these tangible benefits (Knight and Lyne, 2002). It is against this background that the present study was conducted to determine whether equity-sharing on farm level is sustainable, acceptable and effective in achieving the expectations of various stakeholders.

1.3 OBJECTIVES OF THE STUDY

Given the research goal in the preceding section, the following objectives of this study can be formulated.

- The first objective of the study is to identify the motivation behind the adoption of farmworker participation schemes from various stakeholders' point of view. To put this objective into perspective, the study will first exhaust the theoretical background behind the adoption of worker participation in general context;
- The second objective is to evaluate the performance of the farmworker participation schemes and to compare it with the projected performance in the business plans of the farmworker participation

⁴ For the sake of this thesis, stakeholders refer to the original owners, current and potential beneficiaries of AgriBEE and the government.

schemes initially submitted to the Cape Town regional office of the DLA;

- The third objective of the study is to determine the institutional arrangements (who in the board of governors is responsible for making various categories of decisions) of schemes; and
- The concluding objective of the study is to determine the socio-economic status (which includes housing, schooling conditions of children, health care services and income) of farmworkers staying on the farm.

The information gathered through this study is intended to provide new insights to the decision-makers in government for future funding of schemes. The management of farms may also understand expectations of farmworkers involved with these respective farmworker participation schemes. And finally, financial institutions may also be interested in the financial performance of the particular schemes for future private funding.

1.4 HYPOTHESES

From the preceding sections, with more particular reference to the background, four hypotheses can be formulated. This study will therefore endeavour to substantiate the following hypotheses.

Hypothesis one:

Farmworker participation schemes are capable of improving the well being of their various stakeholders.

Evaluation and analysis of the following will assess this hypothesis:

- The extent to which each stakeholder or group of stakeholders live up to their expectations;
- Conflicting interests of stakeholders involved;
- The extent to which farmworkers have a sense of job security;

- The level of participation in the decision-making process by shareholders (original owner and farmworker shareholders); and
- Trust among various stakeholders.

Hypothesis two:

Farmworker participation schemes can improve the performance of the farm.

This hypothesis encompasses the investigation and the assessment of:

- Profitability indicators;
- Liquidity;
- Solvency;
- Growth indicators;
- Absenteeism among farmworkers;
- The rate of labour turnover; and
- Labour productivity.

Hypothesis three:

The adoption of farmworker participation schemes can provide farmworker shareholders with business skills.

The following issues will be assessed in analysing this hypothesis:

- The extent to which farmworkers have been trained to understand the functioning of the scheme;
- The extent to which farmworkers have a sense of responsibility for the operation of the business;
- The structure of the board of governors of the scheme; and
- Entry and exit procedures into/out of the scheme.

Hypothesis four:

Farmworker participation schemes can lead to the improvement of the living standards of farmworkers in the long-run.

This concluding hypothesis entails evaluating and analysing:

- Housing status of farmworkers;
- Income structure of farmworkers;
- Health care status of farmworkers;
- Schooling conditions of children of farmworker shareholders; and
- Treatment of workers of different gender.

1.5 SPECIFICATION OF THE STUDY AREA

1.5.1 An overview of the Western Cape Province

The Western Cape Province is the fourth largest province in South Africa. It comprises 10,6 percent of the land surface and houses 8,89 percent (*i.e.* 3,4 million) of the national population. It is located in the South Western part of South Africa, which is situated at the southern extreme of both South Africa and the African continent. No wonder it was the first area in South Africa to be colonised by European settlers (Land and Agricultural Policy Centre, 1995).

Economically, commercial agriculture forms one of the key economic sectors of the Western Cape Province. The Western Cape Province produces up to 20 percent of the gross value of agriculture in South Africa, most of which is generated by export crops like deciduous fruit, table grapes, and wine exports. This sector contributes 10 percent of the Gross Domestic Product (GDP) in the Western Cape Province. Prospects for future market growth lie mainly within the export sectors. Fresh fruit, apples, pears, soft citrus, wine and table grapes, as well as fruit juice have considerable potential (Kassier, cited in McKenzie, 1996).

Commercial agriculture provides 38 percent of the formal employment opportunities in rural areas of the Western Cape Province (Viljoen and Eckert,

1994). Agricultural employment grew at eight to nine times the national average (1980-1991/92), and the use of part-time labour increased relative to full-time workers. The total remuneration is low and averaged about R4 100 per year in the mid-1990s. This cash income is often supplemented by a social wage. For 1991, the average gross value of output per person per year was R20 151 and worker remuneration was only 20,4 percent of this total, which can be explained in terms of the combination of low agricultural wage levels and the levels of capitalisation of much of the Western Cape agriculture (Viljoen and Eckert, 1994).

1.5.2 A description of study area

Like the Western Cape Province at large, agriculture is also the mainstay of the economy of the West Coast district, involving more than 30 percent of the region's economically active population (Structure Plan, cited in Driver *et al.*, 1999). There are approximately 2 300 farming units in the West Coast sub-region. Half of these are in the South West Coast, with an average size of 750 ha, and half are in the North West Coast, with an average size of nearly 1 500 ha. The value of the total agricultural product produced in the West Coast from March 1998 to March 1999, was R259 million. The economic development of the West Coast, in particular of agriculture, has to a large extent depended on the availability of water. The highest rainfall is experienced over the South Western Cape and moderate rainfalls over the Southern Cape. The West Coast sub-region and the interior Karoo are dry.

The West Coast region covers a number of districts that include Cape Town, Paarl, Stellenbosch, Malmesbury, Piketberg, Citrusdal, Clanwillian, Olifants river, Vredendal, etc. Most of the farmworker equity-sharing schemes (FWESS) included in this study are from Piketberg district and only one scheme is located in Vredendal district. Naturally, the Piketberg district is mountainous. It however, allows farmers within the surroundings to cultivate a number of diversified crops that include Protea flowers, Citrus, Peas, Apples, Peaches, Wine grapes, Table grapes and Cash crops (Spinach, Potatoes, Onions, etc.). While a variety of crop cultivated in the Piketberg district, wine

grapes dominate the Vredendal district. The farm size in Piketberg district ranges from 86 to 900 ha. Piketberg district is characterised as a dry district in terms of rainfall variability and irrigation is limited there. Unlike the Piketberg district, the Vredendal district has access to the use of water rights in the district with the right of use reserved by the Western Cape Department of Water Affairs. Farmers in Vredendal commonly buy water rights for the irrigation of their cultivation.

1.6 OUTLINE OF THE STUDY

As indicated in the preceding sections, this study is primarily concerned with the evaluation of farmworker participation schemes in the Western Cape Province of South Africa. Chapter 2 of this study endeavours to investigate the theory behind the implementation of the worker participation schemes in general. This covers the explanation of worker participation concepts, its objectives, initiators, forms, etc. This theory is crucial for putting this study into perspective.

Chapter 3 explores experience with the adoption of financial participation schemes from other countries. This chapter will present the historical development of this concept; how it came into being and challenges that forced companies to consider this option. The second section of Chapter 3 attempts a further explanation of the transition to the farmworker equity-sharing schemes in South African commercial agriculture. Arguments for farmworker participation schemes are also discussed in this section, and challenges that need to be addressed for the effective adoption of farmworker participation schemes will also be analysed in this chapter.

Chapter 4 explains various concepts that are widely used for measuring financial performance. Income statements, cash flows and balance sheets are used to assess financial information and to characterise farm's financial performance. Each of the schemes selected in this study is presented as a case study in Chapters 5 and 6. These case studies follow a similar format and structure. The financial performance of schemes are evaluated in Chapter 6

and compared with regional and industry norms. Conclusions and recommendations follow in Chapter 7.

CHAPTER TWO

WORKER PARTICIPATION: A CONCEPTUAL FRAMEWORK

The introduction of participation by workers in the managerial decision-making processes can be viewed as a method to gain the compliance of workers to increase the profitability of the firm. This is achieved by obtaining the consent of the workforce, arousing worker co-operation and the stimulation of commitment to goals of the firm. Proponents of those solutions claimed that by engaging workers more in tasks at hand and by increasing workers' responsibility and autonomy, workers' morale and satisfaction would improve. In turn, efficiency and productivity would increase.

Fox (cited in Jones and Maree, 1989)

2.1 INTRODUCTION

Over the course of the twentieth century, worker participation has attracted considerable attention as a major political, social, and economic issue in many countries around the world. Interest in managing production in less bureaucratic ways and in making worklife more meaningful and satisfying, by allowing workers to participate in the decision-making processes has increased in the last twenty years in particular. This interest is reflected in the growing number of worker participation schemes that have emerged in most western industrialised countries and developing societies. The purpose of this chapter is to provide the background material necessary to put this study in a proper perspective. It is aimed at answering questions that include why the top management of firms commit themselves to share power with their workers at ground level; how workers can participate in the decision-making process and which forms of worker participation that can be adopted at firm level.

2.2 THE CONCEPT OF WORKER PARTICIPATION

Worker participation has acquired a great diversity of meaning, forms, and motives in the course of the twentieth century (Cordova, 1992; Sirianni, 1987). Many different terms are used to describe – or prescribe – workers’ active involvement in decision-making at work: worker participation, industrial democracy, workers’ control, self-management, workplace democracy, co-determination, worker involvement, quality of worklife, to name just the most prominent (Sirianni, 1987). This diversity, of course, reflects not just different historical periods, national traditions, or academic theories, but the reality of conflict and contested meanings – over the nature of work, the distribution of power and, quite often, the future of industrial society. Worker participation has thus been a pre-eminently political phenomenon, even when disguised in apolitical or sanitized industrial relations. Salamon (1990), in his article, defines worker participation as “a philosophy or style of organisational management which recognises the need and right of worker(s), individually or collectively, to be involved with management in areas of the organisational decision-making beyond that normally covered by collective bargaining”. Participation is viewed as supplementary to collective bargaining and therefore as extending worker influence. However, Schloss (1898) argues that the classic definition of worker participation was formulated and adopted by an International Congress on profit-sharing in Paris in 1889. Worker participation is an agreement freely entered into, whereby workers receive shares, fixed in advance, of the profit. Since that time, as argued by Blinder (1990), rising and falling tides of interest in the concept may have more to do with social, political and economic fashions than with accumulating evidence on how well these schemes work.

Salamon (1990) identifies three distinct but different interpretations of worker participation. First, it can be viewed as a socio-political concept of industrial democracy where a group elected by workers exercises the management function. A second interpretation views worker participation as all processes and institutions of worker influence in the firm. Thereby workers at the lower levels can become involved in the decision-making functions at management level. Lastly, it is viewed as the evolutionary development of the traditional

joint regulatory process, which aims to extend the influence of the worker. This is achieved through equality in power and involvement of workers in decisions traditionally reserved for management.

Jones and Maree (1989) state that participation can be either in ownership or in controlling factors. Participation in ownership factors is any participation by workers in the ownership of the organisation. When workers take part in decisions at the shop floor level or higher, it is viewed as participation in controlling factors (Rhenman, 1968). It must be noted at this stage that participation is based on mutual respect. This implies a change in attitude and behaviour by management and workers, as participation should not be an attempt by one to influence another to do what the first desires.

According to Salamon (1990), there are two concepts that are centred on the definition of worker participation, namely decision-making and influence. Influence is defined as: "... one person achieves intended results by changing another person's actions or predisposition in some way" (Torres, 1991). Workers can influence decisions without being part of the decision-making body or through actual involvement in the process. This influence decrees that workers have an equal voice to that of management. Joint decision-making is viewed by Rhenman (1968) as the resolution of conflict through co-operation established by the sharing of information. Thereby all parties are enabled to participate fully in making decisions. Firstly, one party must take the initiative and identify the problems that threaten the survival or stability of the firm. The second stage consists of the formulation of goals and norms. Thirdly, the problems are resolved through the exploration of different sources of action. The final step is the taking of the final decision, as well as accepting responsibility for it.

It can be argued based on this background that the concept of worker participation is centred on increasing workers' accountability to their job, which subsequently improves efficiency and productivity, it reduces the cost of monitoring workers and it leads to increased commitment. Therefore participation goes further than mere consultation, as the influence of workers must have a bearing on the outcome of decisions. It must be noted that the

influence of workers can be found at various levels in the firm, in accordance with the form being implemented.

2.3 OBJECTIVES BEHIND WORKER PARTICIPATION

Theories of worker participation (which sometimes can also be referred to as goals and objectives) strive to explain the motivation behind attempts of management and labour to implement participation in the firm.

According to D'Art and Turner (2002) objectives of worker participation will tend to vary according to its proponents or initiators. Social harmonisers or altruistic proponents of these schemes see them as a way to realise equity and social justice. Managerial proponents expect schemes to enhance organisational outcomes such as profitability and productivity. Horwitz (1987) identifies dual objectives for worker participation: It seeks a strategic accommodation and balance between the efficiency and productivity goals of management and those of workers who strive for the institutionalisation of basic human rights, fair labour practices and democratic processes. Although these goals of workers and management seem incompatible, the emphasis is placed on the accommodation thereof to the mutual advantage of the parties involved, as well as the functioning of the firm.

The International Labour Organisation (ILO) (1981) has identified three objectives for the implementation of worker participation as being ethical, socio-political and economical.

Proponents of the ethical-moral objectives strive not only to maintain the dignity of man, but also support the notion that a worker has the right to self-fulfilment. Workers are not just viewed as a production factor that supplies labour to the production process, but as an entity that also risks its health by being at the workplace. Therefore, the worker should be seen as a free individual with a right to equal partnership in production, which in turn is achieved through participation in decision-making (International Labour Organisation, 1981). Finally, an increase in decision-making power for workers leads to an increase in the quality of their worklife (Blumberg, 1968).

According to the socio-political objectives, the sharing of decision-making power and increased social justice is the result of an increase in democracy, not only at the workplace, but also in the wider society. Therefore, the increase in participation is sought by workers to counter authoritarian methods of management and to strengthen political democracy in society. In this regard, a study by Elden (cited in Jones and Maree, 1989) shows that an increase in worker participation could lead to increased awareness of political issues amongst workers. Furthermore, it also assists in educating workers on how to participate in the political arena.

The economic objectives of workers participation are increased productivity and improved industrial relations that, in turn, could lead to increased profits (Eckert *et al.*, 1996). These objectives come to the fore in times of economic recession, when participation by workers is viewed as a solution to the problems of the business (Epstein, 1984). An increase in efficiency can also have a positive effect on the morale, motivation and psychological well being of workers. Therefore, Fox (cited in Jones and Maree, 1989) states that the introduction of participation by workers in the managerial decision-making processes can be viewed as a method to gain the compliance of workers to increase the profitability of the firm. This is achieved by obtaining the consent of the workforce, arousing worker co-operation, and the stimulation of commitment to goals of the firm.

Differences in participation schemes are not only the result of the different objectives mentioned, but also the result of the broader purpose of participation being viewed differently by the different parties involved. Employers see the purpose of participation as being to achieve profitability, efficiency, high morale and job satisfaction. Labour views it as a method for improving the regulation of work and wages. The state, on the other hand, views its purpose as enhancing social and economic performance by reducing levels of conflict in the industry.

2.4 MANAGERIAL PROPONENTS OF WORKER PARTICIPATION

Interest in participation, that is, worker participation, continues to grow among businesses, policy makers, and academics. They are, however, almost invariably a management initiative, argue Baddon *et al.* (1989); Poole and Jenkins (1990) and Tsiganou (1991). Such initiatives are not necessarily prompted by conditions of management's own choice, of course, and at least some proportion of schemes will comprise reactions to circumstances beyond their control. Worker participation may even form part of an attempt to restore management's grip in such circumstances. Just occasionally, there may be more direct pressure for the establishment of some form of profit-sharing or employee share-ownership from workers or unions. All the evidence suggests that worker initiation is rare. However, even where it does occur, management acts as the gatekeeper for the introduction of any scheme and thus exerts a determinant influence on its contours, argue Baddon *et al.* (1989). For these reasons a careful examination of the intention and reasoning behind management actions on the worker participation front is essential to any attempt at understanding the dynamics and consequences of such schemes.

Managerial schemes of worker participation are most frequently used to enhance organisational outcomes. Across organisations the goal, motivations and expectations for profit-sharing schemes can vary, and the adoption of a particular perspective or approach is to some extent determined by the type, size and market situation of the firm. There are a number of managerial approaches to worker participation (D'Art and Turner, 2002). These can be categorised as the sophisticated, the cost-benefit and the unitarist approach.

The sophisticated approach to profit-sharing or worker shareholding is most commonly found in large, capital-intensive multinational corporations. Cash or shares are distributed to all permanent workers, the amount usually varying according to the individual's salary or length of service. In some instances, the profit or share-scheme is only one element in a package of fringe benefits, additional to standard wage or salary. Management expects this generosity to encourage worker's attachment to the firm, and so reduce labour turnover. It has a practical benefit in that it is likely to widen the pool of potential recruits,

thus facilitating management selection of the most talented. D'Art and Turner (2002) continue to argue that the primary objective of this approach appears to be the attraction and retention of staff.

The cost benefit approach is more likely in firms operating in highly competitive product or service markets. Under these circumstances, the introduction of worker participation is expected to issue some concrete benefit or competitive advantage to the company. For instance, the profit-sharing or worker shareholding scheme can function as a cheap pension substitute or become a flexible component in a formerly fixed wage, for example, profit related pay (PRP) (Mitchell *et al.*, 1990; Cahill, 2000). In addition, there are the usual expectations of enhanced labour-management co-operation, of quality and quantity of worker output and a reduction in absenteeism.

Lastly, management in non-union firms use worker participation as part of a unitarist strategy to exclude trade unions. Profit-sharing or worker shareholding is used as a defence or deterrent against union organising drives (Poole and Jenkins, 1990; Tsiganou, 1991; Baddon *et al.*, 1989; Sirianni, 1987). Effective application of this strategy may weaken the appeal of collectivism and, in an organised firm, its tendency may even be to marginalise the union.

The main objectives of management in adopting worker participation schemes are discussed in detail in the sections that follow.

2.4.1 Effect of worker participation on productivity

One of the most notable aims of worker participation is to enhance productivity (e.g. through individual incentives, deferred compensation and above-market efficiency wages) in workplaces where supervision of workers is costly and worker shirking is a concern (Kruse, 1996; Poole and Jenkins, 1990; Baddon *et al.*, 1989). Among several compensation options to decrease shirking, collective incentive schemes such as worker participation may bring worker and employer incentives into closer alignment by tying a portion of pay to company performance. Kruse (1996) adds that this kind of participation may be preferable to individual incentives where potential misuse or abuse of

capital equipment is a concern, where output is not easily ascribed to an individual (that is, production is interdependent and worker inputs are complementary), where setting price rates is too costly (for example, where production technology is constantly changing), or where individual output is otherwise costly to measure. This prediction receives some support from Baddon *et al.* (1989) who argue that it may indirectly raise productivity by an 'x-efficiency'⁵ effect.

2.4.2 Wage flexibility

Apart from productivity effects, a potential advantage to employers is that worker participation builds in a degree of compensation flexibility. The larger the share of worker remuneration that is not pre-set but directly variable with corporate profits, the more readily will labour costs adjust to fluctuations in the business product market. With a more flexible price of worker, those plans automatically decrease worker compensation without the need for costly renegotiations of the hourly wage, or worker layoffs that may sacrifice the firm's specific skills. This may lead firms with uncertain prospects to favour such plans as a means of sharing variability or uncertainty with workers. The advantage to the employer is a reduction in the fixed or quasi-fixed costs of employment, while, for the worker, the reduction in remuneration levels during recession may be compensated for by greater employment security (Baddon *et al.*, 1989; Kruse, 1996).

2.4.3 Trade union and worker participation

Kruse (1996) notes that the traditional union position was critical of financial worker participation schemes based at the level of the individual firm. This position reflected a fear that worker participation at the firm level would

⁵ Generally, x-efficiency and ex-inefficiency are used in the same context, which refers to failure to minimize market costs (Leibenstein, cited in Vink, 1986). The removal of x-inefficiency (that is, improving the performance of the firm not by improving internal resource allocation but by some more amorphous change which releases untapped productivity — for example, by greater worker co-operation, less resistance to change, greater loyalty leading to reduced labour turnover, etc.) can lead to substantial gains in welfare and should be the first objective of policy makers (Vink, 1986).

weaken solidarity and collectivism and ultimately union influence. It was believed that these schemes might appear to union members to provide them with an individual financial stake promoting identification with the company and management at the expense of the union. Baddon *et al.* (1989) also indicate that the adoption of worker participation may be seen as a distinctive form of motivational and attitudinal aim directed against trade unions or other worker organisation. They show that worker participation is usually aimed at:

- Excluding a union or restricting its recruitment;
- Seeking to take the initiative from unions in meeting worker's demands or desires; and
- Seeking to delimit the area of union influence and the scope of worker attachment to the union.

It is against this background that Kruse (1996) concludes that employers may adopt these plans to discourage unionisation, reasoning that such plans may have such an effect through encouraging workers to focus on company performance and identify with employers.

2.4.4 Tax concession

The decision to adopt financial worker participation schemes may be influenced by tax advantages (Kruse, 1996). D'Art and Turner (2002) argue that the worker's benefits from schemes may be partially offset by tax concessions granted by many governments to companies operating such schemes. Also, these schemes allow firms an easy source of capital, since firm contributions to financial worker participation and deferred profit-sharing plans can be heavily invested in company stock, suggesting that firms facing high costs of debt capital and desiring a ready source of equity capital may adopt such plans (using assets of the firm as a convenient 'bank') (Blasi and Kruse, 1991).

2.4.5 Labour shortage and retention

In Sweden, labour market conditions in the mid- to late 1960s spurred management to consider strategies to adopt financial worker participation schemes. As severe labour shortages began to cause serious production problems, employers became interested in innovative work organisation and production structures. However, increasing levels of education and the rising expectations that had accompanied a long period of increasing economic growth and affluence made the task of recruiting workers for routine, monotonous, standardised jobs extremely difficult. As young people who had never felt poverty began to understand and value quality of life issues, including work issues, employers had a difficult time attracting them to these repetitive, unpleasant jobs. High turnover and absenteeism rates, as well as an increasing number of strikes, were signs of a workforce that was growing increasingly dissatisfied and alienated (Tsiganou, 1991; Sirianni, 1987).

2.5 PARTICIPATION WITHIN THE FIRM

Participation within the firm can either be statutory or voluntary. Statutory bodies for worker participation within the firm usually consist of workers' councils and a committee, whose aim it is to enhance interaction between workers and the employer. Voluntary participation on the other hand, operates by means of representatives from trade unions, and usually takes place, for example, through plant-level collective bargaining. Procedures of participation, whether statutory or voluntary, are dictated by the method of participation. These methods comprise direct and indirect participation. Direct participation occurs when a worker personally and directly participates in the decision-making processes of the company, and it takes place on a voluntary basis. Indirect participation in the decision-making processes of a company, however, can, by its very nature, only occur through representatives. If indirect participation takes place, this means that workers elect representatives who participate on their behalf. Indirect participation is therefore equated or synonymous with representation (Nel and Van Rooyen, 1989).

In both the industrialised and developing countries, work councils or committees, or joint consultation committees, are still by far the commonest bodies for associating workers with decisions in firms. In some countries these bodies have been set up by legislation, while in some countries they have been established by agreements between the national workers' and employers' organisations. And in some countries they have been set up, not by national agreements, but by collective agreements in particular industries or directly between the management of an undertaking and its workers represented by their trade union, or by the employer on his own initiative (International Labour Organisation, 1981).

2.5.1 Levels of participation

Procedures of participation may be manifested at any level within the firm *viz* low-level participation, middle-level participation, and top-level participation. They are practiced through either direct or indirect worker participation in the decision-making processes of the firm. Various procedures of participation are discussed below.

2.5.1.1 Participation by suggestion

According to Marx (cited in Nel, 2002), participation by suggestion involves individual workers who try to influence employer decision-making directly. Normally it happens at a localised level (e.g. plant- or workshop-level). It often concerns decisions which are of immediate relevance to the worker's job. The emphasis is usually on day-to-day decision-making of restricted relevance within the organisation as a whole. The so-called speak-up sessions for workers or suggestions box systems may be used.

This procedure therefore focuses on the making of suggestions, for example about technological improvements, increases in work efficiency, improvements in communication, and supervisor practices. It also concentrates on decisions regarding how work is to be carried out, or how tasks should be scheduled, and how specific duties should be allocated amongst the relevant workers (Nel and Van Rooyen, 1989).

Frequently, within the organisation, there will be committees (sometimes consisting of both worker and management representatives) whose responsibility it will be to review, evaluate and consider suggestions put forward by individuals. A worker may ask his shop steward to offer a suggestion in respect of any matter. It does not therefore always need to be direct participation, and may take on an informal character. As part of a more democratic (or, rather, less autocratic) leadership style, supervisors may often prefer to encourage suggestions from subordinates regarding work-related matters. A more structured and institutional form of participation could be quality improvement sessions (Marx, as cited in Nel, 2002).

2.5.1.2 Participation by consultation

Participation through consultation is a technique whereby workers - primarily through their representatives - periodically confer with their supervisors or more senior employer representatives. This is done in a structured manner, for example, by means of a committee, council or any other similar structure. Nel (2002) argues that, in the United Kingdom, joint consultation committees have for some time now been the preferred structures for representative participation. These committees usually comprise a number of experienced managers and workers who are elected on merit and who represent the other workers. Committees are formed primarily to enable representatives to devote attention to specific issues, such as the improvement of worker-welfare facilities. These committees are therefore involved through consultation with the employer with a view to influencing the employer's decision-making with regard to issues in question.

Marchington *et al.* (1992) also indicate that joint consultation is a "mechanism for managers and worker representatives to meet on a regular basis, in order to exchange views, to utilise members' knowledge and expertise, and to deal with matters of common interest, which are not the subject of collective bargaining". An important characteristic, however, is management's sincerity in considering the criticism and proposals of workers (usually through their representatives). They are required to be genuinely prepared to reconsider

their own proposals before they embark on finalising or implementing decisions. Decisions in this respect ranges from planning, goal setting and reform of operational work-related issues within the organisation. Workers are able to influence these decisions by being able to convey their opinions, desires, ideas and criticisms.

As representatives are usually involved in consultative participation, this is primarily mid-level participation, although it often depends on types of issues involved. However, top-level decision-making can also be influenced by consultative participation (Nel, 2002). At top management level, such participation can take place by means of so-called worker directors, who comprise a limited number of representatives elected or nominated by workers at large as part-time directors, to attend meetings of the board of directors of the company (Odaka, 1975).

2.5.1.3 Participation by co-determination

According to Nel (2002) the major characteristics distinguishing this type of participation from others is that workers (mostly through their representatives) and the employer (represented by management) are held jointly responsible by owners of the organisation (shareholders) for results of decisions that were made. It is therefore self-evident that workers should have parity of representation on the board of directors in order to share fully in decision-making. This form of participation calls for more commitment by the employer and the worker representatives than required by all the other techniques, as decisions can only be reached jointly.

This procedure is an example of top-level participation: the highest level of participation in decisions of the firm is being practised. It is evident, therefore, that this level can be regarded as the highest level of industrial democracy that is practised by workers.

2.5.1.4 Participation through quality circles

A quality circle (QC) is essentially a workers' discussion group, and usually consists of six to ten workers from the same section or department within the organisation. Such groups meet quite regularly, for example on a weekly or fortnightly basis, to identify, analyse, investigate, evaluate and consider issues in their own area. These issues or problems are work- or production-related and hence quality-related. Department or section heads or supervisors often assume the role of QC leaders, although leaders may also be elected from among the ranks of the group members or workers themselves. Final decisions to change aspects in the work situation are usually not made by the QC, but proposed solutions are presented to the section or department manager for final decision-making in respect of their implementation (Nel, 2002).

An important characteristic that distinguishes QCs from other, more conventional forms of participation is that workers who make up the QCs are provided with specific training in order to equip them with the necessary problem-solving skills to be applied during QC meetings or discussions.

2.5.2 Methods of participation

In this section various methods of worker participation will be discussed, specifically the most common form of participation that encompasses indirect participation through collective bargaining and direct participation through profit-sharing and share-ownership schemes.

2.5.2.1 Collective bargaining

Collective bargaining is defined by Salamon (1998) as "... a method of determining terms and conditions of employment and relating the employment relationship which utilises the process of negotiation between representatives of management and workers intended to result in an agreement which may be applied across a group of workers". Bendix (1992) argues that collective bargaining is necessitated by a conflict of needs, goals, values, perceptions and ideology, but resting on a basic community of interests, whereby

workers/employer collectives, by the conduct of continued negotiations and the application of pressure and counter pressure, attempt to achieve some balance between the fulfilment of needs, goals and interests of management and workers – the extent to which either party achieves its objectives depends on its source and use of power, the power balance between parties, the organisation and strategic effectiveness of each party, the type of bargaining structure and prevalent economic, socio-political and other conditions. This definition implies:

- A process of negotiation and agreement;
- A two-way flow of information;
- The existence of common interests;
- The establishment of a continued relationship between parties;
- A dynamic nature;
- A process which relies on the power of parties; and
- Susceptibility to outside influence.

Collective bargaining and workers' participation have the same purpose: to associate workers with the taking of decisions that concern them. Collective bargaining can therefore be viewed as a form of participation, but with the following differences: collective bargaining is considered the prerogative of the trade union, whereas participation is for all workers, whether they belong to the union or not. During the participatory process workers' influence over decisions is dependent on the equality of representation between workers and management. This is not the case in collective bargaining as no agreement can be reached without the consent of the union. A further difference between worker participation and collective bargaining deals with issues of conflict, for example, wages and basic conditions of employment. Participation focuses on issues where interests of parties converge. Lastly, it must be taken into account that whereas representatives must assume co-responsibility for decisions reached during participation, the same cannot be said of the signing of a collective agreement (Labour-management relations, as cited in Naude, 1994).

The collective bargaining form of participation represents the most significant area of worker participation and control. Collective bargaining exerts an indirect yet decisive influence on managerial decision-making precisely because management is up against the institutional form of workers' collective power. As Hyman (cited in Maller, 1992) puts it, "trade unionism is the institutional form through which workers can exercise control over employment conditions and the work situation". Demands can be backed up with real sanctions, namely following the refusal to transform worker power into work at the rate specified by management, this can take the form of strikes, go-slows, work-to-rule, and informal forms of resistance like sabotage or working below standard (Maller, 1992).

2.5.2.2 Financial participation

There are a number of ways in which workers can participate financially in the performance of the firm in which they work. Some examples of financial participation include employee share-ownership plans, group-bonus incentive schemes, profit-sharing, individual performance-incentive payment schemes, save as you earn, etc. However, mainly two forms are commonly adopted, namely profit-sharing and employee share-ownership.

Profit-sharing involves workers receiving a proportion of their income as income related to profits. If this income is cash, the terminology PRP is sometimes used. Share-based profit-sharing involves allocating shares to workers on the basis of profits. The term profit-sharing is generally used for situations in which at least a majority of workers are involved in the scheme. An important issue concerning profit-sharing is whether the variable component of earnings represents (on average) additional income or substitutes for basic wages. The 'share economy' theory of profit-sharing is built on the idea of the profit component being a substitute for basic wages. However, some writers (Uvalic, 1991) regard profit-sharing as necessarily involving an additional payment if it constitutes genuine sharing.

Employee share-ownership on the other hand refers to arrangements that provide for broadly based ownership of shares by workers in the firm they

work for. This can take different forms. It may consist of reserving a proportion of company shares, for all or a group of workers, which are offered at privileged terms and are limited to a worker's period of employment. Alternatively, workers are offered options to buy their firms' shares after a determined length of time at preferential terms. Usually this kind of share is held for workers in a trust. This concept of employee share-ownership sometimes overlaps with the idea of share-based profit-sharing. A detailed discussion of these concepts will follow in the next chapter.

2.6 CONCLUDING REMARKS

Worker participation indicates how workers might influence the decision-making process, and thus influence the economic, organisational, and social situation of the company in which they work. Worker participation is a management-initiated programme, primarily to increase productivity. This means that some participation schemes might be developed to enhance managerial goals while giving the illusion that workers participate and exercise some kind of power. However, any form of worker participation is accompanied by wresting of some prerogatives and/or capital from management to workers; therefore it can have an impact on the distribution and exercise of power between workers and management.

Worker participation includes not only direct but also indirect ways in which workers might influence the decision-making process. Worker participation is a political issue and as such is involved in the struggle for power and control in the workplace and the overall society. In some participation schemes, however, workers can exercise power and influence decisions that affect their working lives. Genuine worker participation entails power redistribution not only at the company, but also at the societal level to involve workers in the decision-making process, to extend their citizenship rights in the workplace and thereby enhance this power. Worker participation implies responsibility for workers' rights, it permits workers to affect outcomes in an equitable way and to expand their power and develop their potential, abilities, and skills.

CHAPTER THREE

FINANCIAL PARTICIPATION: THEORY AND PRACTICE

A worker should not only be working on the shop floor or in the office. He should also be present at the annual General Meeting as a shareholder. He should be wanting to satisfy himself that management is efficient and that profits are as good as they could be.

Thatcher (cited in Baddon et al., 1989)

3.1 INTRODUCTION

Financial participation has attracted attention and interest for a wide variety of reasons. Much of the interest has focused on the potential for better economic performance, particularly through enhanced motivation and commitment from workers who have a direct stake in firms' performance. Strong majorities of the public believe the worker-owners work harder and pay more attention to the quality of their work than non-owners and are more likely than outside shareholders to vote their shares in the long-term interest of the company. There has also been a social argument for worker ownership, based on its potential to broaden the distribution of wealth, decrease worker-management conflict, and enhance social cohesion and equality by distributing fruits of economic success more widely and equitably (Gate, cited in Kruse, 2002).

3.2 FINANCIAL PARTICIPATION: CONCEPTS AND ISSUES

Financial participation is participation of workers in profits and company results. It is a form of remuneration additional to the business wage or salary. As already indicated in Chapter 3, it is usually seen in two main forms: profit-sharing or employee share-ownership. Whichever form it takes, it may be provided as an additional incentive to generate greater short-term effort than is explicitly or implicitly stipulated in the employment contract (Pendleton *et al.*, 2001). Financial participation may be introduced to generate greater long-term

identification or loyalty between the worker and the company. Alternatively, financial participation may be viewed as a right: some would argue that workers should have the right to enjoy at least some of the surplus value created from their work, over and above the price paid to secure this work (Pendleton *et al.*, 2001).

Whatever motives for introducing financial participation, its significance resides in the fact that it treats the worker as something more than a ‘mere’ factor of production. Even where managers use it mainly as an incentive device (to improve the efficiency of this factor of production), it nevertheless provides benefits to workers, which ‘normally’ accrue to capital – by diverting surpluses from owners to workers. In the case of share-ownership schemes, financial participation goes further – by transforming workers into owners, or at least partial owners, of the company (Pendleton *et al.*, 2001). Financial participation, therefore, may not simply be another form of remuneration, but an instrument for bringing about partnerships of workers and their companies. How far these schemes function as an instrument for social partnership is a key question.

3.2.1 Forms of financial participation

3.2.1.1 Profit-sharing

Richardson (1987) defines profit-sharing “... as payment made in accordance with a freely agreed scheme, of a share, determined in advance not variable year by year at the discretion of the employer, of profits of the undertaking to a substantial proportion of its ordinary workers”. These schemes can be distinguished from the *ad hoc* payments made as bonuses at the end of the year as managers are not bound to pay such bonuses in the future. Furthermore, profit-sharing schemes include a large percentage, if not all of workers and the method is known beforehand. These schemes are not viewed as real participation, but as an extension of the broader worker participation process of the company (Bendix, 1992; Horwitz, 1988; Anstey, 1990).

Profit-sharing can take a number of forms: it can be paid in cash, shares or bonds. Alternatively, profit-sharing bonuses may be invested in company

savings schemes (which may invest in the employer's stock). Usually, where shares are paid in some form other than cash, there is a minimum retention period. So far, according to Pendleton *et al.* (2001) profit-sharing has been most widely used in the European Community, particularly in France, where it is obligatory for companies with more than 50 workers. The French have two forms of profit-sharing in use. Participation, which is compulsory, requires companies to establish a deferred profit-sharing fund (RSP): on the basis of a legal formula, funds are transferred into the RSP and must be held there for at least three years. The other scheme is "Interessement", which is voluntary: workers are exempt from income tax on profit-share payments in the scheme if they are held in a company savings plan for five years.

Government support for profit-sharing may take the form of legislation, which gives schemes a specific legal identity, and tax concessions to the worker and employer. Pendleton *et al.* (2001) argue that the tax concessions to the worker take the form of some exemption from income and social security contributions, while the employer may benefit from social security exemptions and a company tax deduction for the money paid as a profit-share (in the same way that basic wages are treated as a company tax offset). On the whole, tax concessions are not given to cash bonus schemes because they could encourage 'cosmetic' schemes and tax avoidance.

Profit-sharing schemes in general have the advantages of distributing wealth more equitably, increasing productivity, co-operation and the cutting of costs (Bendix, 1992). Unions may be hostile towards such schemes because they are viewed as a weapon used by employers to fight trade unions, as well as giving workers financial advantages without the assistance of the union through the collective bargaining process. Finally, it is also viewed as a method employed to keep wages down and therefore unions sometimes prefer a standard wage rate. If, however, unions view the scheme as being implemented in good faith, and management as having no ulterior motives, profit-sharing schemes are generally accepted as being to the advantage of the worker (Richardson, 1987).

3.2.1.2 Employee share-ownership

Employee share-ownership plans (ESOP), sometimes referred to as employee share-schemes, provide for participation in ownership (Pendleton *et al.*, 2001). The essence of employee share-ownership schemes is that a capitalist ‘wage’ employer incorporates ordinary shares of the company in the payment to the worker (Baddon *et al.*, 1989). As the result of share-ownership, workers may benefit from the receipt of dividends or the capital gains that accrue to company equity, or a combination of both. Whilst share-ownership schemes are not necessarily financed out of company profits, they are related to company profitability in that growth in market value of shares will be a function of profits and performance (at least in part). The size of dividend payments will also be based on company profit performance (Pendleton *et al.*, 2001).

There are varieties of forms that employee share-ownership can take (Pendleton *et al.*, 2002; Kruse, 2002). These schemes are issued with certain conditions attached, such as a time limit before the shares may be sold (Bell, cited in Salamon, 1987). The forms for employee share-ownership may be: by direct purchase of shares (possibly on favourable terms), by taking out options to buy shares at some point in the future or by transfers financed by company profits (and typically using workers’ trust). Shares may take the form of ordinary share capital of the company or a special class of workers’ share, such as preference shares, with a pre-specified level of interest payments (Pendleton *et al.*, 2001).

Kruse (2002) shows how complex this concept of employee share-ownership is, unidimensional concept that permits an easy classification of a firm as ‘worker-owned’ or of a worker as a ‘worker-owner’. Four dimensions of worker-ownership within a company are:

- The percentage of workers who participate in ownership;
- The percentage of ownership held within the company by workers;
- The inequality of ownership stakes among worker-owners; and
- The prerogatives and rights that ownership confers upon workers.

These prerogatives and rights are determined in part by whether ownership is direct (where workers can freely buy and sell company stock) or indirect (where stock is held through a workers' trust or co-operative) and in part by the voting rights and other forms of participation accompanying the ownership (Kruse, 2002). Bell (cited in Salamon, 1987) points out "that under most of these schemes workers will become ... shareholder(s) not because they want to, but because the company wants it and most workers dispose of their shares as soon as they are able under the terms of the scheme."

The role of government support for share-ownership is similar to that of profit-sharing, argue Pendleton *et al.* (2001). By legislating schemes, it gives them a distinct legal entity and provides a clear framework for company decisions and actions. It delineates what is possible for companies without attracting sanctions from regulatory, legal and taxation authorities. Tax concessions are usually mainly directed at workers rather than companies and take the form of exemptions from income tax on share acquisition as a benefit from employment. However, tax concessions are not usually available on dividend payments. It is common for workers' taxation liability to take the form of capital gains tax (CGB) liability on the growth in share value over time (which may be offset by CGB allowances). If costs of financing share-ownership schemes, especially those of options, are put into the profit and loss account, corporation tax deductions may be available to the company. However, where they are recorded as a balance sheet item, share-schemes per se do not usually attract tax concessions for the company. Considering the afore-mentioned factors with respect to employee share-ownership and profit-sharing, one can easily become puzzled about which is which. It is therefore, again, the responsibility of this section of the study to provide further clarity on these concepts.

The differences between profit-sharing and employee share-ownership reside in several dimensions and they are further summarised in Table 3.1 (Pendleton *et al.*, 2001):

Table 3.1: Differences between profit-sharing and employee share-ownership

Dimension	Profit-sharing	Employee share-ownership
Liquidity of benefits.	Cash. Highly liquid.	Shares. Liquidity depends on presence of equity markets.
Immediacy of benefits (<i>i.e.</i> when worker can use it).	Immediate where profit-share paid in cash, except where paid into company savings scheme.	Deferred in most schemes (especially schemes where shares are acquired at a future date).
Link to profit.	Direct link. Profit-share usually directly linked to level or growth in profits.	Indirect link. Value of reward mainly linked to potential growth in the share value, which is contingently related to profitability.
Link to performance period.	Based on company performance in the most recent or current financial year.	Company performance after receipt of shares or grant of options usually most important for value of reward.
Motives for use.	Features listed above mean that profit-sharing may be used primarily to provide incentives and/or to reward good performance.	Features listed above mean that share-schemes may be used to generate commitment and alignment of interests in the future.
Accounting treatment.	Treated as a wage item (though tax/social insurance exemptions may be available). Entered in profit and loss account.	Separate from wages and salaries. A balance sheet item. 'Losses' to company gains in value of options or discounts on share acquisition not usually recorded on profit and loss account.
Tax treatment.	As wage item, subject to income tax and social insurance charges, although exemptions or reductions (for worker and employer) may be granted by statute. Company tax offset usually available to company.	As balance sheet item, share-schemes per se do not attract tax concessions for the company (although direct financial support to workers to acquire shares may attract concessions). Workers usually liable to capital gains tax, not income tax*, where schemes have statutory basis.
Worker risk.	Risk that future payments may fluctuate in value.	Risk that current share holdings/options may fluctuate in value.

Source: Pendleton *et al.* (2001)

* This kind of income tax depends on the country of issue, as it does not hold in the South African context. Nevertheless it applies in other countries such as the United Kingdom.

- The liquidity of payments (cash *versus* shares);
- The time-scale of the reward (current *versus* future benefits);
- The immediacy of the link to profits (direct *versus* indirect); and

- The fact that profit-sharing is ‘backward-looking’, based on company performance in the current or preceding period, whereas share-ownership schemes are ‘forward-looking’, being potentially derived from future performance (linked to changes in share value).

Given differences between the two types of financial participation, reasons for introducing such schemes are often rather different. Research studies have shown that, typically, all of the afore-mentioned motives are present in the introduction of financial participation schemes, but their relative importance differs in the two main types of schemes (Poole, cited in Pendleton *et al.*, 2001).

- The direct and immediate characteristics of profit-sharing schemes mean that they may be seen as a useful incentive and reinforcement device. The possibility of receiving additional rewards contingent upon current performance may be an incentive to perform well. In addition, where payments are made in recognition of high levels of past or current performance, this may also act to reinforce appropriate behaviours among workers; and
- In contrast, the less direct features of share-ownership schemes (coupled with access to ownership of the company) result in their being viewed in many instances as more diffuse instruments to build worker commitment and identification with the company.

Having said this, the following section will provide a detailed analysis on why firms tend to favour financial participation, particularly by incorporating workers over and above other prospective stakeholders.

3.2.2 Managerial objectives

Objectives of financial participation are alleged by some to reflect managerial strategies aimed at the co-option of workers into the management ethos — an ideological goal, using participation and sophisticated management techniques to seduce commitment away from the pursuit of class interests and trade unionism toward the organisational goals of productivity and efficiency. Proponents of this view argue that it is simply a manipulative form of

managerial control aimed at humanising capitalism and its work processes (Horwitz, 1988). Anstey (1990) shows that workers are given a genuine stake in the prosperity of the business and are likely to benefit substantially by its success. However, the stakeholder argument could be criticised as similar to the management ideology thesis, it can reflect a pluralist conception of industrial relations, recognising inherent conflicts of interests between management and worker and acknowledging the importance of collective bargaining as a primary process for wealth distribution. The rationale of the stakeholder thesis is however, different. It focuses mainly on facilitating wealth creation by linking organisational commitment to rewards (Anstey, 1990). Research conducted in the United Kingdom, by Dewe (cited in Anstey, 1990) suggests that share-schemes are introduced mainly to encourage workers to identify more closely with aims of the firm, as well as tax advantages.

Running throughout most of these objectives is the unambiguous realisation that they are based on principal-agent and x-efficiency theories. In essence, these two theories are built around profit maximisation. To elaborate further on the latter theory, there is a suggestion that difficulties of monitoring the behaviour of workers with potentially divergent interests (information asymmetries) may inhibit management's capacity to organise work and production altogether effectively. These problems can be ameliorated if workers are provided with an incentive to share information with other workers and with those controlling the firm, and to devote additional effort to their work. Remuneration based on collective performance provides an incentive for all workers to do this. The performance of financial participation, therefore, is inducement of performance-enhancing changes in worker behaviour.

3.2.3 Representative participation

The representative characteristics of financial participation are likely to be complex, simply because representative participation is a complex phenomenon. Representative 'systems' are often multifaceted and differ

considerably from firm to firm. However, generally, representation in financial participation schemes is conducted through worker representatives elected by worker shareholders. Focusing on trade union membership, there are long-standing arguments that financial participation is antithetical to representative participation. There are well-documented instances, from several countries over the years, of the use of financial participation to discourage worker participation in unions (Baddon *et al.*, 1989; Poole and Jenkins, 1990; Kruse, 1996). The argument goes that workers who participate in profit and ownership will come to perceive themselves as an integral part of the company, rather than mere factors of production. They will thus come to identify less with workers' organisations. This is especially acute in the case of employee share-ownership, because this blurs the fundamental distinction between capital owners and workers, on which unionisation is based. Furthermore, provision of these additional forms of remuneration will weaken institutions of collective wage determination because part of the remuneration will come to be automatically related to company performance rather than to, for example, the cost of living. Gregg and Machin (cited in Pendleton *et al.*, 2001), using the United Kingdom Workplace Industrial Relations Survey data, found unionised establishments more likely to have profit-sharing or share-ownership schemes, but that stronger trade unions were associated with an absence of such schemes.

Baddon *et al.* (1989) show why financial participation, especially ESOPs have not been received enthusiastically in capitalist countries. Union representation in financial participation schemes is disadvantaged in that conditions of worker eligibility and the extent of the profit or share allocation is usually at the discretion of the board of directors or calculated according to some predetermined formula devised by senior management and likely to be 'transparent' only to the more financially percipient. Similarly, a decision to alter or wind up the scheme could also be made without reference to the union. Together these factors could serve to reduce the security of earnings, which has traditionally comprised a main concern in union activity and ideology – often expressed in negotiations for 'consolidation' of variable pay elements.

3.2.4 Criticism against financial participation

One criticism made of such developments is that it reduces the incentive for investment. The reason is that there would be less incentive to undertake the new investment required to generate new profits if firms have to share a percentage of profits with their employees. There is, however, an important offsetting influence: if profit-sharing is able to stabilise the level of demand, this will have a positive effect on investment (Weitzman, 1984).

Another criticism made of profit-sharing is making a worker's pay more variable involves a transfer of risk from the shareholders to workers. This is undesirable for workers: workers, in particular, have less opportunity to diversify risk than shareholders who can hold a balanced financial portfolio. However, a key potential advantage of worker participation is that the stability of employment is enhanced and hence the risk of a decline in employment is reduced. Thus, if worker participation involves an increased risk of pay variability, one would expect an offsetting reduced risk in terms of employment variability.

3.3 FARMWORKER EQUITY-SHARING IN SOUTH AFRICA

3.3.1 Introduction

In the South African agricultural context, the term "farmworker equity-sharing" is frequently used in place of ESOP, which basically means the same thing, namely "the ownership of firm asset shares by workers in the company in which they work". The concept of farmworker equity-sharing scheme (FWESS) is relatively new in the South African context. An obvious motivation for the introduction of this concept in the country could be ascribed to the unsustainability of the present distribution of agricultural land from a political, social, and economic and equity point of view. According to McKenzie (1993), the Development Bank of South Africa (DBSA) believes that this problem is best served by an array of different market-based but state-assisted strategies, of which the FWESS is only one. It is not seen as a suitable solution in all instances, but as a workable model that has distinct advantages under specific circumstances.

3.3.2 Historical development

To better understand the preamble of this concept, it is appropriate to have a brief historical overview of the South African agricultural industry.

Vink (1993) notes that South Africa's agrarian history has been characterised by periods of structural change since the beginning of the twentieth century. Some of these changes led to the concentration of about eight million blacks on 13 percent of the agricultural land, primarily in the former homelands. Most of the agricultural land was in the hands of whites, although there were still quite a few successful African farmers (Kassier and Groenewald, 1992).

In order to redress the historical and social inequalities without sacrificing the productivity of the agricultural sector in the long-run, the Department of Agriculture and Land Affairs (DoALA), Agri-SA, and National Agricultural Farmers Union (NAFU) in consultation with various strategic partners developed the Strategic Plan for South African Agriculture (Sector Plan). The AgriBEE has been developed to guide black empowerment within the sector as a key component of implementing equitable access and participation in accordance with the Sector Plan. The AgriBEE is based on three core components of BEE:

- Direct empowerment through ownership and control of enterprises and assets. This is expected to increase the ownership and control of the economy by black people by reflecting genuine participation in decision-making at board, executive management and operations levels, and the assumption of real risk;
- Human development and employment equity. This component requires enterprises to comply with the provisions of the Employment Equity Act to bring about an equitable representation of black persons in all occupations and at all levels of the organisation over a period of time; and
- Indirect empowerment through preferential procurement and enterprise development. In order to grow the economy, more enterprises are needed to produce value-added goods and services, to attract investment, and to employ more of black people in productive

activities. Thus, a core component of the BEE strategy is the creation and nurturing of new enterprises by black people.

To achieve the BEE objectives, a ‘balanced scorecard’ to measure progress made by enterprises was developed. The direct empowerment and human resource development and employment equity score of the BEE scorecard (see Table 3.2) were more relevant to FWESS and were assessed in Chapter 5.

Table 3.2: The BEE scorecard

Core component of BEE	Indicators	Weighting
Direct empowerment score		
Equity ownership	% share of economic benefits	20%
Management	% of black people in executive management and/or executive board committees	10%
Human resource development and employment equity score		
Employment equity	Weighted employment equity analysis	10%
Skills development	Skill development expenditure as a proportion of total payroll	20%
Indirect empowerment score		
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement	20%
Enterprise development	Investment in black-owned empowered enterprises as a proportion of total assets	10%
Residual		
To be determined by sector/enterprise		10%
Total score		100%

Source: AgriBEE Reference Document, 2004.

Farmworker participation schemes is one and well adopted strategy developed to unlock the talents and creative energy of people and improve their participation in all aspects of the sector and rid it once and for all of the many entry barriers rooted in its historical dualism. By this mechanism,

farmworkers can collectively combine their resources and capital (usually with funds made available through LRAD) to buy into the ownership of a farm or agricultural asset. In this way there is no change in the structure of the farm and economies of size and scope are utilised. It is considered to be better to alter the ownership structure rather than to attempt to divide the land into smaller pieces. The asset is invariably the farm on which they work. The stake is usually in the form of a marketable share, and as such allows workers to realise their capital, should they wish to exit the scheme. Farmworkers usually exit the scheme through selling their shares to a fellow member of the scheme.

3.3.3 Justification for farmworker equity-sharing schemes

Land reform provides a cornerstone for the political and economic reconstruction of South African agriculture. With a view to seeking operational solutions, the problem can be re-framed as: “what mechanisms can be employed that will result in an acceptable change of land ownership, within a reasonable space of time and at a reasonable cost, without sacrificing agricultural productivity or creating civil unrest?”

Farmworker equity-sharing schemes provide participation opportunities for the economic empowerment of a particular group *viz* farmworkers. The primary goals of a new agrarian structure in South Africa would not only be to normalise the distribution of land in society but also to increase rural incomes and access to rural employment opportunities for a growing rural population. Since FWESS do not subdivide the farmland, it is expected that large commercial farms will remain a dominant feature in South Africa. With this in mind, argues Mckenzie (1993), it appears logical to seek ways of increasing rural livelihoods and access to land on large-scale farms through new ownership relations, as part of overall agrarian reform and rural development. The participation models propose rearrangement of ownership to include farmworkers and thus involve them in the mainstream economy.

Nel *et al.* (1995) argue that participation schemes can only work if benefits are expected through synergy for the partners in the project and for the economy at large. Benefits from these models that can be derived by various

stakeholders are therefore summarised in the sections that follows below (Eckert *et al.*, 1996; Nel *et al.*, 1995; Van Zyl, 1994; Fast, 1999; Van Rooyen *et al.*, 1994):

3.3.3.1 Advantages to the original owner

- Increased productivity through a reduction in the rate of absenteeism and turnover of workers prevalent in South African agriculture.

3.3.3.2 Advantages to farmworkers

- Expected improvement in income and wealth;
- Greater expected security of employment;
- Lower risk in the initial phase of entry into commercial farming through skills support of the original owner being continuously available;
- High quality of technical and managerial support at no additional cost; and
- New learning opportunities through exposure to a range of skills wider than that acquired as worker.

3.3.3.3 Advantages to the society

- Land redistribution;
- Leveraging of government funds. Public funds used in support of participation schemes could be required in the initial set-up phase and this is expected to leverage private sector sources to reach a large number of beneficiaries;
- No or small recurrent cost to the state as the private sector is mobilised to supply technical and managerial support and extension services;
- Empowerment of new entrants at a lower cost (both recurrent and capital) than new settlement schemes;

- Eradication of racial discrimination in South African agriculture; and
- In equity participation schemes, the debt burden of agriculture remains constant in comparison with new settlement, which will probably incur debt as a greater multiple of net farm income than in the national average. It must, however, be noted that participation schemes on existing farms may not create new employment opportunities.

3.3.4 Challenges to consider for effective farmworker participation

Commercial farming is the foundation of a strong agricultural industry and a way of life for generations of farm families. A farm passed on from one generation to another creates a sense of pride and stability between farming communities. Therefore equity-sharing schemes is regarded by many farmers as buying them out of the farm business.

Agriculture has a low absorption rate for skilled and trained manpower that is inconsistent with its needs. With the management of equity-sharing schemes being participative in nature, most farmers are used to a more autocratic style of management. Additional skills are therefore required by farmers and workers to adapt to the new style of management, which involve costs and time.

Although a low labour turnover is a plus to any company, it can also be regarded as a disadvantage in FWESS because it becomes more difficult to dismiss labourers for poor performance.

An emerging problem is how FWESS is initiated, whose interests drive the applications for grants, and how the terms of the deal are made? Farmworker equity-sharing schemes are frequently initiated by farmers rather than by the farmworkers. In many cases farmers do so with the best intentions at heart, but sometimes farmers facing liquidity problems initiate FWESSs in order to obtain an injection of capital into their business. In this sense, FWESS is sometimes put in place for precisely the wrong reasons. The farmworkers express distrust of FWESS because of their fear of lack of sincerity and that the scheme is just another way to cheat them.

3.4 CONCLUDING REMARKS

Pressing economic problems coupled with increasing international competition and problems concerning worker alienation, have worked as powerful forces to make managerial elites consider participative solutions. Similarly, political crises in most countries are spawning the need for worker participation schemes. In capitalist economies studied in this chapter, political or economic inadequacies, coupled with workers' demands for more power, have generated pressure for workplace reforms, including worker participation. Usually, the rhetoric of workers' control is used, and the emerging participatory schemes have been tolerated in an effort to legitimise the existing political order, to accommodate workers' dissatisfaction, and, at least temporarily, to avoid the crisis at hand. Testimony to this are: world wars, severe labour shortages, international competition, improved standards of living, technological changes, economic growth, workers' strikes, factors that rapidly facilitated the adoption of worker participation in capitalist societies and elsewhere.

The nature of the South African commercial agricultural has had a tremendous impact on the development of AgriBEE. The most notable effect in this respect was the abolition of the Land Acts and other related legislation that enforced the racially based segregation with regard to access to land. The Land Acts have led to inequalities in terms of access to land, and have also generally resulted in restriction of access to markets and other economic activities. Poverty and lack of education as is prevalent amongst African societies was the intended outcome of such legislation so that blacks would serve as a cheap source of labour in the South African economy.

The growing worker dissatisfaction with repetitive work such as associated with agriculture in the country; rising concerns about workplace health and safety, as well as housing conditions, prompted the South African government to consider FWESS as an effective, but not perfect mechanism to alleviate inequalities and rampant poverty, and racial discrimination in the farming industry. This chapter indicated that such models receive support from the government, in terms of financial support, both in South Africa and other capitalist countries.

CHAPTER FOUR

APPROACH TO THE MEASUREMENT OF THE PERFORMANCE OF FIRMS

Agriculture is a dynamic industry, constantly being affected in various ways by changes in the climate, technology, marketing and government policy. Consequently, little in agriculture remains the same for long: market conditions change, as do the government's agricultural and economic policies.

Van Zyl et al. (1999)

4.1 INTRODUCTION

Most economic theories are either implicitly or explicitly based on an evolutionary argument: Competition and freedom to enter and exit assures that only the most efficient firms survive. It is generally assumed that firms survive or fail because of the relative superiority or inferiority of their operating, financial, and governance characteristics (Byrd *et al.*, undated). The nature of the company generally determines the manner in which it responds to external environmental factors such as fluctuations in the economic cycle. The current and future state of economic growth in a country, which is measured by the GDP, may also influence the performance of the firm. Less favourable trading conditions caused by a general decline in business activity could have significant consequences for both management and stakeholders (Bloom, 2001).

Today's business environment has placed unprecedented pressure on decision-makers to perform adequately in an expanding world economy. Planners and managers are faced with the dilemma of operating in a business system that is more competitive, the lead-time to enforce or implement business decisions is longer and information is abundant. Notwithstanding this, the firm does not function in a vacuum, but needs to contend with various uncontrollable

decision-making environment variables (e.g. economic, political, social, technological, etc.) and an increase in expectations of internal and external stakeholder groups such as shareholders, who require an exemplary annual financial performance.

This chapter aims to provide some insight into the overall measurements of financial performance of a business. While manifold financial indicators are used to analyse the internal financial performance, another approach that can be used to evaluate the profitability of the business relative to that of its counterparts in the same industry, will also be applied. One way of applying this is through evaluating the gross margin (GM) of individual enterprises within the firm. Turner and Taylor (1999) have shown that this can easily be done by accounting all incomes and variable costs associated with each enterprise to arrive at the “profit” of each enterprise. This figure can then be compared to the performance of various enterprises relative to that of each industry.

4.2 CATEGORIES OF FINANCIAL PERFORMANCE INDICATORS

Farm financial managers use financial performance measures to assess the profitability, liquidity, solvency, and financial efficiency of their businesses. These performance measurements assist managers in making effective planning, implementation, and control decisions. Performance measurements can be used as warning signs or indicators that corrective actions are needed to improve the firm’s financial position and profitability. The information provided from performance measurements also allows managers to make strategic plans and track their progress relative to the firm’s goals (Barry and Michael, undated; Kay and Edwards, 1999).

Schneider (1992) indicates that several schools of thought have evolved over time regarding the evaluation of financial performance. One school relates to the traditional performance analysis of the firm and refers specifically to financial indicators such as return on assets (ROA), return on equity (ROE), operating profit margin ratios (OPMR), and sales. Another school of thought

that has gained prominence in recent years focuses on the firm's ability to generate cash and thereby create desirable benefits for shareholders. In the latter approach, performance measurement emphasises the importance of the shareholder group and evaluates the value-creating potential of the firm.

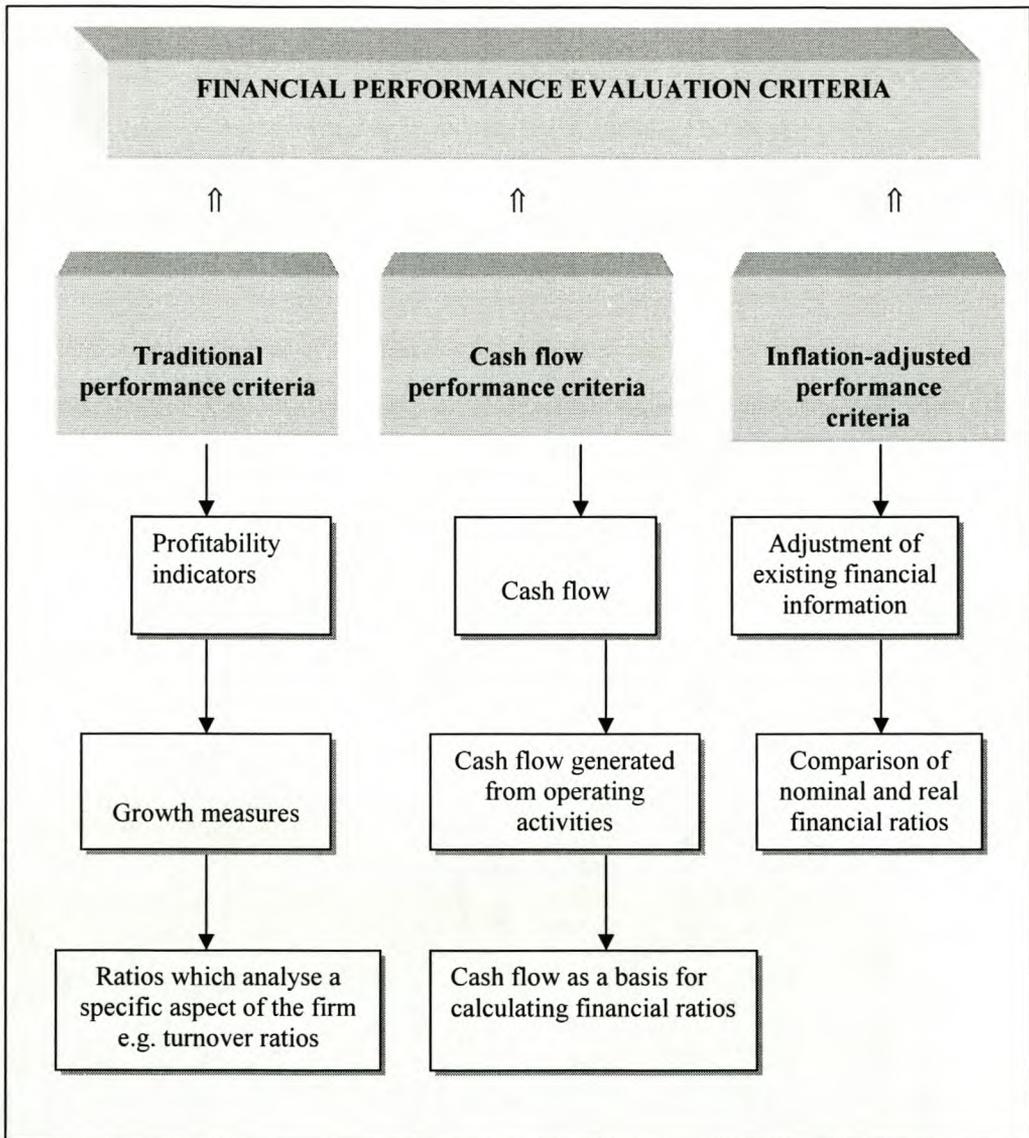
The conceptualisation of financial performance measurement makes it possible to distinguish between three categories of financial performance indicators, namely traditional, cash flow and inflation-adjusted indicators. The preceding financial performance indicators are further used to determine the value-added contribution of the firm's activities to shareholder's wealth. Figure 4.1 indicates financial performance evaluation criteria related to traditional, cash flow and inflation-adjusted financial indicators. Traditional financial performance indicators analyse profitability and growth, which include the solvency, liquidity and productivity performance of the firm (Schneider, 1992).

Cash flow performance indicators are used to evaluate the flow of cash in a given financial year. The cash flow indicators are evaluated in terms of various income statement and balance sheet figures, as well as other information relevant for determining the cash flow position of the firm. The cash flow of the firm therefore reflects inflow and outflow changes of various figures (e.g. working capital) in the financial statements. Cash flow from operating activities forms the basis for the calculation of various cash flow ratios, which measure efficiency and financial performance, and relates to the ability of the firm to generate and maintain positive cash flow.

The inflation-adjusted⁶ financial performance indicators are a category of ratios that reflect the real financial performance of the firm after provision is made for inflation. Several adjustments are made from existing financial statement information, which enables the re-calculation of various traditional performance indicators. An inflation-adjusted ratio makes it possible to compare the ratios both in monetary (nominal) and real terms. Both the traditional and cash flow evaluation criteria are used to determine additional

⁶ In this study, the inflation-adjusted approach will not be discussed in detail and not applied. This is so because it was not applied in the business plans and financial statements of farms' financial performance measurements to be evaluated and compared later in this study.

group financial indicators, which reflect the capacity of the firm to add value to its business activities and maximise the wealth of shareholders (Schneider, 1992).



Source: Schneider, 1992

Figure 4.1: Categories of criteria used to evaluate financial performance

4.3 TRADITIONAL PERFORMANCE CRITERIA

A wealth of literature exists in support of traditional financial measurement. Many of the traditional indicators are well documented and analysed in the financial literature. Several studies, including Hamilton and Shergill (1992); Boehlje and Eidman (1984); Kay and Edwards (1999); Barry *et al.* (1995); and

Van Zyl *et al.* (1999) provide a comprehensive overview of financial indicators that are generally used to analyse financial performance. A study undertaken in South Africa by Fasol and Firer (1995) indicates that ROA is found to be the most widely applied financial performance indicator, followed by ROE. Nevertheless, the Department of Agriculture and Water Supply (1987), shows that in South African agriculture the concept of net farm income (NFI) per R100 of capital invested is widely used as a norm for inter farm comparisons.

There is limited conformity regarding an acceptable categorisation of the large number of traditional financial ratios used to analyse and evaluate the current and long-term financial performance of the firm. Various authors propose several/different types of financial performance measurements, but generally similar classification of financial ratios. Stickney (1990); Boyd (1991); Barry *et al.* (1995); Kay and Edwards (1999); and Van Zyl *et al.* (1999) recommend the use of profitability, liquidity, solvency and other financial measurements. Regarding the importance of various indicators, Court and Radloff (1990) applied factor analysis (a statistical technique) to determine appropriate categories of financial performance indicators. According to their study, the first factor, profitability, explains 37 percent of the variance declared by the total number of ratios included in the analysis; factor two, leverage, 26 percent; factor three, activity, 11percent and factor four, flow of funds, eight percent.

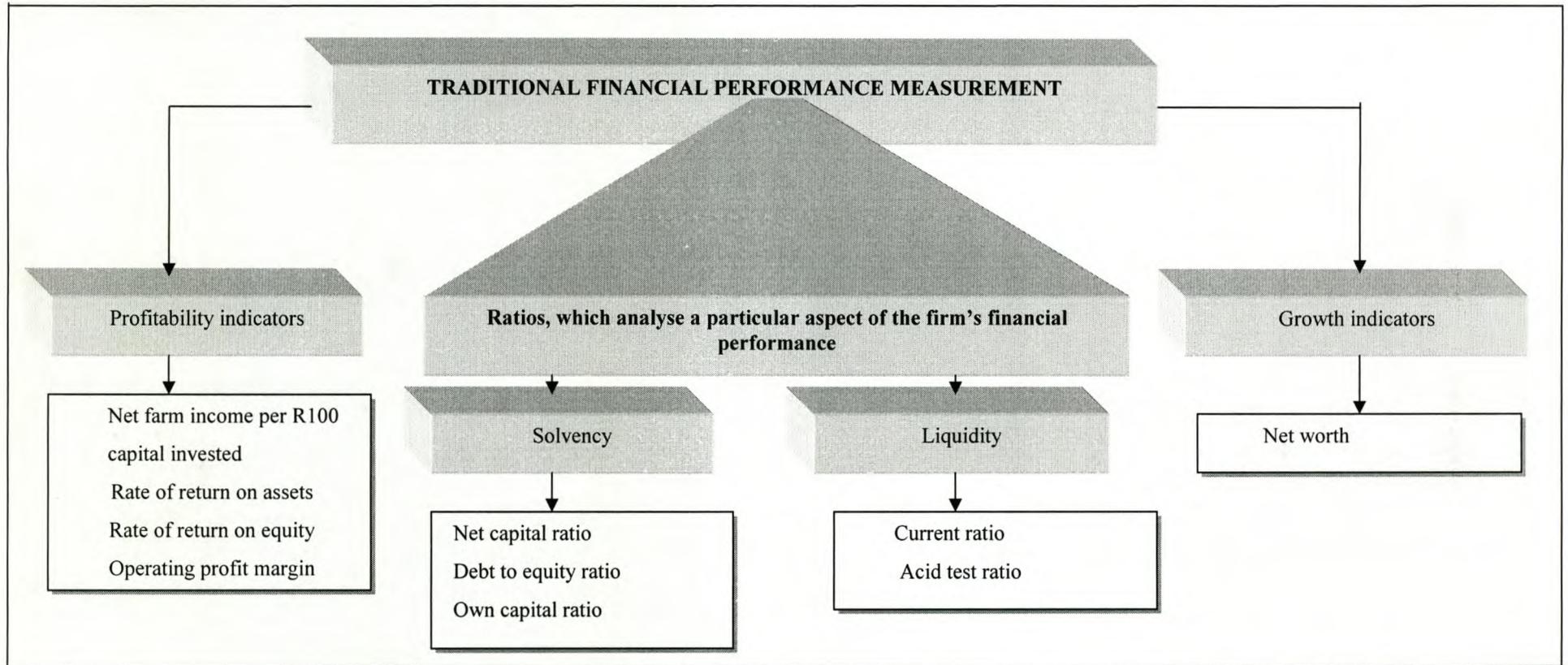
Figure 4.2 is a representation of the individual categories of indicators which may be considered when evaluating traditional financial performance. For the purpose of this study, traditional performance measurements are grouped according to traditional profitability, growth and several other categories that measure a particular aspect of the firm's financial performance. These categories of financial performance indicators refer to total assets, turnover, liquidity, solvency and productivity indicators. These financial performance measurement concepts of traditional financial ratios are discussed and analysed in the context of the contribution to the measurement of the firm's financial performance.

4.3.1 Farm profitability measurements

Profitability measurements explain how efficiently the business or firm is using its resources to produce profit (Kay and Edwards, 1999). Ratios associated with an analysis of profitability in the firm usually provide management with an indication of the efficiency and effective utilisation of capital resources. This refers to appropriate levels of several income margins and turnover ratios (which indicate the number of times the money invested in a particular asset becomes available per annum).

The traditional profitability indicators generally include NFI per R100 capital invested (can be compared to the average net farm income per R100 capital invested recorded in the South African agricultural sector), ROA (exceed real interest rate) and ROE (exceed ROA) (Kay and Edwards, 1999). In the South African agricultural sector, NFI per R100 capital invested is only an approximation of ROA, because remuneration to management is not yet subtracted. The operating profit margin analyses the profitability of the firm in terms of turnover. For example, a decrease in the operating margin indicates that the firm's profitability has not increased in relation to turnover. The income margin is of particular interest to shareholders because this will provide some indication of the expected dividend management will be able to declare.

Van Zyl *et al.* (1999) indicate that profitability is the percentage ratio between the profit earned in a given period and the capital used to realise that profit. It is the indication of the profitability of the farm business and, to the farmer, it would be the 'interest on capital' earned for a specific period. Profitability can also be used to compare this interest earned from the business with the interest that could have been earned had the capital been invested elsewhere. The formulae for all measurements of the financial performance indicators of the farm business are presented in the Appendix 1.



Source: Schneider, 1992

Figure 4.2: Indicators available to analyse financial performance.

4.3.2 Solvency measurements

Kay and Edwards (1999) indicate that solvency measures the relative relations among assets, liabilities, and equity. It is a way of analysing the business debt and seeing whether liabilities could be paid off if all assets are sold. The latter requires assets to be greater than liabilities, indicating a solvent business. As already shown in Figure 4.2, three ratios are commonly used to measure solvency and are recommended by Van zyl *et al.* (1999): the net capital ratio, debt to equity ratio and the own to capital ratio.

The net capital ratio is the ratio between total assets and total liabilities. It indicates whether outstanding liabilities could be met if all assets were sold. A ratio exceeding 2:1 is generally accepted. A rising ratio over a period indicates an improvement in the capital position of the business. On the other hand, the own capital ratio refers to the ratio between the farmer's own contribution and the total assets of the business. For a financially sound farm business, an own capital ratio of at least 0.50 is desirable.

The debt to equity ratio reflects the ratio of total liabilities to own capital in a farm business. The leverage ratio gives an indication of the farmer's ability to meet all liabilities through own capital. A suitable ratio will depend on the cost of borrowed capital and will be different for every farm business: for a farm business with a healthy capital position, the leverage ratio should generally be less than one. This implies that the farmer should not owe more than the amount of own capital that has been contributed.

4.3.3 Liquidity measurements

Liquidity measurements are used as indicators of the firm's ability to meet financial obligations as they come due without disrupting the normal operations of the business (Barry *et al.*, 1995). Liquidity measures the ability to generate cash to the amounts needed at the time needed, generally within the next accounting period, making it a short-run measure. Current payments and liabilities include items such as production costs, interest and compulsory debt redemption. Liquidity therefore refers to the ratio of inflow to outflow of funds in the short term. Like solvency ratios, liquidity ratios are calculated

from the balance sheet. These ratios reflect the situation at a specific time and are therefore static. Liquidity measurements commonly used include the current ratio and the acid test ratio (Kay and Edwards, 1999; Van Zyl *et al.*, 1999).

The current ratio is the ratio of current assets to current liabilities in a farm business. Apart from the cash flow statement, it is the yardstick most frequently used for measuring the liquidity of the business. It indicates the extent to which current liabilities can be redeemed through cash and the sale of other current assets (Van Zyl *et al.*, 1999). Depending on the nature of the farm business and the risks involved, a ratio of at least 2:1 should be maintained. Van Zyl *et al.* (1999) show that since current assets also include assets which can be converted to cash within a single year, the current ratio also measures the liquidity of the business over this period. The acid test ratio measures the immediate liquidity by excluding items that cannot be converted to cash immediately. Refer to Section 4.4 for more appropriate measurement of the cash position of a farm business.

4.3.4 Growth of the business

Growth rates measure the performance of the farm business over a specified number of years. It is an analysis of past performance, but managers need to analyse growth rates of critical financial magnitudes in order to identify and obtain insight into financial trends and fluctuations that have occurred over the past number of years. Many financial determinants may affect the future growth of the farm business, in particular operating activities and the manner in which the financial statements are analysed. A review of key growth rates could also provide information on trends and performance gaps and may have implications for various strategic business options that the business may contemplate in the future. Growth rates are often associated with shareholder returns and many surveys that analyse financial success and performance use growth or returns as measurements of performance.

Before analysing the growth rate of several financial magnitudes, it is necessary to briefly review options available to management for calculating

growth. Bloom (2001) argues that the growth rate of a particular financial magnitude either represents simple or compounded growth or can be calculated in monetary (nominal) or real terms. Simple growth rates are not used as frequently as compounded growth to evaluate financial performance. Average compounded growth, which invariably represents a percentage increase, is often used to reflect and analyse the extent of an improvement in the performance of the business. The percentage increase in net worth from one year to the next indicates the financial progress or otherwise of the farm business. Only the net worth is relevant, because it reflects the growth in the entrepreneur's own interest or own capital in the business. A positive real growth rate is desirable. To achieve real growth, the growth of the business should exceed the inflation rate (Van Zyl *et al.*, 1999).

4.3.5 Criticism against the traditional performance measurements

Contemporary financial performance measurement suggests that traditional indicators are outdated in terms of the dynamism of changing business financial decision-making and performance analysis. Therefore, financial performance becomes more than an analysis of the firms' financial position. The focus of traditional measurements is on the immediate issues facing the business. In other words, the emphasis is on the current situation and not on creating a balance between longer-term trends and financial performance. In this context, the focus in financial performance measurement, it appears, needs to move away from traditional thought processes to other performance measurement approaches such as cash flow analysis. As Van Zyl *et al.* (1999) put it, most of the information needed for further analysis of the farm business is contained in the balance sheet and income statement. Most financial decisions can generally be based on information and analysis of this nature. However, an important shortcoming of balance sheets and income statements is that they do not take account of the flow of funds in the farm business for the period under review.

4.4 CASH FLOW PERFORMANCE CRITERIA

The concept of cash flow has developed over the past number of years as an important part of the evaluation criteria applied in financial performance measurement. Cash flow analysis provides information about the source and application of financial means over a period, usually a financial year, and also attempts to address several limitations associated with traditional financial performance measurements. All firms are required to include a statement of cash flows in their annual financial statements, which serves to magnify the cash flow position of the business in the interest of all stakeholders. Although the statement of cash flow is a relatively new addition to financial reporting, it is generally regarded as a useful financial management performance analysis tool.

Van Zyl *et al.* (1999) are quick to point out that the most important feature of the cash flow statement is that only cash expenses and cash income are indicated at the time of payment or receipt. The cash flow statement is based on the cash analysis book. The cash flow statement reflects the sources from which funds were generated during the accounting period, as well as purposes for which these funds were used. The accounting period is divided into individual months so that the flow of funds can easily be traced during the period under review.

Since the cash flow is an important consideration when it comes to financing the farm business, the bank and monthly bank balance are important elements of the cash flow statement. The cash flow statement therefore consists of three components, namely income, expenditure and the bank balance (Van Zyl *et al.*, 1999):

- Income consists of operating income (income from products, e.g. wool, eggs, grapes, etc.), capital income (sales of livestock, machinery, etc.) and non-farming income. Only actual cash income is regarded as income, and only in the month of receipt;
- Expenditure is classified as operating expenditure (seed, fertiliser, purchased stock-feed, etc.), capital expenditure (purchasing of livestock, machinery, etc.), debt repayments (interest and capital

redemption) and non-farming expenditure. As in the case of income, only actual payments are recorded in the cash flow statement, and then only in the month of payment. Van Zyl *et al.* (1999) indicate that there are two aspects that are especially important; firstly, non-cash flow items, such as depreciation, are not recorded in the cash flow statement. Secondly, items such as seed and fertiliser are often bought on credit at co-operatives. These items are only recorded in the cash flow statement in the month that the account is paid. If the account is only partially paid, only the portion that has been paid should be recorded. Amounts in arrears are not reflected in the cash flow statement; and

- The surplus or shortfall for a specific month can be calculated by deducting total expenditure from total income. The sum total of the surplus/shortfall and the opening bank balance gives a new balance, which could be either negative or positive. If this balance is negative, the interest that has to be paid on the bank overdraft of the farm business is added to calculate the closing balance. If the balance is positive, the amount is directly carried over to the closing balance because no interest is payable in this case. It should be borne in mind, argue Van Zyl *et al.* (1999), that interest on overdraft balances is calculated on the particular month's balance only, so that the interest charges will differ from month to month as the overdraft balance fluctuates. The closing balance for one month is the opening balance for the next month.

From the above discussion it can be argued that a cash flow statement offers a complementary form of analysis to the firm's financial performance. In addition, it provides a standardised format for financial performance evaluation and further indicates the relationship between beginning and year-end financial figures in the balance sheet and a figure for the whole year in the income statement.

4.5 GROSS MARGIN ANALYSIS

After evaluating the performance of a firm (like in Sections 4.3 and 4.4), diagnosis of why the performance is good or bad can be done. Gross margin analysis can be used to assist in this regard. The comparison of the own enterprise's performance with that of the published "standards" (these norms can be own records from year to year, average for a region, best $\frac{1}{3}$, general accepted norms and norms from research results) can immediately assess where the performance of the enterprise is in relation to the range of performance being achieved by other producers in the category that are similar in size and type to the enterprise being analysed. More detailed analysis of an enterprise's performance can assist the producer to identify the strengths and/or weaknesses in the performance of the particular enterprise. This can then be fed back into the management process, thereby leading to an improvement not only in enterprise performance but also in the whole farm performance.

The gross margin is given by the gross production value less variable costs, thereby taking into account other costs that are also applicable to other enterprises. It is for this reason that in practice, the margin above specified cost is often used when comparing the performance of the business enterprise. The margin above specified variable costs is given by the gross production value less the directly allocable variable costs. A directly allocable variable cost item is a cost item which can be readily allocated to a specific enterprise and which varies in approximately direct proportion to changes in the scale of that enterprise. Given this background, the margin above specified variable costs method of analysis was used instead of the gross margin for the evaluation and comparison of the performance of the farms' enterprise in Chapter 5 and 6.

4.5.1 Weakness of the gross margin analysis

- It does not produce a profit figure but provides a useful figure for comparing enterprises from farm to farm, or from year to year on the same farm as long as figures are compared on a like-for-like basis;

- It does not take account of overhead costs and since enterprises create different levels of overhead costs it can be misleading to compare enterprises on a farm purely on gross margins;
- The gross margin must therefore be interpreted only in relation to overhead costs and not between enterprises without prior knowledge of the whole farm cost picture; and
- Profit is not proportional to gross margin. Increasing the intensity of enterprises on a farm may well increase the gross margin but not necessarily the farm profit because the overhead costs may have risen faster.

4.5.2 Strength of the gross margin analysis

- It is a simple method of assessing efficiency;
- Records required and the accounting are easy and quick;
- Farm planning can be carried out relatively easily using gross margins provided it is remembered that overhead costs are not included; and
- It does indicate areas of strengths and weakness in the business.

Weaknesses of the gross margin analysis have led to it being referred to as the “gross illusion” and have caused a move to the use of the net margin. The net margin of an enterprise is its gross margin less all or a proportion of the overhead costs (Turner and Taylor, 1999). Nevertheless, the same can be said about net margin, as including overhead costs would incorporate costs incurred in other enterprises within the company. Margin above specified costs is often used to compare the performance of the enterprise relative to the previous year or to that of similar farms in its immediate vicinity.

4.6 SIGNIFICANCE OF THE FINANCIAL RATIO ANALYSIS

Financial ratios are generally used to evaluate and assess the performance of the firm at a specific point in time or over a particular financial period. Various strategic and operational aspects can be analysed by using financial

ratios and major areas of concern within the firm can be identified. The challenge to financial planners is to select financial ratios that are applicable and relevant to an analysis of the current financial situation. A large number of financial ratios can be used to measure financial performance; however, financial analysis often results in the calculation of ratios which have little explanatory power or have no relevance for analysing a particular aspect of the firm's financial position (Bloom, 2001).

Typically, the analysis of financial statements is an application for 'management' (Ross *et al.*, 1993) to assess financial performance. In many cases financial analysis entails comparing ratios of one firm to that of a peer, an appropriate industry average or selected norm. Financial ratios therefore have both an internal and external application.

4.6.1 Internal application

The information obtained from the analysis of financial statements is of particular importance to various internal stakeholders such as management and workers. Primarily, the information provided by financial ratios is used for analysing the firm's financial performance and for evaluating, *inter alia*, management effectiveness, operational efficiency, productivity levels and the efficient use of capital. Information obtained from financial ratios also serves as an input guideline for determining future profitability levels, earnings and the cash flow performance of the firm.

4.6.2 External application

Financial ratios are useful for external stakeholders such as short-term creditors and long-term investors. Short-term creditors, for example, would use financial information to decide whether or not to provide or extend credit to the firm. An additional use of financial ratios is to evaluate the financial performance of the firm against selected industry benchmarks. Financial ratio information further assists the firm to make decisions regarding the possible acquisition of a new business and to determine an appropriate offer to purchase.

4.7 CONCLUDING REMARKS

This chapter provides the basis for analysis of various aspects that relate to the widely accepted measures of business performance, with more emphasis on financial performance. The theoretical discussion focuses on a broad overview of the manifold issues encountered in financial performance analysis and performance measurement. The information obtained from the analysis of the financial statements is of particular importance to various internal stakeholders such as management, workers, and investors. Primarily, the information provided by the financial ratios is useful for analysing firm's financial performance, *inter alia*, for evaluating management effectiveness, operational efficiency, productivity levels and the efficient use of capital. Information obtained from financial ratios also serves as an input guideline for determining future profitability levels, earnings and the cash flow potential of the firm. It is not possible to control or predict all factors that influence the final outcome of any farm decision. Nor is it possible to have available all of the information that would be ideal. But decision-making can be improved through using available information and through effective financial planning and analysis.

Because there are many external factors (such as exchange rate, climatic conditions, etc.) that may influence performance, it is important that their impact be considered when evaluating the performance of the business. This study therefore will compare the gross margin of the farm enterprises relative to that of the industry they are engaged in, to effectively reach a considered conclusion and make a recommendation with regard to the performance of farm- worker participation schemes in the Western Cape Province.

CHAPTER FIVE

EXPERIENCE WITH THE IMPLEMENTATION OF THE FARMWORKER EQUITY-SHARING SCHEMES: WESTERN CAPE

The government's land redistribution programme aims to "provide the wider majority of South Africans with access to land for residential and productive use in order to improve their livelihoods, with particular emphasis on the poor, labour tenants, farmworkers, women and emergent farmers".

Department of Land Affairs, 1997

5.1 INTRODUCTION

The philosophies, motivations, forms and levels of worker participation were discussed in Chapter 2. Among other things, it was possible to highlight some of the expected benefits for all participating stakeholders in FWESSs in Chapter 3. The present chapter endeavours to present the experience gathered from the operation of FWESSs in the selected areas of the Western Cape Province. The costs, uncertainties and delays associated with the formal transfer of small sub-divisions of land in South Africa has contributed to the growing popularity of FWESSs as a means of addressing inequalities created by the apartheid policies while maintaining or improving agricultural performance (Eckert et al., 1996). Approximately 32 FWESSs has been implemented in the Western Cape Province alone (Lotter, 2003). These projects involved different fruit, wine, vegetables, olives, poultry, cut flowers, dairy and eco-tourism enterprises. The present study evaluated the performance of five FWESSs *vis-à-vis* motivations behind the adoption of the scheme from the stakeholders' point of view, financial performance, socio-economic factors and characteristics of governance. Schemes considered in this study were those that were administered by the Cape Town regional office of the DLA, which had been in full operation for more than a year. For reasons of confidentiality, the names of the farms are not explicitly mentioned during

the discussion of the results. Table 5.1 presents some of the features of these ventures.

- All FWESSs were implemented under the LRAD programme. Only farm C was implemented under the SLAG programme (before July 1999). The establishment of these FWESSs were initiated by the original owners and only permanent farmworkers were eligible for participation;
- The participating parties agreed that the farms would pay dividends either in the first or fifth year of operation as indicated in Table 5.1. The same applied to the tradability of shares: farmworkers could sell and exit the scheme anytime or in the fifth year of the operation of FWESSs;
- The government of South Africa (DLA) only assisted through the provision of the LRAD grants to the farmworkers during the establishment of FWESSs and there was no additional support in whatever form thereafter. The total amount received by the original farm owners for the sale of the farm shares varied according to the number of participating farmworkers and the programme under which the scheme was established (LRAD/SLAG);
- In all FWESSs, farmworkers benefited from ventures by participating in the capital structure of the company, no separate land was allocated to either individuals or farmworkers collectively for whatever reason;
- Day-to-day management of the schemes was indicated in all the business plans to be executed through a system of participative management. Farmworkers as a group were either offered a seat or two on the board of the directors of the company; and
- The farmworker trustees were elected by all worker shareholders and had to be workers on the same farm. The dividends were held in a trust for farmworkers until the contractual date of payment was reached.

Table 5.1: Characteristics of FWESSs included in this study

Designation of the farm	Year of initiation *	Year of implementation**	Year of operation	Farm size (ha)	Purchase price (R)	Farm market value, 2003 (R)	Farm-workers' share (%)	Number of farmworker shareholders	LRAD grants (R)	Dividend payable	Tradability of shares
Farm A	1999	2000	1999/00	348,54	n/a***	10 366 991	10,00	42	672 000	First year	Fifth year
Farm B	2000	2001	2001/02	116,00	2 400 000	2 397 000	49,00	70	1 120 000	Fifth Year	Fifth year
Farm C	1996	1998	1997/98	900,00	5 850 000	9 488 259	10,49	22	330 000	Fifth year	Any time
Farm D	1998	2000	2000/01	50,00	n/a***	1 193 887	30,00	39	624 000	Fifth year	Any time
Farm E	1998	2000	1999/00	82,45	3 500 000	4 000 000	12,00	24	384 000	First year	Any time

Source: lotter, 2003 and own data.

* Year of initiation here refers to the time when the negotiations were started between the stakeholders involved, including the DLA.

** Year of implementation is regarded as the time when grants were disbursed to the farmworkers' trust to buy shares on the respective farms.

*** n/a – these farms were an on going concern the original owners only sold a certain percentage of farm shares to their farmworkers.

5.2 METHOD OF DATA COLLECTION AND ANALYSIS

5.2.1 Selection of study area and sample survey

The DLA in the Western Cape Province has three-regional offices: Cape Town, Worcester and George. The method used for selecting the study area was cluster sampling as it was considered the least expensive sample design. In this regard, this study selected FWESSs that were administered by the Cape Town regional office. In total, there were nine FWESSs that were in full operation in the region administered by this office. However, only five FWESSs (four situated near Piketberg and one situated near Vredendal) were considered in this study. Among the four FWESSs not included in this study, the business plan of one of these schemes (situated near Citrusdal) could not be found in the Cape Town regional office of the DLA. The other scheme (situated near Citrusdal again) had just started operation so it had not completed a full financial year by the time of data collection. With the last two schemes (situated near Citrusdal and Piketberg), the original farm owners, as the major shareholders, could not be found prior and during the course of data collection to provide permission for the survey.

A survey of each FWESS was conducted by interviewing the original farm owner (see Appendix 2), a sample of the board of the trustees (see Appendix 4) and a sample of the ordinary farmworker shareholders (see Appendix 3). On all the farms that were included in this study, a board of trustees was elected from farmworker shareholders by fellow workers. In farm B this board was however, decided on a voluntary system. As in any business, the management team of these farms included personnel such as secretaries, bookkeepers and, in some instances, a hired general farm manager (not the original farm owner). These personnel, however, did not have a financial stake in the businesses as shareholders. This could partially explained by the fact that LRAD funding was targeted at the previously disadvantaged people earning less than R1 500 a month (Ministry of Agriculture and Land Affairs, undated). The study also intended to include non-shareholder farmworkers⁷ in the survey in order to find out why they did not participate in FWESSs (see

⁷ The non-farmworker shareholders referred to here are those that were on the farm when FWESSs were initiated.

Appendix 5). However, it transpired that all permanent farmworkers on the farms were shareholders. The survey was therefore conducted with only the financial participants on these farms.

5.2.2 Data collection

The study commenced with consultation with officials (Slingers, 2003; Lotter, 2003) in the Cape Town regional office of the DLA to gather information and gain clarity on FWESSs administered by that office. The study proposal was furthermore presented in the Cape Town regional office of the DLA to ensure that it also covered aspects of their interest. Data were collected among all the farmworkers with the assistance of mr Werner Gerber (postgraduate student at the Department of Agricultural Economics, University of Stellenbosch, who was fluent in speaking and writing Afrikaans as farmworkers on these farms were Afrikaans-speaking). As farmowners could speak English, the researcher was responsible for interviews with them. The personal interviews were carried out by means of structured questionnaires (included as Appendixes 2 to 5) between the 6th August and the 7th September 2003. In total, the study sampled 54 respondents. On average, the sample included four trustees, six ordinary farmworkers and one original owner per FWESS. Simple random sampling was used to select farmworker respondents from among the farmworkers.

5.2.3 Data analysis techniques

The results of this study were mainly descriptive. They entailed the comparison of the actual performance of FWESSs with the initial projected performance submitted to the Cape Town regional office of the DLA. The study further compared the financial performance of FWESSs with that of the industry and area average performances. Financial ratios were used to benchmark the financial performance of schemes. The following sections present the results of the survey as case studies.

5.3 ASSESSMENT OF FARM A

5.3.1 Background

As highlighted in Table 5.1, this farm started operation in the 1999/00 financial year. The original farm owner initiated this FWESS in 1999 in order to make part of his farm available to all his permanent farmworkers. The original owner appointment facilitators (agents) who helped in designing the business plan and facilitation of the application process at large. At the time of the initiation of the FWESS the farm had employed 42 permanent farmworkers who consequently became eligible for participation. Of the 42 farmworkers, 16 were men and 26 were women. Of those ordinary farmworkers included in the interviews, 50 percent were men. The same ratio was applied for the interviews from the six farmworkers' elected trustees. Farmworkers formed a trust to acquire 10 percent share in the landholding company (including land and fixed improvements) in which they work. The original owner provided the company with movable assets for free. Of the total 10 percent farm owned by the farmworkers, 3,4 percent was provided by the original owner, while the farmworkers bought 6,6 percent with their grants. Although farmworkers salvaged a low percentage of farm shares, they were afforded a seat on the board of the directors of this company. Farmworkers collectively paid R672 000 in exchange for the farm shares. The deployment of this capital was at the discretion of the original owner. The company further acquired extra finance (mortgage loans) needed for the operation of this venture from one of the commercial banks in South Africa. The stakeholders could only sell and exit the scheme in the fifth year of its operation and dividends were expected in the first year of operation of the scheme.

Retirees and their spouses who has worked on the farm for more than six years might retain housing on the farm. Only one farmworker has resigned since this FWESS was implemented in 2000. Though this farmworker has resigned, he could only claim his capital share after five years of membership. The farmworkers on this farm were not uniosed. On average, the farmworkers who were interviewed had worked on the farm for 11 years. All the farmworkers on this farm had secured employment contracts, thereby enhancing job security.

5.3.2 Description of the farm

The farm is situated 15 km from Piketberg and approximately 150 km from Cape Town. It is located at the top of the Piketberg Mountain. The father of the original owner had owned this farm for a long time and ultimately transferred it to his son, though he (father) is still part of the board of directors of the company. This farm is intensively cultivated with a variety of fruit and flowers. The total land area of the farm is 348,54 ha, with 76,54ha under intensive cultivation. The total number of ha under orchards is 56,54, while the other 20 ha are under protea flowers. All these crops were irrigated. The fruit production mix includes 37,01 ha of apples of which 2 ha were non-bearing, 9,48 ha of pears, 5,05 ha of peaches and 3 ha of nectarines all in full production. Since the inception of this FWESS, the area under cultivation had been increased with 2 ha of apples. Approximately 272 ha of the farm are regarded as wasteland. The current market value of the farm is estimated at R10 366 991.

5.3.3 Motivation for the adoption of the FWESS on this farm

The motivation given by the farmworkers for embarking on the FWESS is summarised in Table 5.2. As for the farmworkers, 83 percent of the ordinary farmworkers and 50 percent of the farmworker trustees said that their main motivation for joining the FWESS was to participate in decision-making and possibly to get higher salary as first in importance, respectively. The rest of the farmworker trustees were motivated by job security, also as first in importance. Furthermore, the farmworker trustees indicated that the possibility to get a higher salary (33 percent), access to land (33 percent) and participation in decision-making (33 percent) motivated them, as third in importance. Only 17 percent of the ordinary farmworkers showed that they were motivated by a high level of job security as first in importance. Fifty percent of the ordinary farmworkers showed that their second important motivation for joining the FWESS was participation in the decision-making process of the farm. The farmworker trustees also said that their motivation for

joining the scheme was influenced by a higher level of job security (50 percent) and access to land (50 percent) as second in importance, respectively.

Table 5.2: Motivation for involvement of farmworkers on farm A

	Farmworker trustees n = 4			Ordinary farmworkers n = 6		
	r*	n	%	r*	n	%
Job security	1	2	50	1	3	17
	2	2	50	2	2	50
Possibility of higher salary	1	2	50	n/a	n/a	n/a
	3	3	33			
Access to land	2	2	50	n/a	n/a	n/a
	3	3	33			
Participation in decision-making	3	3	33	1	3	83
	4	1	100	2	2	50

* r = ratings in importance (most important=1, important=2, moderately important=3, less important=4), and n/a = not applicable.

On the other hand, the original owner pointed out that, although an increase in farm productivity was one of the reasons that influenced him to consider the implementation of the FWESS, empowerment of his farmworkers and improved working relations were his main objectives. According to him, he 'just wanted to do something for his farmworkers who had contributed a lot to the success of this farm'. This explained his contribution of a 3,4 percent share of the farm assets to the farmworkers' trust.

5.3.4 Assessment of characteristics of governance

This section attempts to explain the mode of operation within farm A. The original owner said that the operation of this company was vested in the board of directors. This board, which met on a quarterly basis, consisted of three members: the original owner, his father and the chairperson of the farmworkers' trust. The farmworkers were thus offered one seat on the board of the directors. The farm also hired a bookkeeper, who was neither part of the FWESS nor of the board of the directors. To ensure that the day-to-day operation on the farm was executed properly, two foremen were appointed from the farmworker shareholders. The original owner pointed out that, since he was a major shareholder in the farm, the inclusion of the farmworkers as shareholders did not impinge on his decision-making powers, as he was still responsible for making final decisions. Although the original owner indicated that the farmworkers participated at the top level of decision-making,

farmworkers indicated that they were indirectly involved in decision-making on the farm, except their chairman who was directly involved at the top-level of decision-making. The chairman of the farmworkers' trust, however, pointed out that he was just informed of the developments on the farm, he did not participate in decisions that were taken. All the farmworkers indicated that they had never made suggestions to be implemented on the farm. While the original owner indicated that every farmworker shareholder received training, 50 percent of trustees agreed with the original owner, while the other 50 percent of trustees said that they were the only group (board of trustees) that received training. All ordinary farmworkers indicated that they had never received any form of training in relation to the operation of the FWESS on the farm or elsewhere. This was also shown by their lack of basic understanding of principles of the FWESS. Of the interviewed farmworkers, 50 percent of trustees and 33 percent of the ordinary farmworkers showed their satisfaction with their working conditions and the manner in which the venture was managed. The other 50 and 67 percent of the trustees and ordinary farmworkers were not satisfied. Seventy percent of all the farmworkers indicated that they would continue working on the farm for more than 10 years, indicating a high level of job satisfaction, 10 percent indicated for six to nine years, a further 10 percent for a period of three to five years, and the last 10 percent for less than three years. All the trustees indicated that their dividends were to be held in the trust of the farmworkers.

5.3.5 Evaluation of the socio-economic factors

Table 5.3 summarises the socio-economic factors on this farm. With regard to income, 67 percent of the trustees were satisfied with the level of the salaries that they received on the farm, while the other 33 percent were not satisfied. All the ordinary farmworkers responded that they were not satisfied. As can be seen from Table 5.3, all the farmworkers indicated that they received health care services on the farm. These farmworkers also indicated that there was a mobile clinic that visited the farm once a week. All the farmworkers also showed that they were entitled to sick and maternity (women) leave. The

farmworkers indicated that all their children of school-going age were attending a school.

Table 5.3: Assessment of the socio-economic factors on farm A

		Farmworker trustees (n=4)		Ordinary farmworkers (n=6)	
		Response	(%)	Response	(%)
House size:	3 bedrooms	Yes	100	Yes	100
Facilities:	Electricity	Yes	100	Yes	100
	Sanitation	Yes	100	Yes	100
	Tap water	Yes	100	Yes	100
Payment:	Electricity	Yes	100	Yes	100
	Sanitation	No	100	No	100
	Tap water	No	100	No	100
Satisfied with salary		Yes	67	Yes	0
		No	33	No	100
Do you receive health care services?		Yes	100	Yes	100
Are children attending school?		Yes	100	Yes	100

5.3.6 Advantages and disadvantages of this FWESS

The original owner indicated that the number of days recorded for absenteeism, particularly when considering the number of the farmworkers employed, were low. The farm recorded 44, 51, 82 and 49 days in 1999/00, 2000/01, 2001/02 and 2002/03 financial year, respectively. The level of alcoholism prevalent among the farmworkers was suspected to be mainly accountable for this level of absenteeism. With reference to labour turnover, the farm had been able to keep its experienced workforce. Only one farmworker had resigned in 2002 and was not replaced. New apple orchards were thus established with fewer farmworkers. As more work was done with one less farmworker, this could be attributed to an increase in labour productivity. The original owner also indicated that this FWESS was capable of enhancing labour productivity. When the original owner was asked about the positive and negative aspects of this FWESS, he pointed out that there was a team effort between him and the farmworkers, a sense of loyalty to the business that improved the profitability of the farm. On the other hand, most the farmworkers indicated that one of the positive aspects of this FWESS was that they had had a capital share that they would withdraw when they retire from this venture. Job security was also mentioned as the other positive aspect of this FWESS by the farmworkers. For these reasons, they would advise other farmworkers on other farms within the country to consider the equity-sharing

option, as they would have less or nothing to lose, as they were given money by the DLA.

5.3.7 Expectations of farmworkers

Generally, the farmworkers had indicated that dividends to be received were the main focus of their expectations. Although the financial model of this farm presented in the business plan submitted to the DLA indicated that dividends would be paid in the first year of the operation of this venture, the original owner said that it was not in a position to declare dividends yet. The farmworkers indicated that they wished to use the expected dividends when made available for building their own houses. This revealed an element of misunderstanding and lack of knowledge among the farmworkers on how the FWESS operates, as in principle, the farmworkers were co-owners of the farm including the houses they occupied. The original owner indicated that he was aware of expectations of the farmworkers, which included dividend payment and training in management aspects of the farm. All stakeholders were confident that the farm would be able to achieve these expectations.

5.3.8 Enterprise analysis of this farm

The margin above specified costs involves an analysis of the estimated gross production value and the specified variable costs that can be directly allocated to an enterprise. As indicated in Table 5.4, pesticides and cost of sales constitute more than 60 percent of the total specified directly allocable variable costs in both financial years. The margin above specified costs also showed that the apple enterprise, as the main enterprise of the farm, performed well in both financial years. It could also be identified from Table 5.4 that these margins above specified costs varied significantly from year to year, as they increased in 2002/03. The production records (tons/ha) for protea flowers are not given here because of unavailability of data.

Table 5.4: Margin above specified costs of enterprises in farm A (R/ha)

Financial Year	2001/02				
Enterprises	Apples	Nectarines	Peaches	Pears	Proteas
Yield (tons/ha)	47,14	20,20	43,03	44,79	-
Gross production value:	50 431	65 450	54 676	47 021	21 748
Export sales	20 172	45 815	38 273	32 915	19 573
Local sales	30 259	19 635	16 403	14 106	2 175
Directly allocable variable costs:	14 033	7 452	9 467	17 248	10 854
Cost of sales*	7 200	4 110	5 070	9 809	5 450
Fertilisers	1 457	499	738	1 039	437
Pesticides	4 769	2 154	2 722	3 833	2 900
Weed killers	607	689	937	2 567	2 067
Margin above specified costs	36 398	57 998	45 209	29 773	10 894
Financial Year	2002/03				
Yield (tons/ha)	54,87	27,84	49,41	55,17	-
Gross production value:	57 491	83 122	61 784	47 914	24 110
Export sales	43 118	74 810	43 249	38 331	3 616
Local sales	14 373	8 312	18 535	9 583	20 494
Directly allocable variable costs:	15 157	9 465	10 698	18 525	11 397
Cost of sales*	7 776	5 220	5 729	10 673	5 723
Fertilisers	1 574	634	834	1 236	459
Pesticides	5 151	2 736	3 076	3 561	3 045
Weed killers	656	875	1 059	3 055	2 170
Margin above specified costs	42 334	73 657	51 086	29 389	12 713

* Cost of sales referred to here comprised of storage, packaging and marketing costs.

As depicted in Table 5.4, yields in all enterprises increased considerably in 2002/03. This was attributed to new orchards (apples) coming into production. It was also highlighted that there were favourable weather conditions that improved the quality of the products and increased yield. Furthermore, this farm improved and expanded its irrigation systems at the end of 2001/02, leading to an increase in yield. The gross production value increased in 2002/03 largely due to increased yield.

5.3.9 Summary for farm A

Although this farm planned to declare dividends in its first year of operation as indicated in the business plan, it could not fulfil this expectation by the end of the 2002/03 financial year despite having made ‘profits’ during this period. There were limited skills transfer on the farm to the farmworkers, as only the board of trustees had received training. This made it difficult for the farmworkers to be directly engaged in the day-to-day operation of the farm. Nevertheless, the manner in which the farm was managed and their levels of working conditions generally satisfied the farmworkers.

5.4 ASSESSMENT OF FARM B

5.4.1 Background

The farm under discussion was one of the two farms that were recently purchased by the original owner of this venture. This farm was purchased from ABSA Bank at auction after it had been dispossessed from the previous owner(s). The implementation of this venture took place in 2001. The FWESS was initiated in 2000 and started operating in the 2001/02 financial year. All the permanent farmworkers formed a trust and combined their state grants to buy 49 percent of the fixed assets of farm B. The assets included in the FWESS cover land and fixed improvements. At the time of the survey the company had leased movable assets from another company, as it did not have movable assets of its own. The farmworkers' trust paid R1 120 000 to the family trust of the original owner in exchange for the share in the equity of the farm. In total, there are 70 farmworkers working on the farm, 37 of whom were women, while 33 were men. Of the interviewed workforce, three of the sampled trustees were men and one was a woman, while the sample of ordinary farmworkers consisted of three men and three women. It should be understood that, though the farmworkers were providing their services on two farms, they were financially involved in only one farm (farm B). These farmworkers, on average, had served these farms for about 18 years⁸. All the farmworkers indicated that they had employment contracts as a result of their participation in the equity of the business. The farmworkers are not affiliated to any trade union. It was stated in the original business plan that the initial farm was not financially viable, therefore, the establishment of this partnership in the financial stakes between the farmworkers and the original owner was seen as a viable option for its financial viability.

The farm made use of facilitators during the initial process of the FWESS for the application of LRAD grants. A financier such as Khula Development Bank was also involved during the process of the training of the farmworkers. After all these developments, the family trust of the original owner remained as a major shareholder with 51 percent. Since this FWESS started operation, 56

⁸ After the purchase of these two farms, the new buyers retained the initial farmworkers.

farmworker shareholders remained on the farm as full-time farmworkers. At the time of the interviews, fourteen farmworkers had already left the farm (two resigned, five were fired, five were disabled and two died). The farm has, however, hired another 14 farmworkers who are not shareholders to fill the gap in the labour force left by the other farmworker shareholders. The dividends in this farm will be paid out in the fifth year of the operation of the venture and the farmworkers can only sell and exit the scheme in its fifth year of operation, as agreed to by the stakeholders.

5.4.2 Description of the farm

This farming unit is located on top of the Piketberg Mountain, approximately 24 km from the town of Piketberg, and about 160 km from Cape Town. As has already been highlighted, the original owner purchased the farm with the intention of selling almost half of the fixed farm assets to the farmworkers. The farm is approximately 116 ha in extent, with 27,41ha under orchards. The production mix of crops included 4,97 ha of apples (4,55 bearing and 0,42 non-bearing), 5 ha of pears in full production, 2,03 ha of peaches (1,87 bearing and 0,16 non-bearing), 1,86 ha of plums in full production, 11,74 ha of citrus (10,3 bearing and 1,44 non-bearing) and 1,81 ha of nectarines (1,02 bearing and 0,79 uprooted). The remained 1,02 ha of nectarines which were in production in 2001/02 were uprooted at the end of that financial year. Approximately 88 ha of the farm is classified as wasteland. The farm was purchased for R2 400 000 in 1999/00. The current market value of the farm is estimated to be R2 397 000. The decline in the market value is partly attributed to the uprooted nectarine orchards.

5.4.3 Motivation for the adoption of the FWESS on this farm

Table 5.5 summarises the factors that motivated farmworkers to participate in this venture. Fifty percent of the ordinary farmworkers and 50 percent of the farmworker trustees showed that their motivation for joining the FWESS was access to land as first in importance, respectively. A further 50 percent of the farmworker trustees indicated that the high level of job security motivated

them, also as first in importance. The ordinary farmworkers said that the possibility of a higher salary (100 percent) was a second priority and job security (100 percent) as third priority. According to the original owner, skills transfer through participative management and the generation of capital were his main reasons for the implementation of this FWESS.

Table 5.5: Motivation for involvement of farmworkers on farm B

	Farmworker trustees n = 4			Ordinary farmworkers n = 6		
	r*	n	%	r*	n	%
Job security	1	2	50	3	6	100
	2	1	100			
Possibility of higher salary	n/a	n/a	n/a	2	6	100
Access to land	1	2	50	1	3	50
Participation in decision-making	n/a	n/a	n/a	1	3	50
				4	4	100

* r = ratings in importance (most important=1, important=2, moderately important=3, less important=4), n/a = not applicable.

5.4.4 Assessment of characteristics of governance

The operation of this company is centred in the board of the directors. This board consists of the original owner, the wife of the original owner (also as the farm manager), the chairman and the vice-chairman of the board of the farmworkers' trust, an independent external director nominated by both parties, and the production managers. This implies that the farmworkers had two seats on the board of the directors of the company. All the participating parties indicated that the farmworkers were involved at the top level of decision-making on the farm. This could be partly attributed to the significant percentage of the farm shares owned by the farmworkers. With regard to the composition of the farm assets the original owner has 25 percent of the shares, and his wife 26 percent. The board of the directors meets once in two months. Though there were other personnel on the farm, such as the bookkeeper and the secretary, they did not participate in the financial stakes of the company. As indicated in Section 5.4.1 that the farmworkers worked on two separate farms, there were two foremen that were supervising their work rate with regard to their respective work. All members of the board of trustees indicated that they were involved in every decision that was taken on the farm. The board of trustees was decided on a voluntary system, and consists of nine

members. A new board is established in each financial year to ensure that every farmworker benefits from skill transfer. The board is mainly responsible for monitoring the trust funds when they made available and represents other farmworkers in the meetings. All the farmworkers indicated that they were included in the initial training that took place on the farm, which entailed financial management, technical skills and the functioning of the FWESS (legal aspects). Furthermore, additional training was given every year for newcomers into the board of the worker trustees. The farm manager said that the farm was involved with the PAETA and the former Rural Foundation for the skill development of the farmworkers. All the farmworkers interviewed indicated that they would like to work on the farm for more than ten years. This revealed the level of enthusiasm and trust that exists between the stakeholders on this farm. Furthermore, all the farmworkers were satisfied with the way the farm is managed, and with working conditions.

5.4.5 Evaluation of the socio-economic factors

It is evident from Table 5.6 that all the farmworkers have two bedrooms to accommodate their households and the rooms have services such as electricity, sanitation and tap water. The farmworkers, however, are accountable for the payment of electricity and sanitation.

Table 5.6: Assessment of the socio-economic factors on farm B

		Farmworker trustees (n=4)		Ordinary farmworkers (n=6)	
		Response	(%)	Response	(%)
House size:	2 bedrooms	Yes	100	Yes	100
Facilities:	Electricity	Yes	100	Yes	100
	Sanitation	Yes	100	Yes	100
	Tap water	Yes	100	Yes	100
Payment:	Electricity	Yes	100	Yes	100
	Sanitation	Yes	100	Yes	100
	Tap water	No	100	No	100
Satisfied with salary		Yes	100	Yes	33
		No	0	No	67
Do you receive health care services?		Yes	100	Yes	100
Are children attending school?		Yes	100	Yes	100

With regard to salary, all trustees and 33 percent of the ordinary farmworkers said that they are satisfied with the level of salaries, while 67 percent of the ordinary farmworkers are not satisfied. Regarding health care services, the

professional nurse visited the farm twice weekly. With regard to the schooling of the children of the farmworkers, all children of school going age are attending school.

5.4.6 Advantages and disadvantages of this FWESS

The farm manager indicated that their involvement with the farmworkers improved the performance of the farm. It motivated the farmworkers to work very hard. A good relationship between the participating stakeholders is emphasised by the farm manager. Although it is pointed out that the farm did not have its own objectives at heart but those of the farmworkers, the financial partnership has drawn loyalty from the farmworkers to the business. The rate of absenteeism was recorded as approximately 19 days, 12 days and another 12 days in 2000/01, 2001/02 and 2002/03 financial years, respectively, which was low when taking into account the number of the farmworkers. This reduced the amount of money lost due to absenteeism. The farmworkers show that the farm improved their knowledge and understanding of the operation of the business at large. It was also interesting to learn from the farmworkers that the negative aspect of this FWESS had to do with globalisation, because of the exchange rate affecting the profitability of the farm as it was export-orientated. They also said that farmworkers on other farms should be encouraged to participate in FWESSs, provided they fully understand how it functions. The farmworkers hoped that they would receive their dividends.

5.4.7 Expectations of farmworkers

Housing on the farm is said to be on contractual basis. This implies that the farmworkers can stay in the houses as long as they continued working on the same farm. It is for this background that farmworkers expected to build their own houses as part of their participation from this FWESS. It was also indicated that the original owner is aware of their expectations because it was agreed to have 33 percent of the annual dividend share deposited in the farmworkers' trust for housing and 67 percent distributed to the farmworkers

when they become available. All the stakeholders were positive that the farm would achieve their expectations.

5.4.8 Enterprise analysis of this farm

Information outlined in Table 5.7 only referred to farm B, it did not include the farm solely owned by the original owner. The farm manager in this farm indicates that they started operation in 2001/02 financial year, so prior to this year (2001/02) the previous owners (ABSA bank) neglected the farm. This sacrificed the production potential of this farm in 2001/02 financial year and before.

Table 5.7: Margin above specified costs of enterprises in farm B (R/ha)

Financial year	2001/02					
Enterprises	Apples	Pears	Peach- es	Plums	Citrus	Nectar -ines
Yield(tons/ha)	30,62	28,60	17,50	4,88	34,51	12,50
Gross production value:	32 945	42 240	38 900	35 753	36 336	44 118
Local sales	32 945	42 240	38 900	35 753	36 336	44 118
Directly allocable variable costs:	6 808	8 480	7 839	5 557	9 787	6 404
Cost of sales*	4 184	4 809	4 439	1 031	4 049	5 051
Fertilisers	786	1 051	746	1 182	1 237	415
Pesticides	1 394	1 864	1 322	2 095	2 191	735
Weed killers	444	756	1 332	1 249	2 310	203
Margin above specified costs	26 137	33 760	31 061	30 196	26 549	37 714
Financial year	2002/03					
Yield (tons/ha)	41,38	23,45	31,25	25,31	34,46	0
Gross production value:	86 414	60 276	47 015	57 453	32 523	0
Export sales	65 858	44 572	37 348	44 483	29 298	0
Local sales	20 556	15 704	9 667	12 970	3 225	0
Directly allocable variable costs:	15 452	13 767	8 344	14 956	11 835	0
Cost of sales*	10 144	6 046	3 311	6 978	3 483	0
Fertilisers	882	1 179	836	1 326	1 388	0
Pesticides	3 801	5 918	3 364	6 003	6 190	0
Weed killers	625	624	833	649	774	0
Margin above specified costs	70 962	46 509	33 671	42 497	20 688	0

* Cost of sales here included marketing costs, packaging costs and transport costs.

The change in ownership of the farm, accompanied by the new management and improved farming methods (sprays and irrigation) improved the production potential of this farm markedly, as yields in the following year of operation (2002/03) under the new ownership increased in almost all enterprises. Weather conditions were favourable in 2002/03, enhancing both quality and quantity of the produce. As the result of increased yields, the gross production value increased remarkably during the same period. Noteworthy,

the produce of 2002/03 was largely sold in the international markets that resulted in more gross production value than in 2001/02, as the exchange rate was described been favourable in that year. A value of zero in yields for nectarines was recorded during 2002/03 because orchards of this enterprise were totally uprooted at the end of the 2001/02 financial year.

5.4.9 Summary for farm B

The farmworkers on this farm continuously receive training with regard to the management aspects of the company. This ensures that every worker shareholder can acquire business skills. Furthermore, the board of trustees rotating membership allowed every farmworker to participate in the decision-making process. This could be ascribed to the involvement of the farm with the former Rural Foundation and PAETA projects before the establishment of the FWESS. The farm manager indicated that the farm would pay dividends in its fifth year of operation. This was agreed upon prior to the implementation of this venture among the stakeholders largely because the farm was not financially viable when this partnership started. The farm presents a good model to be followed by other schemes of this nature in terms of the empowerment of the farmworkers. Financially, the performance was good, particularly in 2002/03.

5.5 ASSESSMENT OF FARM C

5.5.1 Background

Company X, together with its general manager, purchased farm C in 1996. The farmworkers on this farm were retained by the new owners, presumably because of their skills and familiarity with farm. As partners in this new venture, they implemented the FWESS and integrated farmworkers of this farm in its financial structure. The initial farm shares held by these two partners were 93,75 and 6,25 for the company and the general manager, respectively. With the assistance of the DLA LRAD grants, the farmworkers established a workers' trust and subsequently purchased a 10,49 percent share of the farm assets (including land, fixed improvements and movable assets) for

the value of R330 000, which was paid to both company X and its general manager. The commercial banks provided additional finance needed to meet the financial requirements for effective operation of this business. This company pledged its assets as additional security to the commercial banks that provided capital to the scheme. The farm had employed additional staff members prior to the implementation of this venture but they were not part of the FWESS. The farm was organised as a trust and the management style was participative in nature. Due to poor performance of this farm between the 1997/98 and 2001/02 financial years, the farmowners introduced a new management team in 2003.

The FWESS started operation in the 1997/98 financial year. Initially there were 25 permanent farmworkers of whom three did not want to participate when the FWESS started. They subsequently resigned. Men headed households of 16 and women headed six on this farm. Interviews were conducted with two men and one woman from the board of trustees and three men and three women from among the ordinary farmworkers. All the farmworkers lived on the. The participating farmworkers had worked on the farm for approximately 14 years and they indicated that they had employment contracts. The acquisition of the 10,49 percent share by the farmworkers resultantly reduced the initial shareholding of company X and its original farmowner to 83,92 and 5,59 percent, respectively. The agreement reached prior to the implementation of this venture was that the dividends to the farmworkers would be paid out in the fifth year of operation and that the farmworkers were free to sell their shares and exit the scheme at their convenience time. All the initial farmworker participants are still employed on this farm. This shows that there was a high level of job security and a low level of labour turnover.

5.5.2 Description of the farm

The farm is situated in the Piketberg area, approximately 20 km from the town of Piketberg and about 160 km from Cape Town. The farm occupies about 900 ha of land in that area, with 111 ha under orchards and vineyards. The production mix of the farm consists of 17 ha of table grapes (6 ha non-

bearing), 10 ha of wine grapes in full production, 34 ha of citrus (4 ha non-bearing), and 50 ha of cash crops under irrigation. The wasteland in the farm i.e. the area that could not be used for cultivation purposes is 539 ha. The farmowners leased 250 ha of the farmland. Since the establishment of the FWESS, the area under orchards and vineyards has been expanded by 10 ha (6 ha of wine grapes and 4ha of citrus), while 6 ha of the table grapes has been uprooted. Fifty ha of cash crops were established during this partnership. The farm was purchased for R5 850 000 in 1995 and it was estimated that the market value at the time of this survey (August 2003) was R10 366 991.

5.5.3 Motivation for the adoption of the FWESS on this farm

Table 5.8 shows the perceptions of the farmworkers with regard to the motivation behind their participation in the FWESS.

Table 5.8: Motivation for involvement of farmworkers on farm C

	Farmworker trustees n = 3			Ordinary farmworkers n = 6		
	r*	n	%	r*	n	%
Job security	1	2	67	1	2	33
	3	1	33	2	2	40
Possibility of higher salary	1	1	33	1	3	50
	2	1	33	2	1	20
	3	1	33	3	1	20
	4	—	—	4	1	17
Access to land	2	1	33	2	1	20
	4	2	100	3	2	40
	—	—	—	4	3	50
Participation in decision-making	2	1	33	1	1	17
	3	1	33	2	1	20
	—	—	—	3	2	40
	—	—	—	4	2	33

* r = ratings in importance (most important=1, important=2, moderately important=3, less important=4).

The survey conducted among the farmworkers shows that their interest in joining this FWESS was driven by their anticipation of a high level of job security (67 percent and 33 percent of the farmworker trustees and ordinary farmworkers as first in importance, respectively), the possibility of higher salaries (33 percent of trustees and 50 percent of the ordinary farmworkers also as first in importance), access to land (33 percent as second in importance and 100 percent as fourth in importance for the farmworker trustees, 20 percent as second in importance and 50 percent as fourth in importance for the

ordinary farmworkers). The farmworkers shows a sense of a high level of job security as they indicated that they acquired employment contracts, possibly as the result of their participation in the FWESS.

The farm manager was interviewed on behalf of the initial participating stakeholders (company X and its shareholder general manager). He argued mentioned that the intention of this FWESS was to distribute wealth among shareholders (through dividends and capital gains). Although this FWESS started operation five to six years ago, it was not yet in a position to declare the first dividends. All parties, however, were positive that this venture would help them realise their objective. As noted, an increase in farm productivity was also one of the motivations behind the adoption of this FWESS for the original owners. The farm manager indicated that this FWESS did increase farm productivity as anticipated.

5.5.4 Assessment of characteristics of governance

As highlighted in the introduction to this chapter, this venture is organised as a trust. The strategic management of the farm is participative in nature. The hired farm manager (not the shareholder) executes the day-to-day management of the farm with the assistance of three foremen (farmworker shareholders). The board of directors of the farm consists of representatives of all the stakeholders, including the non-shareholder farm manager. Three members of the board of trustees are elected by the workers as their representation at board meetings. These three representatives alternate. The board members meet on a quarterly basis. Although the farm manager indicated that the farmworkers are involved at top-level management, the farmworkers said that they were involved in middle-level management. Nevertheless, the result of this study indicated that the farmworkers also participate at the top-level of decision-making through their representatives on the board of directors. Having said this, the farmworkers however, further indicated that there were some decisions in which they are not involved. This includes decisions such as the expansion of the orchards and some of the day-to-day operations on the farm. When it comes to financial decisions, the hired

farm manager is largely responsible. The farmworker trustees indicated that they understood what the financial statements entailed. Some of the farmworkers had seen suggestions they had made being implemented, which indicates their involvement in the decision-making process on the farm. All the farmworkers interviewed stated that they are satisfied with the manner in which the farm is managed. They are also satisfied with their working conditions.

5.5.5 Evaluation of the socio-economic factors

The socio-economic factors used to gauge the feelings of the farmworkers with respect to their living conditions on the farm are presented in Table 5.9. With regard to farm housing, the workers were provided with accommodation of more than three bedrooms, with facilities that included electricity, sanitation and tap water. The farmworkers paid R20 for electricity every month, with other facilities provided for free. The farmworkers are accommodated as families, and stay with their spouses (usually employed as workers, too) and their children. In total, 50 percent of the ordinary farmworkers are satisfied with the wage of the salary that they receive on the farm, while the other 50 percent were not.

Table 5.9: Assessment of the socio-economic factors on farm C

		Farmworker trustees (n=3)		Ordinary farmworkers (n=6)	
		Response	(%)	Response	(%)
House size:	3 bedrooms	Yes	100	Yes	100
Facilities:	Electricity	Yes	100	Yes	100
	Sanitation	Yes	100	Yes	100
	Tap water	Yes	100	Yes	100
Payment:	Electricity	Yes	100	100	100
	Sanitation	No	100	No	100
	Tap water	No	100	No	100
Satisfied with salary		Yes	67	Yes	50
		No	33	No	50
Do you receive healthcare services?		Yes	100	Yes	100
Are children able to attend school?		Yes	100	Yes	100

On the other hand, 67 percent of the trustees are satisfied and the other 33 percent are not. Unlike on other farms included in this study where a professional nurse visited these farms, the farmworkers on this farm received health care services by being provided with transport to and from the doctor

when required. The farmworkers say that all their children of school-going age were attending school.

5.5.6 Advantages and disadvantages of this FWESS

The survey results confirm the FWESS has enhanced labour productivity. The cultivation on the farm had been increased (50 ha of cash crops and a total of 10 ha of orchards and vineyards) without the addition of permanent farmworkers. This could be attributed to increased labour productivity, as the same number of the farmworkers performed extra work. Nonetheless, the farm statistics showed that absenteeism was still a problem on the farm, although it was declining. The number of days lost through absenteeism dropped significantly from 114 to 86 days in 2001/02 and 2002/03, respectively. The farmworkers indicated that this FWESS improved working relations between themselves and the original owners, provided a sense of job security (as all the farmworkers secured job contracts), and provided them part ownership of the farm assets. They further showed that it was worthwhile for the farmworkers to have participated in this venture since they had nothing to lose. They also indicated that they would advise other farmworkers willing to participate in an FWESS to do so, but they should not have high expectations. The farm manager, on the other hand, said that the farm provided management skills to participating farmworkers. High expectations or misunderstandings by the farmworkers could lead to failure of FWESSs, said the farm manager.

5.5.7 Expectations of farmworkers

When this FWESS was initiated, it was agreed that dividends would be paid during the fifth year of the operation of the scheme. The farmworkers indicated that their main expectations from the farm centred on the annual distribution of dividends for their capital participation. Some of the farmworkers also indicated that their expectations included own off-farm housing. Nevertheless, they indicated that they would use their capital share for this purpose when they retire. All these stakeholders pointed out that as

things stood, the farm was not in a position to declare dividends because profits were insufficient.

5.5.8 Enterprise analysis of this farm

The margins analysis for the table grapes, wine grapes, citrus and cash crops are shown in Table 5.10. This is important for comparing the performance of the farm enterprises from one year to the other and with other standards of performances later in Chapter 6. The cost structure of this farm shows that the cost of sales alone constitutes approximately 80 percent of the specified directly allocable variable costs. Yield for the table grapes declined by approximately 6 tons per ha or 18 percent in 2002/03. This could be ascribed to the recently replaced 6 ha of the original 17 ha of the table grape enterprise at the end of 2001/02. With regard to the increase of 41 percent or 21 tons per ha for wine grapes enterprise and 68 percent or 50 tons per ha for the citrus enterprise, the farm manager attributed this to the recently appointed new management team of this farm. It can also be argued that favourable weather conditions improved the quality and yield of the crops for various enterprises.

Table 5.10: Margin above specified costs of enterprises in farm C (R/ha)

Financial year	2001/02			
Enterprises	Table grapes	Wine grapes	Citrus	Cash crops*
Yield (tons/ha)	34, 00	15, 00	24, 26	
Gross production value:	54 781	37 594	32 104	4 704
Export sales	43 333	20 390	22 000	0
Local sales	11 448	17 204	10 104	4 704
Directly allocable variable costs:	25 394	3 662	9 177	2 788
Cost of sales**	20 750	884	6 282	810
Fertilisers	1 094	984	656	700
Pesticides	1 996	1 219	1 198	1 176
Weed killers	1 554	575	1 041	102
Margin above specified costs	29 391	33 932	22 927	1 916
Financial Year	2002/03			
Yield (tons/ha)	27,68	36,33	73,53	
Gross production value:	72 646	62 259	40 141	12 000
Export sales	40 417	44 573	25 289	0
Local sales	32 229	17 686	14 852	12 000
Directly allocable variable costs:	32 571	8 162	13 508	4 587
Cost of sales**	23 070	1 200	8 410	749
Fertilisers	2 636	2 373	1 582	1 687
Pesticides	3 360	3 024	2 016	1 714
Weed killers	3 505	1 565	1 500	437
Margin above specified costs	40 075	54 097	26 633	7 413

* Cash crops included on this farm covers onions, spinach, cabbage and potatoes.

** Cost of sales here included packaging and marketing costs.

5.5.9 Summary for farm C

Although the farmworkers' trust had a small share of the farm assets, they were involved in the day-to-day operation of the farm. However, the farm has completed its fifth year of operation without having paid dividends. The farmworkers indicate that they are generally happy with the manner in which the farm was managed and with their working conditions. Furthermore, most of the farmworkers surveyed, as illustrated in Table 5.9, indicated that they were satisfied with the salaries they received from the farm. This partly explains why most of the farmworkers on this farm are generally satisfied.

5.6 ASSESSMENT OF FARM D

5.6.1 Background

The land and fixed improvements under discussion have been under the ownership of the original owner for decades. When the LRAD grants came into existence, the original owner, with agents facilitated the processes on behalf of the farmworkers. They (farmworkers), as a group of 39 households, received LRAD grants to the value of R624 000 and the right to use 500 000 m³ of irrigation water per year, which was awarded to their trust. This trust then purchased a 30 percent share of the 50 ha farmland for the establishment of vineyards from the original owner's family trust. The farmworkers were (at the time of this survey) entitled to a 30 percent share of farm profit, because they had not signed share-ownership agreements. As the result, they are excluded from management: they have no 'director's seat' to influence the performance of their 'investment', and are regarded as investors on the farm. However, all the farmworkers interviewed indicated that they had employment contracts on the farm and that they are affiliated to a trade union, but surprisingly, they could not remember the name of the union they belonged to. This could presumably be attributed to the low level of education among the farmworkers. On average, these farmworkers have been working on the farm for approximately 15 years. Interviews here were conducted with three men and one woman of the board of the farmworkers' trustees, elected prior to the

implementation of the FWESS. Nine men and two women from among the ordinary farmworkers were also interviewed.

The initiation process for the adoption of this FWESS started in 1997. Due to delays in the approval of LRAD grants by the Cape Town regional office of the DLA, the FWESS was implemented and started operation in the 1999/00 and 2000/01 financial years, respectively. This was one of the two FWESS included in this study that did not start operation in the year in which it was implemented. This could also be partially attributed to the fact that this farm was started from the scratch (soil preparations, plantings, etc.). For the establishment of this venture, the original owner set aside 50 ha of his 106 ha of farmland. Since the share was in the profit of the farm, the farm assets remain the sole property of the original owner. All farmworkers that were involved in the initial stages of the farm were still working on the farm. Jobs were therefore secured by this partnership. The dividends were expected in the fifth year of the operation of this venture, while farmworkers could exit the scheme at time.

5.6.2 Description of the farm

This farm is situated between Vredendal and Lutzville, approximately 300 km from Cape Town and about 150 km from Piketberg where the other farms included in this study are located. The total land area of the farm under the ownership of this original owner was approximately 106 ha, the farmworker are only involved in a share profits of the 50 ha under establishment. The farm specialises in the production of wine grapes, with 34 ha of vineyards under irrigation. Of these, 7 ha were in full production in 2002/03. Approximately 13 ha of the 27 non-bearing ha were stabilised in 2002/03. The entire 50 ha of farmland is arable. The market value of the established 34 ha of vineyards is estimated at approximately R1 193 887.

5.6.3 Motivation for the adoption of the FWESS on this farm

The results presented in Table 5.11 shows that the farmworker trustees rated job security (50 percent) and higher salaries (50 percent) as of primary

importance, as was the case with ordinary farmworkers (44 percent and 44 percent respectively).

Table 5.11: Motivation for involvement of farmworkers on farm D

	Farmworker trustees n = 4			Ordinary farmworkers n = 9		
	r*	n	%	r*	n	%
Job security	1	2	50	1	4	44
	2	1	25	2	7	78
	3	1	25	3	5	56
Possibility of higher salary	1	2	50	1	4	44
	2	2	50	3	1	11
	–	–	–	4	2	22
Access to land	2	1	25	1	1	12
	4	2	50	2	2	22
	–	–	–	3	1	11
	–	–	–	4	2	22
Participation in decision-making	3	75	75	3	2	22
	4	50	50	4	5	56

* r = ratings in importance (most important=1, important=2, moderately important=3, less important=4).

The farmworker trustees further showed that job security and access to land (25 percent in each case) were their motivation. While job security (78 percent) and access to land (22 percent) further motivated the ordinary farmworkers. A further 50 percent of the farmworker trustees showed that the possibility to get higher salaries encouraged them to join this venture. Among these motivations indicated in Table 5.11, participation in decision-making appeared to be the least important. According to the original owner, the FWESS was considered in order to access finance for the expansion of vineyards, enhance loyalty among the farmworkers to the farm and to receive enough water rights for the irrigation of vineyards. It was pointed out by the original owner that the farm had achieved its intended objectives, in particular because they acquired sufficient water to irrigate an additional 50 ha of vineyards.

5.6.4 Assessment of characteristics of governance

This venture was organised is a trust. The original owner remains responsible for the day-to-day operation of the farm because the farmworkers are not yet considered as co-owners of this venture, mainly due to delays in the signing of share-ownership contracts. The original owner indicated that the board of this trust consisted of himself with the assistance of the bookkeeper, production

managers and the external auditor. The farmworkers indicated that they never received any form of training, nor have they attended a meeting regarding the partnership with the original owner. Only 22 percent of the ordinary farmworkers were satisfied with the way the farm was managed. None of the trustees were satisfied. The variables used to assess these characteristics of the governance of the farm and the understanding of the business by the farmworkers indicated that the farmworkers lacked understanding of the FWESS (dividends administration, representation, share-ownership, etc). With regard to the level of satisfaction with the working conditions on the farm, 25 percent of the trustees and 44 percent of the ordinary farmworkers were dissatisfied. The other 75 percent of the trustees and 56 percent of the ordinary farmworkers were satisfied with their working conditions.

5.6.5 Evaluation of the socio-economic factors

All of the farmworkers stay on the farm with their families. They are provided with one bedroom per household. All the farmworkers indicated that their rooms have electricity. They also have easy access to tap water, but have no sanitation facilities. The farmworkers did not pay for any of these facilities. Nonetheless, they highlighted their dissatisfaction with the level of salaries that they received on the farm.

Table 5.12: Assessment of the socio-economic factors on farm D

		Farmworker trustees (n=4)		Ordinary farmworkers (n=9)	
		Response	(%)	Response	(%)
House size:	1 bedroom	Yes	100	Yes	100
Facilities:	Electricity	Yes	100	Yes	100
	Sanitation	No	100	No	100
	Tap water	Yes	100	Yes	100
Payment:	Electricity	No	100	No	100
	Sanitation	n/a	n/a	n/a	n/a
	Tap water	No	100	No	100
Satisfied with salary		Yes	0	Yes	0
		No	100	No	100
Do you receive health care services?		Yes	100	Yes	100
Are children attending school?		Yes	100	Yes	100

n/a = not applicable.

At the same time, the original owner, together with all the farmworkers, said that the farm was not in a position to declare dividends, as it was agreed that they would be paid out in the fifth year of the operation of the scheme. The

health care services on this farm were of the same standard as that on the other farms (particularly farm A and B), as there was a professional nurse who visited the farm, but only once per month. All the children of the farmworkers of school going age were attending school.

5.6.6 Advantages and disadvantages of this FWESS

When the farmworkers were asked about the advantages and disadvantages of this FWESS, they said that, in general, it had brought no changes to their lives. They argued that there were no distinctions between the present (as shareholders) and the previous state (as non-shareholders). However, they pointed out that the only good aspect about this FWESS was their investment, which they envisaged to withdraw when they exit this venture. The farmworkers indicated that the FWESS was not a good “investment” for them as their expected dividends were taking a long time to be realised. On the other hand, the original owner indicated that loyalty to the scheme elicited from the farmworkers was a positive aspect, while he recorded no negatives about this venture.

5.6.7 Expectations of farmworkers

As can be expected, labour productivity increased as 34 ha of vineyards were established without any addition to the permanent workforce. Labour turnover was also not a concern here because the 39 initial workers are still working on the same farm. Furthermore, the farm had recorded absenteeism figures of 22 days in the 2000/01, 11 days in the 2001/02 and 16 days in the 2002/03 financial years, which were low when considering the number of workers on the farm. This confirms the loyalty to the business by the farmworkers, as pointed out by the original owner. Like other farmworkers on farms of this nature, these farmworkers pointed out that their expectations were centred on having their own houses. The original owner indicated that a portion of the dividends of the farmworkers was to be saved for building houses for them (farmworkers) in the nearby municipal area. So far, the farmworkers are unable to show the positive aspects of this FWESS, more particularly because

the farm is not in a position to declare dividends, since this was one of their main expectations. However, they said that farmworkers around the country should be encouraged to participate in such ventures, as they would be given money by the government.

5.6.8 Enterprise analysis of this farm

Table 5.13 shows the margins above specified costs of farm D. The farm recorded a gross production value of zero in 2001/02, as vineyards were not in a position to bear fruit. All the produce of the 2002/03 year was sold locally. The relatively lower yield per ha showed that the vineyards were in their first year of production in 2002/03. The lack of production in 2001/02 resulted in a lower margin above specified costs. The farm recorded approximately 15 tons per ha in its first year of production.

Table 5.13: Margin above specified costs of the wine grapes in farm D (R/ha)

Financial years	2001/02	2002/03
Enterprise	Wine grapes	
Yield (tons/ha)	0	14,99
Gross production value:	0	37 504
Export sales	0	0
Local sales	0	37 504
Directly allocable variable costs:	1 760	2 310
Cost of sales*	0	164
Fertilisers	685	967
Fungicides	885	889
Weed killers	210	290
Margin above specified costs	-1 760	35 194

* Cost of sales here included packaging and marketing costs.

5.6.9 Summary for farm D

There have not been any formal meetings among the farmworkers or together with the original owner since the farmworkers injected their resources into this farm a few years ago. The workers also indicated that no training had been provided. The farmworkers had no say in the running of the business, even though their capital and water rights had already been injected into the business. Unless the ownership agreement contracts are signed, it appears that the farmworkers will not benefit from this partnership, more particularly in

terms of skills transfer through training and subsequent participation in the decision-making processes.

5.7 ASSESSMENT OF FARM E

5.7.1 Background

The farm was purchased by the current owner as his second farm. It was purchased from its previous owner as a good-will gesture, due to their friendship and the good working relationship that they had together. The farm was bought in 1998 with the aim of establishing this FWESS in the same year. Due to delays in disbursement of LRAD grants to the farmworkers by the Cape Town regional office of the DLA, the FWESS was only implemented in 2000 and started operation in the same year. A total of 24 farmworkers formed a trust to purchase 12 percent of the farmland and fixed improvements to the value of R384 000, with the original owner providing movable assets from his other farm for free to this company. The commercial banks provided the extra finance needed to run the company. The latest developments in this company are that the farmworkers' trust had stopped functioning and the two farms were being restructured to include a third shareholder. Seventeen of the initial participating farmworkers were men, while seven were women. Two men and one woman of the former farmworker trustees and three men and two women of the ordinary farmworkers were interviewed.

All the farmworkers interviewed indicated that they were not members of any trade union. When the FWESS was initiated, the farmworkers purchased shares in the land and fixed improvements of this venture, but at the time of the investigation they were receiving rent for their capital investment. The most recent developments indicate that the farms are being operated as a single entity by the original owner. As the business is an ongoing concern, the business plan submitted to the Cape Town regional office of the DLA indicated that the farmworkers would start receiving their dividends in the first financial year of their integration. However, this only happened in the third year of operation. The farmworkers can sell their shares and exit the scheme at any time. In the fourth year of its operation, nine farmworkers had already left

the farm (three resigned, two were fired, two retired and two died). Only 15 permanent farmworker shareholders remain on the farm.

5.7.2 Description of the farm

In the discussion that follows only the farm that the farmworkers purchased shares into, is discussed. The farm occupies 82,45 ha on the Piketberg Mountain, approximately 14 km from the town of Piketberg. Like on the other farms in this area, farmers cultivated quite a number of fruit varieties. The production mix included 17,4 ha of apples, 3,4 ha of pears, 5,05 ha of nectarines and 1,55 ha of peaches, under irrigation. In total, 27,4 ha of the farm were fully cultivated. There has not been any expansion in the cultivated area since the FWESS was established. However, the farm management recently replaced 4,6 ha of apples, 0,8 ha of pears, 5 ha of nectarines and 1ha of peaches, which were not in the bearing stage at the time of this survey. The area of the farm that is mountainous (wasteland) is 55,05 ha. The farm was purchased for the value of R3 500 000 and valued at R4 000 000 during this investigation.

5.7.3 Motivation for the adoption of the FWESS on this farm

The variables used to gauge the motives for embarking on this FWESS are summarised in Table 5.14. Hundred and 80 percent of the farmworker trustees and ordinary farmworkers valued access to land as their main motivation for participating in this venture, respectively. Secondly, the farmworker trustees said that job security (33 percent), possibilities for higher salaries (33 percent), and participation in decision-making processes (33 percent) were their motivations, respectively. The interviews with the ordinary farmworkers showed that 60, 20 and another 20 percent were motivated by job security, prospects of higher salaries and participation in decision-making process, respectively. Among the farmworker trustees, 67 percent were also motivated by the expectation to participate in decision-making, while 40 percent of the ordinary farmworkers also showed that they were motivated by this aspect as second in importance. Thirty-three percent of the trustees and 40 percent of

the ordinary farmworkers indicated job security and participation in decision-making as factors that motivated them to have joined this venture as fourth in importance, respectively.

Table 5.14: Motivation for involvement of farmworkers on farm E

	Farmworker trustees n = 3			Ordinary farmworkers n = 5		
	r*	n	%	r*	n	%
Job security	2	1	33	2	3	60
	3	1	33	3	1	20
	4	1	33			
Possibility of higher salary	2	1	33	1	1	20
	3	2	67	2	1	20
				3	3	60
Access to land	1	3	100	1	1	80
				4	3	60
Participation in decision-making	2	1	33	2	1	20
	4	2	67	3	1	20
				4	2	40

* r = ratings in importance (most important=1, important=2, moderately important=3, less important=4).

5.7.4 Assessment of characteristic of governance

With regard to the assessment of the characteristics of governance, all parties involved pointed out that the farmworkers did not receive training to improve their business skills on this farm. At the time of this survey, the original owner was responsible for the day-to-day operation of the farm with the assistance of foremen that ensured that the work given to other farmworkers was efficiently executed. The lack of training in this FWESS-related issue was further shown by the inability of the farmworkers to understand the basic principles of the FWESS. Nevertheless, 33 and 60 percentages of the trustees and ordinary farmworkers indicated that they were happy with the way in which the farm was managed, while 67 and 40 percent of the trustees and ordinary farmworkers were not, respectively. All of the trustees and of the ordinary farmworkers were satisfied with their working conditions.

5.7.5 Evaluation of the socio-economic factors

This section discusses the socio-economic aspects responded to by the farmworkers. These are summarised in Table 5.15. All the farmworkers (100 percent) are staying in two-bedroom houses. They have easy access to facilities such as electricity, sanitation and tap water, which are supplied for free. All the farmworkers indicated that they are satisfied with the level of wages they received on the farm. A professional nurse visited the farm twice weekly to assist with health issues affecting the farmworkers. The farmworkers said that all their children of school-going age, attended school.

Table 5.15: Assessment of the socio-economic factors on farm E

		Farmworker trustees (n=3)		Ordinary farmworkers (n=5)	
		Response	(%)	Response	(%)
House size:	2 bedrooms	Yes	100	Yes	100
Facilities:	Electricity	Yes	100	Yes	100
	Sanitation	Yes	100	Yes	100
	Tap water	Yes	100	Yes	100
Payment:	Electricity	No	100	No	100
	Sanitation	No	100	No	100
	Tap water	No	100	No	100
Satisfied with salary		Yes	100	Yes	100
Do you receive health care services?		Yes	100	Yes	100
Are children attending school?		Yes	100	Yes	100

5.7.6 Advantages and disadvantages of this FWESS

As could be expected, the farm was able to reduce the level of absenteeism. The farm recorded figures of 54, 47 and 30 days of absenteeism in the 2000/01, 2001/02 and 2002/03 financial years, respectively. The original owner pointed out that this FWESS was capable of enhancing labour productivity. Further, the farm had started started paying dividends as the business had started making profits. The initial idea of making a quick fortune and the lack of farmworker participation in the day-to-day running of the business were some of the negative aspects of this FWESS, as highlighted by the original owner. It should also be noted that this FWESS had increased labour productivity, since many farmworkers had left the farm without being replaced (assuming that the number of seasonal farmworkers remained constant). The implications were that fewer farmworkers did the same amount of work as had been done by more farmworkers. The farmworkers on the other

hand indicated that the returns on their investments were definitely the positive aspect of this FWESS and they would advise farmworkers on other farms to participate in FWESSs. They also indicated, however, that a lack of participation in the decision-making of the farm could be regarded as disadvantage in this FWESS.

5.7.7 Expectations of farmworkers

Most of the farmworkers interviewed on this farm showed that their expectations included benefiting from remuneration on their investments, which were at the time of this survey kept in the farmworkers' trust. They indicated that they would use these dividends to build their own houses outside the borders of the farm. This was so because the original owner indicated that the farmworkers were provided with housing for free for as long as they continued working on the same farm, but that retirees and pensioners could not be accommodated.

5.7.8 Enterprise analysis of this farm

It is evident from Table 5.16 that the margin above specified costs increased in all enterprises in the 2002/03-production year relative to the 2001/02-production year. Most of the produce (80 percent) was generally sold as exports and 20 percent was sold in the local markets. These margins showed that the farm performed remarkably well in all enterprises in both financial years. Generally, yields increased in all enterprises in 2002/03. However, the rate of yield increment was lower as compared to the other farms investigated in this study from the Piketberg area. This could be explained by the fact that orchards on the purchased farm were being irrigated even before the inception of this venture. The 2002/03-yield increment was attributed to the favourable weather conditions experienced in that year.

Table 5.16: Margin above specified costs of enterprises in farm E (R/ha)

Financial year	2001/02			
Enterprises	Apples	Pears	Nectarines	Peaches
Yield (tons/ha)	47,79	43,01	30,11	25,23
Gross production value:	73 387	65 161	34 176	21 059
Export sales	44 881	52 129	27 341	16 847
Local sales	28 506	13 032	6 835	4 212
Directly allocable variable costs:	28 880	28 284	19 361	14 009
Cost of sales*	22 755	21 549	12 781	9 223
Fertilisers	2 222	1 432	1 645	1 192
Pesticides	3 347	4 608	3 903	3 277
Weed killers	556	695	1 032	317
Margin above specified costs	44 507	36 877	14 815	7 050
Financial year	2002/03			
Yield (tons/ha)	48,88	50,17	32,16	39,00
Gross production value:	89 196	81 276	36 705	27 957
Export sales	62 437	56 893	20 450	16 774
Local sales	26 759	24 383	16 255	11 183
Directly allocable variable costs:	38 774	31 358	19 766	14 287
Cost of sales*	29 427	25 902	12 440	9 950
Fertilisers	1 507	1 178	612	661
Pesticides	7 430	3 807	6 277	3 461
Weed killers	410	471	437	215
Margin above specified costs	50 422	49 918	16 939	13 670

* Cost of sales here referred to packaging and marketing costs.

5.7.9 Summary for farm E

Having received the annual rent on their investment, farmworkers would like to be trained in order to participate in the decision-making process (training and participative management) from this venture. The small portion of the share had been seen to have a negative impact on skills transfer with many FWESSs. The envisaged integration of the two farms would provide less than the 12 percent share owned by the farmworkers during this survey. This would be so because the market value of the farm will be increased markedly by the assets of the other farm currently owned by the original owner. However, the farmworkers had indicated that they were satisfied.

5.8 OVERALL FINANCIAL PERFORMANCE OF FARMS

There are different indicators of the financial performance that could be used to gauge the overall financial status of the farms discussed in the preceding sections of this chapter. These financial performance indicators, as discussed in Chapter 4, pertain not only to income and expenditure, but also to the ability

to meet financial obligations, carry risk and utilise and safely apply the capital available to the farm business. Some of these financial performance indicators are depicted in Table 5.17. The financial performance indicators of farm E are not given here because its financial statements cannot be separated from the farm owned by the original owner and due to the fact that the land was leased for a fixed amount of R384 000 per annum. The financial performance indicators of the other four farms are as presented in Table 5.17 and will be interpreted in relation to each other. The norms or rules of thumbs will be used as guidelines.

As already elaborated in Chapter 4, the net farm income per R100 capital invested, ROE, and ROA are generally the accepted norms for measuring the profitability of the farm business. Table 5.17 shows that the net farm income per R100 capital invested was satisfactory in farms A, B, and C at 13,4 percent, 8,9 percent, and 9,3 percent respectively in the 2002/03 financial year as compared to the 5 percent average net farm income per R100 capital invested in the South African agricultural sector during the same period. The net farm income per R100 capital invested in farm D was low due to little or no income recorded in both financial years investigated in this Study. The accepted norm for the ROE is that it should be above the ROA. This will show the profitable employment of foreign capital within a particular farm. In this case, only farm B in the 2002/03 financial year was able to meet this criterion (See Table 5.17). The ROE in other three farms improved significantly in 2002/03 in relation to the ROE recorded in the 2001/02 financial years but could not exceed the ROA. On the other hand, only farm A recorded a satisfactory ROA of 11,9 percent in the 2002/03 financial year as this value was above the current real interest rate of 11 percent in the country.

Table 5.17: Overall financial performance indicators of farm A to D

	Farm A		Farm B		Farm C		Farm D	
	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02	2002/03
Current assets (R)	302 355	375 566	6 881	206 718	0,0	472 051	0,0	22 881
Medium and/or fixed assets (R)	9 991 957	10 366 991	2 400 000	2 397 000	9 271 085	9 488 259	607 617	1 193 578
Total assets (R)	10 294 312	10 742 557	2 431 881	2 857 718	9 271 085	9 960 310	607 617	1 216 468
Own capital/net worth(R)	9 155 987	9 788 996	1 083 736	1 219 791	1 289 177	3 178 950	323 057	255 301
Current liabilities (R)	378 922	87 166	128 392	268 904	555 133	0,0	578	27 580
Medium and/or long-term liabilities (R)	759 403	866 395	1 219 753	1 369 023	7 426 775	6 781 360	283 982	933 587
Total liabilities (R)**	10 294 312	10 742 557	2 431 881	2 857 718	9 271 085	9 960 310	607 617	1 216 468
Gross farm income (R)*	3 456 257	6 339 278	899 850	1 184 421	2 831 429	5 347 094	0,0	262 525
Total farm costs (R)	3 431 359	4 899 718	881 456	930 398	4 036 158	4 429 497	340 050	586 531
Managerial remuneration (R)	142 046	163 044	36 892	92 161	117 767	130 768	24 000	27 800
Interest paid (R)	177 556	144 070	34 324	11 250	1 172 195	900 804	42 141	108 203
Net farm income (R)	24 898	1 439 560	18 394	254 023	(1 204 729)	917 597	(340 050)	(324 006)
NFI per R100 capital invested (%)	0,3	13,4	0,8	8,9	(13,0)	9,3	(56,0)	(26,7)
Growth indicator (%)	-	7,0	-	12,6	-	146,6	-	(21,0)
ROA (%)	(1,2)	11,9	(0,8)	5,7	(14,3)	7,9	(60,0)	(29,0)
ROE (%)	(3,2)	11,6	(4,9)	12,4	(193,6)	(3,6)	(125,8)	(37,9)
Current ratio	0,8	4,3	0,1	0,8	0,0	0,0	0,0	0,8
Net capital ratio	9,0	11,3	1,8	1,7	1,2	1,5	2,1	1,3
Own capital ratio	0,9	0,9	0,4	0,4	0,1	0,3	0,5	0,2
Debt to equity ratio	0,1	0,1	1,2	1,3	6,2	2,1	0,9	3,8

* Gross farm income in this particular case refers to the sum of the gross income from all enterprises on the farm plus sundry income.

** A total liability refers to the total value of claims on assets of the business by various suppliers of funds to it. This includes current liabilities, medium and long-term liabilities, and owner's equity provided for the finance of the farm business activities.

The current ratio is the measure of liquidity at a point in time and is widely used as a measure of a business's ability to meet its financial commitments as they become due. The norm is that the ratio should be greater than one. It was only in farm A in the 2002/03 financial year were this norm was met. With the exception of farm C, the current ratio improved in 2002/03 in relation to the ratio recorded in the 2001/02 financial years but remained below the accepted norm.

The debt to equity ratio of less than one as a rule of thumb for measuring the solvency status of the farm business was recorded in farm A in both financial years and farm D in 2001/02 but deteriorated in the 2002/03 financial year. It must be indicated that in some of these farms the own contributions were classified as foreign capital, making the debt to equity ratios less attractive. As can be seen in Table 5.17, the net capital ratios were favourable in farm A in both financial years as they met the norm requirements of two. Still using the net capital ratio measurement, the capital position of farm C improved in the 2002/03 financial years. The capital position in farms B and D deteriorated in the subsequent year investigated in this study. Farm A recorded a financially sound own capital ratio of 0,9 in both financial years. Although farm D was financially in a good position (own capital ratio of 0,5) in the 2001/02 financial years it deteriorated in the 2002/03 financial year to 0,2. The own capital ratios recorded in farms B and C were unfavourable in both financial years. It is nonetheless of note that while these ratios (own capital ratios) remained stable in farm B, they improved in farm C indicating an improvement in the financial position of the farm business.

In general terms, farm A was in a good financial position when compared to the other three farms based on the financial performance indicators presented in Table 5.17. The financial position of farm D was deteriorating, however, it should be acknowledged that this farm is in the implementation stage and a higher establishment costs were incurred with little or no income. It was difficult to give a comment on the growth performance indicators because only the 2002/03 financial year indicators were calculated.

5.9 CONCLUDING REMARKS

The results of this chapter indicated that, although the farmworkers were co-owners of these businesses, decision-making processes remained in the hands of the original owners because of the experience they had in managing the farms. Except in farm B and C, the farmworkers did not understand the basic principles or functioning of the FWESS in which they were participants. This showed lack or low level of skills transfer in the form of training, and consequently, participation in the management activities of these ventures. It also appeared that the farmworkers did not understand the principles of co-ownership, as they indicated that they would like to build their own houses outside the farm despite owning reasonable houses allocated to them on the farm. Nevertheless, the farmworkers displayed a sense of job security because of the employment contracts they had with these companies and/or trusts, although labour turnover remained evident in farm B and E.

The socio-economic aspects in these schemes were evaluated based on the general consensus that farmworker housing is of the lowest standards with no electricity, clean water and sanitation. School facilities and health care services are argued to be unacceptable and very low incomes. The farmworkers within these ventures investigated in this study showed that they were generally satisfied with their respective housing standards, working conditions, health care services, the manner in which their farms were managed and to a lesser extent, the level of salaries they received on these farms. The result of this study clearly contradicts the results obtained in the SPP' study where that (SPP) study was generally negative in most of these aspects.

It is evident from the result of this study that FWESS is capable of increasing labour productivity. In most cases, vineyards and orchards were expanded without any additional permanent labour force (assuming that seasonal labour force remained constant or declined). Furthermore, farmworkers resigned in other ventures without replacement.

With regard to financial performance, results from this chapter showed that these farms had made a considerable progress in terms of profitability in

2002/03. This was indicated by positive net farm incomes recorded by these farms in 2002/03 relative to the previous year, except in farm D. Generally, some of these farms had difficulties in meeting their short-term cash obligations, they could all meet their long-term cash obligations. The poor financial performance indicators depicted in these farms, particularly farm D (in terms of ROA, ROE and debt to equity ratios) could be explained by the fact that they were still in their implementation stage, as the result high costs were being incurred at this stage with little or no income recorded.

CHAPTER SIX

THE COMPETITIVENESS OF THE FARMWORKER EQUITY- SHARING SCHEMES AGAINST OTHER FINANCIAL PERFORMANCE MEASUREMENTS

While we do not yet understand for what reasons some firms falter, we at least do know that managers get a lot of the condemnation. Thus, an issue that arises in the study of firms' failure is the extent to which failure is related to actions of the manager as opposed to factors outside managerial control.

Anonymous

6.1 INTRODUCTION

In recent years “benchmarking” has become the widely accepted term used when comparing the performance of individual businesses against standards of performance set for their industry. As far as agricultural production is concerned this is not a new process. Farmers have been comparing the performance of their enterprises and businesses with published data for a number of decades now. By comparing the performance of the enterprise with that of the published “standards” (like COMBUD, industry results published by deciduous fruit producers’ trust (DPT) and VinPro SA), one can immediately assess where the performance of a particular enterprise is in relation to the range of performance being achieved by other enterprises. The aim of this chapter is to compare the performance of farms discussed in Chapter 5 relative to their performances projected in the business plans submitted to the Cape Town regional office of the DLA (for the approval of LRAD grants for farmworkers), the performance of the specific industry and the average performances of farms in the area in which surveys were conducted. The study compared the performance for the 2001/02 and 2002/03 periods because of data availability. Some enterprises such as protea flower production and cash crops (potatoes, onions, spinach, etc.) could not be

compared because only farm A and farm C produced protea flowers and cash crops, respectively.

6.2 THE BUSINESS PLANS OF FARMS

The Ministry for Agriculture and Land Affairs (undated) showed that the mode of implementation of FWESSs was adopted in the interest of maximum participation of farmworker stakeholders, in this regard, speedy approval and quality outcomes. To ensure this, all the original owners, as initiators of these FWESSs, had to submit business plans indicating how these would be achieved. Among other things included in the business plans were land identification, short- and long-term objectives of the implementation of the schemes that show how the interests of the farmworkers were accommodated, proposed land use, feasibility and production productivity potential, proposed management structure, economic viability, etc. The performance *vis-à-vis* management structure, socio-economic aspects and the intended objectives of FWESSs were highlighted in the previous chapter. In this chapter, the projected and the actual financial performances are compared to determine the extent to which these farms lived up to the expectations. However, it is of note that the disbursement of the LRAD grants in most of the schemes was delayed by the DLA, leading to a delay in the year of the implementation of the schemes than was expected. It is for this reason that the comparison of the actual performance of the scheme in relation to the projected performance cannot be directly comparable.

6.3 PERFORMANCE OF FWESSs, THE AREA AND THE INDUSTRY

Agriculture is a dynamic industry, constantly being affected in various ways by changes in the decision-making environment such as technology, market conditions which change from year to year, changes in weather conditions, and changes in the government's agricultural and economic policies. Even worse, these factors are externally manipulated in a way over which management has relatively little control. Nevertheless, management has a

large degree of control over product quality, cost of production and managerial capacity and labour skills. These divisions provide the basis on which firm failure can be ascribed to poor management. One of the strategies developed over time to compare the performance of farms was comparison of the performance of enterprises of one farm relative to another farm. A margin above specified costs involves an analysis of the estimated gross production value and the specified costs that can be directly allocated to an enterprise on a per ha basis. It was for this reason that margins above specified costs for the farms discussed in Chapter 5 are compared here to the average performance of the farms in the areas where surveys were conducted. The industry performance and the enterprise performances of these farms complete these comparisons of the performance.

6.4 ASSESSING THE FINANCIAL PERFORMANCE OF FARM A

6.4.1 Projected versus actual financial performance

The actual gross farm income of this venture depicted in Table 6.1 was lower in the 2001/02 financial by an amount of R713 771 or approximately 17 percent than the projected gross farm income during the same period. In the 2002/03 financial year, the actual gross farm income rebounded to exceed the projected gross farm income by R2 022 805 or about 32 percent. The same can be said with the actual and projected net farm incomes since the projected net farm income was higher than the actual in the 2001/02 financial year by R1 182 119 or about 98 percent, but rebounded in the 2002/03 financial to exceed the projected gross farm income by R323 138 or approximately 22 percent. The original owner projected that this venture would pay a dividend of R1 393 and R1 193 to the individual farmworkers in the 2001/02 and 2002/03 financial years, respectively. Nevertheless, the venture could not disburse these dividends as projected due to, among other things, unfavourable weather conditions that affected the profitability of the scheme during these periods. Noteworthy, it was projected that an ROA of 10 percent in the 2002/03 financial year would be recorded, however, a remarkable ROA of 11,9 percent was recorded. The actual ROE was lower than projected in both financial

years. The financial comparisons of farm A indicated that although the farm actually recorded a performance that is lower than projected in the 2001/02 financial year, it rebounded to exceed its projections in the 2002/03 financial year with the exception of the ROE.

Table 6.1: Projected and actual financial performance of farm A*

	Projections		Actual performance	
	2001/02	2002/03	2001/02	2002/03
Gross farm income (R)	4 170 028	4 316 473	3 456 257	6 339 278
Total farm costs (R)	2 963 009	3 200 050	3 431 359	4 899 718
Net farm income (R)	1 207 017	1 116 422	24 898	1 439 560
ROA (%)	13,3	10,0	(1,2)	11,9
ROE (%)	17,8	18,0	(5,1)	9,9
Potential dividend on grant per shareholder per year (R)	1 393	1 193	0,0	0,0

Source: Business plan supplied by Lotter, 2003 and own calculations.

6.4.2 Comparison with other norms of performance

The margin above specified variable costs in Table 6.2 highlight the performance of the industry, area and farm A. The margin above specified variable costs for this venture was above the industry average for nectarines and peaches, but below the average for apples and pears. The farm outperformed similar farms in its immediate vicinity in all enterprises. The directly allocable variable costs incurred by farm A were higher in the apple and pear enterprises than that of the nectarine and peach enterprises in the same scheme, resulting in lower margins above specified costs in the apple and pear enterprises relative to that of the industry.

Table 6.2: Margin above specified variable costs of industry, area and farm A, 2002/03 (R/ha)

	Apples	Nectarines	Peaches	Pears
Industry performance	88 098	43 440	43 440	81 508
Area performance	(655)	14 991	10 803	2 315
Farm performance	42 334	73 657	51 086	29 389

Source: CIAMD, 2002; Louw, 2003 and own data.

6.5 ASSESSING THE FINANCIAL PERFORMANCE OF FARM B

6.5.1 Projected versus actual financial performance

The business plan of this farm did not include any financial projections. the farm was declared insolvent under its previous owners and was dispossessed

by ABSA Bank, where the current owners purchased it on auction. Added to this, the farm was purchased by the current owners on borrowed capital from the same financial institution. The venture was further operated through the production loan. For these reasons, the farmworkers' trust was expected to bring in a cash equity injection that would render the finances of the venture considerably more robust.

6.5.2 Comparison with other norms of performance

The comparison of the margin above specified variable costs of farm B relative to that of the industry and the average area performance is summarised in Table 6.3. As can be noted from the table, the margin above specified variable costs varied between industry, area and farm performances. This can be attributed to the ability or failure by producers to minimise costs. This venture was outperformed by the industry in all enterprises. This can be ascribed to higher costs incurred by the scheme. As depicted in Table 5,7, these increased markedly in the 2002/03 financial year against those incurred in the 2001/02 financial year. However, the margin above specified costs recorded by this venture was far higher than the average performance recorded in the area in all enterprises.

Table 6.3: Margin above specified variable costs of industry, area and farm B, 2002/03 (R/ha)

	Apples	Pears	Peaches	Plums	Citrus	Nectarines
Industry performance	88 098	81 508	43 440	65 286	—	43 440
Area performance	(655)	2 315	10 803	524	3 327	14 991
Farm performance	70 962	46 509	33 671	42 497	20 688	0,0

Source: CIAMD, 2002; Louw, 2003 and own data.

6.6 ASSESSING THE FINANCIAL PERFORMANCE OF FARM C

6.6.1 Projected versus actual financial performance

The actual total farm costs of this venture, illustrated in Table 6.4 was lower by R3 984 385 and R2 896 475 in the 2001/02 and 2002/03 financial years respectively than the projected total farm costs. The net farm income shows that although the farm recorded a loss of R1 204 729 in the 2001/02 financial, it rebounded to a positive R917 597 in the 2002/03 financial year. The ROA

and ROE indicate that the farm did well in the 2002/03 financial year, more especially with the ROA as it amounted to 7,9 percent, although it was 23 percentage points lower than the projected ROA in the 2002/03 financial year. The actual debt to equity ratios recorded by the venture was unacceptable in both financial years, although there was an improvement in the 2002/03 financial year.

Table 6.4: Projected and actual financial performance of farm C

	Projections		Actual performance	
	2001/02	2002/03	2001/02	2002/03
Current assets (R)	4 562 036	6 560 992	0,0	472 051
Medium and fixed assets (R)	8 693 435	8 418 505	9 271 085	9 488 259
Total assets (R)	13 255 470	14 979 497	9 271 085	9 960 310
Owner capital (R)	9 348 534	11 198 467	1 289 177	3 178 950
Total current liabilities (R)	0,0	0,0	555 133	0,0
Medium and/or long-term liabilities (R)	3 906 936	3 781 030	7 426 775	6 781 360
Total liabilities (R)	3 906 936	3 781 030	9 271 085	9 960 310
Gross farm income (R)	10 997 139	12 583 105	2 831 429	5 347 094
Total farm costs (R)	6 767 635	7 325 972	4 036 158	4 429 497
Net farm income (R)	1 430 751	1 849 932	(1 204 729)	917 597
ROA (%)	27,0	30,9	(14,3)	7,9
ROE (%)	38,3	41,3	(202,1)	(7,6)
Debt to equity ratio	0,4	0,3	(6,2)	2,1

Source: Business plan supplied by Lotter, 2003 and own calculations.

6.6.2 Comparison with other norms of performance

The margin analysis of farm C presented in Table 6.5 was above the average area performance in all enterprises.

Table 6.5: Margin above specified variable costs of industry, area and farm C, 2002/03 (R/ha)

	Table grapes	Wine grapes	Citrus
Industry performance	70 800		
Area performance	22 290	9 964	3 327
Farm performance	40 075	54 097	26 633

Source: CIAMD, 2002; Louw, 2003 and own data, Both, 2003.

The farm's average for wine grape and citrus more than tripled in comparison to the average of similar enterprises in the same area, and almost doubled in the average of table grapes. The margin for the industry average for table grapes was above the average of the farm. This can be attributed to a higher costs for this enterprise depicted in Table 5.10. The management should find out a way to minimise costs as this can improve the financial performance of

this enterprise, and consequently of the farm. Due to unavailability of data, the industry average for wine grape and citrus were not assessed in this study.

6.7 ASSESSING THE FINANCIAL PERFORMANCE OF FARM D

6.7.1 Projected versus actual financial performance

The actual gross farm income recorded by the farm was lower in the 2002/03 financial year by R896 395 or about 77% than the projected gross farm income during the same period (See Table 6.6). The actual total farm costs incurred were lower than projected in both financial years. This is attributable to the delays in the disbursement of LRAD grants for the implementation of the venture thereby affecting cash flow.

Table 6.6: Projected and actual financial performance of farm D

	Projections		Actual performance	
	2001/02	2002/03	2001/02	2002/03
Gross farm income (R)	0,0	1 158 920	0,0	262 525
Total farm costs (R)	1 650 610	2 238 127	340 050	586 531
Net farm income (R)	0,0	1 079 920	(340 050)	(324 006)

Source: Business plan, 1999 and own data.

6.7.2 Comparison with other norms of performance

The margin above specified variable costs of farm D in Table 6.7 shows that the average for wine grapes was above the area average for similar enterprises in the same area. The industry average for wine grape is not given due to unavailability of the data.

Table 6.7: Margin above specified variable costs of industry, area and farm D, 2002/03 (R/ha)

	Wine grapes
Industry performance	
Area performance	9 964
Farm performance	35 194

Source: Botha, 2003; own calculations.

6.8 ASSESSING THE FINANCIAL PERFORMANCE OF FARM E

As indicated in Chapter 5, firstly, the financial statements of farm E are no longer kept separate from those of the farm solely owned by the original owner. This implies that the activities of these two farms were concurrently

run, making it impossible to identify costs and income of one farm from the other. Secondly, the projections of this FWESS were projected until the end of the 2001/02 financial year, thereby making direct comparison impossible.

6.8.1 Comparison with other norms of performance

Table 6.8 shows the financial performance of farm E relative to that of the area and the industry. It is evident that the farm outperformed similar farms in its immediate vicinity in all enterprises, but performed below the industry average in all enterprises.

Table 6.8: Margin above specified variable costs of industry, area and farm E, 2002/03 (R/ha)

	Apples	Pears	Nectarines	Peaches
Industry performance	88 098	81 508	43 440	43 440
Area performance	- 655	2 315	14 991	10 803
Farm performance	50 422	49 918	16 939	13 670

Source: CIAMD, 2002; Louw, 2003 and own data.

6.9 CONCLUDING REMARKS

The performances of FWESSs situated in the Piketberg area (where four of the five schemes investigated were located), based on the margins above specified costs, were generally higher than the average area performance of the farms in this area. However, the majority of FWESSs performed worse than the average financial performance achieved by the industry. This was partially due to higher directly allocable variable costs incurred, which thereby lowered the respective gross farm incomes. Furthermore, the prices of the produce of these enterprises in the Piketberg area were lower than the industry average prices, while quality and cultivar mix produced and sold by the FWESSs differed from the industry averages. The management of FWESSs could improve the financial performance of these farms by revising the directly allocable variable cost structures and cultivars produced. Generally, the analysis of the financial performance of FWESSs showed that these farms performed well as they exceeded the average area performance, and in some cases, the performance of the industry as a whole.

CHAPTER SEVEN

CONCLUSIONS AND RECOMMENDATIONS

Equity Sharing Schemes have emerged in response to attempts by landowners to retain or secure their assets in the face of political uncertainty. Thus, in the longer term, they can be seen as a means of constructive engagement with much space for opportunism given human and information asymmetries.

Karaan, 2003

7.1 INTRODUCTION

Factors such as the lack to access to land, water, markets, finance, communications infrastructure, education, skills development facilities and flows of information and other opportunities prevented black South Africans from making substantive progress in farming in the past. Furthermore, these factors and previous policies and power relationships left black participants sorely underrepresented in agriculture and its entire value chain. AgriBEE has been developed to guide black economic empowerment within the sector as a key component of implementing equitable access and participation in accordance with the Sector Plan. It is argued that farmworker equity-sharing schemes, facilitated under the guidelines of AgriBEE could make a meaningful contribution to the upliftment of the living standards of the farmworkers.

The first objective of this study was to show what the motivations for the stakeholders were for their involvement in FWESSs. This was initially done by reviewing various literatures with reference to the motivation behind the adoption of models similar to FWESSs, most notably, ESOPs (Employee Share Ownership Plans). Secondly, the study aimed at evaluating the performance of farm worker participation schemes and to compare it with the projected performance in the business plans of these schemes initially submitted to the Cape Town regional office of the DLA. Thirdly, the study attempted to evaluate the characteristics of governance within FWESSs.

Lastly, the extent to which FWESSs improved the living standards of farmworkers in respect to housing, health care services, salaries and/or dividends and access to schooling of children living on these farms was assessed. The bulk of the information was obtained from five FWESSs administered by the Cape Town regional office of the DLA.

7.2 CONCLUSIONS

The results generated from this study show that the motivation for the implementation of FWESSs is more or less similar to those behind the implementation of ESOPs. Amongst other things, World Wars, high level of labour turnover, financial incentives, and pressure from trade unions for higher salaries, all instigated the origination of ESOPs in the industrialised countries. Similarly, some of these factors (high level of labour turnover, financial incentives, etc) are identified as the motivation for the implementation of FWESSs in the South African commercial agriculture.

The most notable common aspect behind the adoption of ESOPs and FWESSs by its respective initiators is the financial support from the government with the main intention to redress inequalities between assets and/or capital owners and their respective workers. On the other hand, differences in the administration of these schemes exist between countries. While governments in industrialised countries continue to monitor and financially support these schemes throughout their existence to ensure that the intended objectives are achieved, the South African government only assisted during the initiation stages through the provision of the LRAD grants to farmworkers - no additional support (financially or otherwise) is given thereafter.

Before highlighting the motivation for the adoption of FWESSs by the respective stakeholders, it is important to indicate that the result of this study shows that, as with ESOPs (where management is in the forefront of its initiation), the original owners are also in the forefront for the adoption of FWESSs in South African commercial agriculture. The original owners initiate these schemes largely to empower their farmworkers (provision of business skills through training, participation in decision-making and

dividends distribution for self-realisation). Furthermore, but to a lesser extent, the lump sum capital injection by farmworkers in the farm business often motivates some of the original owners to initiate the scheme.

As for farmworkers, the high level of job security is a leading motivator followed by the possibility for higher salaries. Little emphasis is given regarding access to land and participation in the decision-making process. Noteworthy, a common motivation exists between the participating stakeholders in FWESSs. They are both similarly motivated by the capital incentive that would result from their partnership. The original owners are motivated by the injection of LRAD grants in the business, farmworkers are motivated by the expectation of the annual dividends that would be distributed to them when they are due.

This study could not show a conflicting interest between the stakeholders, except that a certain portion of farmworkers misunderstand the manner in which FWESS operates, as they expect the farmland to be individually allotted amongst themselves. Unlike ESOPs, collective bargaining is rare within FWESSs indicating a level of trust between stakeholders. Furthermore, farmworkers are largely not associated with trade unions. All the stakeholders are optimistic that their expectations will be achieved in the long run.

The net farm income, Return on Assets (ROA) and Return on Equity (ROE) are used to measure the profitability of FWESSs in this study. With the exception of farm D, the schemes performed markedly well in this respect when the latest performance (2002/03) was compared to that of the 2001/02 financial year. Although they initially struggled in 2001/02, farm A, B and C rebounded satisfactorily to record an average net farm income (per R100 capital invested) of 10,5 percent in 2002/03. This is a good performance particularly when comparing to the average net farm income (per R100 capital invested) of only 5 percent for the overall agricultural sector in the country. Given that this good performance is recorded in the latest financial year of these ventures, much better performance can be expected in the following financial year, including farm D as it displayed some improvements in its second year of operation.

While the liquidity performance indicators show that some of the schemes could meet their short-term cash obligations without any disruption of day-to-day business activities, some are however struggling. Nonetheless, given that all the schemes could not meet their short-term cash obligations in 2001/02 but some managed to reverse the situation in 2002/03, it can be argued that most of them will meet their short-term cash obligations in the next financial year. Although the debts to equity ratios in farm C and D are not satisfactory, the situation can be expected to be reversed in the long-run. Having highlighted all these, it must however, be emphasised that the financial performance indicators do not identify the reasons for the strengths and weaknesses – they indicate only symptoms that need to be diagnosed by financial management. In other ventures, the equity levels were low because the own contribution by shareholders is reflected as borrowed capital in the financial statements.

The comparison of the actual performance of FWESSs relative to the projected performance in the business plans initially submitted to the Cape Town regional office of the DLA was to some extent impossible. FWESSs were not implemented as were planned, due to the delayed LRAD grants disbursement to farmworkers. Furthermore, little in agriculture remains the same, climatic conditions change from year to year, so do the marketing and government policies change, thereby influencing farm income in either way. The actual performance indicators of the schemes, in all aspects, are generally lower than projected, particularly in 2001/02, though they rebounded in 2002/03 to exceed the projections in some cases.

The FWESS increases labour productivity in the schemes investigated in this study, as orchards are generally expanded without additional labour force (assuming that seasonal workforce remain constant or declined). In the majority of the schemes, the cultivation of crops is expanded without employing additional labour force. In some cases, farmworkers resign without replacement. This shows commitment amongst farmworkers that could be translated into improved labour productivity. The FWESS reduces the level of absenteeism. Additionally, labour turnover is also low, as the majority of farmworkers remained in the same scheme.

These FWESSs are organised in the form of trusts and/or companies. Decision-making process is participative in nature. This means that each group of stakeholders elect a member or two to form part of the board of the directors. These boards usually meet once every two months and/or on quarterly basis. In the majority of the schemes, the farm managers are responsible for day-to-day operation. Usually farm managers are the original owners, and/or a hired non-stakeholder farm manager. This can be attributed to the wealth of experience in managing the farm businesses. Additional management personnel (secretaries, bookkeepers and auditors) are also hired who are non-stakeholders.

Some farmworkers are employed as foremen and/or production managers. This applied in all FWESSs investigated in this study. Farmworkers willing to enter the scheme should be permanent workers and must have at least one-year service in the same farm. The general consensus with regard to exit procedures is that farmworkers willing to exit the scheme could only sell their shares after five years of participation.

The training aspect of farmworkers is minimal within these schemes. In farms D and E, the farmworkers' trust had been established prior to the implementations of these ventures. Nevertheless, these trusts are inactive because of the lack and/or insufficient provision of training of farmworkers. This renders it difficult, if not impossible, for farmworkers to participate in day-to-day running of the schemes. On farm E, only a board of the trustees received training. This training generally includes legal aspects of the scheme, understanding of financial statements, administration of the dividends in the farmworkers' trust when made available, and technical skills. Some of the schemes have successfully provided training to their farmworkers, particularly in farm B.

The equity-sharing schemes are bargained with certain conditions attached. For instance:

- A time limit to be adhered to before shares might be sold;
- Farmworkers had to participate in day-to-day operation of the farm;

- Training of farmworkers before the implementation of the schemes, etc.

It was therefore one of the objectives of this study to determine whether some of these conditions are adhered to. These were determined under the socio-economic aspects investigated in this study. The most satisfying socio-economic aspect in all the schemes is the health care services, schooling status of children of the farmworkers and housing standards. With regard to the latter, the houses were spacious and were provided with electricity, tap water and sanitation. Furthermore, farmworkers are permitted to keep such houses as long as they remain working in the same. In terms of health care services, there are clinics within the schemes whereby professional nurses visit regularly. The children of farmworkers of school going age are afforded the opportunity to attend school, presumably due to satisfying level of salaries paid to farmworkers. The farmworkers are treated equally as they all could buy a share in the farm assets and elected to participate in the board of the directors.

With reference to dividends, the schemes are generally not in a position to start paying them. It should, however, be noted that the majority of the schemes agreed to pay them in the fifth year of the operation of the schemes. Nonetheless, farmworkers are satisfied with the level of salaries they receive in the schemes.

Many publications that support this model pointed out that a successful FWESS should achieve a number of goals including, redistribution of wealth through annual dividends and skills transfer. The FWESS that most effectively meet these expectations in this study is farm B. In this scheme, farmworkers command a significant share of the farm assets and the original owner creates a climate conducive to education and participation by integrating the former Rural Foundation and PAETA (skills development project). In this case, farmworkers participate in day-to-day operation of the farm. A board of the trustees is decided on a voluntary basis and new board members volunteers annually to replace the existing one. They are provided with training and equipped with management skills to effectively participate in decision-making process of the farm. Despite having indicated in the original business plan

submitted to the Cape Town regional office of the DLA that this farm was not financially viable, the farm has made a remarkable progress in terms of “profit” during its few years of operation. It is evident from this case that the potential of FWESSs cannot be doubted.

Given the inherent farsighted and long-term nature of agriculture as a business, it can be argued that the evaluation of the performance of these schemes was conducted too early. The schemes are still largely in their implementation stage, which involves high setup and operational costs and little or no income as yet.

7.3 RECOMMENDATIONS

After a study of this scope the usual anticipation is that a plausible path for the future, with recourse to some modification of the model, could be suggested. This study is no exception. Against this background, it is recommended that a similar study be undertaken in the near future, particularly after all the schemes have completed their fifth year of operation. The study should therefore also cover the same schemes investigated in this study to identify trends on the aspects investigated here.

Based on the findings derived from this study, the following are further recommended:

- Given that farmworkers were not provided with sufficient training in these schemes, funding for skills development should be provided separately from the LRAD grants directed for the purchase of shares in farm assets. It is also recommended that this funding for skills and development be paid directly to the training consultants;
- The stakeholders, particularly farmworkers should be educated and/or informed about the pros and cons of being involved in the farm business. This will avoid unnecessary impatience displays by farmworkers with special focus to dividends disbursement;
- A continuous supervision, for example, by the Department of Land Affairs as the main sponsor for this model should be put in place to

ensure that the initial intended objectives of the scheme's initiators are met;

- The ROA financial performance indicator should be largely used as the general norm for evaluating the financial performance of ventures of this nature, because other performance indicators take into account the foreign capital factor, which also includes own capital.
- For better evaluation of the financial performance of FWESSs in the future it is further recommended that the performance indicators used in the financial modelling of the business plans being submitted for LRAD grants, must be those that are widely used in calculating financial performance in agriculture (i.e. Finance and farmers (1999) and/or Directorate of Agricultural Production Economics (1997) publications). The DLA should also process the LRAD application forms as soon as possible to ensure that the proposed ventures are implemented as planned by the shareholders.

It is however acknowledged that a programme of this magnitude cannot and will not make an agricultural entrepreneur out of every participant, nor a quick fix to inequalities created by policies of the past apartheid government. However, it is expected that it should go a long way in changing the lives of the working class for the better.

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APPENDIXES

Appendix 1: Formulae used for the financial calculations in this study

1 PROFITABILITY MEASUREMENTS

- 1.1 **Net farm income** = Gross farm income less Total farm costs
- 1.2 **Return on assets** = ((NFI less cost of management (own + hired)) divided by (Total capital)) multiplied by 100
- 1.3 **Return on own capital** = ((NFI less cost of management (own + hired) less interest on borrowed capital) divided by (Own capital)) multiplied 100
- 1.4 **Margin above specified costs** = Enterprise's gross farm income less specified direct allocable variable costs
- 1.5 **NFI per R100 capital investment** = ((Net farm income) divided by (Average capital invested)) multiplied by 100

2 SOLVENCY MEASUREMENTS

- 2.1 **Net capital ratio** = Total assets divided by Total liabilities
- 2.2 **Own capital ratio** = Total equity divided by Total assets
- 2.3 **Debt to equity ratio** = Total liabilities divided by Own capital

3 LIQUIDITY MEASUREMENTS

- 3.1 **Current ratio** = Current assets divided by Current liabilities
- 3.2 **Acid test ratio** = (Current ratio less Stocks and supplies) divided by (Current liabilities)

4 GROWTH INDICATORS

- 5.1 **Growth** = (Net worth (2) less Net worth (1)) divided by (net worth (1)) multiply by 100

Appendix 2: Questionnaire for the original owners

Name of the project? -----

Name of the interviewer? -----

1. **What is your role in this equity-sharing scheme? You can mark more than one answer:**

- Original owner
- Chairperson
- Farm manager
- Workers' representative
- Specify, if other (s) -----

2. **When was the equity-sharing scheme?**

- Initiated
- Implemented
- Starting to operate

3. **What was (were) the objective(s) for initiating the equity-sharing scheme? You can mark more than one of the following provided answers, ranking them according to importance (rank in terms of importance, e.g. 1 for the most important):**

- Empowering farmworkers
- For generating capital
- Improving working relations
- Improving farm productivity
- Wealth distribution
- Tax advantage
- Excluding trade unions
- Land redistribution
- Keeping permanent workers
- Specify, if other(s) -----

4. **Are you achieving your objective(s) by having the workers integrated as shareholders?**

- Yes
- No

5. **Who initiated the equity-sharing scheme?**

- Farmworkers
- Original owner
- Government
- All stakeholders (on the farm)
- Specify, if other(s) -----

6. **Who are the present owners of the farm assets, in the equity-sharing scheme?**

- Original owner
- Management team
- Farmworkers
- Outside investors
- Specify, if other(s) -----

7. **If the farm was purchased, what was the value and purchase price?**

- Value
- Purchase price
- Date of purchase

8. **What is the present value of these assets?**

9. Along what organisational structure has this equity-sharing scheme been organised?

Company
 Trust
 Specify, if other(s) -----

10. What is the percentage (%) of shares owned by farmworkers?

11(a) Are these shares tradable?

Yes
 No

(b) If the answer is “no” in question 11(a), are you satisfied with the non-tradability of shares?

Yes
 No

(c) If the answer is “no” in question 11(b), what do you suggest should be done to make it tradable? -----

12. Which farm assets are included in the equity-sharing scheme?

Farmland (including fixed improvements)
 Only specific fixed assets on a farm
 Movable assets (machinery/ livestock/ and others)
 Specify, if other(s) -----

13. How many permanent workers did the scheme have in?

	Farmworkers	Foremen	Managers
1999 to 2000			
2000 to 2001			
2001 to 2002			
2002 to 2003			

14. How many days were recorded for absenteeism in?

	Farmworkers	Foremen	Managers
1999 to 2000			
2000 to 2001			
2001 to 2002			
2002 to 2003			

15. Since the inception of the equity-sharing scheme, how many of the following were recorded?

	Workers resigned	Workers hired	Workers fired
1999 to 2000			
2000 to 2001			
2001 to 2002			
2002 to 2003			

16. How many worker shareholders are on this farm?

17. How many worker representatives are on this farm?

18. **What was the criterion used to select participating workers as shareholders? You can mark more than one answer if applicable.**
- Number of years working on the farm
- Age
- Gender
- Educational level
- All permanent workers
- Specify, if other(s) -----
- 19(a) **Were there any workers who initially did not want to participate in this equity-sharing scheme?**
- Yes
- No
- (b) **If the answer is “yes” in question 19(a), are there any workers who changed their opinion since the inception of the scheme and are willing to participate now?**
- Yes
- No
- (c) **If the answer is “yes” in question 19(b), are there any plans in place to integrate those workers?**
- Yes
- No
20. **What is the total area of the farm?**
21. **What is the total area of the farm(s) included in the equity-sharing scheme?**
22. **How is the area of the farm being utilised?**
- Cultivated dry land
- Cultivated irrigation
- Farmyard & wasteland
- Specify, if other(s) -----
23. **How is the cultivated land being utilised?**
- | | Type of crop | Number of hectares |
|-----------------|--------------|--------------------|
| Dry land | | |
| | | |
| | | |
| | | |
-
- | Irrigation | Type of crop | Number of hectares |
|-------------------|--------------|--------------------|
| | | |
| | | |
| | | |
| | | |
-
- | | |
|---------------------------------------|----------------------|
| Farmyard & waste land (ha) | <input type="text"/> |
|---------------------------------------|----------------------|
24. **Do you have livestock on this farm?**
- Yes
- No

25. **Who is on the board of directors of the equity-sharing scheme? You can mark more than one answer.**

- Original owner
- Worker trustees
- Chairman of the trustees
- Trade union representatives
- Specify, if other(s) -----

26. **How did they become representatives? You may mark more than one answer if applicable.**

- Elected by workers
- Appointed by original owner
- Volunteered
- Specify if other -----

27(a) **Do farmworkers participate in the decision-making process of the farm?**

- Yes
- No

(b) **If the answer is “yes” in question 27(a), how do they participate?**

- Through the chairman of worker trustees
- Through worker trustees
- Through worker shareholders
- Specify, if other(s) -----

(c) **If the answer is one of the options provided in question 27(b), at what management level do they participate in the decision-making process of the farm?**

- Top level
- Middle level
- Lower level

28(a) **Did you have human development programme(s), before the implementation of the equity-sharing scheme?**

- Yes
- No

(b) **If the answer is “yes” in question 28(a), when was this (these) programme(s) implemented (provide the year in which it was implemented)? -----**

29(a) **Are you aware of the existence of the Rural Foundation in Stellenbosch?**

- Yes
- No

(b) **If the answer is “yes” in question 29(a), were you involved with the Rural Foundation?**

- Yes
- No

30(a) **Do/did you make use of the following?**

- Facilitator in the process of equity-sharing scheme
- Financier(s) (e.g. New Farmers)
- Specify, if other(s) -----

31 **Does the original owner still participate in decision-making?**

- Yes
- No

32(a) **Do you sometimes, as original owner, feel that you should be making more decisions than you do right now?**

- Yes
- No

- (b) If the answer is “yes” in question 32 (a), in what regard? -----
- 33(a) Who makes the final decisions on this farm?
 Original owner
 Worker trustees
 Chairman of the trustees
 Trade union representatives
 Board members
 Specify, if other(s) -----
- (b) If “worker trustees” are among the financial decision-makers in question 33(a), can worker trustees understand what a balance sheet and income statement entails?
 Yes
 No
34. Can seasonal workers participate as worker shareholders in this equity-sharing scheme?
 Yes
 No
- 35(a) Does this business receive any special tax treatment from the government?
 Yes
 No
- (b) If the answer is “yes” in question 35(a), what kind of tax treatment?
 Income tax Specify -----
 VAT Specify -----
 Capital gains Specify -----
 Specify, if other(s) -----
- 36(a) Since the inception of this equity-sharing scheme, has the government given support of any kind?
 Yes
 No
- (b) If the answer is “yes” in question 36(a), how? -----
- 37(a) Has the scheme been in the position of declaring dividends?
 Yes
 No
- (b) If the answer is “yes” in question 37(a), when did the scheme start paying dividends to workers? -----
38. How are dividends being/supposed to be handled?
 Re-invested in the farm
 Into workers trust
 Distributed to workers
 Specify, if other(s) -----
- 39(a) Did worker shareholders receive any form of training before or during the implementation of the scheme?
 Yes
 No
- (b) If the answer is “yes” in question 39(a), what was the training all about?
 Their respective work
 Management courses
 Legal aspects of the company
 Financial management
 How a shareholding company works
 Specify, if other(s) -----

- (c) **If the answer is “yes” in question 39(a), how many of the workers received that training on this farm?**
- | | |
|-------------------------------|--|
| All worker shareholders | |
| Only workers’ representatives | |
| Specify, if other(s) ----- | |
- (d) **If the answer is “only worker” representatives in question 39(c), are there plans in place to train other workers?**
- | | |
|-----|--|
| Yes | |
| No | |
40. **Who make financial decisions? You can mark more than one group if applicable:**
- | | |
|------------------------|--|
| Original owner | |
| Worker representatives | |
| External employee | |
| Management team | |
| Specify if other ----- | |
41. **How often does the board of governors meet?**
- | | |
|----------------------------|--|
| Once/monthly | |
| Twice/monthly | |
| Thrice/monthly | |
| Weekly | |
| Specify, if other(s) ----- | |
42. **How often do the worker shareholders meet?**
- | | |
|----------------------------|--|
| Once/monthly | |
| Twice/monthly | |
| Thrice/monthly | |
| Weekly | |
| Specify, if other(s) ----- | |
43. **Are worker shareholders getting access to land?**
- | | |
|-----|--|
| Yes | |
| No | |
- 44 **What is the status concerning workers’ housing on this farm?**
- (a) Worker shareholders: -----
- (b) Non-worker shareholders: -----
- 45(a) **Do you have an idea of the expectation(s) of worker shareholders on this farm?**
- | | |
|-----|--|
| Yes | |
| No | |
- (b) **If the answer is “yes” in question 45(a), what do you think expectation(s) include?-----**
- 46 **Will the scheme be able to achieve these expectations?**
- | | |
|-----|--|
| Yes | |
| No | |
- 47(a) **Has there been any expansion of the assets that include the equity-sharing scheme?**
- | | |
|-----|--|
| Yes | |
| No | |
- (b) **If the answer is “yes” in question 47(a), please explain: -----**

48. Do you think an equity-sharing scheme can motivate farmworkers to enhance labour productivity?

Yes
No

49. Are there any positive or negative aspects concerning equity-sharing schemes that you would like to indicate?

Positive: -----

Negative: -----

50. What is(are) the main enterprise(s) on this farm(s)? -----

51. What is the total area of this farm that is allocated to this main enterprise(s)?

52. Can you please supply the following information for this Financial year (2002/2003) with regard to the main enterprise of this farm:

Crop 1

Cultivars	Total area (ha)	Newly planted (ha)	Non-bearing (ha)	Bearing (ha)	Yield	Pack out (%)

Crop 2

Cultivars	Total area (ha)	Newly planted (ha)	Non-bearing (ha)	Bearing (ha)	Yield	Pack out (%)

Crop 3

Cultivars	Total area (ha)	Newly planted (ha)	Non-bearing (ha)	Bearing (ha)	Yield	Pack out (%)

53. **FINANCIAL INFORMATION**

53.1 Can you please supply the following information with respect to assets and liabilities of this equity-sharing scheme?

AMOUNT	1999/2000	2000/2001	2001/2002
Current assets			
Debtors	R-----	R-----	R-----
Inventories	R-----	R-----	R-----
Bank balance	R-----	R-----	R-----
Other	R-----	R-----	R-----

Movable assets			
Machinery & equipment	R-----	R-----	R-----
Total value of livestock	R-----	R-----	R-----
Fixed assets			
Building & improvements			
Land (only)	R-----	R-----	R-----
Plantations/orchards/vineyard	R-----	R-----	R-----
Others	R-----	R-----	R-----
Current liabilities			
Creditors	R-----	R-----	R-----
Short-term loans	R-----	R-----	R-----
Bank overdraft	R-----	R-----	R-----
Other	R-----	R-----	R-----
Long-term liabilities			
Mortgage loans	R-----	R-----	R-----
Other	R-----	R-----	R-----
GROSS PRODUCTION VALUE			
-----	R-----	R-----	R-----
-----	R-----	R-----	R-----
-----	R-----	R-----	R-----
Operating Costs			
Purchased feed & grain	R-----	R-----	R-----
Crop expenses	R-----	R-----	R-----
Fertilisers	R-----	R-----	R-----
Labour costs	R-----	R-----	R-----
Marketing costs	R-----	R-----	R-----
Managerial remuneration	R-----	R-----	R-----
Repairs & maintenance	R-----	R-----	R-----
Insurance	R-----	R-----	R-----
Depreciation	R-----	R-----	R-----
Interest	R-----	R-----	R-----
Other expenses	R-----	R-----	R-----
CROP (1)			
	1999/2000	2000/2001	2001/2002
Sales: Export	R-----	R-----	R-----
Local fresh	R-----	R-----	R-----
Juice	R-----	R-----	R-----
Dried fruit	R-----	R-----	R-----
Other(s)	R-----	R-----	R-----
Opening stock	R-----	R-----	R-----
Closing stock	R-----	R-----	R-----
DIRECT ALLOCABLE VARIABLE COSTS:			
Seeds	R-----	R-----	R-----
Fertilisers	R-----	R-----	R-----
Herbicides	R-----	R-----	R-----
Insecticides	R-----	R-----	R-----
Packaging material	R-----	R-----	R-----
Marketing cost	R-----	R-----	R-----
Casual labour	R-----	R-----	R-----
Other costs	R-----	R-----	R-----

CROP (2)		1999/2000	2000/2001	2001/2002
Sales:	Export	R-----	R-----	R-----
	Local fresh	R-----	R-----	R-----
	Juice	R-----	R-----	R-----
	Dried fruit	R-----	R-----	R-----
	Other(s)	R-----	R-----	R-----
	Opening stock	R-----	R-----	R-----
	Closing stock	R-----	R-----	R-----

DIRECT ALLOCABLE VARIABLE COSTS:

	Seeds	R-----	R-----	R-----
	Fertilisers	R-----	R-----	R-----
	Herbicides	R-----	R-----	R-----
	Insecticides	R-----	R-----	R-----
	Packaging material	R-----	R-----	R-----
	Marketing cost	R-----	R-----	R-----
	Casual labour	R-----	R-----	R-----
	Other costs	R-----	R-----	R-----

CROP (3)		1999/2000	2000/2001	2001/2002
Sales:	Export	R-----	R-----	R-----
	Local fresh	R-----	R-----	R-----
	Juice	R-----	R-----	R-----
	Dried fruit	R-----	R-----	R-----
	Other(s)	R-----	R-----	R-----
	Opening stock	R-----	R-----	R-----
	Closing stock	R-----	R-----	R-----

DIRECT ALLOCABLE VARIABLE COSTS:

	Seeds	R-----	R-----	R-----
	Fertilisers	R-----	R-----	R-----
	Herbicides	R-----	R-----	R-----
	Insecticides	R-----	R-----	R-----
	Packaging material	R-----	R-----	R-----
	Marketing cost	R-----	R-----	R-----
	Casual labour	R-----	R-----	R-----
	Other costs	R-----	R-----	R-----

Appendix 3: Questionnaire for the ordinary farmworkers

Name of the project? -----

Name of the interviewer? -----

1. How long have you been working on this farm (in years)? -----

2. Gender of the respondent: Male
Female

3. What is the total number of women and men in the equity-sharing scheme?
Men
Women

4. Do you have a work contract?
Yes
No

5(a) Are you satisfied with your working conditions on this farm?
Yes
No

(b) If the answer is “no” in question 5(a), why? -----

6. What motivated you to join the equity-sharing scheme? You can mark more than one answer, starting with the most important ones (e.g. most important no.1):
Job security
Possibilities of higher salary
Access to land
Participation in decision-making
Specify, if other(s) -----

7(a) Do you have any expectation(s) from this scheme?
Yes
No

(b) If the answer is “yes” in question 7(a), what are this expectation(s)? -----

8. Is the management aware of your expectation(s)?
Yes
No

9. Do you think you will be able to achieve this expectation(s) by having joined the scheme?
Yes
No

10(a) Do you have worker representatives on this farm?
Yes
No

(b) If the answer is “yes” in question 10(a), are your representatives representing you satisfactorily?
Yes
No

(c) If the answer is “no” in question 10(b), why? -----

- 11(a) **Have you ever made suggestions to management through your representative(s)?**
 Yes
 No
- (b) **If the answer is “yes” in question 11(a), has your suggestion(s) been taken by your representative(s)?**
 Yes
 No
- (c) **If the answer is “yes” in question 11(a), has(have) your suggestion(s) been taken by management?**
 Yes
 No
- 12(a) **For how long would you like to continue participating in this equity-sharing scheme?**
 More than 10 years
 6 – 9 years
 3 – 5 ye
 Less than 3 years
- (b) **If the answer is “less than 3 years” in question 12(a), why? -----**
- 13(a) **Are you satisfied with the way the farm is managed?**
 Yes
 No
- (b) **If the answer is “no” in question 13(a), why not? -----**
- 14(a) **Have you received any form of training on this farm?**
 Yes
 No
- (b) **If the answer is “no” in question 14(a), why? -----**
- (c) **If the answer is “yes” in question 14(a), which of the following?**
 Working of equity-sharing scheme
 Life skills
 Domestic financial management
 Farm management
 Technical skills
 Specify, if other(s) -----
- 15(a) **How many of the workers on this farm received training?**
 All workers
 All worker shareholders
 Only worker representatives
 Specify, if other(s) -----
- (b) **If the answer is “only worker representative(s)” in question 15(a), are there plans in place for the training of these workers?**
 Yes
 No
16. **Which one of the following are you entitled to as employees?**
 Sick leave Yes
 No
 Maternity leave Yes
 No
17. **Do you stay on the farm?**
 Yes
 No

18. **How big is the house that you stay in?**
- | | |
|--------------------------|--------------------------|
| 1 roomed house | <input type="checkbox"/> |
| 2 roomed house | <input type="checkbox"/> |
| 3 roomed house | <input type="checkbox"/> |
| More than 3 roomed house | <input type="checkbox"/> |
19. **Does the house have the following?**
- | | |
|-------------|--------------------------|
| Electricity | <input type="checkbox"/> |
| Sanitation | <input type="checkbox"/> |
| Tap water | <input type="checkbox"/> |
20. **Do you pay for the following?**
- | | |
|-------------|--------------------------|
| Electricity | <input type="checkbox"/> |
| Sanitation | <input type="checkbox"/> |
| Tap water | <input type="checkbox"/> |
- 21(a) **Does your family stay with your on the farm?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “yes” in question 21(a), how are they related to you?**
- | | |
|----------------------------|--------------------------|
| Children | <input type="checkbox"/> |
| Spouse | <input type="checkbox"/> |
| Parents | <input type="checkbox"/> |
| Specify, if other(s) ----- | <input type="checkbox"/> |
- 22(a). **Are all your children that are of the age to attend school, going to school?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “no” in question 22(a), why? -----**
- 23(a) **Do you receive health care services?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “yes” in question 23(a), in which way do you receive your health care services?**
- | | |
|---------------------------------|--------------------------|
| There is a clinic on the farm | <input type="checkbox"/> |
| Provided transport to a clinic | <input type="checkbox"/> |
| Visited by a doctor on the farm | <input type="checkbox"/> |
| Provided transport to a doctor | <input type="checkbox"/> |
| Specify, if other(s) ----- | <input type="checkbox"/> |
24. **Are you satisfied with the salary that you have received since the inception of the equity-sharing scheme?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- 25(a) **Do you have an idea of how your dividends are administered on this farm?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “yes” in question 25(a), how have your dividends been administered?---**
26. **Are you allowed to exit the project at your convenient time?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- 27(a) **Are you an affiliate to a trade union?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “yes” in question 33(a), which trade union? -----**
28. **What would be your advice to farmworkers around the country who consider joining equity-sharing projects? -----**

29. Are there any positive or negative aspects concerning equity-sharing that you would like to indicate?

Positive: -----

Negative: -----

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Appendix 4: Questionnaire for the farmworker trustees

Name of the project? -----

Name of the interviewer? -----

1. **How long have you been working on this farm (in years)?** -----

2. **Gender of the respondent:** Male
 Female

5. **What is the total number of women and men in the equity-sharing scheme?**
 Men
 Women

6. **Do you have a work contract?**
 Yes
 No

5(a) **Are you satisfied with your working conditions on this farm?**
 Yes
 No

(b) **If the answer is “no” in question 5(a), why?** -----

6. **What motivated you to join the equity-sharing scheme? You can mark more than one answer, starting with the most important ones (e.g. most important no.1):**
 Job security
 Possibilities of higher salary
 Access to land
 Participation in decision-making
 Specify, if other(s) -----

7(a) **Do you have any expectation(s) from this scheme?**
 Yes
 No

(b) **If the answer is “yes” in question 7(a), what are this expectation(s)?** -----

8. **Is the management aware of your expectation(s)?**
 Yes
 No

9. **Do you think you will be able to achieve this expectation(s) by having joined the scheme?**
 Yes
 No

10. **How did you become a worker representative?**
 Volunteered
 Elected by other workers
 Appointed by the farm management
 Specify, if other(s) -----

11. **Are you getting paid for being a worker representative?**
 Yes
 No

12. **What is/are your role(s) on this equity-sharing scheme as worker representative(s)?**-----

- 13(a) Are you directly involved in the decision-making process of this farm?
 Yes
 No
- (b) If the answer is "yes" in question 14 (a), at what level of management do you participate in the decision making process?
 Top-level
 Middle-level
 Lower-level
 Specify, if other(s)-----
- 14(a) Have you ever made suggestion(s) to the decision-makers of this farm in the meetings?
 Yes
 No
- (b) If the answer is "yes" in question 14(a), has (have) your suggestion(s) been taken by other decision-makers on this farm?
 Yes
 No
- 15(a) Who are the decision-makers of this farm? Give all parties that are involved in the day-to-day running of the farm: -----
- (b) If you are amongst the decision-makers of this farm, how often do you meet to discuss issues relating to this farm?
 Once/Monthly
 Twice/Monthly
 Thrice/monthly
 Weekly
 Specify, if other(s)-----
- 16(a) Are there any decisions that you are not involved in on this farm?
 Yes
 No
- (b) If the answer is "yes" in question 16(a), what are those decisions with which you are not involved? -----
- 17(a) For how long would you like to continue participating in this equity-sharing scheme?
 More than 10 years
 6 – 9 years
 3 – 5 years
 Less than 3 years
- (b) If the answer is "less than 3 years" in question 17(a), why? -----
- 18(a) Are you satisfied with the way the farm is managed?
 Yes
 No
- (b) If the answer is "no" in question 18(a), why not? -----
- 19(a) Have you received any form of training on this farm?
 Yes
 No
- (b) If the answer is "no" in question 19(a), why? -----

- (c) **If the answer is “yes” in question 19(a), which of the following?**
- | | |
|----------------------------------|--------------------------|
| Working of equity-sharing scheme | <input type="checkbox"/> |
| Life skills | <input type="checkbox"/> |
| Domestic financial management | <input type="checkbox"/> |
| Farm management | <input type="checkbox"/> |
| Technical skills | <input type="checkbox"/> |
| Specify, if other(s) ----- | |
- 20(a) **How many of the workers on this farm received training?**
- | | |
|-----------------------------|--------------------------|
| All workers | <input type="checkbox"/> |
| All worker shareholders | <input type="checkbox"/> |
| Only worker representatives | <input type="checkbox"/> |
| Specify, if other(s) ----- | |
- (b) **If the answer is “only worker representative(s)” in question 20(a), are there plans in place for the training of these workers?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
21. **Which one of the following are you entitled to as employees?**
- | | | |
|-----------------|-----|--------------------------|
| Sick leave | Yes | <input type="checkbox"/> |
| | No | <input type="checkbox"/> |
| Maternity leave | Yes | <input type="checkbox"/> |
| | No | <input type="checkbox"/> |
22. **Do you stay on the farm?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
23. **How big is the house that you stay in?**
- | | |
|--------------------------|--------------------------|
| 1 roomed house | <input type="checkbox"/> |
| 2 roomed house | <input type="checkbox"/> |
| 3 roomed house | <input type="checkbox"/> |
| More than 3 roomed house | <input type="checkbox"/> |
24. **Does the house have the following?**
- | | |
|-------------|--------------------------|
| Electricity | <input type="checkbox"/> |
| Sanitation | <input type="checkbox"/> |
| Tap water | <input type="checkbox"/> |
25. **Do you pay for the following?**
- | | |
|-------------|--------------------------|
| Electricity | <input type="checkbox"/> |
| Sanitation | <input type="checkbox"/> |
| Tap water | <input type="checkbox"/> |
- 26(a) **Does your family stay with your on the farm?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “yes” in question 26(a), how are they related to you?**
- | | |
|----------------------------|--------------------------|
| Children | <input type="checkbox"/> |
| Spouse | <input type="checkbox"/> |
| Parents | <input type="checkbox"/> |
| Specify, if other(s) ----- | |
- 27(a). **Are all your children that are of the age to attend school, going to school?**
- | | |
|-----|--------------------------|
| Yes | <input type="checkbox"/> |
| No | <input type="checkbox"/> |
- (b) **If the answer is “no” in question 27(a), why? -----**

28(a) Do you receive health care services? Yes
No

(b) If the answer is "yes" in question 28(a), in which way do you receive your health care services?
There is a clinic on the farm
Provided transport to a clinic
Visited by a doctor on the farm
Provided transport to a doctor
Specify, if other(s) -----

29. Are you satisfied with the salary that you have received since the inception of the equity-sharing scheme? Yes
No

30(a) Do you have an idea of how your dividends are administered on this farm? Yes
No

(c) If the answer is "yes" in question 30(a), how have your dividends been administered?-----

31. Are you allowed to exit the project at your convenient time? Yes
No

32(a) Are you an affiliate to a trade union? Yes
No

(b) If the answer is "yes" in question 32(a), which trade union? -----

33. What would be your advice to farmworkers around the country who consider joining equity-sharing projects? -----

34. Are there any positive or negative aspects concerning equity-sharing that you would like to indicate?

Positive: -----

Negative: -----

Appendix 5: Questionnaire for the non-farmworker shareholders

Name of the farm: -----

Name of the interviewer: -----

1. How long have you been working on this farm (number in years)? -----

2. Were you working here when other workers were applying for grants to buy shares from the ownership of this farm? Yes
No

3. Gender of the respondent: Male
Female

4(a) Have you also applied for those grants? Yes
No

(b) If the answer is "no" in question 4(a), why? -----

5(a) Is there a difference in terms of treatment between non-shareholder worker and worker shareholders from the management of the farm? Yes
No

(b) If the answer is "yes" in question 5(a), how? -----

6(a) Do you now regret for having not applied for the grant to participate in the equity-sharing scheme? Yes
No

(b) If the answer is "yes" in question 6(a), why? -----

7. What can be your advice to people who consider joining equity-sharing schemes? on other farms? -----

8. Are there any positive or negative aspects concerning equity-sharing schemes that you would like to indicate?

Positive: -----

Negative: -----