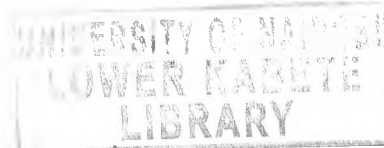


**GROWTH CHALLENGES FACED BY LOCAL SEED COMPANIES IN
UGANDA**

BY

PATRICK OKETA



**A MANAGEMENT RESEARCH PROJECT SUBMITTED IN PARTIAL
FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF MASTER OF
BUSINESS ADMINISTRATION-MBA DEGREE OF THE SCHOOL OF
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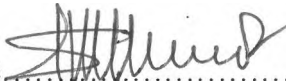
DECLARATION

STUDENT

I, the undersigned, declare that this proposed project is my original work and that it has not been presented in any other University or Institution for academic credit.

PATRICK OKETA


D61/8280/2006

Signature .....
Date.....19/11/2011.....

SUPERVISOR

This management Research Project has been submitted for examination with my approval as University supervisor.

SUPERVISOR: Dr. JACKSON MAALU

Signed .....
Date.....18-11-2011.....

DEDICATION

This thesis is dedicated to all the local seed companies, who struggle to ensure that the local population does not experience hunger and starvation.

ACKNOWLEDGEMENT

The completion of this study has been possible as a result of blessings from God Almighty and contributions of all the local seed companies who willingly provided me with requested information. To them all I extend my sincere thanks. No less crucial to the success of this project was help and co-operation of my supervisor Dr Jackson Maalu. I owe much of the achievements of this project to him. Thank you so much Dr Maalu.

I am also indebted to my parents for their contributions and encouragement at the various stages of this project. Last but not least, I also wish to thank my colleagues who have co-operated with me during the study. Finally, I thank Komakec Norbert Obonyo for all the support I received while working from home.

ABSTRACT

This study is an assessment of growth challenges faced by local seed companies in Uganda. It looks at aspects of production, financial, environment that exacerbate constraint. The impetus behind the study is drawn from the constraints experienced by seed companies across sub Saharan Africa.

A combination of research techniques such as questionnaires, telephone interviews and review of available literature was used in this study. The study reveals that the 16 respondent seed companies are young. The local seed companies lack the capacity to generate new or improved germplasm through research and therefore rely on public sources of parent material. Furthermore, many of the seed businesses do not have access land and irrigation facilities so many of them rely on out growers, thus, are exposed to quality issues and price fluctuations. Equally important, most local seed farmers and out growers rely on rain feed production, hence, are prone to adverse changes in weather patterns, which eventually may affect seed production

The majority of the seed companies are owner managed, and exhibit weak corporate governance structures, with most decisions resting with the owner manager. The companies are in an industry which is perceived as high risk by commercial banks and have a weak asset base which hinders access to external financing for the acquisition of efficient processing equipments and working capital. Consequently, they have relied on the owners' limited equity this is exacerbated by delayed collection of receivables from major creditors. Difficulty in accessing grants for expansion and the prevalent macroeconomic conditions was also identified as a challenge. In conclusion, most seed businesses depend on unreliable out growers for seed production who are poor and risk-averse and are cash constrained often with limited ability to make investments to grow their businesses.

Possible remedies to these challenges include improvement in the regulatory frame work, provision specialised financial products to finance capital expenditure and working capital, skills development, increased availability of improved varieties, sensitization of farmers on the benefits of using improved seeds,

In conclusion, the major constraints facing local seed companies are a function of their size, lack of adequate capital, rudimentary production and processing capacity resulting

in poor seed qualities and vulnerability to the macro economic environment in the country as well as unfavourable climatic conditions, unethical practices and poor regulation.

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CHAPTER ONE

INTRODUCTION

1.1 Introduction

This study examines the growth challenges experienced by local Ugandan seed companies. This chapter gives a background of the study as well as the statement of the problem, the objective of the study and the importance of this study, outlining in detail the main concepts underlying the study. Chapter two is a review of available literature. Chapter three will cover the research methodology. Chapter four presents the finding, analysis of the results and interpretation of the research. And finally chapter five presents the summary of the findings, conclusions and recommendations.

1.1.1 Business Growth

Generally, the term 'business growth' refers to an increase in cash flows in a business resulting from an increase in production capacity and sales. All successful businesses eventually deal with business expansion or growth challenges (Levy & Powel, 2004). Business expansion is a stage of a company's life that exposes it to both opportunities and perils. The growth of a business is often viewed as a means of validating the entrepreneur's dream and subsequent realization of the vision. However, as stated by Sherman (1997), growth exposes business owners to numerous challenges which require different: managerial skill sets, legal framework, and financing. Growth entails the hiring of new employees who will be looking for leadership, decentralisation of management, may cause strategic drift, may require additional capital, and creation of new responsibilities to shareholders and other stakeholders. Levy & Powell (2004) highlight that key to growth are managerial skills which will require greater attention to finance, operations, marketing, human resource management and formalization of the organizational structure.

According to Campbell, Stonehouse & Houston (2002) a business can either grow internally (organically) or externally. Organic growth is expansion by the reinvestment of previous years' profits and loan capital in the same business that generated the profits. While external growth is through merger or acquisition or alliance. Most growth, occurs within the areas in which a business is most acquainted thus its micro or near

environment (Campbell et al., 2002). Within this setting, growth can occur in two ways: vertically or horizontally. Vertical growth is development of a business into a different stage of the value chain of which it is a part. Horizontal development is a move resulting in higher market share within the same markets.

According to Churchill & Lewis (1983), business growth can be modelled through five stages of development that is: existence, survival, success, takeoff and resource maturity stages. Churchill & Lewis (1983) do acknowledge that some businesses will decide not to grow and remain at their current stage. This is often because the owner-manager does not wish to relinquish control, which is necessary for growth. The hypothesis of stages of growth models is that businesses grow from small entities that are managed closely by the owner-manager to larger ones where professional managers take over the running (Levy & Powell, 2004). In Uganda almost all seed companies are still within the first three stages of growth.

At the existence or inception, Churchill & Lewis (1983) describe the firm as one working hard to find customers and deliver orders with the owner closely involved in each stage of the operation. The organization is relatively simple with staff usually reporting directly to the owner. At this stage, Strategic direction is lost in short-term management and there is no strategic planning.

As the business continues owners spend more time on administration and on profitability to keep the business viable. This leads owners towards the survival stage. Survival focuses more on establishing the customer base and the main products or services. Effort is required in managing cash flow and increasing revenues. The organization still has the same structure as at start-up, with the owner heavily involved in all decisions. The only monitoring that is done is of cash-flow forecasts; otherwise there is no strategic planning. Information systems are simple; spreadsheets are used by the owner to monitor costs.

The success of the firm at the survival stage precipitates the move to the next stage as the firm has to invest to manage its expanding customer base. The owner finds it more difficult to manage the growing number of staff. There is a need for better management information to ensure that the firm can monitor the market. Managers are appointed to support activities such as finance, marketing and operations. Plans are medium term, but

focus on operational issues and budgets. At this stage the path the business undertakes critically depends upon the owner's attitude to growth. Some firms decide to continue to work within their market niche, maintaining service to their existing customers. Firms in this position need to be able to adapt to maintain their market position; otherwise there is a danger that they fall back to the survival stage. Other firms are set upon the growth path and at this stage strategic planning becomes essential. Owners require a vision for future growth which is shared with staff throughout the organization. Greater control and management is necessary to ensure profitability while managing the growth. Information systems important to firms at this stage to enable them manage the expanding customer base.

The growth of the firm precipitates the move to expansion, as the firm requires more formal systems to be in place to manage increasing complexity of business processes and relations with the market. Competitors are likely to be an issue for the growing firm as it attempts to become a major player in the market. Take-off or expansion is a difficult time for many businesses. This requires great skills of planning and leadership as well as sufficient financial resources to provide the step change required for expansion. Owners need to be visionary providing the strategic direction; they need to have a good, reliable management team in place to ensure success and need effective management information systems to improve communication and access to data within the firm. The growth of the firm means that the owner will become more remote from management making it likely that managerial power may well precipitate the move to maturity. Competitive pressures mean that there is a need for a greater external focus on industry requirements that may require a different management style to that of the owner.

Maturity occurs when the firm has grown to sufficient size to be directed by the management team. There is no clear role for the owner in the management of the business. Strategic planning is likely to be well established as a formal, managerial activity. The owner is no longer involved in the business and the danger for the firm is that it may remain focused only around the existing products and services unless the innovative style of management has been maintained.

Penrose (1952) criticized the use of biological analogies of growth, re-asserting the importance of economic principles and human motivation for explaining firm growth this is because stages of growth models for Small and Medium Enterprises (SMEs) have been argued to be problematic, as many SMEs do not pass through stages. Many businesses are locked into one stage and never develop (Burns & Harrison, 1996). This stagnation or lack of growth is the central theme of this research which attempts to investigate the growth challenges faced by local seed companies in Uganda.

1.1.2 Seed business

According to Larson & Mbowa (2004), the seed industry complex consists of three main activities: seed production (hybrid and Open Pollinated Varieties (OPV)), seed processing, and seed marketing and distribution. The seed production process includes breeding new seed varieties, testing seed variety performance, releasing new varieties for multiplication, and increasing the seed variety amounts to commercial levels. Seed processing consists of cleaning, sorting, haggling and certifying new seed for commercial use. Seed marketing and distribution consists of packaging, distribution, and sale to customers (farmers or agro-dealers). Individual, private companies or parastatals may perform all of these activities or may specialize in selected parts of this value chain. Larger firms may have the resources to perform all of the activities while smaller firms may choose to specialize in some aspects such as marketing and distribution.

As stated by Larson & Mbowa (2004) the internal components of a seed business are also unique, beginning with variety development, seed production, processing and conditioning, and ending with the sale of seed to customers or farmers. The stages in the process are essential and related to the others, but a seed business need not be directly involved in each component of the chain. A business may concentrate on a particular link or a subset of the chain, and sub-contract the other components to other companies or organizations. In many cases, small seed companies are simply involved in the marketing and sale of seed procured from other organizations. In such a case; the products (seed of varieties) may be derived from a National Research Program, or a Foundation Seed Company, while the production may be carried out by out growers, who may also process and package the seed into the company's branded bags. Alternatively, a seed business may simply purchase seed from other companies and sell this directly to farmers, in

which case they are acting more like an agent or retailer than a seed company in the broad sense of the term. Regardless of how a seed business is structured or how much of the seed chain the business is directly involved in, long-term success requires that the whole chain is operated effectively and is well managed to ensure that quality seed is, adapted and appropriate varieties are available for sale to farmers.

MacRobert (2009, p. 3) defines a seed business as “any person [or group] who is willing to produce and market certified [quality] seed under their own responsibility [BRAND]”. While seed companies have the same basic goal as other businesses of sustainable profitability through meeting customer needs, there are many differences in their business organizations, product cycles, marketing strategies and financial management. Seed companies are faced with a long production lead-time (up to five years in the case of certain hybrids), a concentrated seasonal selling period, and a product line that is perishable, subject to strict regulatory production and quality systems and vulnerable to environmental stresses. In addition, the development and registration of new products is often a long process, while customers are diverse, decentralized, and have a wide range of product requirements related to the highly variable socio-economic and biophysical environment. Consequently, seed business managers need to have particular skills in issues such as long-term cash flow and inventory management; seed production; processing and quality assurance; market knowledge application; and product evaluation and development.

According to MacRobert (2009) entrepreneurs seeking to establish or grow a seed business are faced with a number of challenges over which they may have direct influence. These include the acquisition and maintenance of a portfolio of improved, adapted and appropriate varieties, the development and management of a reliable seed grower base, and the establishment a distribution network. This does not minimize the importance of financing or other managerial issues, but recognizes that without products, production and marketing, there is little, if any, prospect of growth.

During the first half of the 20th century, seeds were overwhelmingly in the hands of farmers and public sector plant breeders. In the last three decades. Giant seed research companies have used intellectual property laws to commoditize the global seed supply.

Today a few multinational seed companies have monopolized the seed sector stifling the development of indigenous local seed companies. According to a recent report by Context Network, the proprietary seed market accounts for 82% of the commercial seed market worldwide. The top five seed companies are Monsanto (US) 23%, DuPont (US) 15%, Syngenta (Switzerland) 9%, Groupe Limagrain (France 6% and Lake O'Lakes (US) 4%. The current trend in the global seed industry is focused on intensifying international competition, shortening the life cycle for new varieties and increasing research and development budgets.

1.1.3 Uganda Seed Industry

Before 1968, Ugandan farmers depended on their saved seed and distributed it from farmer to farmer. A formal seed system was initiated in that year under the Ministry of Agriculture through an agency called the Uganda Seed Project. The research component was also under the ministry. Prior to the structural adjustment reforms of the 1990s, the Uganda Seed Project, a government owned Company and National Agricultural Research Organization (NARO) had the monopoly on all the activities in the seed value chain. NARO was responsible for the production and release of the new varieties and the Uganda Seed Project was responsible for seed processing, multiplication to commercial quantities, marketing and distribution to farmers.

In 2005, the government privatized the parastatal Uganda Seeds Project and the assets were bought by FICA which is now the largest local seed company in Uganda. NARO continues to be the primary source of seed research for new variety development. Once a new variety is ready for release, NARO releases the public variety to all firms who want to buy it and some hybrids on exclusivity arrangements. Therefore, the local seed companies mainly depend on NARO for new seed varieties. As a result, seed companies are vulnerable to problems faced by NARO such as inadequate government funding or loss of key research personnel. Some seed companies however import new varieties and present them to the national trials for approval and other businesses like FICA and NASECO have established small research units that have begun producing exclusive varieties however due to lack of financial and technical resources, the participation of local seed companies in research activities has been limited.

The Uganda Seed Trade Association (USTA), organized in 1999, is a private membership association gathering all seed industry stakeholders. USTA is an organization formed and directed by its members to shape the development of Uganda's seed industry and to be an effective voice of action for all matters concerning research, production, marketing, free movement of seed, associated products and services for better yields and sustainable production (USTA, 2003).

The Seed industry is regulated by the Agricultural Seeds & Plant Act (Ch 28) which established a National Seed Industry Authority whose mandate is to manage all activities related to: National seed certification Services, plant breeding and registration of breeders, multiplication and licensing, seed conditioner and conditioning, seed marketing, seed testing laboratory and, phytosanitary standards and practices. Since 1999, over twenty local and foreign firms have been registered as seed business in Uganda (Appendix 3)

1.2 Statement of the Research Problem

Many entrepreneurs start their businesses to take advantage of an opportunity, to realize their entrepreneurial drive and to generate a source of livelihood albeit with minimum management experience. Perren (1999) identified four growth drivers which describe the motivation of seed business entrepreneurs in Uganda: the owner's motivation, expertise in growth management, resource access and access to the markets. As pointed out by Storey (1994) the numerically dominant group of small businesses are those which are small today and, even if they survive, are always likely to remain small-scale operations. In Uganda, most local seed companies have tended to remain small and many with growth ambitions have struggled to grow.

Most growth literature broadly fall within what McKelvie & Wiklund (2010) categorize as, the outcome of growth, growth as an outcome and the growth process. McKelvie & Wiklund (2010) describe the study of growth as being dependant on a set of independent variables to explain growth as an outcome. Gilbert, McDougall & Audretsch (2006) found that the most commonly used predictor measures are the personal characteristics of

the entrepreneur, the resources available to the firm, the strategy of the firm, the geographic location of the firm, and its industry context. In his review of the literature of growth specifically of small firms, Storey (1994) studies the most common variables used to predict differences in growth rates and notes that few, if any, variables have a similar influence on growth across the different studies included in his review.

A second stream of literature referred to as the outcome of growth examines the changes that result within the organization as a consequence of growth. The most prominent studies within this stream tend to use stages of development, life cycle, or stages models Phelps, Adams & Bessant (2007). This aspect of growth looks at the configuration relating to the relationships among environment, strategy, and structure for example (Short, Payne & Ketchen., 2008). The growth of a firm is contingent upon the balance between, environment, strategy, and structure and an imbalance leads to problems (Phelps et al., 2007).

The other stream of literature explains the actual growth process and all the strategies. Many of the studies look at the growth process with a theoretical lens using Penrose's theory which can be traced back to her 1952 paper in American Economic Review, and her paper on 'The Theory of the Growth of the Firm' (Penrose, 1959). The thrust of the theory is the ability of entrepreneurs to expand a firm to effectively exploit existing opportunities given the resources available.

Much research has focused on business competitiveness and has sought to identify factors which make some businesses successful for example studies: in strategic management such as Baum , Locke & Smith (2001) and Storey (1994) and, entrepreneurship such as McKelvie et al (2010), attempt to highlight the barriers to growth but none is focused on the unique growth challenges faced by seed companies except for MacRobert (2009) who emphasizes generic success factors. From the literature, it is clear that businesses grow through various patterns amidst different constraints. This study will therefore attempt to find out the growth challenges faced by local seed companies in Uganda in their quest to grow and stay competitive.

1.3 Objective of the study

The objective of this study is to determine the growth challenges faced by local seed companies in Uganda.

1.4 Significance of the Study

The study will be of great significance to the seed companies across sub-Saharan African since it will highlight the growth constraints faced by seed companies whose characteristics are similar across the regions and therefore share common challenges. The study variables will enable them make informed decisions on the growth challenges they face as they strive to achieve their objectives and survival in an increasingly competitive industry. It will also help sensitize seed companies on the importance of proper strategic planning and raise awareness of the concept.

The companies the study will focus on will consciously think about and gain awareness of the growth challenges they face while filling the questionnaire. The research will also share the findings with them and enable them develop better strategies to manage the growth challenges they face. As the seed companies advocate for more effective regulation and support, the study will raise issues and insights which will guide policy makers in developing policies and tool kits.

The study will add to the existing body of knowledge on the concept of business growth challenges to benefit academicians and aid further research on the concept. It will form a fundamental base upon which further research into the field will be based as it will act as both reading and secondary source material.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will look at the various existing literature on growth. It briefly looks at the theories of growth, the drivers of growth, how growth is measured, the different growth strategies employed by firms and the different challenges faced by firms while pursuing growth.

2.2 Growth Theories

Chandler (1962), in his landmark work, *Strategy and Structure*, identified a four-stage model of organization evolution. One of the better-known models is that of Greiner (1972), who suggested that organizations grow through five evolutionary stages, separated by brief periods of "revolution," or dramatic organizational change. Churchill & Lewis (1983) describe the five stages of growth with unique characteristics and different sets of opportunities and resources. The economic theory analogy of the growth process as a cycle has been intensively studied mainly based on economic tenants propounded by John Maynard Keynes. Basing their argument on the Penrosean theory, Delmar, et al (2003) reiterate that these patterns of growth are related to firm demographic characteristics, such as age, size, industry affiliation and nature of governance.

Scholars have argued that as firms move through various stages of growth, differing problems must be addressed, resulting in the need for different management skills, priorities, and structural configurations (Chandler, 1962; Greiner, 1972; Quinn and Cameron, 1983; Churchill & Lewis 1983; and Adizes, 1989). Delmar et al., (2003) state that firms grow in different ways and that these patterns of growth, over time, can vary significantly.

2.3 Drivers of growth

Most important predictors of new venture growth seem to be entrepreneur characteristics, resources, strategy, industry, and organizational structure and systems (Gilbert et al., 2006). According to Wiklund (1998), in addition to abilities and available resources, motivation plays a significant role when comparing the results of slow-growth and rapid-growth small firms. Wiklund (1998) argues that, motivation is more important than any personal abilities in terms of small business growth. According to Gilbert et al., (2006), both new and small firms are faced with the challenge to survive but as firm size and age increase, the adverse impact of lack of growth on firm survival is reduced. This is one of the strongest motivational factors for small business managers to seek growth (Wiklund, 1998). Furthermore, according to Wiklund (1998), there exists a strong relation between financial performance and growth. In other words, in most cases, growth means more money, which is naturally a possible motivator for any entrepreneur to grow his or her firm.

Growth itself is by no means a proper indicator of success, thus small business owners may set their goals based on personal lifestyle or family issues rather than the growth itself (Ala-Mutka, 2005). Indeed, limited growth is not always associated with an inability to grow but may actually be reflective of a limited desire of the entrepreneur to grow the firm (Gilbert et al., 2006). Wiklund, Davidsson, & Delmar (2003) made a study on how entrepreneurs feel about growth. The results show that small business managers' attitudes towards growth are most often influenced by their beliefs concerning how the growth might affect the well-being of their employees. If the managers believe that the well-being of employees is threatened, willingness to grow is significantly decreased. Ability to ensure crisis survival, regain control over the growth and the independence of the firm were other major concerns of small business managers regarding the effects of growth to the firm (Wiklund et al., 2003).

Many scholars have examined the character traits of an entrepreneur that are likely to affect the growth of a firm. This is due to "the belief that the entrepreneurial firm is an extension of the entrepreneur" (Gilbert et al., 2006, p. 930). Educational background, prior related industry experience, and prior entrepreneurial or start-up experiences are

considered to have direct effects on the sales and employment growth of new firms. Also many personality traits are found to have mostly indirect effects on firm growth (Baum et al., 2001). In addition, an entrepreneur's experience in growing other firms is reported to have caused higher levels of growth in small firms (Gilbert et al., 2006).

Although many various resource types enable firms to pursue growth objectives, the most important seem to be human and financial capital (Gilbert et al., 2006). Human capital can be seen as the employees of the firm. Small, start-up firms may require more specialized and skilled workforce than a mature firm (Gilbert et al., 2006). Furthermore, according to the authors, financial capital influences the sales and employment growth of new firms. The higher the level of financial capital the more it buys entrepreneurs time to successfully execute strategic objectives, enables entrepreneurs to either undertake more ambitious strategies or change their course of action, and simply empowers the entrepreneurs to meet the financing demands that are required to sustain the growth being realized (Gilbert et al., 2006). One of Penrose's (1995) statements is that firms grow because they have underutilized resources. According to Penrose (1995), firms have a natural need to eliminate idle workforce by engaging in large enough operations, and at the same time, to use the most valuable specialized services of its resources as fully as possible. The latter is especially true in small firms' case, wherein highly specialized employees cannot necessarily utilize all their know-how efficiently because the output of the firm is too small (Penrose, 1995). Thus, firms need to grow and elevate their operations in order to take full advantage of their highly specialized workforce.

Basing his argumentation on review of previous entrepreneurial studies, O'Gorman (2001) noted that the different explanations of firm growth can be divided into two generic explanations. In the "strategic choice" explanation firm growth is seen as "the result of the strategic and structural choices made by entrepreneurs" (O'Gorman, 2001, p. 60), whereas the "industry structure" explanation suggests that for many small firms the principle determinant of growth is the structural characteristics of the industry" (O'Gorman, 2001, p. 60). O'Gorman (2001, p. 71) concludes, that "companies drive markets as well as markets drive companies". When a particular industry sector is suffering for a reason or another, decreased performances for firms inside it are likely to occur. Gilbert et al. (2006, p. 935) also conclude based on their literature study, "high

growth will be realized by firms in growing markets". According to Gilbert et al. (2006), the stage of the industry is another factor having strong influence on firm growth. Firms competing in growth industries, on the other hand, may have better opportunities than firms "in emerging or mature markets to provide new product or service offering that fill niches in the market" (Gilbert et al., 2006, p. 935). There are also sub factors inside industry, which include the effects of the role, business model, and network position of the firm (Autio et al., 2007).

The results from the work of Wiklund (1998) support the notion that strategy has the strongest and most direct influence on growth. Wiklund & Shepherd (2003) have studied the impact of entrepreneurial strategic orientation to firm performance from knowledge-based resources' perspective. Their findings suggest that firm performance is enhanced by discovery and exploitation of entrepreneurial opportunities. Baum & Locke's (2001) psychological study of determinants of firm growth found a strong direct effect of goals, communicated vision, and self efficacy on growth they also found mostly indirect effects of passion, tenacity and new resource skills.

Although there has been much interest in understanding firm growth during the last ten years such as (Davidsson & Delmar, 1999; Wiklund, 1998), there is still not much of a common body of well-founded knowledge about the causes, effects or processes of growth (Davidsson & Wiklund, 2000). Moreover, although several determinants of firm growth have been suggested, researchers have been unable to achieve a consensus regarding the drivers of firm growth (Weinzimmer, 2000). Most of the research work in this area fails to provide convincing evidence of the determinants of small firm growth as a basis for informing policy makers (Gibb, 1996).

2.4 Measurement of growth

There are many ways to measure success for instance, Ala-Mutka (2005, p. 14) recognized and used 11 different indicators to define success in his study, which were "turnover (annual growth rate), number of personnel (annual growth rate), organic growth, non-organic growth, profitability, planned goals, knowledge and technology, publicity (brand recognition), finance, customers and markets, and business processes

fulfill stakeholder expectations” Strategy comprises actions employed to meet a firm’s long-term objectives. Pearce & Robinson (2007) have recommended three critical ingredients for the success of strategy. These are; strategy must be consistent with conditions in the competitive environment; it must take advantage of existing and emerging opportunities and minimize the impact of major threats; and strategy must place realistic requirements on the firm’s resources. Strategy concerns what a firm is doing in order to gain a sustainable competitive advantage (Porter, 1980). Every organization has to figure out what it wants to achieve and then how it is going to make it happen, with its products, customers, and operations. Miller & Cardinal (2001) found a positive relationship between strategic planning and firm profitability and growth.

Businesses grow for a number of reasons including to take advantage of a gap in the market, to gain a competitive advantage over rivals, and to win increased market share. There are three main types of business growth: internally (organically), externally through mergers and acquisition strategies (Campbell et al., 2002) and a fourth type of growth that McKelvie et al., (2010) refer to as hybrid which is neither organic nor acquisitive but falls somewhere in between and it involves franchising, licensing, and joint ventures/strategic alliances strategies.

Organic growth is the natural growth of a firm through its internal activities and it occurs through reinvestment of previous years’ profits and loan capital in the same business that generated the profits. Within this setting, growth can occur in two ways: vertically or horizontally. Vertical growth is development of a business into a different stage of the value chain of which it is a part. Horizontal development is a move resulting in higher market share within the same markets. Most growth, occurs within the areas in which a business is most acquainted thus its micro or near environment Campbell et al., (2002). Delmar et al., (2003) stress, that firms that grow organically will show a smoother growth pattern over time compared to firms that grow mainly through acquisitions. They also say organic growth is more associated with smaller firms, younger firms, and emerging industries. The main disadvantage of such an approach is that it takes time, and in the meantime rivals may be expanding and gaining competitive advantage. However, the main advantage is that the business is able to maintain a healthy gearing position. In

addition ownership and control of the business is more likely to be retained by the existing shareholders.

External growth can be carried out by seeking external finance, or by merger and acquisition. These approaches tend to rely on bringing external finance into the business in order to fund expansion. Merging with another company is a mutual arrangement whereby two companies join together. Typically one company will issue shares in exchange for shares in another company. A take-over occurs when one business acquires a controlling interest in another. External growth enables fast expansion of a business but there are a number of problems. Where two companies come together, the cultures may be quite different and difficult to match up. In addition there may be disagreements between managers who are used to working with different practices and systems. The business change needs to be handled carefully from the human resource management perspective

Hybrid forms of growth lie between organic and acquisitive growth or combines elements of each. Hybrid modes consist of contractual relationships that bind external actors to the firm at the same time as the firm maintains a certain amount of ownership and control over how any assets are used McKelvie et al., (2010). This type of mode can take a number of forms, including franchising, licensing, and joint ventures strategic alliances. These all have important contributions to understanding how firms grow. Hybrid allows firms to overcome issues related to for example limited resources and managerial capacity (Shane, 1996).

2.6 Growth challenges

All firms face some form of growth challenge in one way or the other. Barber, Metcalfe & Porteous (1989) suggested that some of these challenges are external to the firm, a feature of the firm's operating environment that is impracticable to alter. But many of the challenges are internal, generated by the growth of the firm. The principal challenges Barber et al (1989) outlined were management attributes, lack of finance, and the external labour market and the market structure. Berney (1994) had a generally similar list. He states that challenges of growth may include the product (poor quality, wrong costs),

funding (inappropriate funding/equity), psychological/motivational factors (low levels of ambition, risk aversion, fear of loss of control), managerial deficiencies (finance, organisational, production, marketing), and government policy (taxation, incentives).

A lot of the empirical work on challenges to growth has focused on the external factors. Burns (1994) did an analysis of a survey covering five European countries and identified the greatest challenges as: the depressed state of European economies, competition from home and abroad, the cost and availability of funds (particularly for small companies), and finally, government bureaucracy. In 1995, Grant Thornton International carried out a survey of 17 European countries and divided the barriers into short and long-term. The principal short-term barriers were cost of finance, shortage of orders, and domestic legislation. The primary long-term obstacles were limited market demand, accessing new markets, and the cost and availability of finance.

Davidsson, Achtenhagen, & Naldi., (2010) make a strong case for the notion that certain institutions have systematically discriminated against the growth of independent businesses. The specific institutions they investigated included, regulation of certain sectors of the economy; taxation; wage-setting institutions, and labour market legislation. Carlsson (2002) points out that one of the institutional factors particularly likely to explain differential growth patterns is availability of financial recourses. There are also other studies that have pointed at provision of external debt and equity capital as a very important factors challenging firm growth (Becchetti & Trovato, 2002). Storey (1994) arrived at the conclusion that there is no general market failure that motivates a major role for government in improving the financing of small firms. As regards private external capital the challenge is around motivational concerns, agency problems, judicial procedures and contract enforcement issues and possible detrimental effects of overfunding (Wiklund, Davidsson & Delmar, 2003). For these reasons also those firms that face profitable growth opportunities may refrain from growth or go for growth only if they can do so based on retained earnings or financial bootstrapping (Winborg & Landström, 2001). The challenge is therefore far more complex than just being a matter of providing enough external capital for these firms that have growth potential but lack the resources to realize it.

Terpstra & Olson (1993) identified the key challenges to growth as being internal, with sales and marketing being the most dominant, followed by internal financial management, human resource management, general management, and then the regulatory environment. These rankings were different to those entities that they classified as in the start-up stage where external finance scored highly and organisational management issues scored lower. As Peterson, Dyer, Farr, & Christensen, (1995) suggested, eliminating growth defeating management practices might be more important than adopting growth promoting management practices. These challenges influence the structures and strategies selected by managers, and negatively impact upon the ambitions of the organisation. Some of the barriers to growth are perceived rather than real, but once they exist in the mind of the entrepreneur they act as a deterrent to growth aspirations and practices.

The life cycle models are mainly concerned with the need for change that growth imposes on the firm, and how this growth affects other characteristics of the firm such as organizational structure and strategy. Growth creates organizational problems within the firm that need to be resolved (Fombrun & Wally, 1989). As a firm grows within a particular stage, the configuration becomes inappropriate and the firm needs to transform itself. After the transformation, the firm enters the next configuration and growth stage, where the process is repeated (Churchill & Lewis, 1983; Greiner, 1972). Different problems must be addressed during different stages of growth, resulting in the need for different management skills, priorities, and structural configurations over the development of the firm. An organization will face significant problems if its internal development is too far out of step with its size. The greater the degree of mismatch between an organization's size and the development of its operational systems, the greater the probability that the firm will experience the onset of growing pains (Flamholtz, 1986).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. The aspects of the research methodology covered are the research design, target population, data collection tools used and data collection technique, and data analysis method and presentation. This research methodology was used to enable the study obtain and process the data on the growth challenges faced by local seed companies in Uganda.

3.2 Research Design

This was a descriptive survey aimed at studying the growth challenges facing local seed business in Uganda. Polit & Hungler (1997) describe a study aimed at finding out who, what, where and how of a phenomenon as a descriptive study, which is indeed the concern of this research.

3.3 The Population

The population of the study were the 16 active local seed companies in Uganda. There are many registered seed companies in Uganda however there are currently 16 active registered local seed companies in Uganda (Uganda Seed Traders Association (USTA), 2011). The study targeted senior managers who are involved in strategic decision making in their respective seed companies,

3.4 Data Collection

In this study primary data was collected using a questionnaire formulated to capture the growth challenges faced by local seed companies in Uganda. The questionnaire had close ended questions and was self administered by personal interview. Personal interviews are advocated by Parasulaman (1986) as having the potential to yield the highest quality and

quantity of data. Where the managers were not physically accessible, telephone interview was conducted. The questionnaire were sent by email in advance to all the respondents.

3.5 Data Analysis

A coding frame was developed based on common themes, as suggested by Bryman and Cranmer (1990). This was done with the view to identify the common elements within the data. The data collected from questionnaire was qualitative in nature. As a result, the analysis involved a simple approach to data analysis, based on a descriptive framework (Robson, 1993). This involved identifying a selection of common themes and categories based on the research questions and data collected. Data was then compared and sorted within these themes and entered in Microsoft excel software.

CHAPTER FOUR

DATA FINDINGS, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the data findings, the results analysis and data interpretation of the research, which are presented in form of tables and figures along with some explanations. The chapter draws on some of the themes raised in previous chapters. The primary concern of the study was to explore and highlight the growth challenges faced by local seed companies in Uganda.

4.2 Data sources

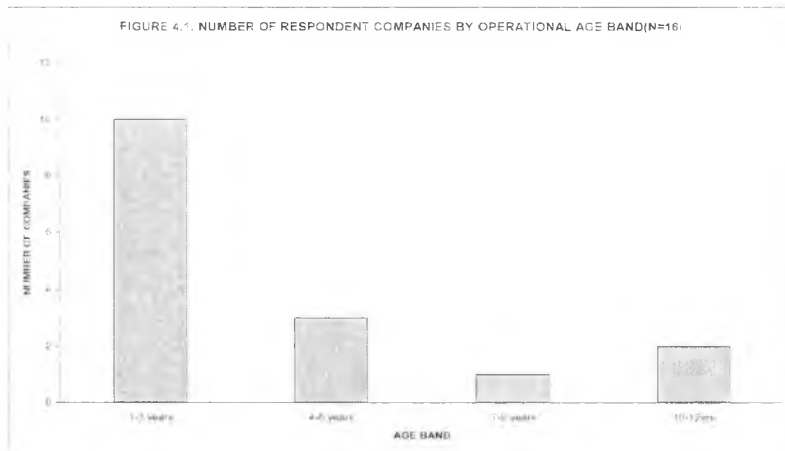
The source of data for this study was self administered questionnaires. The results of the study are based on views gathered from the local seed companies. Before presenting the findings, it is appropriate to begin by describing the characteristics of the respondents.

4.3 Sample and characteristics of respondent companies

The sample for this study was a non probability, purposive sample. It consisted of the 16 local Ugandan seed companies. Figure 4.1 shows the description of the respondents by year of operation; Figure 4.2 illustrates whether the respondent companies are owner managed or not, Figure 4.3 shows the number of companies by annual turnover in the last three years.

4.3.1 Years in Operation

Figure 4.1 presents the respondent companies by years of operation in the seed value chain industry.



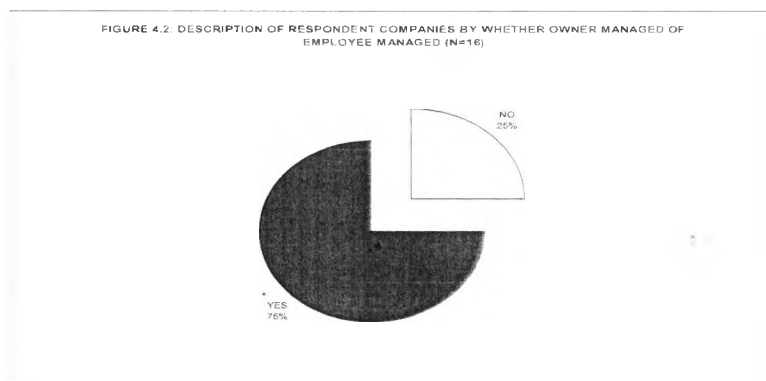
Source: Research data

Figure 4. 1: Years in Operation

Of the 16 respondents the majority of the seed companies 63% are concentrated in the 1-3 age bracket; 19% in the 4-6 year age bracket; one in the 7-9 and 8% in the 10-12 age brackets. Consequently, the findings highlight that the majority of seed businesses are fairly young with most of them having been in operations for less than 5 years.

4.3.2 Company Management

Figure 4.2 presents a description of the companies by the nature of management that is whether they are owner managed or employee managed (professionals) in percentages. It highlights that the majority are owner managed. Out of the 16 respondent companies, 75% indicated that they were owner managed. While 25% said they were not owner managed.

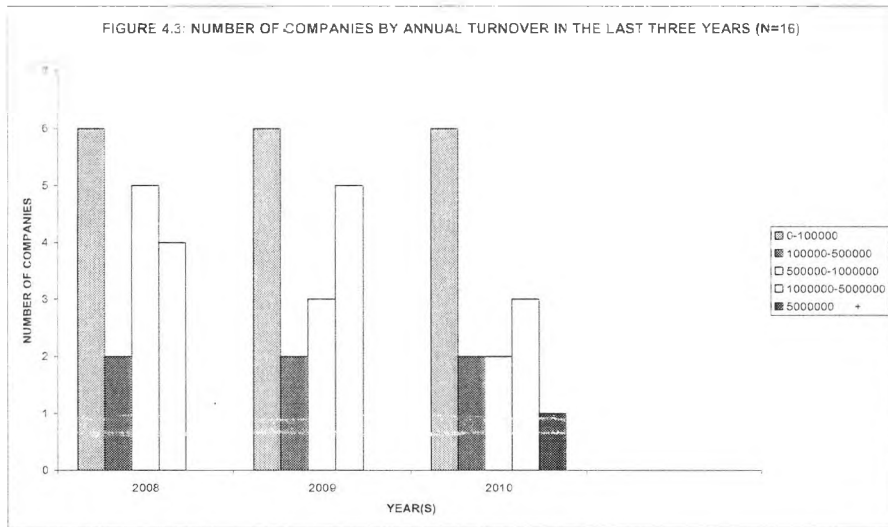


Source: Research data

Figure 4. 2: Company Management

4.3.3 Annual Turnover

Figure 4.3 presents the number of participant companies by annual turn over during the last three years. The research specifically focused on the years 2008; 2009 and 2010.



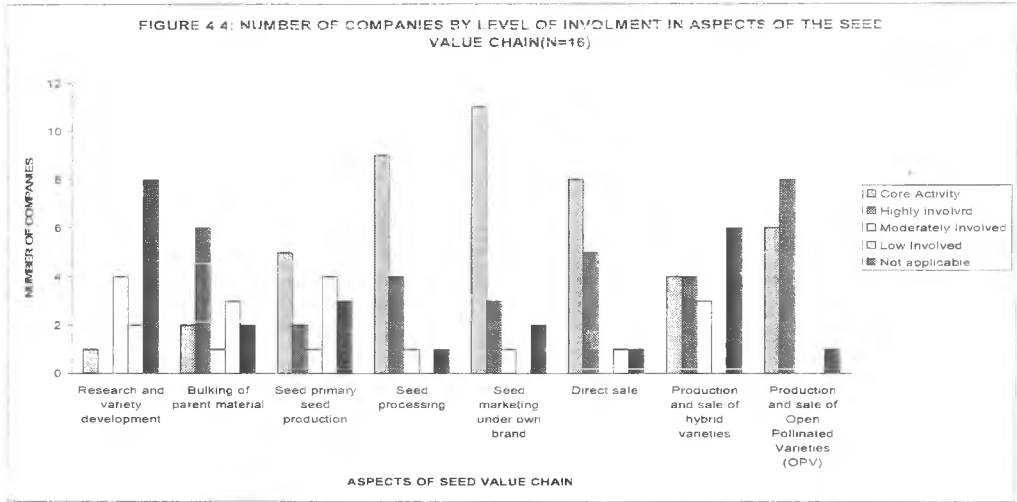
Source: Research data

Figure 4. 3: Annual Turnover

According to the figure 4.3 in 2008, 38% of the companies had an annual turn over between 0-100,000 US dollars; 8% had a turnover of 100,000 to 500,000 US dollars; 30% had an annual turnover of 500,000-1,000,000 US dollars; and 24% had an annual income between 1,000,000 to 5,000,000 US dollars. In 2009, 38% of the companies had an annual turnover between 0-100,000 US dollars; 12% had a turnover of 100,000 to 500,000 US dollars; 20% had an annual turnover of 500,000-1,000,000; and 30% had an annual income between 1,000,000 to 5,000,000 US dollars. In the year 2010, 38% of the respondent companies had an annual turnover between 0-100000 US dollars: 12% had a turnover of 100000 to 500000 US dollars; 12% companies had an annual turnover of 500,000-1000000; 30% had an annual income between 1000000 to 5000000 US dollars and 8% had an annual income of over 5million US dollars. This shows that the businesses are straggling to grow with most remaining stagnant over the years reviewed.

4.4 Involvement in aspects of the seed value chain.

Figure 4.4 presents the number of respondent companies involved in the different aspects of the seed value chain for the sole purpose of ascertaining the nature of the seed companies.



Source: Research data

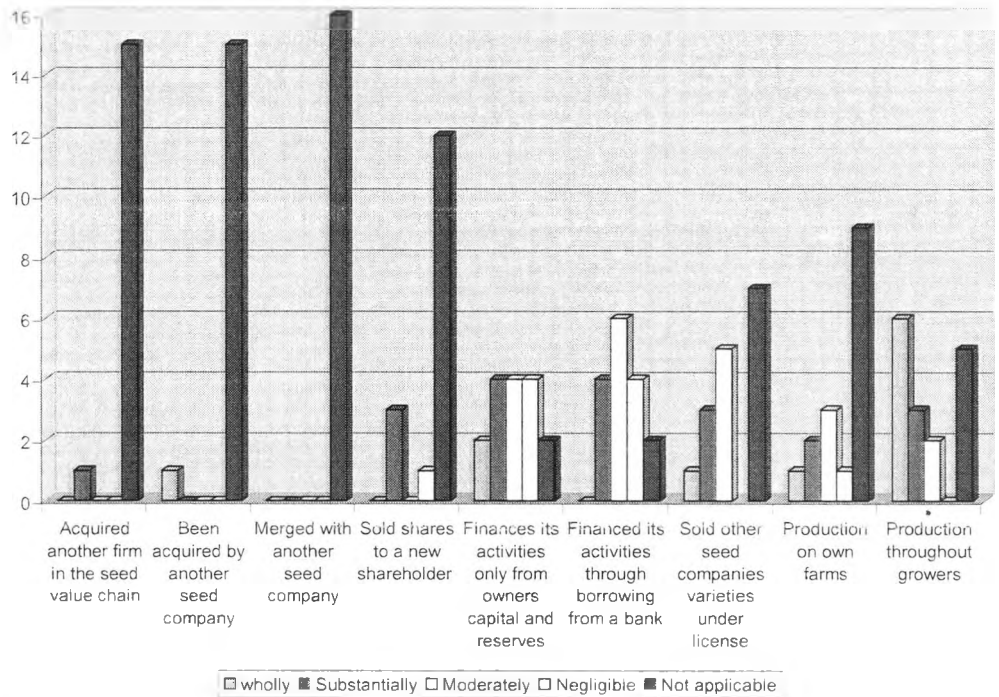
Figure 4. 4: Involvement in Aspects of the Seed Value Chain

The study established that 69% of Ugandan local seed companies are involved in seed marketing under own brand as their core activity; 56% of them process and directly sell their own seeds. The research revealed that only 6% of the businesses were actively doing research but over 50% were involved in some form of research albeit minimum. About 44% of the businesses bulk their own parent materials; 75% of the companies produce and sell open pollinated variety (OPV) only and 25% of the companies produce and sold hybrid variety as well as OPVs

4.5 Growth Strategies

The study explored how Ugandan seed companies had grown through specific growth strategies. The growth strategies focused on are external, internal and financial. Figure 4.5 presents the number of respondent companies by the growth strategy the companies have undertaken. The figure shows that one company acquired another firm in the seed value chain; while one company had been acquired wholly by another seed company, another sold substantial shares to a private shareholder.

FIGURE 4.5: Number of companies by reported growth strategies (N=16)



Source: Research data

Figure 4. 5: Number of Companies by Reported Growth Strategies

As highlighted by figure 4.3; most of the seed companies are young. They have not been able to attract private equity capital or strategic buyers that could enhance their growth. The inability to raise loans from commercial banks or private equity funds has meant that most of the businesses rely on the owner’s equity to sustain capital and revenue expenditure. There has been minimum acquisition activity with only two companies involved in some form of external growth strategies. These growth strategies provide justification for some of the growth challenges faced by the seed companies.

4.6 Growth challenges

The analysis has classified the challenges as: production, internal environment, financial aspects of the business and the external environment. The following is a presentation of the findings.

4.6.1 Production as a Growth Challenge

The respondent companies were asked to rate key production factors they perceived as a challenging to the business. Table 4.1 presents the number of companies by the factors they rated as a growth challenge.

Table 4. 1: Number of Companies by Factors Rated As a Challenge

(N=16)

| | CRITICAL | HIGH | MODERATE | LOW | N/A |
|--|----------|------|----------|-----|-----|
| Availability of new improved genetic materials | 12% | 25% | 38% | 19% | 6% |
| Sufficient parent material | 19% | 25% | 32% | 12% | 12% |
| Sufficient parent material multiplication capacity | 6% | 44% | 19% | 19% | 12% |
| Seed drying capacity | 12% | 63% | 6% | 6% | 12% |
| Seed processing equipment | Nil | 75% | 6% | 12% | 6% |
| Quality of seeds produced by out growers | Nil | 63% | Nil | 25% | 12% |
| Reliance on rain feed production | 56% | 6% | 6% | 12% | 19% |

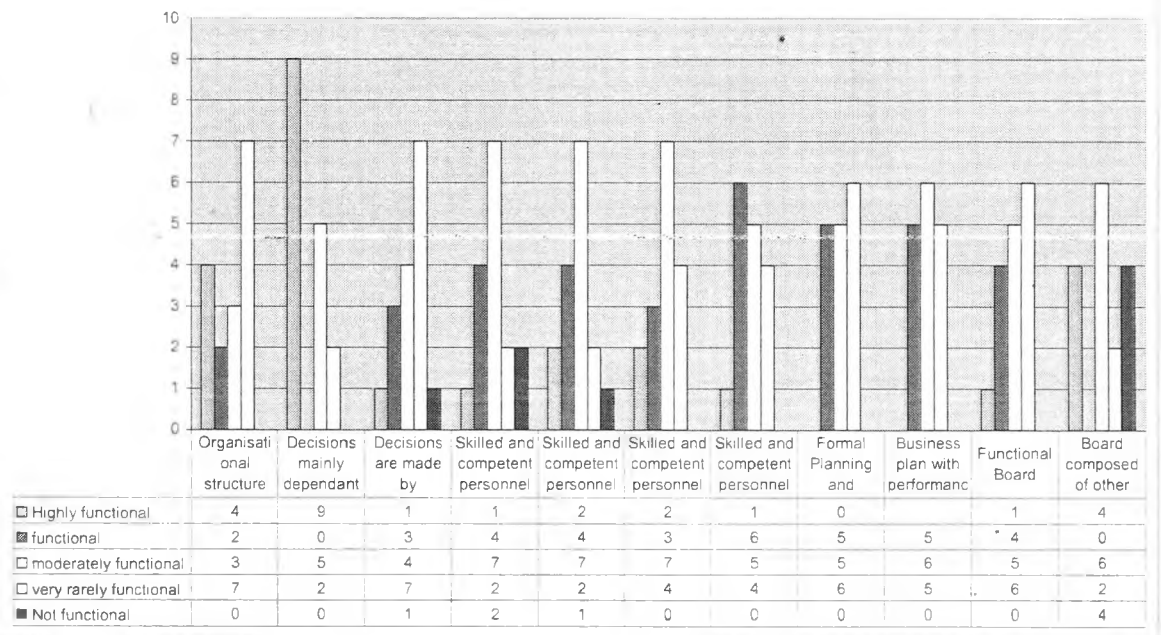
Source: Research data

As seen in the table above, a total of 75% of organisations rated availability of new improved genetic materials as a challenge. In relation to sufficient parent material, a total of 75% of the companies said it was a challenge. When asked about their capacity to multiply parent material a total of 69% indicated it as a challenge. Respondent companies were also asked to rate the challenge posed by seed drying capacity of which a total of 81% identified it as a challenge to their businesses. When asked about the availability of processing equipment, a total of 81% indicated that they lacked appropriate processing equipment. On the quality of seeds produced by out growers 63% of respondent were not happy with the consistence in quality of seed produced by

outgrowers which substantially affects their brand. And 68% of the respondents identified reliance on rain fed production as a major challenge.

4.6.2 Internal Growth Challenges

Figure 4.6A presents the number of companies by the extent of internal aspects functionality. The study requested companies to rate the functionality of the following aspects: organisational structure, decision making, skilled manpower, planning were functional (see appendix for details of growth challenges), by saying whether the functions were highly, moderately, functional, rarely functional or not functional.



Source: Research data

Figure 4. 6: Number of Companies by Rating of Internal Growth Challenges

As observed in figure 4.6A, of the 16 companies studied, four companies reported that their structure was highly functional, two said the were functional, three moderately functional and nine said it was rarely functional. Nine companies rated the decisions in the business dependant on owner as highly functional. five said it was moderately functional; two rarely functional; and two rare very functional. When asked to rate the aspect that decisions are made by independent professional management. out sixteen

companies, only one said it was highly functional, three functional; four moderately functional and seven very rarely functional and one not functional.

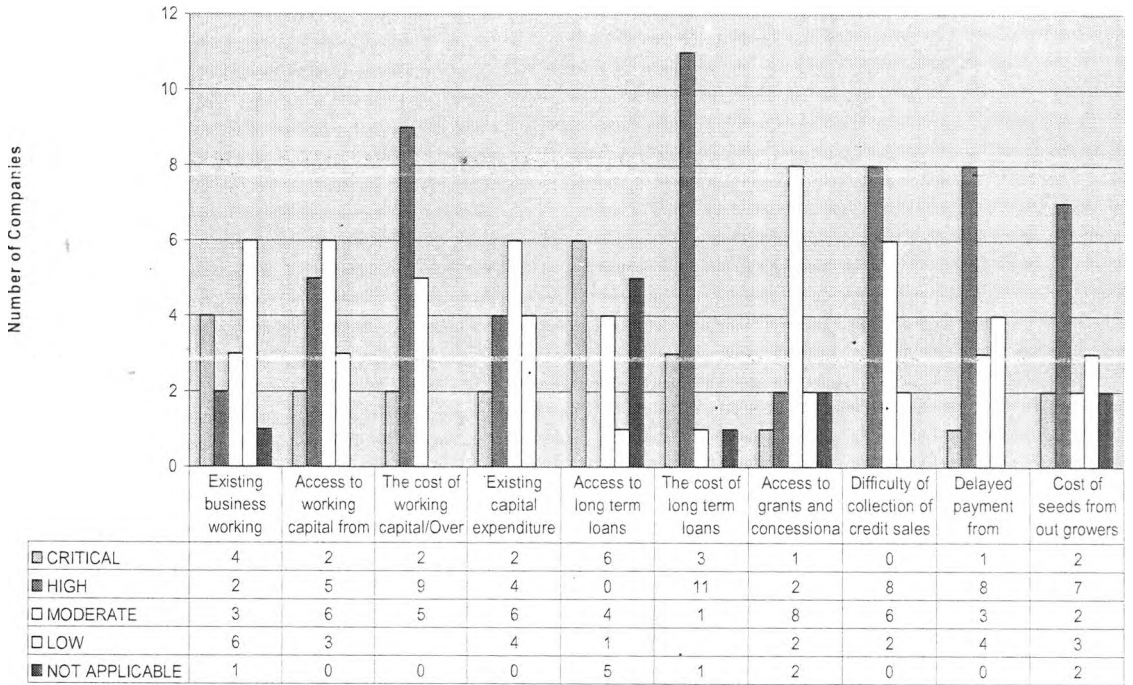
The study also looked at skilled and competent personnel in production. one company said that highly functional; four rated it as functional; seven moderately functional; two very rarely functional and not functional respectively. In regard to skilled and competent personnel in processing; two rated it as highly functional; four as functional; seven as moderately functional; two very rarely functional and one not functional. On skilled and competent personnel in marketing; two rated it as high functional; three as functional; seven as moderately functional; four very rarely functional. When asked about skilled and competent personnel in finance and accounting; one rated it as highly functional; six functional; five as moderately functional; four as very rarely functional.

The study also explored the aspects of formal Planning and budgeting; out of the sixteen respondent companies: five rated it as functional; five as moderately functional and six rated as very rarely functional. On business plan with performance targets five rated as functional, six as moderately functional and five very rarely functional. Regarding a functional board; one rated it as highly functional; four as functional; five as moderately functional; and six as very rarely functional. In relation to whether the board was composed of other members other than the owner/family; four rated it as highly functional; six as moderately functional, two as very rarely functional and four not functional.

4.6.3 Financial Growth Challenges

The below figure 4.6B presents the number of companies by reported aspects of financial constraints. Four companies rated access to long term loans as critical; two as high, three as moderate; six as low; and one not applicable. On access to working capital from formal financial institutions: out of 16 respondent companies, two said it was critical; five as high, six as moderate and three as low on their list of financial challenges. The cost of working capital/Overdraft facilities was also an aspect of financial challenge respondent companies were as to comment on. Two out of sixteen companies said it was a critical challenge; nine was a high challenge; and five a moderate aspect of financial challenge.

The study also explored whether the existing capital expenditure in the business was from reserves, Two companies rated as it was critical: five rated it as high; and six as moderate. On access to long term loans, of the sixteen respondent companies; six said it was a critical challenge (n=6); four a high challenge; six a moderate challenge: four as a low challenge. One company rated access to grants and concessional funds as a critical challenge; two as high; eight as moderate (n=8); two as low and two as not applicable.



Source: Research data

Figure 4. 7: Number of companies by level of reported financial challenges

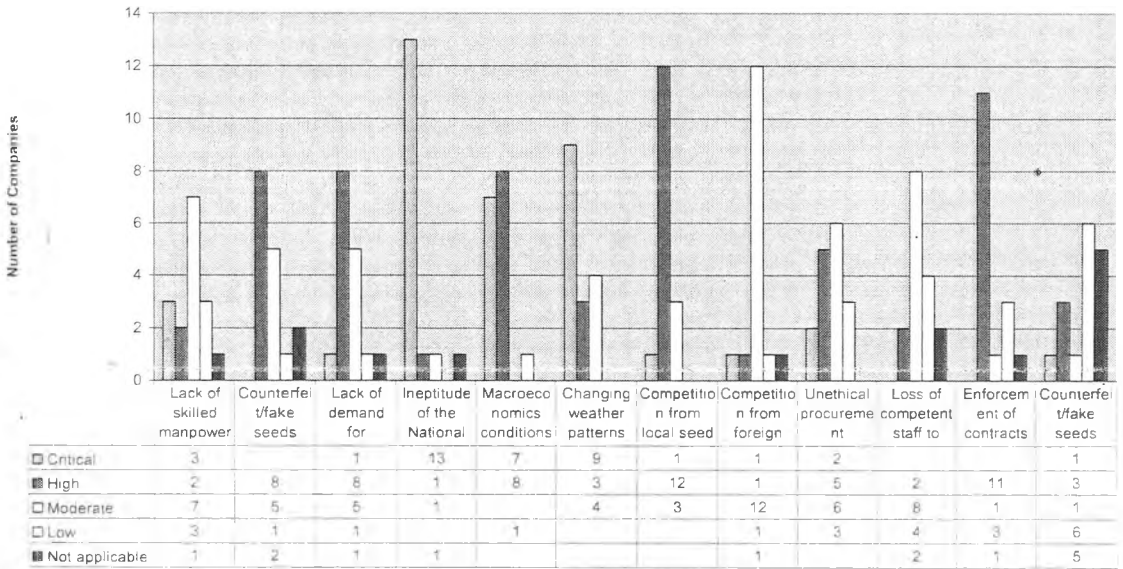
Difficulty of collecting credit sales from government and other wholesale customers has evidently been identified as an aspect of financial challenge in seed businesses. When asked to comment on it; eight respondent companies said it was high; six as moderate and two as low on the hierarchy of challenges.

Additionally, the study looked at delayed payment from stockist and agro-dealers; one companies rated it as a critical challenge; eight as a high challenge; three as moderate and

four as a low challenge. An aspect of finance explored was also the cost of seeds from out growers; two companies rated it as critical; seven as high; two as moderate; three as low and two as not applicable.

4.6.4 External Growth challenges

Figure 4.6C presents the number companies by external growth challenges experienced by the respondent companies.



Source: Research data

Figure 4. 8: Number of Companies by Reported Rating of External Growth Challenges

As illustrated by figure 4.6C, the majority of the respondents reported that the biggest external environmental constraint was the ineffectiveness of the National seed regulator thirteen out of 16 companies rated it as a critical challenge, one as high, moderately, low and not applicable respectively, followed by changing weather patterns affecting farmers, macroeconomic conditions critical, lack of skilled labour force 3 companies rated it as critical challenge; two as a high challenge; 7 as a moderate challenge; three as a low challenge and one as not applicable. On unethical procurement practice of government or NGO agents two rated it as critical; five as high and six as moderate. Regarding counterfeit/fake seeds sold under the company's brand; eight companies said it was a high challenge; five as moderate; one as low and two as not applicable.

On of the demand for certified seeds; one mentioned it as critical; eight as high; five as moderate, one as low and not applicable respectively. When asked whether loss of competent staff to competitors was a challenge two companies said it was high; eight as moderate; four as low and two as not applicable.

Another aspect of external challenged explored during the study was also competition from local seed companies. According to figure 4.6c; one company rated it as critical, twelve as high and three as moderate. Regarding competition from foreign seed companies; one company each said it was critical and high; twelve companies rated it as a moderate challenge, while one rated it as a low and not applicable challenge respectively.

4.7 Discussions

This chapter has addressed the analysis of the findings of the study. Its purpose was to investigate the growth challenges faced by local seed companies in Uganda. The primary challenges of growth have been identified:

Firstly as the product and these challenges comprise: lack of parent materials, poor quality seeds as a result of reliance on outgrowers, high cost of production, and poor processing facilities. According to Gilbert et al. (2006), the stage of the industry has a strong influence on firm growth. The seed industry is young in Uganda and the product challenge is an industry wide problem.

Secondly the challenges arising out of the internal environment and financing comprise: managerial deficiencies stemming from over reliance on owner managers, rudimentary organisational structures, poor corporate governance, lack of skills in production and marketing and lack of appropriate working and expansion capital. The principal internal challenges in the study concur with the list identified by Barber et al (1989), Berney (1994) and Terpstra & Olson (1993). According to Barber et al (1989) the internal growth challenges are mainly management attributes, lack of finance, and the external labour market and the market structure. Berney (1994) states that challenges of growth include the product (poor quality, wrong costs), funding (inappropriate funding equity),

psychological/motivational factors (low levels of ambition, risk aversion, fear of loss of control), managerial deficiencies (finance, organisational, production, marketing), and government policy (taxation, incentives). Terpstra & Olson (1993) identified the key challenges to growth as being internal, with sales and marketing being the most dominant, followed by internal financial management, human resource management, general management, and then the regulatory environment.

And finally as suggested by Barber, Metcalfe & Porteous (1989) some of the growth challenges are external to the firm, a feature of the firm's operating environment that is impracticable to alter from this research the external challenges identified are: reliance on nature for primary production, low demand for seeds, poor regulation, unethical behaviour by procurement agents and deteriorating macroeconomic situation resulting in lower demand, inflation and higher costs of inputs.

As identified in the literature review, growth creates organizational problems within the firm that need to be resolved (Fombrun & Wally, 1989). The greater the degree of mismatch between an organization's size and the development of its operational systems, the greater the probability that the firm will experience the onset of growing pains (Flamholtz, 1986). The desire to grow with the existing structures is a major challenge to local seed companies in Uganda.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter summarises the findings, conclusions and recommendation of the study. The purpose of the study was to explore the growth challenges faced by local seed companies and make recommendations that may mitigate against challenges identified during the research. Using questionnaires, telephone interviews and review of relevant available literature as its research tools, it explored the different aspects of challenges local Ugandan seed companies' experience. Additionally, the study is aimed at adding on the limited existing body of knowledge on the experiences of local Uganda seed companies vis-à-vis growth challenges, make recommendations to guide policy makers and academics on areas for further research.

5.2 Summary of findings

The study set out to explore the following aspects of seed companies in Uganda: age of the respondent companies; whether they are owner managed or professionally managed; the extent to which seed companies were involved in the different aspects of the seed business value chain, growth strategies adopted by the respondent businesses, and the growth challenges faced by these companies.

The findings highlight that the majority of seed businesses are fairly young with most of them having been in operations for less than 5 years. The majority of the seed companies had a low annual turnover growth rate. During the past three years a big proportion of the seed companies had an annual income of between 0-100,000 US dollars. Additionally, 75% of the business were owner managed, while only 25% were managed by professionals (see Figure 4.2). Arguably, as a result being young and owner managed institutions, their corporate governance is weak, most of the decisions are reliant on the owner, weak management information systems, poor planning and difficulty in attracting a skilled workforce.

The study also explored the growth strategy adopted by the responded businesses as a plausible contributory to the challenges faced by the seed companies. The analysis of the finding reveals that seed companies in Uganda have relied on the owner's equity to finance capital and working capital expenditures and have not been able to attract external financing. This is exacerbated by their weak asset high cost of borrowing. The companies have as a result to finance the acquisition of efficient processing equipments or working capital to facilitate growth.

Furthermore, the study found that most of the companies do not have the capacity to generate new or improved germplasm through research and therefore rely on public sources of parent material (foundation seeds). The inefficiencies of these public research institutions have resulted in scarcity of improved varieties which is the backbone of seed companies. Additionally, many of the seed businesses do not have their own land and irrigation facilities so many of them rely on out growers for multiplication of parent material and seed production who have proved to be unreliable. This factor exposes them to quality issues and price fluctuations which may lead to out growers selling the seeds as grain if grain producer's offer a good price and ready cash. The seed companies therefore need ready working capital when the seeds have been produced otherwise they risk losing seeds sold as grain. Furthermore, most seed farmers and out growers rely on rain feed production. As a result, they are prone to adverse changes in weather patterns, which in turn are likely to affect seed production and the demand for seeds.

The study also explored the financial constraints facing the local Uganda seed companies. The finding reveal that seed companies identified the difficulty of accessing grants to facilitate their growth, expansion or sustain corporate responsibility of their business, for example, the development of a stockiest network and training of framers on awareness and use of improved seeds.

A further challenge identified during the study was that most stockiests, Non Governmental Organizations (NGOs) and government who are the largest outlet for seeds, have a history of delayed payments and unethical behaviour. of procurement officers. Further more the difficulty of enforcement of contracts makes it more difficult

for the seed companies to collect receivables, which in turn exert pressure on their meagre working capital.

Furthermore, the study identified unfavourable macroeconomic conditions which affects the seed industry in general, such as inflation and the continued devaluation of the Shilling against the major currencies, which leads to a fall in the cost and demand of imported inputs due to low purchasing power by farmers and increased cost of inputs such as fertilizers and crop protection agents like pesticides.

Arguably, this occurs when Furthermore, the ineptitude of the national seed authorities has resulted in poor quality seed and fake seeds in the market. Consequently, affecting the confidence of farmers towards improved seeds. As a result, many of them fall back to home kept seeds affecting overall demand for seeds.

The study reveal that lack of effective processing equipment has also compromised the quality of seeds and speed of operations of most of the companies, common across all Uganda seed companies is the lack of drying equipment. In other words, seed that has not been properly dried will have a low shelf life or low germination potential.

In the study, the seed companies also identified the difficulty of accessing grants to enable them expand or sustain certain public good aspects of their business like development of the stockiests network and training of framers on awareness and use of improved seeds. Most of the companies do not have the capacity to generate new and improved germplasm through research and therefore rely on public sources of parent material (foundation seeds). Therefore, the reliance on public research bodies such as National Agricultural Research Organisation (NARO), which may have shortcomings, may in turn negatively affect the availability of parent materials which is the backbone of any seed business.

The research also established that most of the businesses rely on out growers for multiplication of parent material and seed production because they do not have their own farms. This exposes the businesses to quality issues and price fluctuations which may lead to the out growers selling the seeds as grain if grain producer's. Difficulty of

enforcement of contracts leads to some out growers who are awarded production contracts selling seeds to other seed companies or grain traders once offered a good price and ready cash with impunity leading to loss of the core product of the seed companies. The seed companies therefore need ready working capital when the seeds have been produced otherwise they risk losing seeds sold as grain.

5.3 Conclusion

The majority of the seed companies are owner managed, and exhibit poor planning, weak corporate governance structures, with most decisions resting with the owner manager and have had difficulty in attracting a skilled work force. The seed companies have not been attractive to financial institutions due to the perceived risk associated with agribusinesses in general coupled with a weak asset base. This has made it more difficult for seed companies to access external financing for the acquisition of efficient processing equipments and working capital. Consequently, they have relied on the owners' limited equity which has been further constrained by delayed collection of receivables from major creditors. Difficulty in accessing grants for expansion and the prevalent macroeconomic conditions was also identified as an industry challenge. Most seed businesses depend on unreliable public research institutions for parent material and out growers for seed production which has limited their stock of varieties and compromised the quality of seed in some instances. The general deteriorating macro economic situation has not been favourable to the industry resulting in reduced demand and increased cost of inputs. These constraints among others have greatly stifled the growth of seed companies in Uganda.

5.4 Recommendations

At some stage seed companies should become more professional and employ managers instead of relying on the owners to facilitate more effective management and corporate governance. There is also a need to Train more researchers, extension workers, seed processors, financial managers and marketers to help drive growth in these seed companies.

Regulation of the seed sector needs to be improved, so as to rampant sale of fake and substandard quality seeds to unsuspecting farmers. It is recommended that a network be established to coordinate policies and programmes which are designed to strengthen and improve local seed production and distribution.

Financial institutions should structure financial productions for seed companies at reasonable price to support and facilitate growth and expansion. Leasing institutions should structure products to enable seed companies acquire better processing and drying capacity.

Stakeholders such as the government and other NGOs should invest in sensitisation of farmers on the use of improved varieties to boost the seed market. It is strongly recommended that agencies such as Alliance for a Green revolution for Africa (AGRA) and NARO establish an expert consultative group, who would develop mechanism to streamline and coordinate activities on improving seed production and supply.

Land tenure policy should be streamlined to enable seed companies more easily acquire land to enhance their capacity to monitor their parent material and seed under own production. The farms should be equipped with irrigation equipment to reduce reliance on nature. These model farms could be used as demonstrations in the training of outgrowers and farmers.

Government, stockiest and Agro dealers should enter into agreements that clearly state when payment of receivable will be made, this contracts will be better enforced with improved legal framework identified as a challenge. This will unlock some of the much need working capital to seed business

5.5 Areas of further study

This study has led to the identification of areas of further study in the field of growth challenges of businesses in general and the seed sector in particular. The study has identified the growth challenges faced by local seed companies in Uganda which had kept them small. There is need for further research on the growth strategies which could be adopted by the seed companies in order to mitigate some of the challenges being faced.

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APPENDIX 1:
INTRODUCTION LETTER

Dear Sir/Madam,

RESEARCH QUESTIONNAIRE

I am a student at University of Nairobi pursuing postgraduate programme, Master of Business Administration. In partial fulfilment of the requirement to the award of the MBA degree, I am required to do and write a research paper. The topic of my research is 'Growth Challenges of Local Seed companies in Uganda'.

You have been selected to participate in this study/survey and I would kindly request for your assistance in filling the attached questionnaire.

The information provided is strictly for academic purposes and will be handled with utmost confidence. Your assistance and co-operation will be highly appreciated.

A copy of the final research report would be availed to you upon request.

Yours sincerely,

Patrick Oketa

APPENDIX 2:
QUESTIONNAIRE

SECTION A: BACKGROUND INFORMATION

Name of company _____

Name (optional) /position of respondent _____

For how many years have you worked for the company ____ years

Do you have ownership in the business yes No

For how many years has the company has been in operation _____ years

Is the company owner managed yes No

SECTION B: FIRM SPECIFIC INFORMATION

1. To what extent is the company involved in these aspects of the seed value chain?

| | Seed business value chain | Extent of involvement | | | | |
|------|--|-----------------------|---|---|---|---|
| i | Research and variety development | 1 | 2 | 3 | 4 | 5 |
| ii | Bulking of parent material | 1 | 2 | 3 | 4 | 5 |
| iii | Seed primary seed production | 1 | 2 | 3 | 4 | 5 |
| iv | Seed processing | 1 | 2 | 3 | 4 | 5 |
| v | Seed marketing under own brand | 1 | 2 | 3 | 4 | 5 |
| vi | Direct sale | 1 | 2 | 3 | 4 | 5 |
| vii | Production and sale of hybrid varieties | 1 | 2 | 3 | 4 | 5 |
| viii | Production and sale of Open Pollinated Varieties (OPV) | 1 | 2 | 3 | 4 | 5 |

Circle the most appropriate option where: 1= Core activity; 2= Highly involved; 3= Moderately involved; 4= Low involvement; 5= Not applicable

SECTION C: GROWTH STRATEGIES

2. To what extent has the business grown through the following strategies?

Circle the most appropriate option where: 1= Wholly; 2= Substantially; 3= Moderately; 4= Negligible; 5= Not applicable

| Growth Strategies | | Extent | | | | |
|-------------------|---|--------|---|---|---|---|
| i | Acquired another firm in the seed value chain | 1 | 2 | 3 | 4 | 5 |
| ii | Been acquired by another seed company | 1 | 2 | 3 | 4 | 5 |
| iii | Merged with another seed company | 1 | 2 | 3 | 4 | 5 |
| iv | Sold shares to a new shareholder | 1 | 2 | 3 | 4 | 5 |
| v | Finances its activities only from owners capital and reserves | 1 | 2 | 3 | 4 | 5 |
| vi | Financed its activities through borrowing from a bank | 1 | 2 | 3 | 4 | 5 |
| vii | Sold other seed companies varieties under license | 1 | 2 | 3 | 4 | 5 |
| viii | Production on own farms | 1 | 2 | 3 | 4 | 5 |
| ix | Production throughout growers | 1 | 2 | 3 | 4 | 5 |
| x | Acquired another firm in the seed value chain | 1 | 2 | 3 | 4 | 5 |
| xi | Been acquired by another seed company | 1 | 2 | 3 | 4 | 5 |
| xii | Merged with another seed company | 1 | 2 | 3 | 4 | 5 |
| xiii | Sold shares to a new shareholder | 1 | 2 | 3 | 4 | 5 |
| xiv | Finances its activities only from owners capital and reserves | 1 | 2 | 3 | 4 | 5 |

SECTION D: CHALLENGES OF IMPLIMENTING GROWTH STRATEGIES

3. To what extent are the following aspects of production a constraint?

Circle the most appropriate option where: 1= Critical; 2= High; 3= Moderate; 4= Low; 5= Not applicable

| Production aspects | | Extent of involvement | | | | |
|--------------------|--|-----------------------|---|---|---|---|
| i | Availability of new improved genetic materials | 1 | 2 | 3 | 4 | 5 |
| ii | Sufficient parent material | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|-----|--|---|---|---|---|---|
| iii | Sufficient parent material multiplication capacity | 1 | 2 | 3 | 4 | 5 |
| iv | Seed drying capacity | 1 | 2 | 3 | 4 | 5 |
| v | Seed processing equipment | 1 | 2 | 3 | 4 | 5 |
| vi | Quality of seeds produced by out growers | 1 | 2 | 3 | 4 | 5 |
| vii | Reliance on rain feed production | 1 | 2 | 3 | 4 | 5 |

4. To what extent are the following internal aspects of the business functional?

Circle the most appropriate option where: 1= Highly functional; 2= Functional; 3= moderately functional; 4= Very rarely functional; 5= Not functional

| | Internal structures | Extent of functionality | | | | |
|------|---|-------------------------|---|---|---|---|
| i | Organisational structure | 1 | 2 | 3 | 4 | 5 |
| ii | Decisions mainly dependant on the owner | 1 | 2 | 3 | 4 | 5 |
| iii | Decisions are made by independent professional management | 1 | 2 | 3 | 4 | 5 |
| iv | Skilled and competent personnel in production | 1 | 2 | 3 | 4 | 5 |
| v | Skilled and competent personnel in processing | 1 | 2 | 3 | 4 | 5 |
| vi | Skilled and competent personnel in marketing | 1 | 2 | 3 | 4 | 5 |
| vii | Skilled and competent personnel in finance and accounting | 1 | 2 | 3 | 4 | 5 |
| viii | Formal Planning and budgeting | 1 | 2 | 3 | 4 | 5 |
| ix | Business plan with performance targets | 1 | 2 | 3 | 4 | 5 |
| x | Functional Board | 1 | 2 | 3 | 4 | 5 |
| xi | Board composed of other members other than the owner/family | 1 | 2 | 3 | 4 | 5 |

5. To what extent are the following financing aspects a constraint to the company?

Circle the most appropriate option where: 1= Critical; 2= High; 3= Moderate; 4= Low; 5= Not applicable

| | Financing aspect | Extent of constraint | | | | |
|-----|--|----------------------|---|---|---|---|
| i | Existing business working capital resources from reserves | 1 | 2 | 3 | 4 | 5 |
| ii | Access to working capital from formal financial institutions | 1 | 2 | 3 | 4 | 5 |
| iii | The cost of working capital/Overdraft facilities | 1 | 2 | 3 | 4 | 5 |

| | | | | | | |
|------|---|---|---|---|---|---|
| iv | Existing capital expenditure in the business from reserves | 1 | 2 | 3 | 4 | 5 |
| v | Access to long term loans | 1 | 2 | 3 | 4 | 5 |
| vi | The cost of long term loans | 1 | 2 | 3 | 4 | 5 |
| vii | Access to grants and concessional funds | 1 | 2 | 3 | 4 | 5 |
| viii | Difficulty of collection of credit sales especially to government | 1 | 2 | 3 | 4 | 5 |
| ix | Delayed payment from stockist and agro-dealers | 1 | 2 | 3 | 4 | 5 |
| x | Cost of seeds from out growers | 1 | 2 | 3 | 4 | 5 |

6. To what extent are the following aspects of the business environment a challenge to the company?

Circle the most appropriate option where: 1= Critical; 2= High; 3= Moderate; 4= Low; 5= Not applicable

| | Environmental aspects | Extent of constraint | | | | |
|------|--|----------------------|---|---|---|---|
| i | Counterfeit/fake seeds sold under the company's brand | 1 | 2 | 3 | 4 | 5 |
| ii | Counterfeit/fake seeds sold under other companies' brand | 1 | 2 | 3 | 4 | 5 |
| iii | Lack of demand for certified seeds | 1 | 2 | 3 | 4 | 5 |
| iv | Ineptitude of the National seed regulators | 1 | 2 | 3 | 4 | 5 |
| v | Macroeconomics conditions | 1 | 2 | 3 | 4 | 5 |
| vi | Changing weather patterns affecting farmers | 1 | 2 | 3 | 4 | 5 |
| vii | Competition from local seed companies | 1 | 2 | 3 | 4 | 5 |
| viii | Competition from foreign seed companies | 1 | 2 | 3 | 4 | 5 |
| ix | Unethical procurement practices by government and NGO agents | 1 | 2 | 3 | 4 | 5 |
| x | Loss of competent staff to competitors | 1 | 2 | 3 | 4 | 5 |
| xi | Enforcement of contracts | 1 | 2 | 3 | 4 | 5 |
| xii | Lack of skilled manpower | 1 | 2 | 3 | 4 | 5 |

Thank you very much.

APPENDIX 3:

LIST OF LOCAL SEED COMPANIES IN UGANDA

1. Akuku Farm Seeds Ltd
2. Amla Seeds Enterprises
3. Arolim Seeds(U) ltd
4. Center for Agricultural Inputs International (CAII)
5. FICA Seeds Ltd
6. General & Allied Ltd
7. Grow More Seeds and Chemicals Ltd
8. Masindi Seed Company Ltd
9. Mount Meru Millers (U) Ltd
10. NASECO (1996) Ltd
11. Otis Garden Seeds
12. Pearl Seeds Ltd
13. Rial Seeds (U) Ltd
14. Supa Seeds Africa Ltd
15. Victoria Seeds Ltd
16. Green Nile Agro Tech Ltd