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THE IMPACT OF ECONOMIC INTEGRATION ONCOMPANIES BUSINESS GROWTH IN DEVELOPING COUNTRIES

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Abstract: *The general objective of this study was to investigate the impact of economic integration on business growth in developing countries a case of Uganda. Specifically, the study wascarried out to find out the key principles for successful regional integration; investigate the role of economic integration on business growth of companies and to study the other factors affecting business growth of companies. The study results showed that private operators have to be involved inthe design and the implementation of regional activities. With regard to the effect of economic integration, the study results show that companies are allowed to maximize a nation's natural economic resources can develop a comparative advantage with economic integration. And finally, the performance of the procurement function of the firm affects its performance.*

Keywords: *Economic integration, regional integration, enterprise growth*

INTRODUCTION

Regional integration is regarded as one of the keys to the attainment of goal eight of the millennium development goals. However, there has been limited research on the likely effect it may have on the businesses in the worse off country. In a globalised world, regional economic integration is seen by many (liberal) economists as a way to realize economies of scale in goods' and services' production and distribution. An open and wider market should attract investments and in turn help create more jobs, which eventually would improve people's welfare (Aynagöz andYýlmaz, 2006). Although the economic crisis in the EU has shown this "virtuous circle" is not always functioning, another argument for economic integration is that it would give African countries a stronger position in global economic.

Europe has experienced some crucial pushes toward integration in the past 25 years after the fall of the Berlin Wall in 1989, the wave of central European countries that joined the European Union in 2004, and the launch of the euro in 1999. The current

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crisis presents an opportune time to consider Europe's path to integration so far and what lies ahead (El-Agraa, 2004). While Europe is much larger and more populous than the European Union alone, the Union has been at the heart of European integration, binding countries once in conflict and offering benefits well beyond its bordersas a key trading and investment partner across Europe and as a powerful catalyst for fundamental economic and governance reforms by many entrants and aspirants.

Regional integration initiatives in Africa have a long history, dating back to the establishment of the South African Customs Union (SACU) in 1910 and the East African Community (EAC) in 1919. Since then a number of regional economic communities have been formed across the continent, particularly since the 1970s. Currently there are about 10 or so regional economic groupings in Africa. Today there is no country in Africa that isn't a member of at least one regional economic group. As reflected in the number of regional agreements both in the continent and world-wide, therefore, the issue continues to occupy a center-stage in the economic agenda of countries.

The desire to integrate African economies on a regional, and ultimately continental, basis is strong. It is shared amongst African elites and their international development partners. Consequently many formal initiatives have been established to further this goal, under the overarching umbrella of the African Union's plan to achieve a continental common market by 2028.

However, often the rhetoric does not match the reality. African economic integration suffers from problems, ranging from overlapping memberships (Harrop, 2000), through unfulfilled commitments, to unrealistic goals. Therefore, it is appropriate to reconsider the conceptual foundations on which such integration is based, and in particular their strong European roots.The EAC Development Strategy also prioritizes Trade and Investments promotion activities to the traditional markets in Europe and North America as well as to the new emerging markets of Asia and Latin America (EAC, 2000). The EAC Investment Conferences that are held annually since 2008 have realized great success in promoting the region's economic potentials and investment opportunities. With the hosting of the World Economic Forum for Africa in 2010 and the AfricaInvestment Forum in 2011 in East Africa, both of which were held in Dar es Salaam, the region has become a major focus of global trade, tourism and investment attention. The enactment, in 2008 of the EAC Trade Negotiations Act was a major breakthrough in the longstanding search by the EAC Partner States to negotiate as a block in the multilateral trade for a (EAC, 2001). The joint negotiation strategy is currently pursued in the negotiations of the Economic Partnership Agreement (EPA) with the European Union. EAC is also participating as a bloc at the forefront of the Tripartite EAC-COMESA-SADC initiative towards the establishment of the Grand Free Trade Area of the three major African regional economic communities. This larger trade area will further boost EAC's market advantage and strengths

In Uganda Small Scale Enterprises (SSEs) are reported to contribute over 30% of Uganda's GDP. This figure may be much higher given that Uganda's GDP is constituted

by mostly agricultural production. This is mainly by small holders who may not even fit in the definition of micro and small businesses. It is also reported by the Ministry of Planning and Economic Development (1992) that over 80% of Uganda's manufacturing output is by small and medium enterprises. The sector also employs over 6 million people in Uganda.

Mukwano group was established in 1986, although it did not start operations until 1989. Today, the group is involved in five main areas of business: (a) Manufacturing (b) Real estate investments (c) Bulk storage & shipment (d) Cargo clearing & forwarding (e) Agriculture. Mukwano Group is one of the most active investment groups in Uganda. The group won the coveted Annual Presidential Award of Best Exporter of the Year in 2004. In 2009, its beverages division attained ISO Certification.This literally implies that through regional integration, the performance o the economy can only be improved or adversely affected through EAC's regional integration effects on the businesses in the country. However, there has not been enough literature especially on the likely impact of EAC on businesses in Uganda and this forms a basis for this study.

LITERATURE REVIEW

Suffice to say that successful regional integration is premised on a number of pre-conditions. As far as politics is concerned, these relate to the existence of: domestic peace/security in countries; and political and civic commitment and mutual trust among countries. With regard to economics, there is a need for a minimum threshold of macro-economic stability and good financial management in countries (price stability, realistic real exchange rates, etc.); and sufficiently broad national reforms to open markets.

Sub-regional policies must contribute to lowering and eliminating obstacles to global trade and investment, including tariff and non-tariff barriers. Experience worldwide indicates that economic diversification and expansion of nontraditional exports to the rest of the world remain the best (if not the only) strategies for accelerated growth in the sub-region (Preusse, 2004). High levels of protectionism not only raise costs for both producers and consumers, they systematically discourage investment in export-oriented activities and inhibit economic transformation. Thus, lower and more uniform tariffs, the total elimination of non-tariff barriers and concomitant reforms of domestic taxation must remain in the menu of regional programs.

Governments must not develop national monopolies, nor should they collude at the sub regional level to develop multinational monopolies. National monopolies constitute restraints on competition, free trade and investment; andthe thrust of national reform programs is, among other things, to eliminate them. But as the marketexpands beyond national boundaries as part of the integration process, the sub region must guardagainst the appearance of sub regional monopolies, which the larger scale does not necessarily preventand may even make more attractive (Mughal, 2012).

Private sector involvementis implied by the very idea of a well-functioning market. Ultimately, integration is for the benefit of the people of a sub-region; they should be the critical actors, and governments and regional organizations only facilitators through appropriate choices and policies. Enhanced production and trade of goods and services are dependent on improved performance ofprivate firms and farms, and private operators and consumers will be the main beneficiaries of largermarkets and investment opportunities. This also means that private operators have to be involved inthe design and the implementation of regional activities, which would also help change thewidespread perception that regional organizations are simply remote outgrowths of governmentbureaucracies rather than an instrument for empowering the private sector region-wide.

Accelerated integration means, fundamentally, credible integration, built on pragmatic, gradual steps that reinforce trust and commitment, and make the process self-perpetuating. It is certainly valuable tohave a clear vision of what regional integration should ultimately mean in a sub-region (Haack& Lane, 2006), but experiencealso strongly suggests that it would be wise to move forward in a pragmatic, gradual fashion, by buildingblocks and with timetables and targets that are credible and realistic. Declarations that are not achievedlead to missed targets, frustrations, and disappointments and, in the end, reversals. Here again, thechallenge is poised by the very issue integration is sought to address, namely the diversity, in about everygeographic, linguistic, political and economic sense, of countries of the sub-region (Saggi & Yildiz, 2011).

In this context, astrategy combining variable geometry(or sequencing integration in geographic space, allowing subsets ofcountries to move faster and deeper in certain areas), and variable scope (seizing opportunity to advanceintegration in areas where conditions are propitious), is probably the most appropriate and effective formost of the sub-regions in SSA. Gradualism provides low risk opportunities to progressively buildexperience and mutual trust, which are essential for integration to move forward and deeper over time.

International trade is the modern framework of prosperity. Free trade policies open up new areas to competition and innovation. Free trade leads to better jobs, new markets and increased investment (Bhagwati, 2000). Free trade spreads values and beliefs as well as goods and services. Since international trade relies on traders keeping their agreements, countries and companies are more accountable to each other and therefore more stable.

The purpose of trade is to provide access to a greater variety of goods and services. According to the Heritage Foundation (2014), free trade fosters competition, spurring companies to innovate and develop better products keeping prices low and quality high. Free trade allows regions and companies to focus on the goods or services that they do best. International trade increases a company's market share. This causes lower cost and increased productivity, leading to higher rates of production.

Trade liberalization opens new markets between trade partners. Particularly for the US market, free trade agreements spur growth in overseas markets for American-made products. Free trade zones allow exports to grow (Hoekman&Kostecki, 2001). With trade barriers, restrictions and tariffs dismantled under free trade agreements, exports and imports could travel freely between the partners. Lowering trade barriers by one-third would boost global economic welfare by as much as 613 billion dollars, according to the Business Roundtable.

Free trade agreements increase industry competitiveness and the expansion of a country's exports. Free trade levels the playing field for trade, allowing for free and pure market competition (Hoekman, Ng &Olarreaga, 2002). Competition from abroad forces domestic producers to keep prices down, benefiting the real value of consumers' paychecks, according to the Cato Institute (2014). Importing raw materials free from tariffs lowers the cost of production for producers and allows them to remain competitive in global markets.

Some political scientists say free trade improves national security by making nations so economically interdependent that armed conflict becomes an increasingly remote possibility (Francois, 2000). Furthermore, some say that the right to labor includes the right to engage in some degree of market capitalism that includes trading with the partners of one's choice, irrespective of national borders. As individual entrepreneurs pursue their own self-interest, they accumulate capital that can be used to subsidize the arts and culture within their communities.

Opponents of free trade argue that the economic benefits of trade are outweighed by the hidden costs. For example, free trade tends to promote the formation of large business enterprises such as multinational corporations that accumulate profit at the expense of local, smaller enterprises (Bermudez, 2004). In addition, foreign capital can cut off young industries from blooming in developing economies, fostering a dependency on foreign businesses and potentially undermining the competitiveness of local firms.

Additionally, some say that free trade undermines cultural diversity and can make some economies dependent on others (Achterbosch *et al.*, 2004). For example, a small country that has abundant resources of a desired mineral is likely to develop a local economy based on the harvesting of that mineral, so when the need for that mineral evaporates or market conditions change, the entire local economy could be imperiled, perhaps even to the point of collapse.Finally, some security experts suggest that fair-trade practices that lead to unequal outcomes among states can help destabilize growing economies and increase the risk of violence in areas with a weaker history of effective governance (Adams *et al.*, 2003)

In order to choose an appropriate unit of analysis, the factors (internal and external) connected with growth of an enterprise (business environment) are briefly given below. All the factors that provide opportunities or threats to an organization make up the external environment of the organization. In a broader sense, it encompasses a variety of factors discussed below.

The regulatory factors comprise the factors related to planning, promotion, and regulation by the government. Some of the factors which influence the regulatory environment include the constitutional framework, directive principles of state policy, fundamental rights, and division of legislative power between central and state governments. These factors also include policies related to import/export, distribution, pricing, public sector, small scale industries, etc. Other external factors effecting business environment would include tax environment and ethical environment.

The internal env*ironment comprises*resources, synergy, and distinctive competencies of a firm. All these together determine organizational capability in terms of its strengths and weaknesses existing in different functional areas like marketing, operations, personnel, financial, technical, etc. Business managers need to monitor the business opportunities and threats that have or likely to have an impact on their organization. However, the internal environment is constantly influenced by the external environment (Levie& Lichtenstein, 2010).

The strategy of an organization indicates the course of action to achieve the set objectives. This involves an analysis of the organizational factors (internal and external) with the environmental factors (opportunities and threats). The organizational structure of an enterprise is affected by a number of factors like size of the business, the nature of the business, the diversity of the business, the characteristics of the market, the characteristics of the strategy, the future plans of the organizations, etc (Lorunka, Kessler, Frank & Lueger, 2011)).

A flexible organizational structure enables the organization to quickly and effectively respond to the changes in the market. Marketing capability factors are those related to the pricing, promotion, and distribution of products or services. Operations capability factors are those that are directly related to productions (Mateev&Anastasov, 2010). It involves factors like capacity, location, layout, product or service design, degree of automation, extent of vertical integration, etc. Personnel capability is one of the most important factors influencing business environment. This factor is related to the existence and use of human resources and skills in the enterprise.

It has significant bearing on the capacity and ability of an organization to implement its strategy. Personnel capability would involve factors related to acquiring, maintaining, developing, and training people. It will also take care of factors related to industrial relations, organizational and employees' characteristics such as corporate image and working conditions. Financial capability factors include all those factors which are related to the availability, usage, and management of funds. To keep pace with the changing business scenario, organizations are giving a lot of importance to its technical capabilities (Rahman, 2001). It is important to improve productivity and quality in this fierce competitive era. This objective can be met though continuous improvement in the work structure, procedure, and technologies. Technical people of an enterprise may bring this competitive advantage.

The characteristics of management know-how of an entrepreneur are considered as an important factor in the process of firm growth. Management know-how is the possible outcome of many factors like having an intergenerational heritage, or having experience of paid-employment in a similar business, or by having previous management experience being owner of some other business (Smallbone & Wyer, 2000).

Literature suggests that individuals from families owning a business are more inclined to start an entrepreneurial venture by developing knowledge of how to run a business. Empirical evidence suggests that belonging to an entrepreneurial family, augments the probability of survival. However, firm's performance is found to be positively affected by prior entrepreneurial experience. According to the literature, the related experience contributes positively in enhancing self-confidence among entrepreneurs and leads them to venture success.

Past experiences can help them in both in managing new venture and take advantage of an already established network of customers, employees, investors and suppliers playing a crucial role for the success of a new business. According to the literature, contact with professional advisors like bankers, accountants, business associates, customers and suppliers can help small business owners in gaining knowledge and access to information networks leading to develop more formal joint venture and alliances. Partnerships and alliances can help both in distributing spread risks and sharing costs along with opening of new markets and development of new services, products and processes (OECD, 2000). The business ventures also provide psychological support in decision making and other major problems faced by the firm.

According to Schumpeterian tradition, growth is positively associated with a company's capacity to innovate. Furthermore, in order to enjoy a steady growth, firms are required to respond constantly according to the needs of their customers in new and specific manners. Innovativeness being an important component of entrepreneurial orientation refers to the willingness of a firm to maintain creativeness and experimentation to introduce new products/services, technological control, and R&D in developing new processes.

According to economic theory, it is proposed that firms that cater to their local markets are able to attain competitive advantages by quickly responding to customers and properly utilizing networks and community support systems. On the basis of resource-based analysis, financial resources and human capital are the termed as most important resources for the growth of small business. Secured financial resources are considered as predominantly vital in supporting firm growth because it is comparatively easy to convert them into other types of resources.

A firm having sufficient resources is capable of doing experiments, increasing both innovativeness and chances to pursue new opportunities of firm growth. Financial resources of a firm depend mainly on the past financial performance of a firm, as past profit can be reinvested into the business. Eventually, a firm not only depends on

external funding, but also utilizes its internal resources to finance business. The firms with superior financial performance have the chance to grow according to the evolutionary theory of "Survival of the fittest". Literature suggests positive effect of diversification on growth process of firms by helping them to deal with particular product line demand constraint and creating new growth opportunities. Diversification into new products is considered not only as an important medium of competition but also as a major engine to firm growth. By utilizing modern means of communication and networks, the firm can diversify its geographic markets. Therefore, the diversification into different geographic markets like national and international markets, will lead to a positive impact on firm's growth.

Literature concerning determinants of firm growth considers both human capital and financial resources as most important factors effecting small business growth. Human capital can be defined as a combination of knowledge, experience and skills. On the firm level, the experience, skill and knowledge of the total employees contribute more promisingly as compared to the entrepreneur alone. Human capital can be measured both in terms of specific and generic terms. Generic human capital is defined in terms of different levels of educational attainment by workers. Specific human capital can be measured by employing a dummy variable indicating whether firm is offering on job training to its workers or not.

METHODOLOGY

The researcher used both qualitative and quantitative approaches where qualitative approach involved the use of observations, documentation, interviewing, and quantitative approach was used to get the workers and managers' opinions, views, attitudes and responses towards the impact of economic integration on business growth in Kampala. Quantitative methods were used to provide a mathematical presentation of the results while qualitative methods were used to obtain a humanistic view of the relationship between the two variables.

The study was carried out at Mukwano Group of companies in Kampala central division. The study sampling frame was selected on grounds of accessibility to the researcher and the ease of acceptability to take part in the sample by the study respondents. The study population included the Mukwano group business managers equaling 16 and the academia (senior researchers) equaling to 45in Kampala division.

A number of respondents was selected to represent the total population to be investigated; it consisted of the aforementioned respondent groups. The study involved the use of a total of 61 respondents in the study area. The 61 respondents sample is selected using the margin of error technique (there is a need to minimize the margin of error at 4%) and Simple random sampling was used as a sample method.

The researcher used both questionnaires and interview guides to seek information from the various respondents.The questionnaires were written on papers, they were both structured and unstructured, and they contained open-ended and close ended

questions. Close ended questions were asked to give straight forward opinions whereas open ended questions will help the researcher to seek detailed answers from the respondents.The study used an interview guide to collect any other information that could not have been collected by the questionnaire. This was done through face to face questions with the business managers.

RESULTS

For objective one, which is to find out the key principles for successful regional integrationthe correlation coefficient, $\rho = 0.466$, the regression coefficient $R^2 = 0.217$ and sig 2-tailed, $p= 0.003$. This shows that at a 5% significance level, the respondents accepted that indeed, there was significant evidence about the applicability of the stated principles in business and their perceived effects.

Open Regionalism is by far the most central principle for assuring consistency and complementary between national reform programs and the sub-regional agenda. Sub-regional programs must be bred in the same outward-oriented, market driven and private sector-led development philosophy that constitute the heart of national reform programs, especially since the 1980s (Schultz et al., 2001). It is precisely the need to reinforce these national programs that has led to the current resurgence of regionalism worldwide. Broadly speaking, open regionalism would mean coordinated integration rather than collective retreat from the world economy for countries of the sub-region.

Countries must cooperate to expand markets andcompetition across borders. This is obviously the very idea of a common market. But this must gobeyond traditional goods market integration (FTA, custom unions, etc), and extend to infrastructureservices, which have traditionally remained the domain of national monopolies and which are now thetargets of national privatization and liberalization programs.

Subsidiarity is also an important principle and a term made popular by the European Union. Subsidiarity simply means that regional institutions should be responsible only for those activities that are not better handled at the national level (Calabresi & Bickford, 2011). In return, government must be selective and parsimonious in creating sub-regional organizations and initiatives. Respecting subsidiary is important for two reasons: to avoid overloading already scarce sub-regional administrative capacity and resources; and to assure that there is sufficient commitment and trust so that the key sub-regional agencies will be given the authority and the means to implement the sub-regional agenda (Schäfer, 2006). If these conditions are not respected, the sub-regional effort loses credibility, which in turn risks undermining future integration efforts.

One other important facet of pragmatism and gradualism is “open access”, meaning that regional arrangements must remain open to new membership from countries of the sub-region. A core group of countries may get on board; but they must keep the

door open for other neighbors to join if and when they meet certain criteria(Hildebrand, 2005). Another aspect is the question of adjacency. Even though integration may proceed by building blocks, ultimately, the entire sub-region must become a set of contiguous countries, providing a "unified" geographic base for markets, especially factors and infrastructure services (Baert, 2004). For example, the fact that WAEMU does not comprise Ghana and Guinea makes the union a disjointed and sub-optimal space, and progress toward an integrated ECOWAS would remove this handicap.

For objective two, which is to investigate the role of economic integration on business growth of Mukwano group of companies, the correlation coefficient, $\rho = 0.312$, the regression coefficient $R^2 = 0.098$ and $p= 0.014$. This shows that at a 5% significance level, the respondents accepted that indeed, economic integrationsignificantly affected the performance and growth of Mukwano Group of companies.

Trade agreements open markets and offer business incentives and protections. They include commitments to protect intellectual property rights and labor rights and open regions to competition (Sullivan &Sheffrin, 2003). They also govern environmental standards and improve customs facilitation. According to Alan Blinder, professor of economics at Princeton University, exporters tend to be more technologically sophisticated and to create better jobs. Trade and finance are mutually supportive. Finally, global investment allows for greater diversification and risk sharing.

Free trade can help nations improve job opportunities in the economic market. Companies allowed to maximize a nation's natural economic resources can develop a comparative advantage when producing consumer goods (Maskus& Wilson, 2001). This comparative advantage usually allows companies to offer higher employee wages, since few nations or companies are able to reproduce the specific goods. The inability of other nations or companies to create substitute goods in the marketplace allows companies to charge higher consumer prices and increase gross profit.

For objective three, which is to study the other factors affecting business growth of Mukwano group of companies, the correlation coefficient $\rho = 0.245$, the regression coefficient $R^2 = 0.060$ and $p= 0.067$. This shows that at a 5% significance level stated other factors insignificantly affected the performance of the company.

Demographic environment includes factors like size, growth rate, age composition, sex compositions, etc. of the population (Baumol, 2004). The heterogeneity of demographics in terms of varied tastes, preferences, beliefs, temperaments, etc. affects the demand patterns of populations, and the enterprises need to make different strategies accordingly. Social environmental factors include human relationships and its effects on the society, hence the growth of an organization.

Cultural environment and understanding of which are important to understand the business environment in its totality. Understanding a particular culture and its

proper analysis provide opportunities to establish and run a business (Bridge, O'Neill & Cromie, 2003). The term *political environment* refers to the factors related to the management of public affairs and their impact on the growth of an organization. Economic environment encompasses economic planning like five-year plans, budgets, and monetary, fiscal, and industrial policies. Thus, economic system is a very important determinant of the scope of enterprises and, therefore, a very important external factor influencing business growth.

Business enterprises are closely associated with *financial environment*. To reduce the uncertainty arising out of the dynamic nature of financial environment, it is important to understand the pulse of money market and capital market (Davidsson&Wiklund, 2000). In pursuance of the broad objective, World Trade Organization has been established and its preview, General Agreement on Trade in Services. The Agreement on Trade-Related Aspects of Intellectual Property Rights and the Agreement on Trade-Related Investment Measures have been brought.

These have made the trade environment one of the deciding factors affecting the future of a business. The technological environment has a huge impact on the growth of a business. It comprises factors related to applied knowledge and the materials and machines used in the production of goods and services (Davidsson&Wiklund, 2000). Enterprises are corporate entities and have to abide by the law of the land; every country has its own system of law. Each country has its different legal systems with varied complexity and dimension. Hence, it is essential that an enterprise operating in global environment understands and abide by the global laws.

Small firms carry out a large number of technological innovations based on their unique know how approach in an unbalanced manner among industrialized nations and also in newly industrialized countries like Korea. They play an important role in the diffusion of technology and their unique know-how is often based on the improvements of general technologies developed by large firms (Safdar and Siddiqi, 2011c).

The major force behind a firm's growth is considered to be the market structure in which it operates. The growth process of firm in influenced by the fact that whether the firm is operating in competitive market conditions or not. An important aspect of an industry's market structure is whether the entrepreneurs are able to compete for their products in market or not (Bridge, O'Neill & Cromie, 2003). The market structure comprises of market orientation and the price adaptability on behalf of its owner/ manager. The efficiency with which a firm sells its products and services to the customers determines its growth establishing market orientation an important determinant of firm growth.

The classical firm features can be referred as firm age and size. The Gibrat's law can be considered as pioneer referring to the discussion on the relationship between firm age/size and firm growth (Audretsch *et al.,* 2004). The law focuses on the independence of growth and size. According to this law the firm's growth is

proportional to their size, and the growth of all firms takes place at the same rate over an interval of time, despite of their initial size within the same industry.

CONCLUSIONS

While EI provides the benefits described above it comes with a number of significant risks that need to be managed in order to achieve the full benefit potential. Failure to manage these risks can result in costly mistakes and the abandonment the outsourcing model. The risks of pursing a EI strategy by developing countries (Uganda) can be grouped under external and internal risks. External risks relate to factors that are outside the country and are less controllable. Internal risks relate to what the institutions will experience when using an outsourced vendor.

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