

The current situation facing tanzania smes economics essay



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I sincerely thank the almighty God to keep me health and give me ability, strength to accomplish this course, as he makes up activities run and deciding the degree of success or failure one can experience.

Special thanks to my Instructor, Mrs. Priti Punatar for her guidance and support in this essay two also which need more guidance as we give out our view in chosen topic, Madame your close guidance has become very helpful on this session, Thanks so much.

Thanks again Institute for Information Technology and Greenwich University for providing us with International qualification locally (here in Tanzania).

ABSTRACT

This paper has examined the current situation facing Tanzania SMEs and how does they survive through innovation in this era of globalization. The paper also discussed challenge prevailing in growth and development of Tanzania SMEs, as late 70's and early 80's SMEs started to become more innovative and more flexible in term of reducing costs, Thus, they started providing intermediate goods more efficiently than large enterprises, as people starts to be more aware and more skilled on business environment through economic integrations, movement of people and capital which caused by globalization. While Tanzania SMEs tries to survive by innovation in globalization era technology, competition and their abrupt bankruptcy become a critical challenge which this paper will analyses and give the recommendation on how to go about it so as to survive in this era which other developing countries like China, India and Brazil took as opportunity to stabilize they economy.

1. ANALYSIS ON IMPORTANT OF GLOBALIZATION IN TODAY'S BUSINESS

WORLD

As globalization is integration and interdependences of world economies, this cause liberalization of international trade as trade barriers where removed, technology progress example uses of internet which make customers more access to product of different countries and allows ease partnership between entrepreneurs.

Through finding which collected on preparation of essay one, globalization can be contributed by the following factors in this recent decade

Increase in and expansion of technology,

Liberalization of cross-border trade and resource movements,

Development of services that support international business,

Growing consumer pressures,

Increased global competition,

Changing political situations,

Expanded cross-national cooperation.

Also globalization brought different challenge in today's business environment, among those issues there business integration, creativity, movement of technology, movement of intangible and tangible resources.

Throughout recorder of history, human contact over ever wider geographic areas have expanded the variety of resources, products, services, and markets available to consumers. People has altered the way they wants and expect to live, and they have become more deeply affect (positively and negatively) by conditions outside of our immediate domains (Daniels J. D, et al, 2009, pg48)

This global challenge which face all sector also effects Tanzania economic as government implemented Tanzania economic reform programme in 1986 and review in 1996 which base on philosophy of dedicate country economy in market economy whereby the private sector will take lead in creating income and employment, while SMEs was accounted for a large share of the enterprises active in Tanzania.

1. I. MAJOR CRITICISMS OF GLOBALIZATION

Although we have discussed seven broad reasons for the increase in international business and globalization, we should remember that the consequences of these trends remain controversial. To thwart the globalization process, anti-globalization forces regularly protest international conferences (sometimes with attendant violence). There are many pertinent issues, but we focus on the three broad categories: threats to national sovereignty (i. e. countries lose sovereignty), growth and environmental stress (l. e. the resultant growth hurts the environment), and growing income inequality (i. e. some people lose both relatively and absolutely).

Threats to national sovereignty

You probably heard the slogan “ Think globally acts locally”. In essence, it means that the accommodation of local interest should prevail over global interests. Some observers worry that the proliferation of international agreements, particularly those that eliminate local restrictions on how good are bought and sold, will diminishing a nation’s sovereignty- that is, a nation’s freedom to “ act locally” and without externally imposed restrictions.

Economic growth and environmental stress

Much anti-globalization criticisms revolve around issues of economic growth. According to one argument, as globalization brings growth, it consumes more nonrenewable natural resources and increases environmental damage- despoliation through toxic and pesticide runoffs into rivers and oceans, air pollution from factories and vehicle emissions, and deforestation that can affect weather and climate.

Growing income inequality

In measuring economic well-being, we must look not only at our absolute situations but also at how well we’re doing compared to the economic well-being of others. We generally don’t find our economic status satisfactory unless we’re doing better and keeping up with others.

Also Tanzania made development Vision that by the year 2025, “ Tanzania should have created a strong, diversified, flexible and competitive economy, which can effectively cope with the challenges of development and, which

can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy”.

2. BARRIERS HINDERING TANZANIAN SMEs TO COMPETE GLOBALLY

The following are suggested to be the barriers impending Tanzanian SMEs to expand beyond domestic markets.

2. I. Ability to acquire financial capital

On recognition of the fact that many SMEs in Tanzania do not have ability to acquire financial capital, the government has given out a total of 4. 85bn/= in loans to 14, 272 for the financial year ending 2003/2004 as a support to Small and Medium scale entrepreneurs’ development projects (URT, 2004). which wasn’t enough.

2. II. Legal and regulatory framework

Report from Business Environment Strengthening for Tanzania (BEST) revealed that, the government has been working in collaboration with a number of ministries and department to put in place a legal framework conducive to speedy investments, streamlining and registration of business activities. (Daily News, July 9, 2005). but in fact these institutes create bureaucracy and hinder the growth and development of SMEs in the country, through long process of business registration.

2. III. Incoherence of government policies for SMEs development

On recognition of SMEs growth potentials, the government of Tanzania has been implementing the Small and Medium Enterprise Development policy

(2003) to support the development of SME sector. But the policy aimed more at increasing the contribution of the Gross National Product and export earnings as well as winning the war against poverty. (Sunday observer June 26, 2005)

2. VI. Lack of managerial skills

Research done by Gibb, (1983) revealed that, Small industry in a large number of observed developing countries demonstrate a multiple of specific and in many ways non-conventional managerial traits that one seldom encounters in medium or larger firms.

First is the very small management team that brings along with it a lack of specialization, a predominance of multi-functional roles, a shortage of promotable manpower, and a pronounced domination by a leader and large measure of informal control? Second, there is the limited control of the environment and the limited resources available to scan its anticipated potential changes and adapt capacity accordingly. Third, there is the informal pattern of operation, with conflicts resolved more easily and loyalties assuming a high magnitude. Fourth there is the general unawareness or indifference to the structured approach to the managerial function and the need for a longer term vision of the enterprise and its environment.

2. V. The environmental influence

Small businesses, especially, are struggling nationally and internationally to survive. For an organization to survive and prosper there is need for an understanding and adjustment to the external environment. Lack of

response to the changing global environment will result in the organizations not meeting the needs and wants of their stakeholders. Responding to the environment essentially means matching the capabilities of the organization with changing environment. This scenario has meant that the success of SMEs in this changing environment of globalization depends in large part on the formulation and implementation of strategy.

(e. g. Miles and Snow, 1978; Porter, 1980).

Strategy in this context reflects the firm's short- and long-term responses to the challenges and opportunities posed by the business environment.

Companies execute strategies to attract customers, meet the needs of the stakeholders and deal effectively with other environmental concerns, such as environmental issues.

Example:

Globalization has generated competition even more competition for the SMEs particularly the black African business. The growth in ethnic groups in many advanced economies poses particular challenges for global marketing strategies. In the UK an increasing ethnic diversity of markets is attributed, in part, to an increased mobility of populations across national frontiers and a corresponding growth in ethnic consumers

(Wilkinson and Cheng, 1997; Nwankwo and Lindridge, 1998).

2. VI. Limited experience of international trading activity

Smaller firms find that the global marketplace can offer tremendous opportunity for business growth and development (Winch and Bianchi,

2006). Notwithstanding the benefits (on both on a firm and macro-environment level) to be derived from international trade (Bell, 1997), this body of literature also argues that the smaller the firm is often more vulnerable to barriers associated with resource limitations, operating difficulties and trade restrictions (Katsikeas and Morgan, 1994; Leonidou, 2004). As Buckley (1989) maintains, internationalization by its very nature involves a high degree of risk and SMEs tend to have more limited resources to cope with the downside of foreign expansion. Hence, it has been argued that the barriers to entry that limit international expansion are systematically higher for smaller firms than for larger firms (Acs et al., 1997; O'Farrell and Wood, 1998).

It has been highlighted by Bell (1997) that the most widely investigated topic in the literature is the barriers and obstacles to exporting, which have been categorized in terms of internal and external barriers. External obstacles to SME internationalization include procedural, governmental and task barriers (Leonidou, 2004), which may emanate from the domestic market or overseas market (Fillis, 2001). For small firms, the prospect of entering into international markets can often be seen as a risky venture (Burpitt and Rondinelli, 2000; Masurel, 2001) especially given financial market imperfections, exchange rates, and differences in legal systems, culture and languages (Acs et al., 1997). Therefore, as the research findings by Knight and Liesch (2003) acknowledged, SMEs are more often less able to sustain competitive threats and unfavorable macro-events in the external environment than larger firms. This is particularly characteristic of SMEs with very limited experience of international trading activity defined as “

tentative" internationalizing firms (Lloyd-Reason and Mughan, 2003). For these SMEs at the early stage of internationalization, more often the internal skills and knowledge needs of the firm have been met and all is required is market intelligence to fully engage in foreign market expansion.

2. VII. Export capabilities and export performance

Over two decades, many studies have researched the specific elements of export capability that may determine export performance in SMEs.

Unfortunately, much of this was fragmented. Indeed, reviews by Aaby and Slater (1989), Styles and Ambler (1994), Leonidou (1995), Fraering (1996) and Zou and Stan (1998) all recognize the need to consolidate empirical export research. Amongst these authors there is general agreement that the elements of export capability relating to export performance centre around three categories:

- (a) a firm's characteristics;
- (b) a firm's competencies; and
- (c) a firm's export-marketing strategy capability.

(a). Firm's Characteristics

One of the reasons the activities of SMEs in international markets are seen to deserve special attention is the challenge SMEs with limited resources face when competing in such markets. It is perhaps unsurprising, therefore, to find that research (Dichtl et al., 1990) did establish links between firm size and export performance. However, a number of other studies have questioned the existence of such a direct link. Bonaccorsi (1992), Katsikeas

et al. (1997) argued that firms with the same amount and quality of resources may well choose different export strategies and thus strategic capability must be a mediating variable in the relationship between a firm's resources and export behavior, and not firm size. Larger firms achieved a better competitive position than smaller firms when they had greater marketing capabilities and product superiority. Katsikeas et al. (1997) found that the level of export involvement and the type of product marketed were perceived to be more important elements of capability than the size of the firm. Thus, it seems that, whilst it may be an obvious explanatory factor in export success, size is not necessarily viewed as a key export capability.

(b). Firm's competencies

Competencies that have been directly associated with export success include domestic market performance, product uniqueness, production capacity, labour skills and the type of industry in which the firm operates. Ogbeuhi and Longfellow (1994) and Katsikeas et al. (1997) both make reference to factors such as, export market planning skills, quality of export staff, foreign market connections and financial management skills as being critical capabilities in enhancing export performance.

Aaby and Slater (1989) propose that competencies in all these areas are critical to export success. Conversely, weakness in these areas is seen as a potential cause of failure in export markets. More specifically, Ogbeuhi and Longfellow (1994) found that export market failure often results from poor market analysis, absence of product market match, ineffective distribution, and lack of management planning and control.

(c). Strategy variables

Much of the earlier work examining strategy variables focused on individual capabilities: product design and persistence in the market. However, more recent research has put greater emphasis on the information generating capabilities of the firm. Toften and Olsen (2003), Burridge and Bradshaw (2001) and Hart and Tzokas (1999) suggest that successful exporters have strong capabilities in accessing and using the information required for long term export marketing planning, whereas less successful ones put the emphasis purely on obtaining information for the day-to-day running of the business. This is supported to some extent by Johanson and Vahlne (1977) who conclude that, whilst firms may initially export to markets that are geographically close, it is the subsequent increase in market knowledge and information that can lead to rapid expansion in more “psychically distant” markets.

Other authors have also provided empirical evidence of the importance of marketing variables in relation to export performance (see for example: Shoham et al. (2002), Thirkell and Day (1998), Madsen (1994), Styles and Ambler (1994), Katsikeas et al. (1996). Admittedly, the weight of support for the role of relationships in export performance comes mainly from the network perspective, a view that focuses on the formal and informal relationships that bind an organisation (Johanson and Mattsson, 1988). One of the main tenets of this perspective is that export performance is the result of interaction and the development of numerous relationships (Johanson and Vahlne, 1990).

3. OPPORTUNITIES AVAILABLE FOR SMALL AND MEDIUM ENTERPRISES TO EXPAND BEYOND DOMESTIC MARKET

Scarborough et. al, (1996) suggested that growing number of SMEs are recognizing that going global is not only a strategy reserved solely for large industries, but increasing globalization of business also favors SMEs. There are several opportunities available for SMEs pursuing a Global presence these are:

3. I. Direct exporting

Exporting starts with a global mind set which unfortunately is not all that common among owners of SMEs. With increased global competition putting pressure on domestic market, and trade agreements opening up foreign market, as never before, however, SMEs are increasingly looking towards exporting.

However, SMEs, realizing the incredible profit potential it offers, are making exporting an ever-expanding part of the marketing plans.

3. II. Use of internet technology to penetrate across boarder market

The Internet is a worldwide network of interconnected computers consisting of thousands of smaller networks. The worldwide website (WWW) is an information retrieval system that operates on the Internet (Ndiaye et al 2000) organizations have been increasingly deploying internet to serve their business process needs. Being an information rich network, internet provides further opportunity of creating knowledge to SMEs. This is an indication that stakeholders in SMEs can communicate with the outside world to add value <https://assignbuster.com/the-current-situation-facing-tanzania-smes-economics-essay/>

to their processes (Mwaijonga, 1999). Once connected to Internet SMEs can create their own website and thus become more accessible to the rest of the world (www, digital dividend . org)

3. III. International franchising

Franchise is license granted to manufactures, distributor, trader, etc, that allows him or her to manufacture or sell product or service in a particular area for specific period of time . The grantor of license (Franchiser) is usually paid a royalty on sales by the holder of the license. The situation of domestic market is the principle driving force pushing entrepreneurs into foreign markets. In many cases the products and services sold in International markets are identical to those sold in home country. However, Franchisers have learned to modify their products and services to suit local tastes and customers.

3. Vii. Foreign licensing

SMEs enter foreign markets by licensing businesses in other nations to use their patents, trademarks copyrights, and technology is a relatively simple way for even the most in experienced business owner to extend his reach into global markets.

3. V. Formation of alliances and joint ventures

Melanie, Ravi (2002) adds that in order for SMEs to survive in markets where there are large competitors, they can form alliances with similar firms to increase the rate of market penetration and reduce financial risk, by this way, the SMEs may utilize overseas technology to overcome diseconomies of scale and to produce innovations which differentiate themselves significantly

from large competitors. Because SMEs have limited resources and relative inability to absorbing the costs of the operations, Most importantly they can benefit market reputation that a foreign partner is enjoying, thus this create opportunity for SMEs to go beyond domestic market.

3. Vi. Credit guarantee scheme for SMEs

Perege (2005) indicates that, the long awaited credit Guarantee scheme for small and medium enterprises set up by the government of Tanzania to help SMEs access foreign a market is now ready. Exporters from the SMEs sector can now start sending their application for funding through the Small Industries Development Organization (SIDO).

The fund, which amounts to Tanzanian shillings 3 Billion as set up in the previous financial budget 2003/2004) with the purpose of assisting small and medium enterprises expand exports of their products. Under the credit Guarantee scheme, once an exporter has applied for the loan from any banking institution and has been asked to produce guarantee/ collateral for that affect, SIDO in collaboration with BOT, will assess the possibility for acting as guarantor's . In case exporters failed to pay back their loans, the guarantor would pay the loans (Perege, 2005).

3. Vii. Unique goods or services

Some SMEs have products that are superior in quality than what is currently offered in the targeted International market. This helps the SMEs gain an edge in attracting buyers and quickly establishing a market position. Many professional SMEs now are finding that they have an opportunity to establish

market positions worldwide because they have specific expertise that is in strong demand.

4. AFFECT OF INNOVATION IN GROWTH AND DEVELOPMENT OF SMES IN TANZANIA.

Combining the concepts provided in previous studies on the first essay, a diffusion model can be good to Tanzania SMEs as it emphasizing acquisition, adoption and adaptation of already existing innovations has been developed for the SMEs industrial sector. The focus of the research in this mode is on utilizing the entrepreneurial characteristics and capabilities to access and exploit already existing technology.

Information and knowledge about sources of technology are important components in diffusion process. For a successful innovation in a competitive market, integration of SME activities both vertically and horizontally is essential. The model contains concepts (constructs) whose existence and possible relationships have been addressed and gauged in order to determine how they influence innovativeness. The constructs are categorized as:

- (a) Technological information and knowledge;
- (b) Knowledge and skills;
- (c) Nature of the market and external relationships;
- (d) Characteristics and capabilities of SMEs.

4. I. MEASUREMENTS OF INNOVATIVENESS

To measure innovativeness of SMEs in the Tanzanian manufacturing sector, a time-frame of three years was used. This time-frame was selected because of the nature of the measurements used required owners/managers of SMEs to provide accurate estimates of their innovativeness. Technological change that was selected as the innovativeness indicator of technology adopted was measured as it was experienced by owners/managers of SMEs.

Innovation measurement is based on technological adoption, modifications and incremental changes that took place in the SMEs in the Tanzanian manufacturing sector. This approach is in line with a study by Landa (1993), in which he was able to separate innovating from non-innovating firms.

4. I. 1. Measurements of Innovation Indicators

(a) Technological information and knowledge; this concept is divided into technology information access and technology knowledge awareness.

(b) Knowledge and skills; this concept is divided into two concepts: level of knowledge and skills, and owner.

5. ANALYSIS OF THE ESSAY FINDINGS

This part includes the analysis of findings regarding the essay and the concluding remarks and recommendations.

5. I. Markets for SMEs

Different researchers were interested to establish whether Tanzanian SMEs sales their products in the external markets, local market or both.

According to the research on “ the barriers hindering Tanzanian SMEs to expand beyond domestic markets”, done by Neema J. M. (2010), the findings show that (61. 11%) of entrepreneurs (or businessmen) sale their products in local market and only (38. 89%) of businessmen sale both local and external market. This suggests that the local market looks friendly to the SMEs than external market.

It is observed that, export modes in Tanzania differ from one firm to another. After trade liberalization, many entrepreneurs have started to export into foreign markets freely instead of using the traditional government channels. (Argument from the essay writer, 2011).

It is revealed that, most SMEs which use this method do it mainly by participating in neighbors countries though trade fairs, exhibitions and delegation. However, direct exporting has been possible due to mainly initiatives from buyers; most of these SMEs have their customers abroad who use their product (Argument from the essay writer, 2011).

5. II. Lack of external marketing information

On the other hand the findings show that they suffer from lack of external marketing information. They are often unable to keep track of trend with changing tastes and preferences of external consumers. Also most of SMEs they are not using website to penetrate beyond domestic market. This result in them losing either existing market share or being unable to penetrate new market without proper assistance from government and other institutions. It is also observed that, inadequate marketing services have been hindering

SMEs find it difficult to obtain relevant knowledge and information about markets (Argument from essay writer, 2011).

5. III. Lack of advanced technology

According to the analysis on this essay, it is revealed that technology constitutes the major constraints for the SMEs to inter into foreign markets. Entrepreneurs and other businessmen have a belief that due to the use of traditional technology in manufacturing of products, SMEs produce low quality products that do not meet international standards. This is also a view held by UNIDO, which establishes that small-scale businesses often use inefficient low-cost technologies that yield products of poor quality and pose hazards to health and environment.

A number of small-scale business strongly agree that they get difficulties to cope with external market competition because of low quality products and high prices for the products manufactured by SMEs compared with products of other countries like China, Japan, and Kenya, etc.

6. CONCLUSION

6. I. Conclusion on Global Perspective

The continuous global trends are unseeingly affecting all businesses throughout this economy. These global trends cause a constant need to accommodate, which is applying more costs and frustration to all businesses. The global affects that people who are unaware of what is slowly bringing down businesses in this economy.

Along with tending to the extra costs incurred from globalization, businesses still have to focus on fulfilling customers expectations in order to improve satisfaction and increase future business. Outsourcing of technologies and continuous innovations opens doors for many businesses to gain access in a foreign market, but not all businesses can handle and maintain activity in these roughing economies.

6. II. Conclusion on Africa Perspective

One of the weaknesses of African countries is the relative small size of the industrial sector.

This sector is crucial for development and science and technology policies must support its growth and strengthening. The sector may be the weakest link in the development of many African countries. Hence the priority must be accorded to the development of this sector through building entrepreneurial capacities to acquire and apply appropriate manufacturing technology for enhanced competitiveness. Priority must also be accorded to the creation and development of small and medium sized enterprises (SMEs). Science and technology policies must support this orientation.

6. III. Conclusion on Tanzania Perspective

This essay is about analyses the “ Impact of innovation in today’s Tanzania SMEs in this era of globalization” significantly there is a lot reveal that there are some opportunities for Tanzania SMEs to enter in foreign markets that have not been fully exploited because of some constraints as identified above, as many SMEs are unaware of opportunities currently offered by commercial banks to support their businesses.

Lack of access to finance can usually be found at the top of any list of the problem of small business. SMEs generally start with their own resources and are undercapitalized. SMEs in Tanzania suffer from lack of information on available support and market signals, including those for local and export markets, lack of managerial skills and international marketing skills, lack of coherent government policies for SMEs development inhibits expansion of SMEs both domestically and beyond domestic market. Products of most Tanzania SMEs are of varying quality and costly to produce due to lack of access to technology and know-how.

7. I. RECOMMENDATION FOR POLICY MAKERS

The formulation, as well as the implementation, of a clear development policy on SMEs is of paramount importance given the contributions of SMES to economic and industrial development.

The use of obsolete technology in Tanzania SMEs and a lack of awareness of source of new technology as the result of heavy dependence on foreign technologies, lack of innovations and lack of know where to find appropriate technologies to be acquired, and lack of internal capacity to achieve technical innovation. But innovation diffusion depends, among other things, on the economy and government of a nation (Silveira, 2001).

This essay suggests the importance of having a national innovation policy that links together all the economic factors. This is considered particularly important for Tanzania SMEs because of market failure, international competitiveness, and institutional inadequacies.

7. II. Recommendation to Tanzania chamber of commerce industry and Agriculture (TCCIA)

It should emphasize on advocacy and lobbying. That's representing the opinions of their members to the government and keeping and assisting in the formulation of policies concerning business so as to meet needs and concerns of their members so that they can grow easily and expand their business locally and externally.

7. III. Recommendations for further studies

It is recommended that Government should create a passage of law and regulations that allow the SMEs to access the financial aids and the shortest way to get loans from development and Banks.

The management capacity is one of essential factor to get success of the national development. Training for business managers is very necessary because they decide the fate of enterprises.

One of the most difficulties of SMEs is lack of information and connection; this is more serious for SMEs to access domestic and foreign markets.

The government should provide information about domestic and foreign markets through establishing information centers that can play a connection between SMEs and related sectors or organizations.