

Growth of small and
medium enterprises
in tanzania
economics essay



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Introduction

This thesis outlines and reports the findings of the research study that was undertaken to examine the association between owner-manager individual characteristics and growth of small and medium enterprise (SME) in Tanzania. This chapter presents the background of the study in which, development of interest about small sector in Tanzania is presented together with various initiatives taken to develop this sector. The problem of the study is presented as well followed by research objectives, questions and research hypotheses. The chapter also presents the significance of the study and it ends by outlining the rest of the thesis.

Background of the study

Small and Medium-sized Enterprises (SMEs) are increasingly recognized as being important in the African economies (Beck and Levine, 2003). Due to this recognition most of African countries have started putting emphases in supporting competitive markets, private sector initiatives, privatization of parastatals, increased self-reliance and reduced government participation in the economy (Harson & Shaw 2001). As a result, the central issue dominating policy debates around the World and in particular Africa, has been how to stimulate social and economic growth through the development of small and medium-sized enterprises. They are much focusing in developing this sector because it is believed that SME have greater economic benefits than large firms in terms of employment creation and income generation, since they use more what a country possess and less of what it lacks (Hallberg, 1999). Specifically in developing countries they are

important not only because they demand more labour but also because they use unskilled workers whose supply is in excess in these countries (authors).

Like many other developing countries, Tanzania also has recognised the importance of SME in economic development and poverty alleviation.

Historically Tanzania after independence chose the path of African socialism and self-reliance for national development. Along this path, almost all means of production and exchange were put under direct control of the State. As a result, major businesses were nationalized, and the government through its parastatals companies owned almost all private sector activities and private sector investments. This Policy recorded marked achievement in social development in the 1970s and early 1980's especially in primary education, health services delivery as well as water supply and sanitation (Temu and Due, 2000). However, the nationalisation of the private sector led to poor economy marked by a number of macro-economic imbalances, and consequently an economic crisis that lasted for over a decade (Kanaan, 2000).

These crises signalled a need for movement towards a market economy through the adoption of policies that would facilitate smooth transition from an administratively State controlled economy to a functioning free market economy (Temu and Due, 2000). Responding to this, since 1985, the government of Tanzania has been undertaking a series of economic reforms and the main areas of adjustments were trade liberalization of the economy, review of tax structures, banking and public sectors reforms (URT 1995). A public sector reform involves shift of public sector-led economy towards market liberalization and promotion and encouragement of private sector

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initiatives. The private sector was promoted so that it became both a major source of employment and the engine of economic growth in Tanzania. In 1990s the significance of the private sector in economic growth became obvious and known; in fact available data suggest that about third of the GDP originates from SME sector(URT 2003). Since then, a number of initiatives are being undertaking to strengthen and widen the role of the private sector in socio-economic development. At the national level, the Vision 2025, and its implementation tool, Poverty Reduction Strategy, and the subsequent National Strategy for Growth and Poverty Reduction (NSGPR), emphasizes the significance of the private sector as the engine for growth in Tanzania (URT, 2003). Furthermore with the aim of promoting SMEs growth, ministry of Industry, Trade and Marketing has established the SMEs department. This department is responsible for encouraging, promoting and strengthening business environment in Tanzania. Despite the existence of various programs, generally the outcome yielded poor results because only few SME are growing while others have permanently remained micro or informal, they are not growing. This phenomenon in Africa has been referred to as the “ missing middle” and continues to be a long-term concern for African policy makers (Kibera and Kibera 1997). As a consequence more research especially in small firm growth in African countries has to be done in order to answer the long standing question (Olomi 1999).

Statement of the problem

The question as to why some entrepreneurs are growing while others are not growing is one of the influential questions in the field of entrepreneurship.

Research focused on addressing this question has investigated a wide

variety of factors that might influence firm growth (Storey 1994; Hall and . 1995; Lee and Tsang 2001). This factors ranging from the characteristics of the entrepreneur to the factors related to environment in which this business are operating.

Additionally due to the crucial role played by an owner-manager on the performance of the firm a number of researches have been done in entrepreneurship at the individual level (Cromie, 2000 others) to answer the question as to why other firms are successfully. This study also follow the same approach by continuously studying the influence of owner-manager individual characteristics on SME growth, by following the literature which argues that entrepreneurs are not randomly selected from the population but they tend to share certain characteristics (Stanworth and Curran 1976) and in turn those shared characteristics influence their business growth (Herbert and Link, 1988; (Gibb and Davies 1990; Chell, Haworth, and Brearley 1991). This is an imperative because the main actor is the business owner-manager and most of the SMEs firms are usually dependent upon the owner for survival and development (Frese). Without him or her, nothing much happens in the firm because usually the owner is the one who makes important decisions on products, markets, motivation of employees, expansions plans and other strategic decisions concerning the firm (Frese 2000). For example, small firm strategies are typically determined by the entrepreneur and can therefore depend on his or her personal characteristics. Thus, this leads to the possibility that a large portion of difference in performance among firms can be explained by individual difference among the owner-managers (Hall 1995).

The idea of investigating the relationship between owner-manager individual characteristics and firm's performance is certainly not new. There are a number of studies which have reported mixed results in finding significant relationships between owner-manager characteristics and firm's performance (Brockhaus, 1980; Wood and Bandura, 1989; (Cooper et al. 1992; Cromie and Birley 1992; Koh 1996) Cromie and O'Donoghue, 1992). Due to the inconclusive results, there is a shift from traditional approach (personality traits and demographic factors) to the modern approach which focuses on what entrepreneur did as opposed to who they are (Gartner 1988), hence turning on investigating about entrepreneur behaviour, motivation and cognition. Among the modern approach which has received attention in entrepreneurship is the cognitive models of entrepreneurial behaviour which focusing on understanding on how entrepreneurs think, behave and why they do some of the things they do(Delmar 2000). However this approach fails to properly address the source of cognitive properties- that's why certain people come to have particular cognitive properties that favours recognizing of opportunities and hence perform better than others (Dimov, 2003). Therefore specific to this study will be to investigate the relationship between traditional approach and cognitive approach in explaining firm's growth. Despite the fact that there some inconclusive results about the traditional approach, this study tend to believe that owner-manager personal factors either directly or indirectly influence the firm's performance. As argued by others entrepreneurship scholars (Hisrich, 2000 and Poon et al, 2006) that there is no entrepreneurship without the entrepreneur therefore it remains worthwhile studying entrepreneurship at the individual level (e. g. using traits based approach and demographics <https://assignbuster.com/growth-of-small-and-medium-enterprises-in-tanzania-economics-essay/>

approach). Besides of personality traits and demographic factors this study find also important to empirically examine cognitive factors because, there have been several conceptual paper advocating cognitive theories, but little empirical research has actually been carried out whereby different models have been systematically tested out. Hence much work is still needed in order to fully understand the complexity of entrepreneurial behaviour (Carter and Evans, 2000). Thus by combining traditional approach (both psychological and demographic factors) and modern approach the overall purpose of this study is to improve the understanding towards the entrepreneurial factors that may explain the growth of SME in Tanzania.

Research Objective

The fact that there are differences in performance among SMEs in Tanzania makes it more important to understand what factors are related to the growth of SME. This study intends to examine the influence of owner/manager individual characteristics on the growth of SMEs in Tanzania.

Specific objective

In order to archive the primary objective, the specific objectives are:

To determine the influence of background characteristics of the owner/manager on the growth of SMEs

To examine the relationship between owner-manager motives and SME growth

To determine the influence of psychological characteristics of the owner/manger on the growth of SMEs

To determine the influence of owner-manager cognitive characteristics on the growth of SMEs

To determine the relationships (if any) between background characteristics, psychological characteristics, cognitive characteristics, owner-manager motives in explaining SME growth.

Research questions

Since this study intends to examine the influence of entrepreneurial characteristics on the growth of SMEs, therefore the main research question to be investigated is to what extent the individual characteristics of an owner-manager influence growth of manufacturing SME in Tanzania?, specific research questions include:

To what extent do demographic factors held by owner-managers influence the growth of SMEs in Tanzania?

To what extent do psychological characteristics held by owner-managers influence the growth of SMEs in Tanzania?

To what extent do owner-manager cognitive factors influence growth of SME in Tanzania

To what extent do owner-manger motives influence the growth of SME in Tanzania

Are there any relationships between background characteristics, psychological characteristics, cognitive characteristics, owner-manager motives and SME growth?

Research Hypotheses

In general this study hypothesize that owner-manager personal attributes do positively influence SME growth in Tanzania. Specific hypothesis related to each attribute are pointed out below.

Demographic characteristics held by owner-managers influence the growth of SME in Tanzania.

Owner-manager motives are significantly associated with SME growth

Psychological characteristics held by owner-managers influence the growth of SMEs in Tanzania.

Owner manger cognitive factors positively influence growth of SME in Tanzania

Relationship exists between background characteristics, psychological, cognitive characteristics, start up motives and SME growth.

The relevance of the study

Several factors connected to the growth of the SMEs sector have been studied in Tanzania. These include, the role of credit in entrepreneurship development (Kuzilwa 2005), macroeconomic environment and certain personal characteristics (Trulsson 2000), institutional barriers (Nkya 2003). Other contributing factors include sources of finance (Bagachwa, Harris, and Tinios 1993; Verspreet and Berlange 1998; Ziorklui 2001; Naliotela and Elias 2003) firm characteristics (Satta 2003). Strategy and firm level institution (Mbwambo 2005), technical efficiency (Bagachwa and Mbele, 1995 and

(Wangwe, Semboja, and Nyanga 1998), business experience, size of the firm, investment in information technology, business training and external advice (Admassie 2002) and multiple capital assets factors (Kimeme 2005). Even though a number of researchers have identified factors for SMEs growth, few studies have identified the influence of entrepreneurial characteristics on the growth of manufacturing SME in Tanzania. In addition, fewer empirical studies have applied quantitative tools with an objective of establishing the relationship between entrepreneur's characteristics and SMEs growth in Tanzania. Such gaps in research suggest that there is need to study the aforementioned variables. As suggested by (Olomi 1999; Olomi 2001; Rutashobya and Olomi 1999; Frese 2000) that, the future research in Africa should try to develop and test key human capital attributes and psychological theories that may explain entrepreneurial performance in the African context, independent of the theories developed in the West. It is therefore important to contribute to the previous discussion and suggestions by establishing the influence of entrepreneurial characteristics on the growth of manufacturing SME. Additionally, factors for growth may vary from country to country, depending on economic, educational, geographical and cultural differences. For example majority of the owners/managers in Africa are motivated to start businesses out of economic necessity rather than out of choice (Rutashobya 1995) while in developed countries entrepreneurial career in most cases is chosen just like other careers. As reported by (Minniti and Bygrave 2004) that 9% of American starting new venture to pursue opportunities that could improve their conditions and 1.7% were creating new ventures due to lack of alternative for employment. As such, empirical investigation into these aspects of SMEs in different countries such as <https://assignbuster.com/growth-of-small-and-medium-enterprises-in-tanzania-economics-essay/>

Tanzania is needed because the findings of such research are useful to economic development, policy makers as well as to individual entrepreneurs. Thus by analyzing the influence of entrepreneurial characteristics on SME growth, the research is expected to test the applicability of the entrepreneurship theories to Tanzania's cultural settings. Furthermore as explained in section 1. 2, that fewer empirical studies have established relationships between traditional and modern approach in explaining firms growth. Thus in meeting the objectives stated in section 1. 3, the study contributes to the existing body of knowledge by filling the existing gap and enriching the existence literature.

It is also important to note that the study also contributes to the body of knowledge with regard to firm's growth. It has been found that most of the previous studies assume growth is linear and time lag is of little importance. Thus they use one time span to calculate growth but what if growth is not linear but changes over time. Generally then the results obtained will differ depending on chosen time span. Additionally most of the previous studies measure growth in relative terms but fewer studies have went far and tried to compare results obtained by using relative or absolute growth changes. This undertaking attempted to contribute to the existing literature by employed different approaches on measuring firm's growth.

Practically the findings are also expected to be significant to policy makers, entrepreneurs and public at large. For instance, unemployment in Tanzania is a big problem and right now most of the people especially graduates find difficulties in securing employment, even the government and other public organization are reducing their labour force (URT 2000). Therefore, if the <https://assignbuster.com/growth-of-small-and-medium-enterprises-in-tanzania-economics-essay/>

private sector has to be the source of employment creation and economic growth, development policy must focus on developing the SME sector. However, the effectiveness of the policy will depend on the appropriate knowledge of the factors, which influence SMEs growth. Thus, this study will shed the light on understanding the owner-manager characteristics that influence growth.

To the owner-managers, the topic chosen aimed at increasing the understanding as to why some firms are growing where others are stagnated. The results might indicate the relationships between entrepreneur characteristics and SME growth and in turn those relationships will assist owner-managers to determine the best combination of their personal success. Similarly, the findings will not only benefit the current owner/managers but also the future owner-managers, for instance the framework can be established to present to start-ups firms to minimize the difficulties they might experience through lack of entrepreneurial characteristics.

The aims formulated are also based on the relevance of the topics for any developing countries, on the importance SME have on economic contribution and job creation for the country.

Definition of key variable

An owner-manager

Through out this study, an owner-manager refers to the person who both owns the business and takes overall responsibility on strategic and operational direction of the business.

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Entrepreneurial characteristics

In this study entrepreneurial characteristic is defined as the individual (both demographic, personality traits and cognitive factors) characteristics possessed by owner-manager.

SME

In this study SME is defined according to Tanzanian definition which defines SME as any firm with fewer than 100 employees and has invested 800 million Tshs or less in machinery (see appendix).

SME growth

In discussing SMEs growth, it is important firstly to discuss what firm growth actually is and how do SMEs grow? The term growth is used in ordinary discourse with two different connotations (Penrose 1959). It sometimes denotes merely increase in amount for example outputs, exports or sales. At other time it implies an increase in size or an improvement in quality as a result of a process of development, akin to natural biological process in an interacting series of internal changes leads to increase in size accompanied by changes in the characteristics of the growing object (Penrose 1959). In this study growth is defined as the change in amount in sales, increase in assets and increases in size (number of employees), the reasons for selecting these three indicators will be discussed in research methodology chapter.

Chapter outline

The study will be organised in seven chapters. Chapter 1 has introduced the study including the research background, research problem, research

objectives, research questions, research hypotheses and significance of the study. Chapter 2 will review of the relevant literature from which theories, concepts and phenomena related to the study will be addressed. This chapter is important because it provides the theoretical underpinning for the study. It provides an overview of entrepreneurship as well as factors which influence the growth of SMEs. This will lead to the conceptual framework and clarification of the hypotheses to be tested which will be presented in Chapter 3. Chapter 4 presents the contextual background within which manufacturing wood industry will be brief overviewed. Chapter 5 will present the methodology approach, which will be used in this study; chapter 6 gives a detailed descriptive data regarding the general characteristics of the respondents and SME growth. Chapter 7 to 11 will presents the empirical results and these chapters will go further by discussing the findings against the theory in chapter two and three. Lastly, chapter 12 will summarize and conclude the theses; policy implication will be presented together with some suggestions for further research