

**THE CONSTRAINTS FACED BY TANZANIA SMEs IN  
EXPLOITATION OF THE REGIONAL MARKETS:  
CASE OF SELECTED SMEs AT ILALA MUNICIPALITY**

**By  
Mbago Albert**

A Dissertation submitted to Mzumbe University, Dar es salaam Campus College in  
the partial Fulfilment of the Requirements for the Degree of Master of Business  
Administration (MBA) of Mzumbe University.

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## CERTIFICATION

We the undersigned certify that we have read and here by recommend for acceptance by the Mzumbe University a dissertation entitled The Constraints Faced by Tanzania SMEs in Exploitation of the Regional Markets. Case of Selected SMEs at Ilala Municipality. In partial fulfillment of the requirements for award of the Master degree on **Business Administration (MBA)** of Mzumbe University.

.....  
Major Supervisor

.....  
Internal Examiner

Accepted for the Board of

---

**DEAN/DIRECTOR FACULTYL/DIRECTORATE/ DIRECTORATE, BOARD**

## **DECLARATION**

I **Mbago Albert** declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature.....

Date.....

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I am indebted to give my sincere thanks to GOD for keeping me healthy and equipping me with the intellectual capacity to grasp useful knowledge, to challenge the environment which I'm living in and contributing positively to improve social and economic welfare of the general public.

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## **DEDICATION**

I dedicate this report to my lovely wife Mrs. Jackline Albert Mbago, my Parents Mr. and Mrs. Josephat Mbago. May the Almighty GOD, bless and give them good health and strength.

## LIST OF ABBREVIATIONS

BDS	-	Business Development Services
BET	-	Body of External Trade
CBE	-	College of Business Education
CEO's	-	Chief Executive Officers
COMESA	-	Common Market for Eastern and Southern Africa
CTI	-	Confederation of Tanzania Industries
EAC	-	East African Community
GDP	-	Growth Domestic Product
GOT	-	Government of Tanzania
ICT	-	Information and Communication Technology
IF	-	International Finance Corporation
IFM	-	Institute of Finance Management
MSMEs	-	Micro, Small and Medium Enterprises
NSIC	-	National Small Industries Corporation
OECD	-	Organizations for Economic Cooperation and Development
SCF	-	Small Competitiveness Facility
SIDO	-	Small Industries Development Organization
SMEs	-	Small and Medium Enterprises
TCCIA	-	Tanzania Chamber of Commerce, Industry and Agriculture
TSHs	-	Tanzania Shillings
UDBS	-	University of Dar-es-salaam Business School
UK	-	United Kingdom
URT	-	United Republic Of Tanzania
WTO	-	World Trade Organization

## **ABSTRACT**

The purpose of this study is to investigate the barriers that hinder Tanzania SMEs from entering foreign markets. An analysis of these factors may identify why there are so few SMEs in Tanzania engaging in exporting activity. This involves examining the owner/ manager's level of education, method of selling product/ service's and the barriers to entering foreign markets. This study is unique as it is first of its kind to investigate the topic of SME internationalisation in Ilala Municipality and the country as a whole.

The primary data for this research was ascertained using a survey based method administered to 244 SMEs, with a response rate of 37%. The survey method enabled the researcher to establish information as regards industry sector, levels of owner/manager education, understanding exporting, methods of selling products/services and barriers to entering foreign markets.

Finally, this research has also identified that perceived barriers of non-exporting SMEs to entering foreign markets are the same obstacles that SMEs in other East African countries are facing. The current research will therefore, add to the expanding body of literature on SME internationalisation, but more importantly it contributes to the developing field that is focused on SMEs and exporting.

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## CHAPTER ONE

### INTRODUCTION AND BACKGROUND TO THE PROBLEM

This chapter explains the meaning of Small and Medium Enterprises (SMEs), the meaning of Regional markets and their roles to SMEs and gives the background information to the problem. The chapter will also look on the existence of the problem at the global level, Africa and in Tanzania context.

#### 1.1 Introduction and Background to the Problem

There is no single uniformly acceptable definition of a small business. This is so because a small firm in one industry and one in another industry might have different levels of capitalization, sales and employment from a small firm in another industry. Thus, definitions which are objective in nature (considers size such as number of employees, sales, profitability , net worth etc) at a sectoral level, mean that in some sectors all firms may be regarded as small while in other sectors there are no possibly firms which are small (**D.J. Storey 1994**).

**Longnecker et al (2003)** in their book of Small and Business Management explained that there have been many efforts to define the term small business, using such no universally agreed definition of Small and Medium Enterprises (SMEs). Every country has its own definition and various authors have their own definitions.

**Pass et al (2000:194)**, defines SMEs as companies that (i) have annual turnover of less than £11.2 million, (ii) have gross assets of under £5.6million, and (iii) not more than 250 employees. The criteria (i) and (ii) cannot be adequately used to define SMEs in Tanzania. (They apply to UK situation and context).

The Bolton Committee of 1971 attempted to overcome this problem by formulating what they called an economic definition and a statistical definition. The economic definition regarded firms being small if they satisfied the following criteria:

- (i) They had a relatively small share of the market.

- (ii) Managed by owners or part owners in a personalized way and not through the medium of a formalized management structure.
- (iii) They were independent in the sense of not forming part of a large enterprise.

The statistical definition on the other hand was designed to address to three issues,

- (i) The first was to quantify the current size of the small firm sector and its contribution to economic aggregates such as GDP, employment, exports and so on and so forth.
- (ii) Second purpose was to compare the extent to which the small firm sector has changed its economic contribution overtime.
- (ii) Thirdly the statistical definition in principle had to enable a comparison to be made between the contributions of small firms in one country with that of other nations.

**Statistical definitions of a small firm are summarized in the table below;**

**Table 1.1: Showing Bolton committee definitions of a small**

<b>SECTOR</b>	<b>DEFINITION</b>
Manufacturing	200 employees or less
Construction, mining and quarrying	25 employees or less
Retailing, miscellaneous	Turnover of 50000 sterling pounds or less
Services, Motor trades	Turnover of 100000 sterling pounds or less
Wholesale trades	Turnover of 20000 sterling pounds or less
Road transport	Five vehicles or less
Catering	All excluding multiples and brewery-managed houses

**Source:** Bolton 1971)

### **Definition adopted by the Tanzanian government**

According to the ministry of industry and trade in Tanzania, small businesses are collectively defined under the nomenclature SMEs. SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). In the Tanzanian context, micro enterprises are those engaging up to four people in most cases family members or with an investment not exceeding 5.0 million TSHS the majority of which fall under the informal sector. Small enterprises are mostly formalized undertakings engaging 5 to 49 employees or with capital investment of TSHS.5.0 million to TSHS.200 million. Medium enterprises employ about 50 to 99 employees and use capital investment from about 200 to 800 million TSHS.(**Tanzania SME policy 2002**) This is illustrated in the following table below;

### **Categories of SMEs in Tanzania**

**Table 1.2: Showing categories of SME's in Tanzania**

<b>CATEGORY</b>	<b>EMPLOYES</b>	<b>CAPITAL INVESTMENT IN MACHINERY(Tshs)</b>
Micro enterprises	1 to 4	Up to 5 million.
Small enterprises	5 to 49	Above 5million to 200 million
Medium enterprises	50 to 99	Above 200 million to 800 million
Large enterprises	100 and above	Above 800 million.

**Source: (SME Policy)**

### **Meaning of Entrepreneurship**

In order to understand small enterprise, the owner/manager of the enterprise needs to be examined. The entrepreneur is usually the head of the small enterprise therefore it is important that he/she is properly understood as they have many characteristics that define the way that a small business is run. (Carson and McCartan- Quinn, 1995)

The European Commission (2003) in its green paper on entrepreneurship defined entrepreneurship as a “mindset”. The commission was of the opinion that it covered an individual’s motivation and capacity, independently or within the organisation, to identify an opportunity and pursue it in order to produce new value or economic success. This agrees with Stoke’s (2000) previous definition that entrepreneurship focuses on behavioural attributes, defining the entrepreneur as an agent, someone who does not seek to perfect or optimize existing ways of doing things, but searches instead for new methods and different ways of doing things. Schramm (2006) agreed with Stoke and stated that entrepreneurship is “the process in which one or more people undertake economic risk to create a new organisation that will exploit new technology or innovative process that generates value to others”.(p.59).

Cunningham and Lischeron (1991) believed that the five schools of thought, namely “The Great Person School”, “The psychological Characteristics School”, “The Classical School”, “The Management School,” and the “The Leadership School”, described entrepreneurship. The Great Person School Suggests that the entrepreneur has an intuitive ability and traits of leadership that he/she is born with. This correlates with McClelland’s (1961) view that the entrepreneur is primarily stimulated by the strong urge to build. Those that do not possess these traits would “lack what it takes” to start up a company.

However the psychological school of thought suggested that the entrepreneur has unique attitudes, values and needs that drive them to set up their business. Those who do not possess these traits simply drive themselves enough just to satisfy their needs. These people do not have that extra drive which forces them to strive for bigger and better results (Cunningham and Lischeron, 1991).

The Classical School of thought agreed with the psychological school yet it is of the belief that the main characteristic of the entrepreneur is innovation. This assumption agrees with Gibb (1987) who was of the opinion that because entrepreneurs are innovative they need to do things differently so as to differentiate themselves from competitors.



The Management School of thought assumed that the entrepreneur organises, owns, manages and takes the risks involved in the business. This school also assumed that entrepreneurs could be taught good management and marketing skills thereby assuming that standard textbook practices can be applied to small enterprises. Vesper (1985) stated that the difference between entrepreneurial marketing and large enterprise marketing and that it is this attempt at implementing large business practices in small enterprises that causes early failures in the SME sector.

The Leadership School suggests that entrepreneur is a leader of the people and that he/she has the ability to adapt their style to the needs of the people. Carson (2000) was of the belief that entrepreneurs display a wide range of traits including leadership, concurring with five schools of thoughts; however entrepreneurs are highly focused and self centred individuals whose primary concern is the development of their own enterprise thereby, not displaying leadership qualities but, possessing a need to making a profit. By making money the entrepreneur strives for security therefore it is interesting to look at the entrepreneurial characteristics and how making a profit influences them (Carson, 2000). Amit, MacCrimmon, Zietsma and Oesch (2000) were of the opinion that money mattered more to entrepreneurs than to non-entrepreneurs because of the traditional association between wealth and entrepreneurship. Thus it is this current researcher's opinion that wealth attainment could be a factor that drives SMEs to enter foreign markets.

While it is noted that due to the size of the entrepreneurial enterprise it is easy for them to change their style, it is the entrepreneur's attitude that is often their downfall. Additionally entrepreneurs have an individualistic streak, where they are inherently personal, as it is their business (McClelland, 1961). So often it is found that the entrepreneur is not able or willing to change their style for the good of the business. Hisrich (1992) agreed with McClelland (1961) and was of the opinion that a further complication with the entrepreneur's attitude is the fact that many fear that someone will steal their ideas and therefore do not market them to the consumer.

### **SME Marketing**

As mentioned earlier, due to their small size, SMEs often formulate their own marketing plans and therefore, do not follow the traditional methods of marketing laid out in text books. Greenley and Bayus (1994) found in their study on SMEs that few companies adopt the prescriptions of marketing planning that are advocated in literature. The small enterprise is found to prefer marketing that is haphazard and simplistic allowing it to respond quickly to customers' problems and queries (Carson and McCartan –Quinn, 1993). This quick response rate is part of the small enterprise's characteristics that distinguish the SME from the larger organisation. Numerous studies, for example Carson et al (1995), of small entrepreneurial enterprises indicated that one of the major downfalls is their lack of marketing capabilities. The small enterprise has limited resources and expertise to effectively deal with the constant demands placed on them to market them in the competitive market place. Therefore it seems wrong to ask the small enterprise to adopt the traditional marketing concept as their formal market planning process as it is their haphazard method of marketing that makes them unique.

### **Traditional Marketing Theory**

Very little marketing strategy is written or aimed at the small entrepreneurial business and when large organisation marketing processes are converted into a small business context they may not be entirely suitable (Carson 1990). As Kotler (1997) stated the marketing concept is the cornerstone of the marketing discipline. It can be disputed however; the marketing is mostly concerned with running existing business and therefore less concerned with the entrepreneurial challenge of creating new ventures. Traditional methods of marketing see innovation as a minor part of the marketing practice. However it is this innovation that characterizes the small enterprise as the entrepreneur runs his/her business on their innovative ideas (Duus, 1997). It is suggested that the traditional marketing approach does not fully appreciate the way that small enterprises perform their marketing function. Carson (1990) and Hisrich (1992) were of the opinion that while the small enterprise marketing function may be informal it is flexible. However Dunn, Birley and Norbun (1986) in their study of small enterprise's adoption of the marketing concept in the United States found that these enterprises did practice the marketing concept

but that their management of the 4Ps was different from that of the larger organisation.

### **SME and the Internationalisation Process**

If the company wanted to succeed in the ever increasing market it needed to obtain economies of scale, exploit foreign marketplaces and keep on top of the new opportunities of the technologies. A considerable shift in the worldwide market has taken place and firms have to take on competition from all over the globe when conducting business, due to the fast changing global environment (Axim and Matthyssens, 2001). Internationalisation of the production and distribution of goods and services and the associated trade and capital flows has accelerated in most countries during the past two decades. This process has been loosely described as “globalisation” (Graham, 1999). With the ever-expanding world markets and increasing demands that consumers are putting on companies, globalisation seems to be the next step towards satisfying those demands.

### **Internationalisation and the SME**

An international market is much bigger than the domestic market of the national states. However, Knight (2000) suggested that boundaries between domestic and international markets are becoming less significant as businesses increase their profiles overseas. This agrees with Levitt’s (1983) original theory that globalisation has removed the barriers that segmented the national and international markets and separated small and large enterprises competitive space in the recent past. This being the case it would be seems that internationalisation process should be accessible to all enterprises regardless of their size and resource base. However, Knight (2001) does concede that it is often the case SMEs are forced into internationalisation because their niche market has gradually declined or that their customers are demanding more from their products and services. This forces the SMEs to take their business abroad so as to find a new niche market for their product. However, smaller enterprises usually lack the resources, capabilities and marketing power of traditional multinational enterprises that would enable them to enter foreign markets. Given their relatively low base of resources compared to their larger rivals, the international process tends to be considerably more challenging for the SME.

Knight (2001) had a different opinion to Mundim, Alessandro and Stocchetti (2000) who stated that the specific advantages derived from operating in the global marketplace seem only to be achieved by the larger organisation that is unless SMEs can find a solution that allows them to adapt to global business opportunities without succumbing to their limited resources. The number of SMEs operating in the international marketplace has been growing slowly but steadily over the last decade. With advances in information and communications technologies and the globalisation of the markets more SMEs are active in the international market than ever before.

One of the key advantages to SMEs in their domestic market is their flexibility and speed of response as outlined earlier. Access to technology like internet can act as a key to SMEs internationalisation a more viable and cost effective option. Such systems are providing important competitive advantages to SMEs to access global markets. This means they need to be competitive and productive. Effective business support systems are needed to enhance competitiveness and productivity of SMEs. The report has suggested on the development of an effective business support system which is also a key condition for the success of both trade and investment for SMEs

Globalization and trade liberalization have ushered in new opportunities as well as challenges for SMEs. Presently, only a small part of the SME sector is able to identify and exploit these opportunities and deal with the challenges. The majority of SMEs in developing and transition countries, however, has been less able or unable to exploit the benefits of globalization and, to add to the situation, are frequently under pressure on the local or domestic markets from cheaper imports and foreign competition. In recognition of the fact that the greatest potential for economic growth lies in small firms, there is a need to invest and create a conducive environment for small firms to prosper. The first major attempt to promote the small industries sector in Tanzania was undertaken in 1966 when the National Small Industries Corporation (NSIC) was formed, thereafter the Small Industries Development Organization (SIDO) was established in 1973 by the Act of Parliament, Over the past twenty years or so Tanzania has constantly been embarking on a long process of political, economical and social reforms to improve

the business environment, promote economic growth and reduce poverty in the country. But due to a number of reasons the newly formed businesses fail to operate on profits and eventually close down or continue operating without a good return on investments constrained from growth and expansion, which also has result to failure of SMEs in Tanzania to exploit the regional markets.

## **1.2 Statement of the Problem**

Based on reviewed literatures it was evidenced that few studies have been conducted in our environment concerning on constraints/challenges faced by SMEs in accessing global markets, this study is going to add into the existing knowledge regarding constraints/ challenges faced by SMEs in accessing global markets. The focus of this current research was to investigate the factors hindering SMEs in Tanzania from going global. Although the topic of SMEs and internationalisation has been explored in much research over the last decade it has not been the focal point of research in Tanzania. The researcher reviewed the literature available pertaining to SMEs and internationalisation and found that it related mostly to European and American industry and practices. Not much of the literature referred to or was written by Tanzania academics. Most of the studies conducted in Tanzania focused on the financial constraints facing SMEs in Tanzania and in the areas of marketing and networking and not exporting and entering foreign markets, academics like Kuzilwa and Mushi (1997) conducted a study on Credit needs for small business in Tanzania the study was conducted to a sample of 120 SMEs, CTI (1999) conducted a study, the study identified that manufacturing and development are principal strengths in Tanzania rather than sales and marketing and research and development. The report stated that the indigenous sector has been production rather than market led. In that case most of the studies and academics in Tanzania have not focused a lot on the foreign markets which may be a potential part of SMEs in Tanzania.

## **1.3 Research Objectives**

The study has two types of objectives, General/Main objectives and Specific objectives.

### **1.3.1 General/Main Objectives**

To investigate the barriers hindering SMEs from entering international markets, and if the personal education of the entrepreneur is a factor in the SME's effort to go global.

### **1.3.2 Specific Objectives**

- a) To determine the SME owner/manager's method of selling their products/services.
- b) To identify if SME owner/managers have an understanding of the term exporting.
- c) To ascertain whether the SMEs in Tanzania perceived barriers are the same barriers that SMEs in other countries have overcome.
- d) To determine the importance of education in entrepreneurship in the SME's choice to go global.

### **1.4 Research Question(s).**

The key question(s) that are to be answered by this research is/ are;

- (i) What are the factors hindering Tanzania indigenous industries (SMEs) from going global?
- (ii) What kind of methods do you use on selling of you products/services?
- (iii) What do you understand by the term exporting?
- (iv) What level of education do you possess? And how does it help you in the SME's choice to go global?

### **1.5 Significance of the Study**

The study has great advantage to the Tanzanian business community and the government as a whole, since it has identified the constraints faced by SMEs in Tanzania and came out with solutions which may help the entrepreneurs to improve the nature of doing business, and help the government to formulate and implement policies which may support the SMEs in Tanzania when it comes on accessibility of regional markets.

## **1.6 Limitations of the Study**

The number of factors like, finance and willingness of the respondents to participate on the study were the limitations to the study.

Finance; Financial constraints also affected the study, shortage of money affected the movement from one point to another, preparation of data collection instruments, analyzing of data and all the activities concerned with the research also required money.

Willingness of the respondents to participate on the study; most of the respondents were not ready to participate on the study, and were not ready to provide the true information on what was required by the researcher.

## **1.7 De-Limitations**

The above problems were solved in order to ensure the research was conducted and completed at the required time. Finance; Financial constraints were solved by setting up a budget for the entire period of the study, asking for financial aid from sponsors like parents, family members and relatives and the use of my own savings.

Willingness of the respondents to participate on the study; Preliminary information was given to respondents to make them understand on the importance of their participation on the study, and the importance of findings to their businesses.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter explains the meaning of Literature review, the theoretical literature review and empirical literature review. The chapter tries to look on what books, journals, articles say about issues related to the study, and what other researchers have done on studies similar to this.

Literature review, is a body of text that aims to review the critical points of current knowledge, literature review also provides secondary data.

#### **2.2 Theoretical Literature Review**

This section tries to look on the works done by other scholars concerning SMEs and how they access the regional markets. Different books, articles, journals, newspapers and websites will be reviewed to identify the facts cited by other authors. The facts identified will be used to answer the objectives of this particular study.

According to Trade Secrets, The Export Answer Book for Small and Medium-Sized Exporters written by (Body of External Trade [BET], (2002). (BET,2002) identified some of the factors constraining the SMEs in Tanzania to exploit the regional markets, one of the problems identified is the use of e- commerce, the report has identified the use of e- commerce and its importance, also has identified factors affecting Tanzania SMEs to use e-commerce in exploiting regional markets as follows;

#### **Access**

Enterprises have virtually no access to the Internet. Achieving depth and breadth of access for these enterprises in developing countries is a challenge facing developed and developing countries. Once this overriding constraint is resolved, other constraints can be addressed. These include:



### **Cost**

Many enterprises find that the cost of doing business on the Internet is much higher than originally anticipated, due to misunderstanding of Internet marketing, lack of employee training, lack of time to decide what to include on the web site, and lack of funds to update the web site. Costs include basic computer equipment; Internet access fees which average US \$ 75 per month in developing countries compared to US \$ 10 in the United States; Web site design at an average cost of US \$ 1500, Web site maintenance fee which averages US \$ 30 monthly, and promotional costs to advertise the web site on television, radio, newspapers, billboards and other venues.

### **Security**

Customer fraud, potential for hackers to gain access to vulnerable information, security of Internet Service Providers and privacy and confidentiality of information still require government and commercial sector solutions.

### **Lack of success**

Marketing, time cost, staffing constraints, and competition are factors that contribute to an overall lack of hits, leads and sales for most enterprises marketing on the Internet.

### **Lack of computer equipment**

The personal computer ratio per 100 inhabitants gives an indication of the information technology gap. The ownership rates range from 18 for high-income countries to 2.3 for medium-income countries and 0.1 for low-income countries. Therefore failure to utilize the use of e-commerce can be one of the factors constraining SMEs in Tanzania to exploit the regional markets.

According to (OECD, 2004) SMEs must be able to respond quickly and efficiently to international market signals to take advantage of trade and investment opportunities and reap the benefits of the international trading system. This means they need to be competitive and productive. Effective business support systems are needed to enhance competitiveness and productivity of SMEs. The report has

suggested on the development of an effective business support system which is also a key condition for the success of both trade and investment for SMEs.

A report written by Organisations for Economic Co-operation and Development [OECD], 2004), on Promoting Entrepreneurship and Innovative SMEs in a Global Economy has also tried to point out the aspects that can help SMEs in accessing Global markets or regional markets. Some of the aspects identified are as follows;

### **Supporting Infrastructure**

Infrastructure investments, such as those in transport, telecommunications, energy, water and sanitation, can enhance SME/private sector activity and ability to access local, regional and global markets. Furthermore, quality of available infrastructure has a significant influence on SME competitiveness (e.g. costs associated with inefficient infrastructure) in other hand infrastructure affects all size of business: power cuts, roads swept away by floods, absence of port and railway facilities affect SMEs as well as large scale businesses. However, incomplete or under-maintained infrastructure particularly affect the livelihoods of the rural poor in developing and transition countries, since large proportions of rural poor are involved in agriculture, agro-processing, including fisheries, for instance, and low quality infrastructure prevents the commercialization of production based on rural resources.

A report on Small and Medium Enterprises (SMEs) in Tanzania written by (Confederation of Tanzania Industries [CTI], 2003) argue that very few SMEs export their products, about 49% showed great concern with the future plans to exploit the regional markets namely East African Community(EAC), COMESA and others. However more than 50% did not show any interest to exploit the regional markets. According to (CTI, 2003) SMEs in Tanzania produce only for the local market, according to the observation done by CTI about 98% sales were made to serve the local market. Many of the SMEs in Tanzania did not show the interest to exploit the regional markets partly due to the fact that most of SMEs are producing consumer goods and mostly in small volumes and of low quality.

According to the report (CTI, 2003) the strategies and plans to exploit these markets cited by the SMEs were of technical, managerial, financial aspects as narrated here below:

- (i) Advertising in the regional mass media
- (ii) Conducting market survey in the regional market
- (iii) Expanding the productive units of the firm so as to increase production
- (iv) Product diversification and quality improvement
- (v) Developing sales departments to cater for sales outside the national borders.
- (vi) Looking for joint ventures

Some literature went further by analysing the nature/characteristics of SMEs, which may hinder SMEs competitiveness in the export market and the suggestions on supporting SMEs to improve the characteristics/natures of SMEs. Muganda (2003) and Kitilya (2003) document some characteristics of SMEs which are as follows;

**a) Outdated business methods**

Some characteristics suggest that SMEs are yet to adopt some modern business standards and practices. For example, there is personal ownership and management of enterprises which makes SMEs owners unable to differentiate between their businesses and their personal properties and lives. Among other things, they employ relatives, friends and those in their networks of relations regardless to whether these are competent in business or not. They are also not used to account for the use of generated revenues as they mix personal and business expenditure. This makes them less competent than those enterprises that adopt modern and professional business practices.

Interventions should focus on supporting activities that will make SMEs move away from old and unprofessional ways of running business to modern and professional ways. The suitable measures are most likely going to be training and exposure to improved business methods.

**b) Staff Quality**

SMEs lack specialist managerial staff. Staff to undertake functions such as human resources management, marketing, accounting, Information and Communications Technology (ICT) auditing, purchasing and procurement, and quality control are either missing or inadequate in quantity and quality. This makes SMEs incompetent in matters that need a substantial degree of capability. For various reasons, including high training and re-training costs and high hiring and retention costs, most SMEs are unable to employ specialist managerial staff. They are obliged to employ non-specialist and unprofessional unqualified staff in order to save costs. This in turn makes them less competitive (in non-price terms) than those that are able to employ specialist managerial staff.

Interventions should focus on supporting those activities that aim at improving the managerial skills of the personnel in the SMEs sector. This is because this kind of skills improvement is among the prerequisites for both local and global competitiveness

**c) Informal SMEs**

It is also seen from the literature that SMEs are mainly informal. This means that they have not formalized their activities by way of, inter-alia, registering with appropriate authorities, having known business addresses and paying taxes. Informality denies enterprises a lot of potential and actual benefits. This is because the assets of informal enterprises are legally and economically invisible, so they cannot be used as collateral in soliciting funds, inter-alia. Informal enterprises are also at a disadvantage because they cannot enter into legally recognized contractual arrangements. All this makes these firms less competitive than their formal counterparts (in non-price terms).

**2.2.1 SMEs Export Experience**

The studies reviewed indicate that SMEs are facing some challenges in accessing global export markets in the more developed world. The markets demand higher quality, timely delivery, and minimum consignment volume-more too than the

regional (Kenya, Uganda, Zambia, Democratic republic of Congo, etc) and local markets (Iramba Management and Industries Services Ltd, 2003). Generally, SMEs have problems in adhering to these strict export market needs. This indicates that Tanzania SMEs are not adequately competitive in the export market. SME capacity to be competitive in terms of price, quality, and timely and consistent delivery of export orders should therefore be built and upgraded.

This implies that there is a need to focus great and dedicated efforts towards facilitating SMEs to become more competitive in the export market. Focus should be placed on activities geared towards building and/or strengthening SME's capacities to:

- (i) Produce the internationally required and accepted high quality goods and services.
- (ii) Deliver on time as per specifications- especially the ability to supply a given demanded volume of consignment consistently.
- (iii) The study done by Iramba Management and Industries Services (ibid) reported that there is inadequate government and institutional support to foster SMEs access to export markets. The government in general and other institutions (government and non-government) does not provide adequate support for SMEs to be able to access the export market.

### **2.2.2 Some Major Constraints to Smes Export**

There are a number of constraints in Tanzania which prevent the development of SMEs in general and their capacity to export in particular. The constraints are barriers that hinder SMEs from being able to produce and export the needed quantity and quality of products demanded by the export market. These barriers normally result in high transaction costs for SMEs. This high cost is then reflected in prices charged by the SMEs; the final result is that the SMEs that face these constraints become less competitive in terms of price, quality and time delivery of demanded products compared to those not facing constraints.

According to the reviewed literature (Haki, kazi 2005; Iramba Management and Industries Services Ltd, 2003; Kitilya 2003; Shayo- Temu, 2003; Lutege and Wagner, 2003; URT, 2002; *Daily News* (January 24, 2006); Diagnostic Trade Integration study (2005)) have pointed the constraints as follows;

- (i) Lack of entrepreneurial skills especially in the context of international trade and exporting.
- (ii) Poor infrastructure including quantity and quality of roads, rails, airports and unreliable and high costs of provision of public utilities like electricity, water, and communications.
- (iii) Marketing problems including inadequate information on market availability, preferential treatments and linkages.
- (iv) Limited access to capital and high interest rates for loans that result in, inter-alia, poor and inadequate raw materials, business premises and working capital including machines and equipment.
- (v) Inadequate, weak and poor regulatory and policy frameworks that lead result in high transaction costs. High and multiple taxes and license fees are among the leading constraint.
- (vi) Institutions and associations supporting SMEs are weak, fragmented and uncoordinated.

### **2.2.3 Strategies to Promote Tanzania's Exports**

The reviewed literature above proposes the following strategies to promote Tanzania's exports.

- (i) Quantitative diversification of exports (increase the number of different goods & services exported).
- (ii) Qualitative diversification of exports (export high –value added products like non-traditional agricultural products; manufactured goods; and scarce goods such as gold and diamonds).
- (iii) Develop entrepreneurship skills for international business.

- (iv) Improvement of the quality of exported products.
- (v) Market back-up (support export marketing research schemes; foreign visits for exporters to important markets; solicit potential foreign partners; participate in trade fairs and exhibitions; supporting market presentations in form of workshops, seminars.

#### **2.2.4 The use of Electronic Commerce (E-Commerce) in the SMEs Sector.**

E- Commerce also known as e-business in the context of this study means business use of modern information and communications technology (ICT) generally, and use of internet in particular. This includes searching for business information (inputs, outputs, prices, markets, competitors etc) and buying or selling goods and services online.

According to Muganda. N. (2003), E- business results in:

- (i) Organisational improvement( direct saving, product promotion, new sales channel, reduced time to market, improved corporate image and more customer service.
- (ii) Organisational transformation(learning, customer service)
- (iii) Organisational re-definition(new product capabilities, new business models)
- (iv) According to the findings E- Commerce is beneficial for SMEs as it stands to add to their competitive edge. It adds speed, accuracy, efficiency and effectiveness of business thereby lowering costs and making SMEs practicing e-commerce more competitive than those that do not.

### **2.3 Empirical Literature Review**

There are different researches which have been done by other researchers to identify the constraints faced by SMEs all over the world; some of the researches are;

A study done by Enock Nkonoki (2010s) on the “Factors limiting the success and/or growth of small businesses in Tanzania”. Indicates the internal factors and external factors which limit the growth of small businesses, the internal factors have to do with the characteristics and attitude of entrepreneurs and may be impacted by the decisions made by the firm either by the entrepreneur(s) or the staff in the firm. The internal factors are; Lack of motivation and drive, Lack of background and

experience in the business , Capital constraint, Lack of a proper business plan/vision , Theft/cheating and lack of trust in doing business, Poor management.

Running informal/unregistered businesses, Lack of proper record keeping, inadequate education and training, People factor/lack of needed talent, improper professional advice and consultation.

Nkonoki (Ibid) has also identified the external factors which limit the growth of small businesses in Tanzania which are the factors which have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has not really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm. They are as follows: - Corruption, Competition, Government policy, Technological barrier, in access to finances/funding, Bureaucratic processes, Unfavorable economic factors.

Nkonoki (Ibid) recommended that much has to be done in order to harness the growth of small firms. He recommended to the small firm community to get proper guidance and support in order for their particular businesses to grow.

But to do that the small firm community (private entrepreneurs and companies) has to do the following;

Seek first an adequate knowledge of business before rushing into doing any kind of business idea they have. Small business owners can do this by enrolling into training programmes and courses on business administration conducted by various educational institutions in the country like UDDBS,CBE and IFM just to name a few. Also there are a number of training programmes on small business management subsidized by the government run by organizations like SIDO, BIT and TCCIA.

He also recommends that the government has to subsidize the SMEs which show the efforts of exporting their products to the regional markets, and encourage more SMEs in Tanzania to exploit the regional markets by providing the best packaging facilities, and emphasizing on quality production of SMEs products which can compete with other products from other member countries.



Zakayo Konyagi (2009) conducted a study on “Financial challenges faced by Small and Medium sized enterprises (SMEs) in Lushoto district”.

According to Zakayo (Ibid) despite of their major contribution to the national development, they fail to grow because they are constrained with several challenges whereby the financial crisis is the major one. They do not get much financial support from the government and financial institutions to support their businesses. In research study conducted in Lushoto district, thirty (30) SMEs were studied using the random sampling method to view what makes them perform poor regardless of their importance to the national development. The major issues identified in the study constraining the performance of SMEs involved, among others, insufficient amount of capital to run the businesses, unsupportive loan conditions imposed by financial institutions that limits SMEs the access to financial resources, unavailability of business support services for running of businesses to enhance their growth, lack of business culture for many promising entrepreneurs, and, unsupportive government policies and regulations.

Zakayo (Ibid) argue that there is a great deal that the government and other stakeholders can do to enhance the growth of SMEs including; adopting legal and regulatory frameworks that allow best use of financial sector infrastructure, maintaining prudential supervision of the financial sector, maintaining business support services to SMEs, and encouraging banks to implement good corporate governance practices and transparent non-bureaucratic procedures.

According to Faith Shayo (2009) on a study on “Utilization of E-commerce and E-finance by Small and Medium Enterprises (SMEs) in Urban Tanzania”. The Case of Selected SMEs in Dar es Salaam Region. Key findings revealed that most SMEs owner-managers have basic knowledge and awareness of ecommerce.

However, most of these SMEs do not use the technologies due to privacy and security issues, high cost of internet connectivity, credit card and online fraud, and the majority do not have credit cards. In general, this study concluded that e-commerce and e-finance is at an infant development stage for SMEs in Dar es

Salaam region as most SMEs have limited knowledge of the advantages of the two technologies to their businesses.

Faith Shayo (Ibid) recommended the Government of Tanzania (GOT) is encouraged to find ways and strategies to promote the use of E-commerce and E- finance in order to promote SMEs growth and improve their competitiveness in the global market.

Niamh Owens (2007) conducted a study on “An Examination of the Factors Hindering Irish SMEs from going Global”. According to Niamh Owens (ibid) one of the most influential factors for SMEs in their decision to go global was access to technology information. Access to technology can be more easily acquired by SMEs, as the internet can be a very useful tool for the small enterprise to enter the international playing field. However he suggested that the internet does not have the capability to solve all problems for SME entering foreign markets. For example the internet does not provide SMEs with relevant experiential knowledge about foreign markets hence it does not really help SMEs to penetrate the international market.

Niamh Owens (ibid) also identified the technique/method used by SMEs for selling their products/services whereby he identified two major methods as networking and word of mouth, in the researcher’s opinion from analysing the results of the survey; networking provides more contacts for exporting SMEs and therefore may make their transition to international markets more accessible than non-exporting SMEs.

Niamh Owens (ibid) also has identified the reasons/factors hindering the Irish SMEs from going global among of the challenges identified are; Insufficient education in sales and marketing, he identified that SME owners/managers are spending too much time concentrating on research and development and manufacturing issues rather than on the marketing of the enterprise. Lack of international experience (33%) and lack of expertise (42%) was identified as other challenges hindering Irish SMEs to go global; since SME owners/managers do not have necessary skills needed to manage an exporting company then this will become a barrier to their internationalization effort. Other challenges identified by Niamh Owens (ibid) are

lack of experience, marketing skills, foreign languages, lack of finance. Having examined the barriers hindering Irish SMEs to enter the global market, from his findings Niamh Owens (ibid) came out with the solutions used by Irish SMEs to enter the global market which are; “persevere” always try again even when you don’t successes (Lessons will be learned from experience), enter into partnership with foreign companies so as to ease the financial burden, purchase expertise to enable them to enter foreign markets.

Niamh Owens (ibid) recommended that is the key decision maker who will influence the SMEs decision to enter foreign markets; his opinions may not be the barriers mentioned that are hindering non-exporting SMEs from going global, as the barriers they perceive are not insurmountable due to the fact that the exporting SMEs overcame the same obstacles.

Stefan Nieminen (2011) conducted a research on “The Internationalization of SMEs in Emerging Markets” Case Russia; from this study a researcher claims that the existing domestic and international relationships help the firm to expand to new markets, and develop new business partners and market positions there, from a network perspective, the opportunities created through these kinds of contacts affect market selection and entry decisions, rather than only the strategic decisions made by the management of the enterprise. Concurrently, a company’s existing contacts may also restrict its internationalization process. Stefan Nieminen (ibid) reviewed some literatures which pointed out some influential factors for internationalization which are; new market conditions in many sectors of the economy, Technological development especially in the areas of production, transportation and communication. The increased importance of global networks and alliances. Increased abilities of people, such as entrepreneurs and founders who seek internationalization for their business.

Stefan Nieminen (ibid) identified some of the challenges faced by SMEs when internationalizing, he introduced three main challenges for SME internationalization, first the SME must evaluate whether to, when to and how to operate overseas. Second the challenge is to design long- term planning processes and business

systems to cope with the decision made according to internationalization, lastly internationalizing SMEs must also attend to regulatory issues and payment security. The study suggest that when managers are taking decisions on whether to, when to and how to operate overseas are often not fully aware of the different methods of internationalization.

Stefan Nieminen (ibid) has pointed out the challenges of internationalization to Russia which include corruption, bureaucracy, legislation, economical criminality and property rights, management and trust; he argues that economical criminality and corruption have become a market wide phenomenon that touches nearly every aspect and industry of the Russian economy.

Stefan Nieminen (ibid) suggested ways in which SMEs can internationalize one of the ways is the introduction of production unit to the foreign country, well planned and high qualified people and organization, local business knowledge on financing, distribution and logistics and business operations.

Basil Anthony Ngwu Onugu (2005), conducted a research on “Small and Medium Enterprises (SMEs) in Nigeria: Problems and Prospects”, according to Basil Anthony (ibid) he pointed out the problems/challenges which are faced by SMEs in Nigeria, some of the challenges sorted out by Basil(ibid) may hinder SMEs in Nigeria to access the global markets, such challenges are as; Inability to meet stringent international quality standards, a subtle trade barrier set up some developed countries in the guise of environmental or health standards. He cited out the example of “Impending ban of marine foods, vegetables, fruits and other agricultural products from Africa into the united states of America markets.

The inability to penetrate and compete favourably in export markets either because of poor quality of products, ignorance of export market strategies and networks or lack of appropriate mechanism and technology to process, preserve and package the products for export. Lack of suitable training and leadership development. In spite of the fact that training institutions abound in Nigeria, they rarely address the relevant needs of SMEs especially in the areas of Accounting, Marketing, Information

technology, Technological processes and development, International trade, Administration and management of Small and Medium Enterprises. According to Basil Anthony (ibid) essentially, SMEs are left most often on their own to eke out success amidst the avalanche of operational difficulties inherent in the Nigerian environment as well as the operational shortcomings, which characterize institutions set up to facilitate SME businesses.

Basil Anthony Ngwu Onugu (ibid) identified the reasons why SMEs in Nigeria have performed below standard, the reasons identified as responsible for under performance are; Poor managerial capacity, low skills and lack of adequate knowledge, poor access to information and to markets for SME products and services, poor access to modern technology, Low level of education, training and technological knowledge on the part of SME operators and Lack of enabling environment (political, legislative, macroeconomic, inconsistent policies, bureaucratic obstacles, etc). The findings from Basil Anthony Ngwu Onugu (ibid) point to two main factors as to why Nigerian SMEs are performing below standard. One is internal and relates to our attitudes, habits and way of thinking and doing things while the other relates to our environment including our educational system, culture, government, lack of clear approach to policy enunciation and poor implementation among others.

The solutions suggested by Basil Anthony (ibid) are that the solution to the problems of Nigeria SMEs can only be realised if both the leaders and citizens concertedly work together. The government has to take the lead by extending the current reforms to the educational and industrial sectors especially as regards policy formulation and implementation, ports reforms, transportation sector reforms, revamping the infrastructural facilities, reduction of bribery and corruption. Given efficient and effective execution of all these as well as the political will and good leadership and good followership, the SME sector will certainly be an effective tool for a rapid industrialization of the Nigerian Economy.

A study done by Karan Vohra (2008) on “Export-Marketing Problems of SMEs: The Case of Ludhiana Apparels and Textile Industry,” in India. Karan Vohra (ibid)

categorised the SMEs export problems into various groups like, External problems, Operational problems, and Internal Problems, and Informational problems. According to Karan Vohra (ibid) the export marketing problems are quite related to the degree of market orientation of the firm. The more market oriented a firm is, less are the chances of firm being into the ocean of major export- marketing problems. External problems are the problems or barriers which are rooted in the external environment and the firm itself has no control over the consequences of such problems. These problems stem from the home and the home environment within which the firm operates; some of these problems are the result of local government policies and regulations, international trade barriers and quotas (WTO'S MFA), fierce competition and exchange rate fluctuations.

Karan Vohra (ibid) pointed out the problems emerging as a result of procedural difficulties in operating aspects of the transaction with foreign customers, logistics and transportation problems, etc are known as operational or procedural problems of exporting.

Internal Problems are the constraints associated with organizational resources/ capabilities and company approach to export businesses, are problems which are directly related to the controllable issues within the firm itself. According to Karan Vohra (ibid) the final set of problems is the informational problems, can become quite apparent with a lack of exposure to silent export market intelligence. Information barriers refer to problems identifying, selecting, and contacting international markets due to information inefficiencies. From the study, Karan Vohra (ibid) came out with the following findings identified by the respondents he interviewed. The problems identified by him are; Lack of personnel qualified in exporting marketing, Lack of "experts" in export consulting, Risk of selling abroad, Insufficient information about overseas markets, Ineffective communication with overseas customers(language and culture barrier), poor product design and style for export markets, difficulties in transporting the product(s) exported.

From his findings, Karan Vohra (ibid) came out with the solutions/suggestions to overcome the problems, small business managers and owners, in order to become more market oriented, should enhance the market oriented behavior and activities,

relating to effective new product development process, improved relative quality controls and customer retention. Further, managers should focus on identifying and understanding the problems that may hinder the exporting performance, while less experienced exporters need to capitalize on the export incentives and inducements to finance export expansions. The top management should also play crucial role in facilitating export-market oriented activities within the firm, managers should not only focus on day to day activities, rather they should focus on investing and expanding the firm's exporting operations and embrace exporting as the way of competing in the marketplace.

The research done by Issack Shimba Allan (2006) on *The Impact of Networking Activities on Performance of SMEs*, focusing on the impact that networking activities among owner-managers of Small and Medium Enterprises have on performance of their firms. Networking activities were examined in terms of actor-bonds, activity linkages and resource sharing processes; while performance of firms was analysed on the bases of financial results, innovation and learning, internal operations and the extent to which firms meet their customer's needs. The findings have shown that establishment and deployment of networks support performance of enterprises. In particular better performance was revealed in the areas of services to customers, innovation and learning, internal operations and financial results. The findings imply that networking activities are instrumental in enhancing performance of SMEs in Tanzania and other developing countries, especially in the African context. Thus, SME owner-managers, the government and other stakeholders who deal with the SMEs' sector need to understand that the development of this sector can not only be brought up by through interventions related to financial support, but also from deployment of appropriate networking skills and attitudes, which support firms to leverage their resources.

This is because networking activities among SME actors enable enterprises to overcome hurdles, which for many years have been observed to hinder development of SME sectors in developing countries. These include those associates with newness, smallness and isolation of business undertakings. In that case, networking

activities once deployed may help Tanzania SMEs on accessing the regional markets.

#### **2.4 Research Gap**

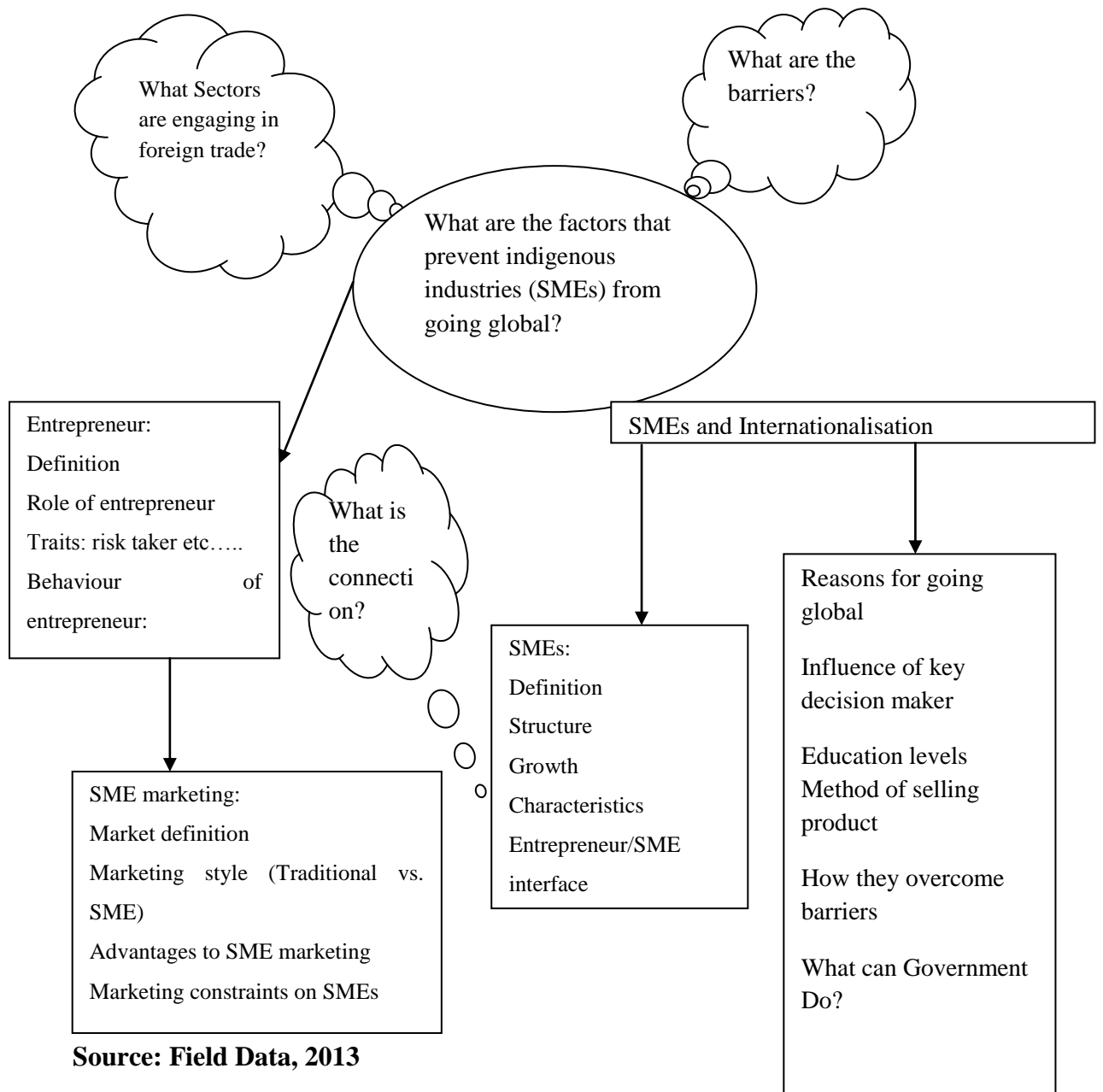
Based on empirical literature it is evident that extensive studies on factors constraining the SMEs growth in Tanzania have been done, furthermore researcher's experiences supports this. However there is no documented or published evidence which indicate that studies on the constraints faced by Tanzania SMEs in exploitation of the regional markets have been done extensively.

Therefore the findings from this study, conclusion and recommendations has covered the gap, by trying to concentrate on factors constraining SMEs in Tanzania to exploit regional markets and not to put more emphasize on general factors constraining SMEs growth in Tanzania.

#### **2.5 Conceptual Frame Work**

As part of developing the research question and objectives for this current study a conceptual framework was developed. The conceptual framework consists of the research question, an examination of the areas to be studied and to be measured through primary research.





From the conceptual frame work above the researcher developed the dependent variables and the independent variables. The dependent variables in this study may be within the entrepreneur himself, in order for the SME/ firm to go global will depend on the entrepreneur’s decision, level of education, method of selling products, and the influence of key decision maker. (Dependent variables: Entrepreneur’s decision, Level of education, Method of selling products, Influence of key decision maker).

The independent variables in the study are the surrounding environment of the SME/firm, the environment may either force the SME/firm to go global or not. Independent variable in this case may be the saturation of the domestic market, and lack of resources. When the domestic market is saturated and there is lack of resources the environment force's the SME/firm to go global in order to survive by increasing the market share abroad. (Independent variables: Domestic market is saturated, and lack of resources)

In that situation from the dependent variables and the independent variables the researcher developed the hypothesis in order to test the connection of the two variables and the reasons to why SMEs go global.

The hypothesis will be derived from the variables identified; in this case the study will have the Null hypothesis ( $H_o$ ) and the Alternative hypothesis ( $H_a$ ). The Null hypothesis is the one which one wishes to disprove and the Alternative hypothesis is the one which one wishes to prove (Kothari 2004).

The null hypothesis ( $H_o$ ) in this study will therefore be, "in order for the SME/firm to go global there should be lack of resources in the indigenous country and the domestic market must be saturated." In that case the researcher wishes to disprove this hypothesis, since lack of resources and saturation of domestic market can force the SME/firm to go global and there is no need of testing this cause it is obvious saturation of domestic market force the SME/firm to look for markets abroad.

It is not the researcher's belief that for the SME/firm to go global it depends with the inner traits of the entrepreneur. Things like Level of education, influence of key decision makers and method of selling products, can't be the major determinants of the SME to go global.

It is the researcher's interest to prove the connection between the inner traits of the entrepreneur like level of education, method of selling products and influence of key decision makers on how can lead to SME/firm decision to go global. In this case the alternative hypothesis ( $H_a$ ) for the study will be, "The SME/firm to go global will be determined by some factors like the level of education of an entrepreneur, method of

selling products and the influence of the key decision makers. The researcher's wish to prove if the SME/ firm decision of going global has a connection with the level of education of entrepreneur, method of selling products or the influence of key decision makers. All the variables and hypothesis are tested or measured through primary research/data.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter explains how the research was done, the procedures of data collection, data collection methods and analysis. The chapter also shows the study area chosen by the researcher and the reason of choosing the particular area. In this chapter we will also look the research design which was used in the study.

#### **3.2 Study Area**

The study was done in Dar-es-salaam region at Ilala municipality particularly at Buguruni, Ilala and Kariakoo area, which are said to be the business centers in the municipality. Due to these areas regarded to be the busy areas the researcher was able to identify a number of SMEs to work with, the area has also been selected due to shortage of time and resources, and the areas can be accessed easier due to good transport network from one area to the study area.

#### **3.3 Research Design**

Research design was defined as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Is the conceptual structure within which the research is conducted; it constitutes the blue print for the collection, measurement and analysis of data (Kothari 2004). Due to the descriptive nature of the study (exploratory and explanatory) qualitative research methodology was used as the main research approach supported by quantitative research methodology to some extent.

Case study research design formed the core of this study. The main reasons for using Case study research design were as follows;

- (i) Case study allows direct observation of the field in its natural setting. This will further allow the researcher to employ multiple method of data collection to gather information from various entities.

- (ii) In addition, a well-constructed case study can enable the researcher to challenge an existing theory and provide a source of new research questions.
- (iii) It will allow the researcher to do an intensive investigation of the particular unit under consideration.
- (iv) More specifically, the study will employed the single case-embedded research design, carried out by means of interviews and questionnaires using multiple sources of data.

### **3.4 Population**

Population is all the people who live in a particular area, city or country.

The population in the study was used to extract the sample size of the study. From the population of Ilala municipality which is estimated to be more than 800,000 people (2012 Population and Housing Census). The working age in the population specifically youth from 18-35 years was used to create the sample of the study.

### **3.5 Sample, Sampling Techniques and Procedures**

This study was interested in understanding and analysing the reasons for factors constraining SMEs in Tanzania to exploit the regional markets despite all the efforts made by stakeholders. Therefore the participants of this study were expected to meet the following criterion;

- (i) Small and Medium Enterprises (SMEs) participating in production of various goods and services.
- (ii) The Government of Tanzania (GOT) and it's institutions like the Ministry of Industries and trade, Small Industries Development Organisation (SIDO) and Board of External Trade (BET).
- (iii) The intermediaries and other stakeholders who link the SMEs in Tanzania and the regional markets, like transporting agencies, consolidating and packages, banks.

To answer the stated research question(s) and meet the research objectives non-probability sampling is the most practical.

Non- random sampling allows the researcher to undertake an in-depth study that focuses on small sample selected for a particular purpose. The purposive sample for this study therefore will include 224 entrepreneurs from different SMEs within the study area.

### **3.6 Data Collection Methods**

A wider range of information was accessed through the use of primary data and secondary data collection methods. Primary data was collected from the participants through administration of questionnaires and interview guides. To enhance the validity and reliability of these instruments, a pilot study was conducted prior to the main primary data collection process. Questionnaires (both structured and semi-structure) were used to collect information from entrepreneurs, SMEs owners/managers.

Interview guides are used to collect information from SMEs, and Government institutions a face-to-face interview was appropriate as it helped the researcher to obtain the in-depth detailed information.

Direct observation was also done through several visits to the production areas and service providing areas to observe things like quality of products and services provided the kind of technology used in production and the facilities used in packaging of the products.

Secondary data included previous studies and documented sources like scholarly journals, thesis, books, and documents and various reports and articles.

### **3.7 Data Collection Instruments**

These are specific items designed to collect data. The study used the following instruments in data collection questionnaires and interview questions. Both types of questionnaires that is open- ended and close- ended were used the open-ended questionnaires were used in order to give the chance of flexibility to the researcher if there is a need of changing anything, while the close-ended questionnaires were used by the respondents whom their questionnaires were mailed to them in order to avoid

bias and unrequired information and in interview the structured interviews were used which involve a set of predetermined questions and of highly standardized techniques of recording, asking questions in a form and order prescribed.

Direct observation was administered by structured observation whereby only the observed information which was relevant to the study was recorded by the standardized conditions of observation.

### **3.8 Data Analysis Plan**

Based on the research methodology i.e. qualitative and the research design strategy i.e. case study, the researcher expects to collect a lot of qualitative data through the use of in-depth interviews and discussions.

Fisher, C. (2010), described that, qualitative data usually consist of words, audio or visual recording and observation, not numbers. In the light of this, the study will employ qualitative data analysis and interpretation to bring order and understanding of the research topic.

Since qualitative studies aim to describe and explain a pattern of relationships and interactions, the data analysis strategy for this study will be to start with a deductive (theory-driven) approach to data analysis and then mix it with the inductive (findings-driven) approach as suggested by Saunders, Lewis and Thornhill (2009). The use of theoretical framework will help the researcher to organise and direct the data analysis in which the main variables, components, themes and issues in the research project and the predicted relationships between them will be identified. The inductive approach will be used to identify and explore additional issues that may arise from data collection which the research could not think about and try to see which of them fits in the framework.

The process of qualitative analysis in this study will start with getting to know the data collected. It is important to know the quality of the data before the beginning of any analysis. This will be done through reading and re-reading the text and listening to the tape recording several times and writing down any impressions the researcher has as he goes through the data as suggested by Altinay and Paraskevas, (2008).

Next is to review the purpose of the evaluation and what the researcher want to find out. This process will help the researcher to identify a few key questions that he wants the analysis to answer and will also help to decide how to begin the analysis. To focus the analysis, the respondents' answers will be grouped by case or group (i.e. SMES, Government institutions and Intermediaries) and analyse them to get an overall picture of the research topic. Then the researcher will look at how all individuals within each group or case responded to each question or topic with open-ended questions in order to identify consistencies and differences by putting all the data from each question together.

This process will be followed by coding, conceptualisation and ordering the information by identifying the major themes or patterns and organising them into coherent categories. In addition, to categorise this narrative data the researcher apply the iterative approach whereby he will use preset categories or themes from the theoretical framework and add others as they become apparent as a result of working with the data. Main categories will be broken into subcategories to allow for greater discrimination and differences. After the data have been categorised, patterns and connections within and between categories will be identified. Finally, the interpretation process to bring it all together where by themes and connections will be used to explain the findings (Saunders, Lewis and Thornhill (2009); Irby & Lunenburg, (2008); and Fisher (2010)).

Qualitative research data will be supported by quantitative data in some extent, and therefore the quantitative data will be analysed through tabulation and computation into percentage.



## CHAPTER FOUR

### PRESENTATION OF FINDINGS

#### 4.1 Introduction

The purpose of this chapter is to present the current study's primary research findings from the survey administered to 224 small businesses in Ilala municipality. Due to the type of research being undertaken two different surveys were administered, one to exporting and another to non-exporting SMEs. Thirty five of the respondents were exporting SMEs and thirty six were from non-exporting SMEs. Both surveys yielded a total of 82 responses, resulting in 37% response rate. Of those 82 responses 71 were useable thereby producing a useable response rate of 33%.

This chapter examines the findings from the current research to ascertain if similarities or differences exist between SMEs that export and those SMEs that do not export. It is the aim of the researcher to analyse the findings and to provide an understanding as to the barriers hindering Tanzania SMEs from entering foreign markets and why more SMEs do not engage in exporting. For the purpose of this current research the respondents were coded so as to aid analysis. The exporting (E) SMEs were coded E1 to E118 and the non-exporting (NE) SMEs were coded from NE1 to NE106.

This chapter is subdivided under the following themes:

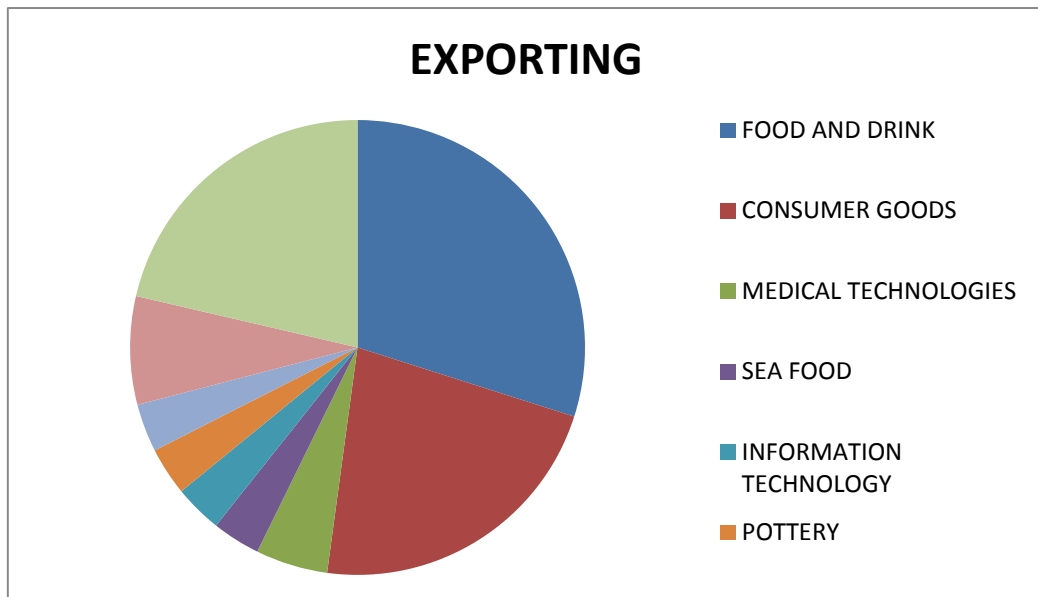
- (i) Industry sector
- (ii) The non-exporting SMEs who entered foreign markets
- (iii) Respondents three years strategic goals
- (iv) Level of owners/managers education
- (v) Understanding exporting
- (vi) SMEs method of selling products/services
- (vii) Reasons for engaging in exporting
- (viii) Option to take the business in International markets (Non- Exporters)
- (ix) Reasons why exporting SMEs sell abroad

- (x) Company factors in the decision to go global
- (xi) Barriers hindering SMEs to go global.
- (xii) What can the government do?
- (xiii) Conclusion

## 4.2 Industry Sector

As previous stated the survey was done to a total of 224 small businesses, producing a useable response of 71 SMEs. The industry sector breakdown of both the exporting SMEs and the non-exporting SMEs respondents is shown in figure 4.1(a) and (b).

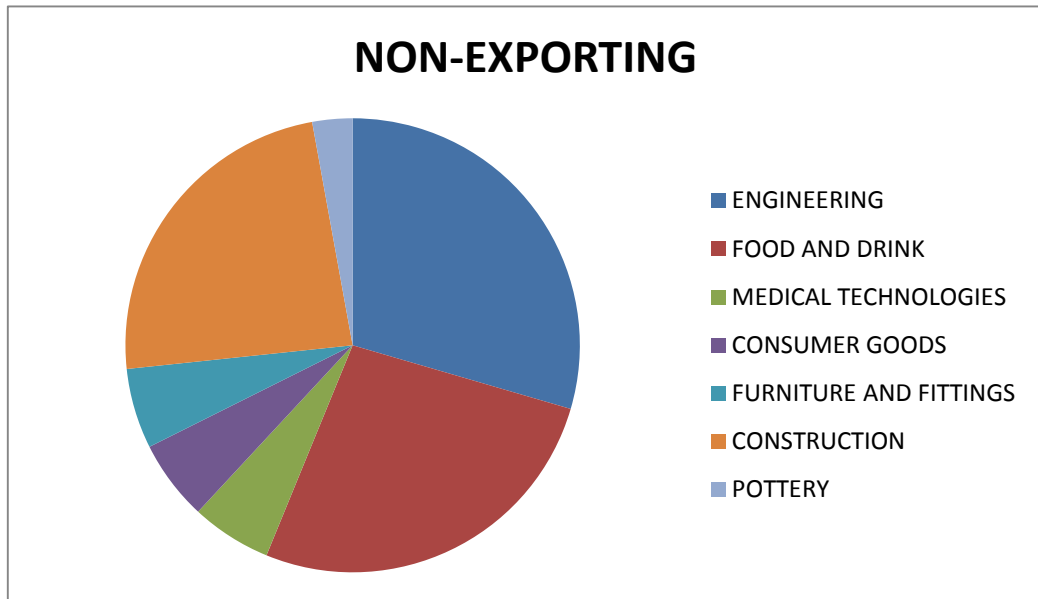
**Figure 4.2.1(a:) The Exporting SMEs by Industry Sector**



**Source: Field data, 2913**

As it can be observed from the figure above Food and drink is the highest industry sector for exporting SMEs by (35%) followed by consumer goods consisting of (26%) for exporting SMEs, while Sea food, Information technology, Furniture and fittings and Pottery are lagging behind all of them with only (4%) for exporting SMEs.

**Figure 4.2.1(b); The Non-exporting SMEs by industry sector**

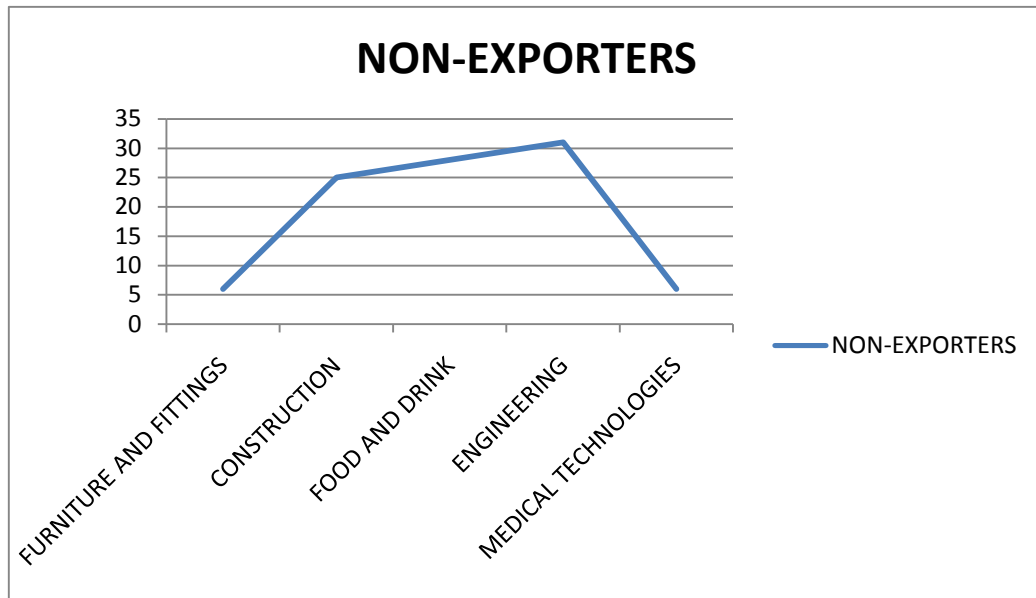


**Source: Field Data, 2013**

In non-exporting SMEs engineering is leading by 31% followed by Food and drink consisting of 28% while medical technologies has 6% in non-exporting SMEs, as it is shown in figure 4.1(b) above.

Figure 4.2.2 show that a total of 8 (25%) non-exporters attempted entry to foreign markets, all of which were successful.

**Figure 4.2.2: Industry sector by percentage of non-exporting SMEs who attempted to enter foreign markets**

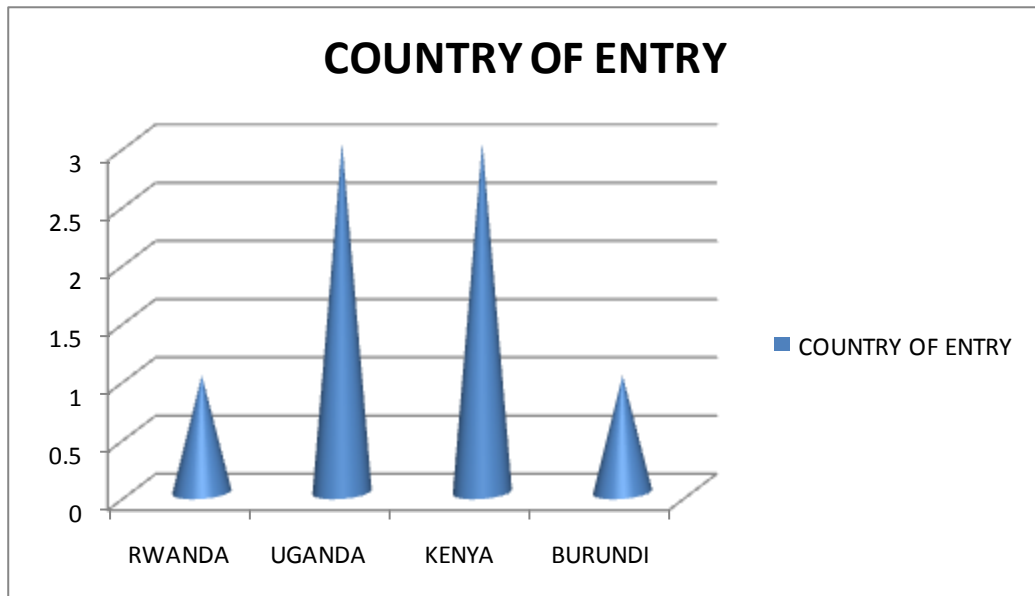


**Source:** Field data, 2013

### **4.3 The 8 Non-exporting SMEs who entered foreign markets.**

Although it was not expected that non-exporting SMEs would have attempted to enter foreign markets. It is important to examine their activities. It was found that the first countries of entry of these SMEs were mainly Kenya and Uganda. See figure 4.3.1 below.

**Figure 4.3.1: Country of Entry**

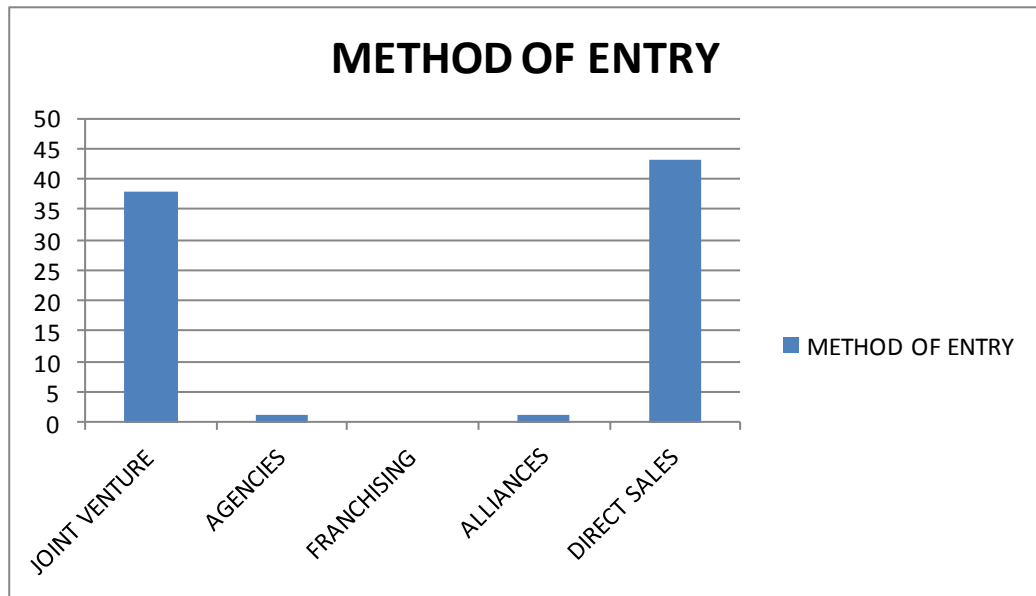


**Source: Field Data, 2013**

The education levels of the owner/manager's were also taken into account where it was found that over 80% had advanced education that is possessed a degree or higher. Also 40% of these SMEs had received entrepreneurship education either as part of their degree or through part time courses.

The research revealed that the most often used method of entry was direct sales (43%), the figure below shows that 37.5% of the non-exporting SMEs opted to set up their own company abroad. The direct entry/ sales would require a lot of capital and expertise, which would affect an SME if they lacked the capital and resources to develop their growth. It would be worth investigating this in future research that may be a reason why some of SMEs are no longer exporting.

**Figure 4.3.2: Method of entry to foreign markets**



**Source:** Field Data, 2013

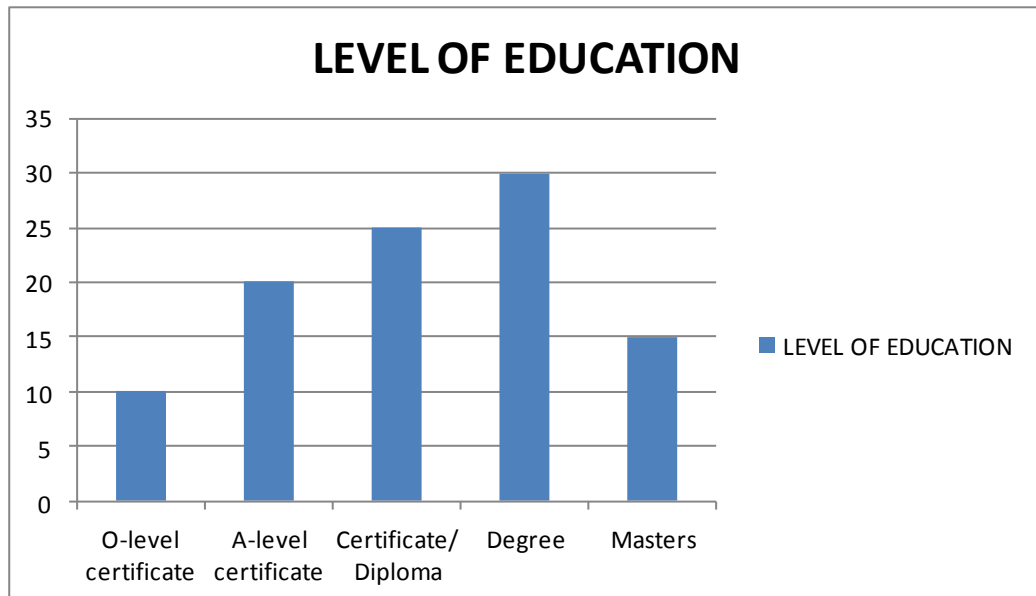
#### **4.4 Respondent's three year Strategic Goals.**

The SMEs were asked to outline their strategic goals over the next three years and it is evident from the results that the main focus of over 80% of exporting SMEs and 60% of non-exporting SMEs was to grow their business and reduce their costs. This is in line with Carson (1995) who stated that limited resources could hinder SMEs therefore they always looking for ways to increase their profits and reduce costs.

#### **4.5 Level of Owner/ Manager's Education**

Maslach (2005) did a research and suggested that higher education allows entrepreneurs to take advantage of the opportunity to interact with the international sources. He suggested that the key decision maker within the enterprise would have advanced education in order to entre foreign markets effectively and efficiently. Therefore one of the aims of this current research was to establish the levels of education of the owner/ managers and also whether they have received entrepreneurship education or not.

**Figure 4.5.1 Levels of education**



**Source:** Field Data, 2013

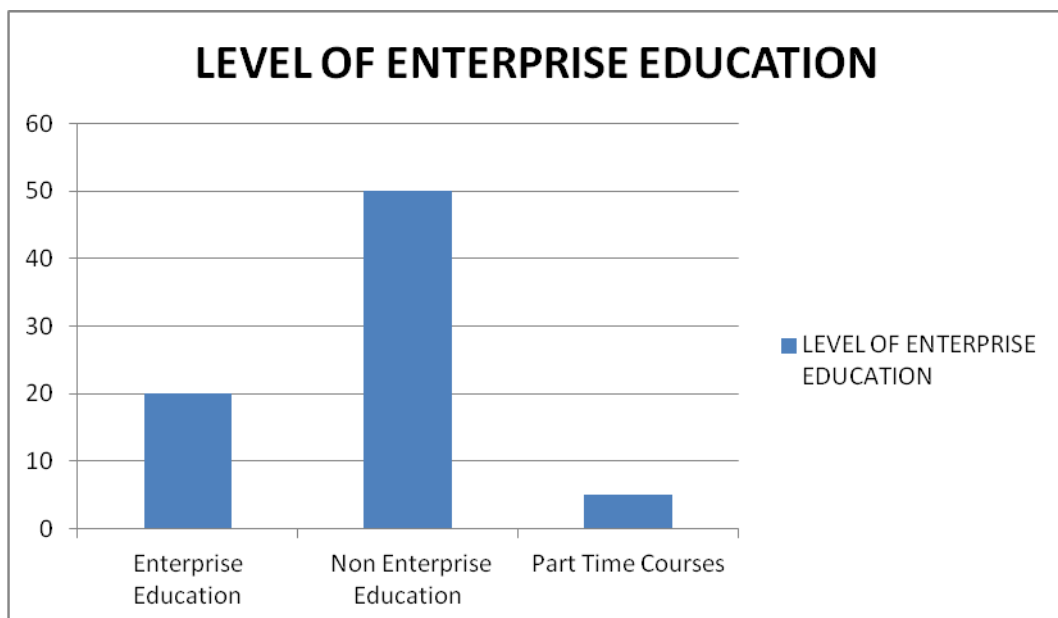
Maslach (2005) stated that advanced education is best when entering global markets since it can increase the chance of success in those markets. The figure above illustrates that 30% of the owners/managers possessed a degree therefore these results could suggest that a significant quantity of owners/managers have the advanced level of education suggested in order to take their business to global market. The result in this current study shows that 61% of owner/mangers, that had advanced education possess a degree in business studies while the remaining possess a degree in non-business studies. Therefore the interpretation of this is that education may not act as a barrier to SMEs upon entering foreign markets as suggested by previous literature (Maslach 2005; Carson, 1995).

#### **4.6 Entrepreneurship Education**

Enterprise education covers programmes such as “start your own business” and courses taken with the intention of entering self employment (Iredale 2002). Iredale also stated that enterprise education could serve a number of purposes the most universal purpose being to develop enterprising skills, behaviours and attitudes through any curriculum subject at every phase of education to provide a wider

preparation of autonomy in life. In that case enterprise education can provide entrepreneurs with the required knowledge and expertise needed to manage an SME successfully. Therefore, it is this researchers opinion that enterprise education should be included as part of primary and post primary education so as to impart a sense of entrepreneurship in students at a young age. According to the findings less than 20% of the owner/managers had any form of enterprise education while more than 50% of the owner/managers had no any form of enterprise education as indicated in figure4.6.1 below....

**Figure 4.6.1: Level of Enterprise Education**



**Source:** Field Data, 2013



#### 4.7 Business Skills of the Owner/ Manager

Carson, McGowan and Hill (1995) stated that entrepreneurs possess certain factors/ skills that have an underlying effect on the way that they run his/ her business.

**Figure 4.7.1: Business Skills**

	<b>SMALL ENTERPRISES (SMEs)</b>
<b>NETWORKING</b>	Good (54%)
<b>NEGOTIATING</b>	Good (46%)
<b>ORAL PRESENTATION</b>	Very Good (40%)
<b>WRITING ABILITY</b>	Very Good (40%)
<b>PROBLEM ANALYSIS</b>	Very Good (51%)
<b>NUMERIC COMPETENCE</b>	Good (37%)
<b>TEAM BUILDING</b>	Good (49%)
<b>MOTIVATING</b>	Good (40%)
<b>BUSINESS RELATIONSHIP</b>	Very Good (49%)
<b>FLUENCY IN FOREIGN LANGUAGES</b>	Poor (60%)

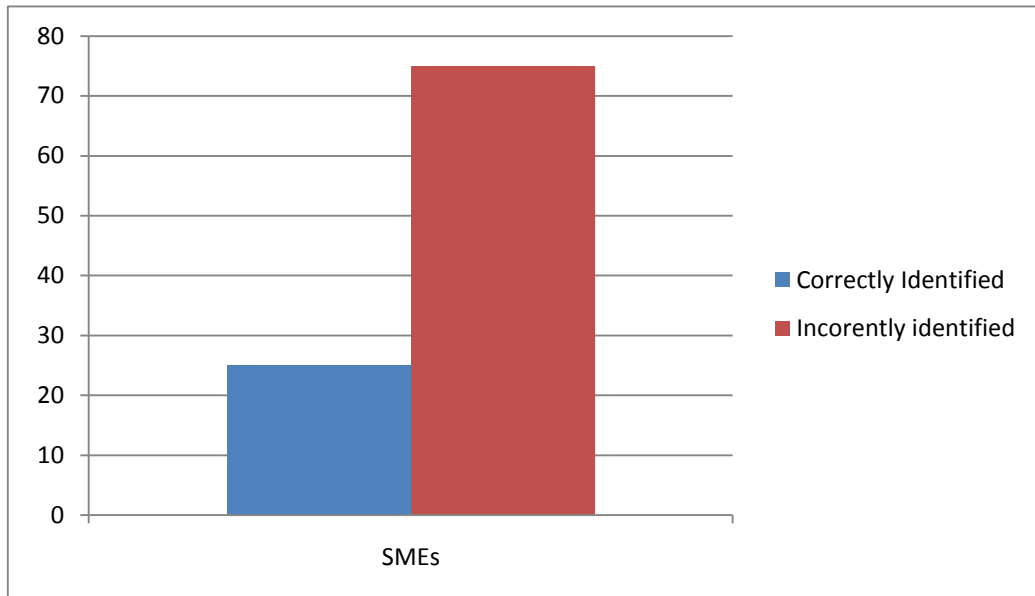
**Source:** Field Data, 2013

Most of SMEs were rated as to be good at networking, negotiating, team building and motivating employees but poor at foreign languages. In this case fluency in foreign languages makes most of the Tanzania SMEs to fail to access the global markets.

#### 4.8 Understanding Exporting

Before entering the foreign markets, it is essential to understand the term exporting, therefore prior knowledge of what exporting means and how it works is required. Not being aware of its true meaning can result in the SME encountering barriers in the exporting process. 100% of the respondents said that they did understand the term exporting but only 25% of SMEs correctly identified the meaning of the term exporting.

**Figure 4.8.1 Understanding of Exporting**

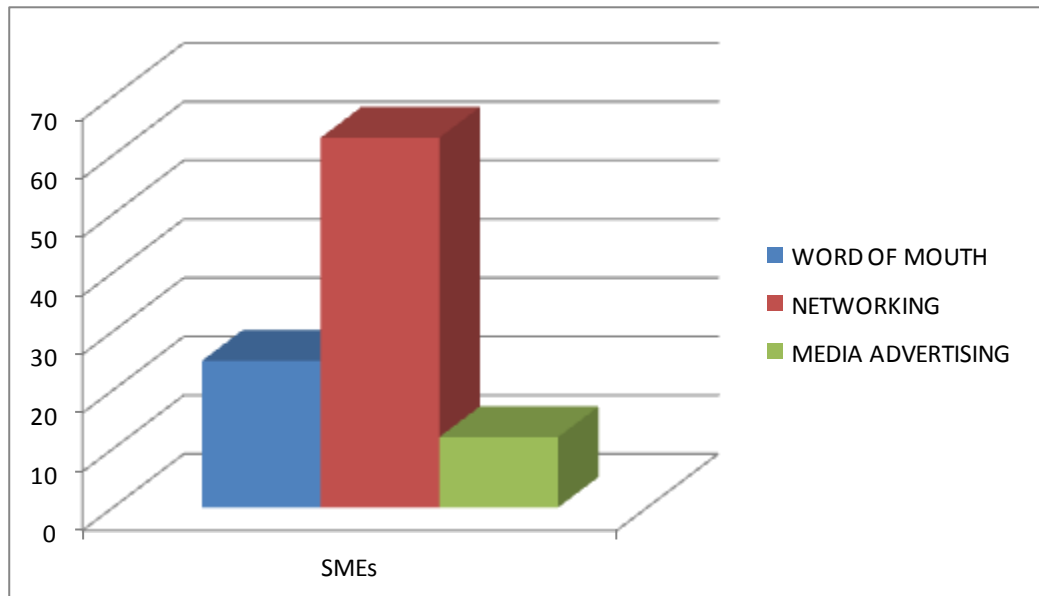


**Source: Field Data, 2013**

#### **4.9 S MEs' method of selling products/services**

The SMEs method of marketing their product/ service is somewhat different to that of the larger multinational firm but networking and word of mouth marketing provide the SME with a competitive advantage with the result that are more flexible to meet customer demands and operate successfully in niche markets. From Figure 4.9.1 it can be observed that the most often used method of selling products used by SMEs is networking through existing customers (63%) followed by word of mouth by (25%) while the remaining (12%) use the media advertising method this may be because of the advertising cost charged by the medias that is why most of SMEs do not prefer to use the media advertising method. In the opinion of this research from analysing the results of the survey, networking provides more contact for SMEs and therefore may make their transition to international markets more accessible.

**Figure 4.9.1 Method of selling products/ services**

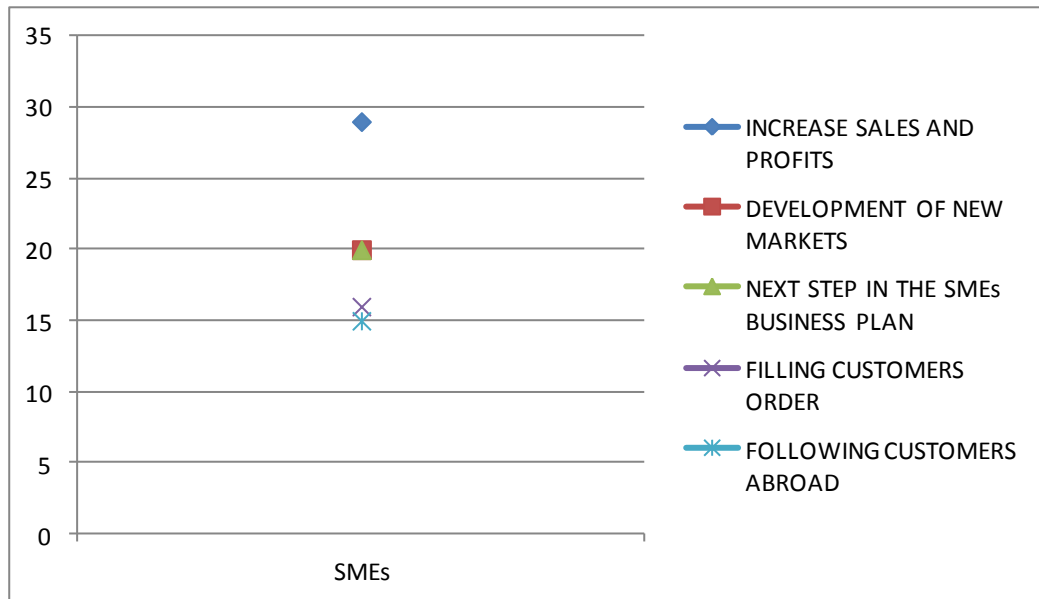


**Source: Field Data, 2013**

#### **4.9.1 Reasons to Engage in Exporting**

There are many motives for SMEs pursuing an export strategy. Some of these reasons can be seen in Figure 5.0 where obtaining an increase in sales and profits (29%) and the development of new markets (20%) were found to be major reasons for entering foreign markets among the survey respondents. Another reason was that it was the next step in the SMEs business plan (20%). The findings from this study present that 16% of SMEs cited filling customer orders and following customers abroad 15% as the main reasons for entering foreign markets.

**Figure 4.9.2: Reasons for exporting**

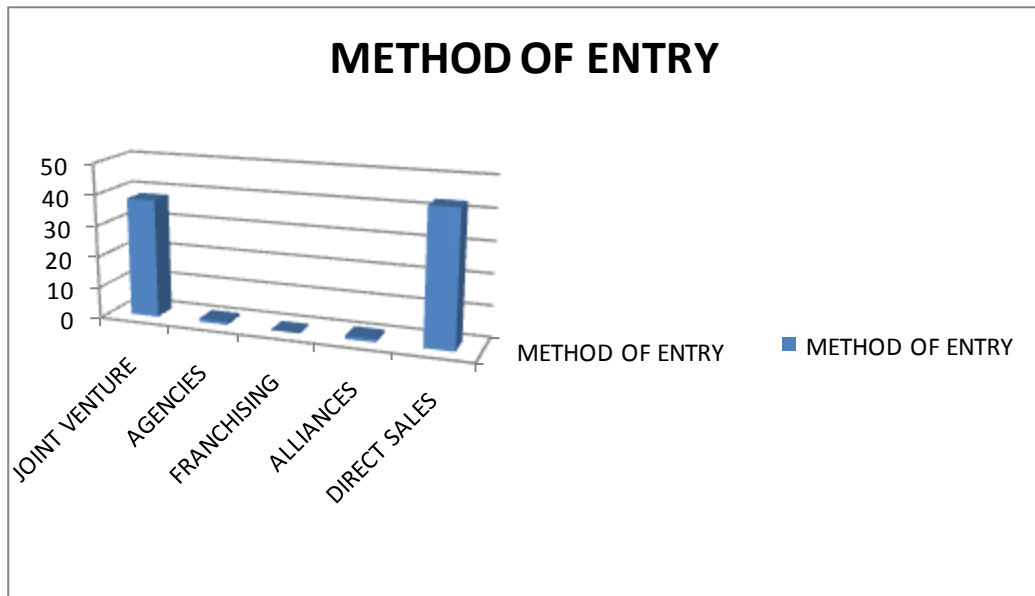


**Source:** Field Data, 2013

#### **4.9.2: Methods of entry to foreign markets**

Direct sales was the most often method of entry to foreign markets whereby SMEs engage directly with foreign company/country to build a reputation and increase sales and profits.

**Figure 4.9.3: Method of entry**



**Source:** Field Data, 2013

Joint venture was the second preferred method used by SMEs to enter foreign markets, whereby most of SMEs entered an agreement with the local SMEs and share the cost to run the business. This also helped the SMEs to enter foreign markets since the running costs have been reduced and they become familiar with the new environment/market in that particular foreign country.

#### **4.9.3 Reasons to engage in exporting**

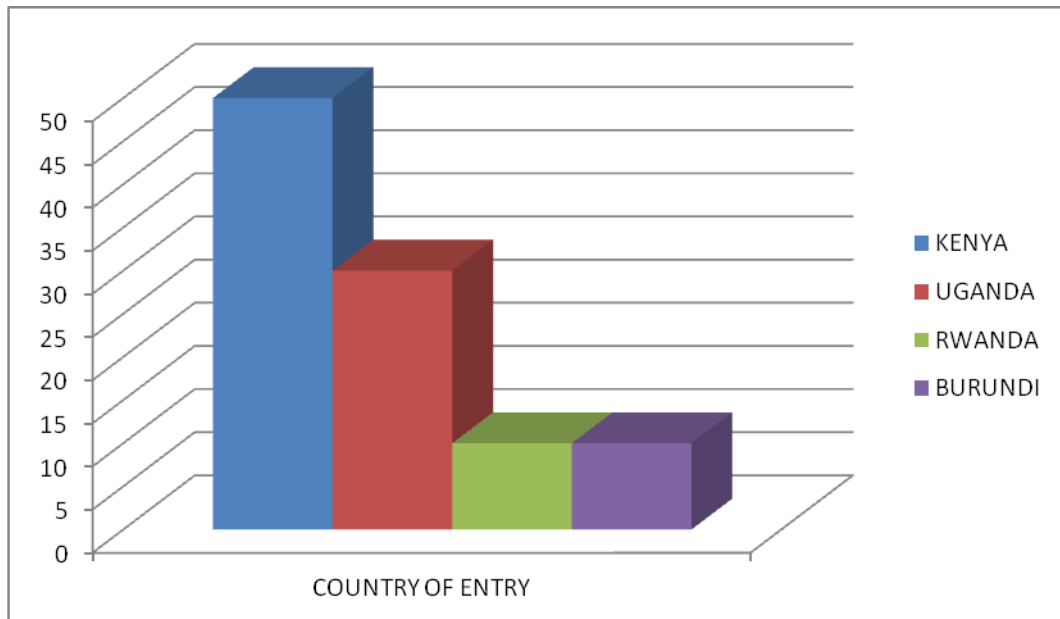
There are many motives for SMEs pursuing an export strategy. Some of these reasons can be obtaining an increase in sales and profits (26%) and development of new markets (23%) were found to be major reasons for entering foreign markets among the survey respondents. Next step in the SMEs business plan (20%) was another major reason.

#### **4.9.4 First country of entry**

SMEs are focusing on neighbouring countries to export. Therefore it is not surprising that SMEs first country of entry is Kenya followed by Uganda, due to

easy access, good market base and similar culture and language abilities as the Tanzania market.

**Figure 4.9.4: First country of entry**



**Source:** Field Data, 2013

#### **4.9.5 Reasons of selling abroad**

It is noted that SMEs can be pushed into exporting due to small and declining domestic market, or SMEs with limited resources can be pulled into foreign markets by the internationalization activities of customers in the domestic market. Therefore it is not surprising to note that the filling of customer orders (34%) was one of the reasons for the SME's decision to go global. Respondents strongly agreed that the main reasons for entering foreign markets were to develop new markets (83%) so as to build up the reputation of SME's products and services and to increase profits (83%). It is also important to know that the increase in profits was one of the three strategic goals of the SMEs.

#### **4.9.6 Factors affecting company's decision to go global.**

Quality products (69%) and customer service capability (49%) are considered to be very important factors by the SMEs surveyed in the decision to go global. These findings agree with Stoke's (2000) view that SMEs consider quality products and getting close to their customer as important factors in their efforts to go global. Another very important aspect in the decision to go global was well-trained employees (37%). The ability to adapt to market changes quickly (34%) is also considered very important by SMEs in their decision to go global and it is that ability which makes SMEs unique in their marketing approach. SMEs in this current study also considered years of experience (43%) and foreign market information (34%) to be very important when entering foreign markets.

#### **4.9.7 Barriers hindering SMEs from going global.**

If it is assumed that exporting can lead to superior SME performance then there is a need to understand why many SMEs do not export. By examining the barriers that hinder Tanzania SMEs from going global it may identify what action needs to be taken to make foreign markets more accessible to these SMEs. Morgan and Katisikeas (1997) identified four main obstacles that explain why SMEs are discouraged from entering foreign markets; they said the lack of resources, capital, market knowledge and proper network channels can all hinder an SME in its effort to go global. The results from this study find that SMEs agreed that lack of marketing skills (31%) was a barrier to them and inability to market themselves (33%) was a factor hindering SMEs to global. Other factors hindering SMEs to go global are lack of international experience (33%) and lack of expertise (42%). These results support Klatt (2003) who stated that smaller enterprises lack the middle managers that the larger enterprises have and it is these middle managers that play a vital role in developing international strategies.

#### **4.9.8. What can the government do?**

The lack of government support was mentioned by the SMEs during the course of this current research therefore SMEs were invited to share what changes they thought the government of Tanzania could make in order to help SMEs overcome barriers that make entry to foreign markets difficult. Some of the suggestions were;

“that international trade was hugely expensive and that it was easy to underestimate the resources needed to optimize business relationship in foreign markets therefore the government could ease this burden by providing well-managed financial, lingual and network support to SMEs”.

Networking was mentioned by SMEs as an aspect that needed to be concentrated on by the government. Government programmes need to support the collective efforts of SMEs in similar industries through networking events. An example given by respondent is that; “10 SMEs with 10 million Tsh turnovers should be presented as one group with 100 million Tsh turnover as large multinationals do not like dealing with very small foreign companies.

Lack of marketing skills was a problem for SMEs in their effort to go global thus more “support with marketing education and training” was called for by SMEs in Tanzania where as mentioned earlier, not enough time or money is spent on the development of marketing skills amongst indigenous enterprises and it was also found to be an obstacle in international efforts.

Taking into account the researcher’s opinion that the government cannot alleviate all the barriers that hinder SMEs from going global. Marketing skills can be helped through education; however inadequate financial resources and the risk involved in establishing a market abroad may be difficult to assist through Government intervention. The government cannot do anything about the workings of foreign markets and the risk involved in establishing a presence abroad.

#### **4.9.9 Conclusion**

The chapter presented the results of the survey administered to SMEs in Ilala municipality. In essence the research ascertained to establish what the barriers are to SMEs when entering foreign markets, and consequently to establish the reasons why more SMEs do not enter the global market place. The quantitative research did yield a number of significant findings namely the differences in education levels, difference in enterprise education levels in SMEs which received any form of enterprise education.



Furthermore, SMEs were asked if they understood the term exporting. The findings showed that while most of SMEs said they understood the meaning of the term, when asked to identify the appropriate meaning only 25% Of the SMEs correctly understood the true meaning of exporting.

Carson, Gilmore and Grant (2001) suggested that building relationships and networking with regular clients is vital to a company's success. The current research confirms this as SMEs selected networking as their preferred method of selling their products/services. As mentioned in the analysis networking would seem to be the best way to gain entry to foreign markets as the SME is making direct contact with potential customers in foreign markets.

Another finding is that lack of marketing skills is the major obstacle for SMEs attempting to enter foreign markets. Lack of international experience and lack of expertise were found to be major obstacles that hinder SMEs entry to foreign markets.

In regard on what the government can do to help SMEs in Tanzania engage in more exporting, the owner/managers surveyed suggested that the government provide SMEs with proper education in marketing and sales, the SMEs also suggested that the government should concentrate more on the networking circles centred on the SMEs which would involve assistance in the establishment of links abroad enabling more export activity to take place.

## CHAPTER FIVE

### DISCUSSION OF FINDINGS

#### 5.1 Introduction

The objective of this section is to discuss in detail the research findings presented in chapter four. This section will be presented through three main headings, which reveal the major discussion points arising from the data analysis. The first point of discussion is the key decision maker, which the literature states has the final decision on how to run the enterprise. The findings were determined from questionnaires and highlight a number of characteristics associated with the key decision maker of the small enterprise, such as level of education, international experience and networking. The second point of discussion focuses on this study's research findings regarding the SMEs method of selling their product/service and their reasons for going global. The final subject for discussion relates to the barriers hindering SMEs from going global. The discussion centres around the barriers SMEs are facing and how they overcome the barriers on their way to becoming a global player.

#### **Key decision maker**

As stated in the literature review, entrepreneur is the key decision maker of the SME as all decisions are passed through them before being finalized (Carson, 1990; Hill, 2001). Maslach (2005) agreed by saying the characteristics of decision maker, such as need for achievement and network ability, will affect the pace and method of internationalization.

From the study it can be seen that, the decision maker uses networks to provide opportunities for the small enterprise to enter foreign markets so it was not surprising to find that 63% of the exporting owner/managers engaged in networking to existing clients to promote their businesses. According to Stokes (2000), it is this trait that allows entrepreneurs to get close to their customers and respond to their needs much faster than larger organisations, while Munro (2000) described SME marketing techniques such as networking to be non- traditional and non-strategic it was interesting to find that the 63% of SMEs who used networking were still successful in foreign markets at the time of the survey.

### **Level of education**

The key decision maker has advanced education which leads to openness to new ideas which influences opportunities to internationalise. However most of SMEs in Tanzania did not possess necessary skills to enable them to enter foreign markets. The respondents mentioned lack of education in sales and marketing and learning how to compete in foreign markets as major barriers to internationalization. As was discussed in chapter 4 many SMEs lacked sufficient knowledge and expertise in marketing. Research findings stated that understanding exporting, how it works and what markets to target is essential before going into global market. It is surprising to see some of the SMEs and their owners/managers did not understand the term exporting, therefore it was a barrier to many SMEs to go global due to poor understanding of the term exporting.

### **International experience**

The key decision maker should have extensive international experience. The research findings show that most SMEs owner/managers cited lack of experience as a barrier to going global so these findings may suggest that lack of international experience can affect the rate and pace of SME internationalisation. According to Brush (2000), general theories of international business suggest that companies will not be able to, or desire to invest abroad or export until they have gained market experience.

Therefore it is suggested that owners/managers should have international experience in order to enter the foreign market, but however some of the SMEs owners/managers did not have international experience nor advanced level of education but entered the foreign markets successfully.

### **Methods of selling products/ services and reasons for exporting**

Owners/managers typically engaged in extensive, proactive networking with existing customers and therefore built strong links with them. This may be the reason why SMEs from this current research are so successful in foreign markets as networking establishes strong links with their foreign customers. The findings also showed that direct sales was the more preferred method of foreign entry for the exporting SMEs,

due to the fact that owners/managers prefer contacting potential customers face- to – face rather than through the use of alliances and agencies. This may help the SMEs to understand and see the real situation of the foreign markets hence be flexible to change according to the market environment.

### **Reasons for exporting**

Increasing in profit was the main reason why SMEs entered foreign markets. Carson (1995) stated, SMEs are characterized by their lack of resources and capital therefore entering into foreign markets so as to obtain profits, as stipulated by respondents was not surprising. This supports Carson (2000) and Amit et al (2000) who stated that money mattered more to entrepreneurs because of the association between entrepreneurship and wealth. As was shown by the SME's strategic goals, to increase profits was one of the top three goals for the small enterprises, which reinforces the ideas that entrepreneurs are primarily concerned with making profit.

### **Barriers to going global**

Many reports suggested that SMEs owners/managers need more education in sales and marketing as they are spending too much time concentrating on research and development and manufacturing issues rather than on the marketing of the enterprise. As was mentioned earlier, the entrepreneur is the key decision maker and all decisions inherently go through them first. According to Miesenbock (2000) the key decision maker decides when to start, end and increase international activity so it will be important that the entrepreneur has sufficient education in sales and marketing. Also as was shown in the literature review, the entrepreneur is considered a risk taker, innovator and strives for achievement at all times. Therefore it is surprising that the owner/ managers encounter and perceive so many barriers to internationalisation as it is their nature to take risks in order to further their business and make a profit. Therefore lack of marketing skills, inability to market themselves, lack of international experience and lack of expertise of the owner/managers were again considered barriers to exporting SMEs entering foreign markets. Crick and Chaudhry (1997) stated that SME owner/managers determine whether the business will go global. If they do not have necessary skills required to manage an exporting company then this will become a barrier to their effort of becoming global. The

education issue arises again, as without education in marketing and exporting the barriers that confront SMEs when entering foreign markets will remain as the owner/managers will not have the expertise to confront these barriers.

### **Conclusion**

This section suggests that internationalisation is plausible for all SMEs as the perceived barriers that the SMEs are reporting are the same barriers, which SMEs in other countries have overcome on their way of internationalisation. The next chapter, which is the final chapter of this thesis, will draw conclusions from the overall discussion and make recommendations for future academic research.

## **CHAPTER SIX**

### **SUMMARY, CONCLUSION AND POLICY IMPLICATIONS**

#### **6.1 Introduction**

This study sought to understand why Tanzania SMEs are not engaging in more exporting activity. The research therefore, examined factors such as level of education of SME owner/managers, SMEs' method of selling products/services, reasons for engaging in exporting, barriers hindering SMEs from going global and what the government could do to assist SMEs when entering foreign markets.

In order to obtain the answer to the research question and research objectives it was necessary to review the literature pertaining to the research topic. Primary data was gathered through the use of survey questionnaire. The findings from this research were then presented and discussed in chapter Four (4).

Therefore the purpose of this chapter is to draw conclusions from these findings and the research as a whole. Also included are the limitations associated with the research and recommendations for future research in SMEs and exporting.

#### **6.2 Summary**

Despite of the barriers hindering the SMEs from exploiting regional markets, as can be seen from the discussion the key decision maker of the small enterprise has a major influence on the SMEs decision to enter the foreign market. If the manager does not have the required education, international experience or the ability to network their business they will find it difficult to expand and grow their business. However, the results of this study have shown the majority of SMEs owner/manager's do possess advanced education but the minorities possess the enterprise education and many lacked international experience and yet still entered foreign markets successfully. In that case the key decision maker of the small enterprise has a major influence on SMEs decision to enter foreign markets.

### **6.3 Conclusion**

The research found that there are similarities in the barriers which the SMEs had overcome in order to enter foreign markets. It also emerged that many SME owner/managers did not understand the true meaning of the term 'exporting' only 15 % of the SME owner/managers identified the term correctly. Maslach (2005) suggested that the key decision maker (owner/manager) should have advanced education in order to enter foreign markets. The results showed that most of SME owner/manager had advanced education but they are unable to enter foreign markets, it is therefore suggested that education may not act as a barrier to SME entering foreign markets as suggested by previous literature (Maslach, 2005; Carson, 1995).

### **6.4 Policy Implications**

Small business managers and owners, in order to become more market oriented, should enhance the market oriented behaviour and activities, relating to effective new product development process, improved relative quality controls and customer retention. Moreover, firms should focus on more market information gathering activities as these are most important in making SMEs more market oriented (Venkatesan and Soutar, 2000). Further, managers should focus on identifying and understanding the problems that may hinder the exporting performance; prioritizing these problems on the basis of their importance or occurrence, which have most impact on the achievement of export goals.

The government has the role to enact and review again the SMEs Policy in order to provide more support services to SMEs through qualified service providers to allow for growth amongst SMEs. Most of the support services which are provided by the government are confined in research and development, rather than marketing of the SMEs and their products. The government policies on SMEs should now put emphasize on marketing of the firms and the products, this will help majority of SMEs owner/managers on acquiring marketing skills and help them on their effort of taking their enterprise to the regional markets.. Another thing the policy should look is to put more emphasize on the enterprise education, the government should make the enterprise education a compulsory education from the primary level to the university, also it should be added to the informal education sector as one of the

compulsory subjects. This will help the majority of the people to have at least skills on business and marketing, hence inspire a lot of people to engage in Small businesses/enterprises, in that case the domestic market will be saturated and entrepreneurs will start looking for alternative markets abroad (foreign markets).

### **6.5 Limitations**

One of the main limitations associated with the study is that the research only contained SMEs from Ilala Municipality therefore the research results may not be generalisable. For example the industry sector mix may not be the same in other regions as it is in Ilala municipality, the number of industry sector represented may not be the same with those in other regions. Finally the support received by SMEs in Ilala may not be the same with the support received in other areas.

Secondly, there was no proper record keeping for SMEs in Ilala municipality. Most of the owner/manager of SMEs did not keep proper records of their businesses in that case it became difficult for the researcher to obtain comprehensive information concerning SMEs in Ilala.

Another limitation was the reluctance of the entrepreneurs to cooperate on the study; most of the entrepreneurs were not ready to give the information concerning their business due to fear of competition in the business. It led to the delay of the schedule as planned, since the researcher was required to use most of the time to make the entrepreneurs understand the role of the study and its importance to the future of their businesses.

### **6.4 Recommendations for Future Research**

The limitations of this research bring to light a number of prospects for future research. Primarily, it is proposed that a similar research study be undertaken on a national basis. A comprehensive study could be conducted on a region-by-region basis in Tanzania to determine if the barriers hindering Ilala SMEs from going global are the same factors preventing SMEs in other regions from doing the same. Also government needs to provide support services to SMEs through qualified service providers to allow for growth amongst SMEs, access to finance is also a problem



Government agencies need to address this problem together with financial institutions, Growth and expanding generally requires resources and owner-managers need to have access to these resources in order to grow or expand.

The owner/managers attend management development courses, business skills courses to enhance their knowledge and skills in terms of managing their businesses and become capable of competing on foreign markets. The owner/managers should also understand the significance of marketing skills in order to meet the customer satisfactions in both domestic and foreign markets.

Another recommendation for future research is to assess the impact of entrepreneurship education on owner/manager's decision to export. This study would firstly measure whether this owners/manager's would perform any better in international markets than those who did not receive any form of enterprise education. This research would allow for the study of two separate groups, one that received enterprise education and one that did not. Their progress could be assessed over a period of time to review the difference in their attitudes towards entering international markets.

Finally it is proposed to perform a comprehensive analysis between SMEs in Tanzania and those in other East African countries. This study would provide insights to whether the trans-national factors are the same in Tanzania as in other East African countries and if other countries in East Africa are better capable in exporting than Tanzania.

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**APPENDICES**

**Appendix I**

**ABOUT THE COMPANY**

1. In what year was your company established? .....

2 Is the company a:

Tanzanian Owned

Foreign Owned

3 What is your position within the business? .....

4 How many employees are in the business?

1-9  10-24  25-49  50-99  100+

5 What industry sector is your business in? Please tick the sector that applies to your business.

Pharmaceutical /Biotechnology	<input type="checkbox"/>	Information Technology	<input type="checkbox"/>	Furniture & Furnishings	<input type="checkbox"/>
Engineering	<input type="checkbox"/>	Food and Drink	<input type="checkbox"/>	Construction	<input type="checkbox"/>
Medical Technologies	<input type="checkbox"/>	Consumer Goods	<input type="checkbox"/>	Health care	<input type="checkbox"/>
Sea food	<input type="checkbox"/>	Pottery	<input type="checkbox"/>	Giftware & Jewellery	<input type="checkbox"/>

6 What are the main products/ services offered by your business in Tanzania today?

.....

.....

.....

7 Please rank the top three strategic goals as these apply to your company's plans for the next three years:

- a) Growth in sales and market share.....
- b) Provide returns to investors.....
- c) Develop new products and services.....
- d) Expand in a foreign market.....
- e) Acquire a supplier or distributor.....
- f) Improve quality of work life for employees.....
- g) Reduce costs.....
- h) Growth in profits.....
- i) Cash out/ sell business.....
- j) Diversify.....
- k) Merge with or acquire a competitor.....
- l) Be known as socially responsible.....
- m) Improve margins.....
- n) No long-term plans for the future.....

**PERSONAL TRAITS:**

8. For each of the following, please indicate how you would you rate yourself in the following abilities?

	STRONG				WEAK
Building relationship with customers	1	2	3	4	5
Are you open to change in the business	1	2	3	4	5
Do you have an open mind when it comes to modernizing the business	1	2	3	4	5
Do you constantly try to stay ahead of your competitors	1	2	3	4	5
Do you try to seek out new clients for the business	1	2	3	4	5
Do you try to seek out new clients for the business	1	2	3	4	5
Taking risks in order to further the business	1	2	3	4	5

**EDUCATION:**

9. Please tick the box, which indicates the highest level of education completed by you.

O-level certificate	<input type="checkbox"/>
A-level certificate	<input type="checkbox"/>
Certificate/Diploma	<input type="checkbox"/>
Degree	<input type="checkbox"/>
Masters	<input type="checkbox"/>
PhD	<input type="checkbox"/>

10. In what year did you graduate? .....

11. If you have a degree what discipline was it in?

Business      Engineering      Scienc       Human         
 Others.....

12. Was business management studied as part of your degree?

Yes       No

13. Was entrepreneurship studied as part of your education?

Yes       No

If **NO** have you taken any part time courses that included entrepreneurship in the course outline?

.....  
 .....

14. Please state your age:

18-24       25-49       50-65       65+

15. Please rate yourself in the following business skills:

	POOR	FAIR	GOOD	VERY GOOD	EXCELLENT
Networking	1	2	3	4	5
Negotiating	1	2	3	4	5
Oral presentation	1	2	3	4	5
Writing ability	1	2	3	4	5
Problems analysis and solving	1	2	3	4	5
Numeric competence	1	2	3	4	5
Team building management	1	2	3	4	5
Motivating employees	1	2	3	4	5
Developing Personal business relationship	1	2	3	4	5
Fluency in foreign languages	1	2	3	4	5

16. What has been the most often used method of selling your product/service to customers?

Word of mouth	
Media advertising	
Networking through existing clients	



17. Is there a SME in your industry sector that you would rate as the best at sales and marketing? Please give reasons for your answer.

.....  
 .....

18. Are you familiar with the term exporting?

Yes  No

19. Which **ONE** of the following statements is true? Please tick from the list below:

Exporting is when all of firm's products or services are sold into a foreign market.	<input type="checkbox"/>
A company that is selling less than 10% of their products is not exporting.	<input type="checkbox"/>
A company that is selling less than 10% of their products/services abroad is exporting.	<input type="checkbox"/>
A company that sells products through a foreign agent is not exporting.	<input type="checkbox"/>
A company that sells products/services in the domestic market is not exporting.	<input type="checkbox"/>
A company that buys products/services from foreign markets is not exporting.	<input type="checkbox"/>
A company that buys products/services from foreign markets is exporting.	<input type="checkbox"/>

20. Have you attempted to enter foreign markets with your company?

Yes  No  If **NO** Skip to Q 22.

If yes how did you try and enter the market chosen?

Joint Venture	
Set up your own company abroad	
Distribution by agencies	
Licensing	
Franchising	
Acquisition	
Alliances	
Sales subsidiaries	

Other.....

21. Were you successful with your attempts to enter the market?

Yes  No

.....  
 22. What country did you pick to start the foreign entry process?  
 .....

23. In your opinion, what are the reasons for business deciding to sell products abroad? Please tick as many as appropriate from the following:

A	Followed Customer	
B	Competition from MNCs	
C	Domestic market saturated	
D	Cheaper to sell goods abroad	
E	Next step in the business development	
F	To obtain new sources of capital	
G	Develop new markets	

H	Establish long term business relationships	
I	Become the first Tanzania business in the market	
J	Overcome barriers in the domestic market	
K	Reciprocate with suppliers abroad	
L	Fill customers order for your product	
M	Keep up with industry competitors	
N	Increase sales and profits	
O	To survive	
P	Obtain long term stability for the business	
Q	Gain a large market share	
R	Capitalise on domestic competitive advantage	

24. What barriers do you think business encounter in their attempt to enter the foreign market? Please rate your answers with **1 being strongly agree** and **5 being strongly disagree**

	<b>STRONGLY AGREE</b>				<b>STRONG LY DISAGRE E</b>
Lack of finance	1	2	3	4	5
Lack of expertise	1	2	3	4	5
Lack of funding from state agencies	1	2	3	4	5
Marketing and Sales capabilities	1	2	3	4	5
Competition from abroad	1	2	3	4	5
Competition in the home	1	2	3	4	5

market					
Language barriers	1	2	3	4	5
Access to information	1	2	3	4	5
Access to technology	1	2	3	4	5
Lack of proper support mechanisms	1	2	3	4	5
Management capability	1	2	3	4	5
High costs involved	1	2	3	4	5
Choosing the right market to enter	1	2	3	4	5
Opposition from staff members to entering foreign markets	1	2	3	4	5

25. To what extent do you agree or disagree with the following: The factors that would hinder businesses from expanding to a foreign country

	<b>STRONGLY AGREE</b>				<b>STRONGLY DISAGREE</b>
Lack of marketing skills	1	2	3	4	5
Lack of experience	1	2	3	4	5
Lack of expertise	1	2	3	4	5
Lack of capital	1	2	3	4	5
Competition from larger companies	1	2	3	4	5
Market at home is sufficient	1	2	3	4	5
No market abroad for business product	1	2	3	4	5

No interest in setting up abroad	1	2	3	4	5
Laws and regulations	1	2	3	4	5
Fluent in foreign languages	1	2	3	4	5
Lack of government support	1	2	3	4	5
Cultural barriers	1	2	3	4	5
Access to information	1	2	3	4	5
Management capability	1	2	3	4	5
Opposition from staff members	1	2	3	4	5

26. Given the globalization of the market place, in your opinion, what changes in government policies/ programmes should be enacted to provide opportunities/ overcome barriers faced by entrepreneurial companies' in the future on relation to exporting?

.....

.....

.....

27. If given the opportunity would you like to take your business/product to a foreign market?

Yes  No

Please give reasons for your answer

.....

.....

.....

	<b>STRONGLY Y AGREE</b>				<b>STRONGLY DISAGREE</b>
Lack of experience	1	2	3	4	5
Lack of finance	1	2	3	4	5
Marketing skills	1	2	3	4	5
Language barriers	1	2	3	4	5
No support from state agencies	1	2	3	4	5
No interest	1	2	3	4	5
Business is not suitable for foreign markets	1	2	3	4	5
Extent to which foreign markets are unknown to the business.	1	2	3	4	5

28. Personally what is holding you back from entering/re-entering foreign markets? Please rate your answers with **1 being strongly agree** and **5 being strongly disagree**.

29. Did you get any kind of support from the Government or its institutions on running your business?

Yes  No

If **yes** mention the name of the institution

.....

30. What kind of support was it? Please explain