FACTORS INFLUENCING SMEs' CHALLENGES: A CASE OF MWANZA CITY

By

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A Dissertation Submitted in Partial/Fulfillment of the Requirements for Award of the Degree of Master of Business Administration (MBA – Corporate Management) of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled “**Factors Influencing SMEs ’ Challenges: A Case of Mwanza City**” in partial fulfillment of the requirements for award of degree of Masters of Business Administration-Corporate Management of Mzumbe University.

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DECLARATION

I, Mazaba S.Waryoba, declare that this dissertation is my original work and that it has not been presented to any other University for similar or any other degree award.

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DEDICATION

This work is dedicated to my beloved parents, my father Stephano Waryoba and my mother Julia Nchama for their great sacrifice, constant prayers, support, and care on ensuring from childhood my success through hardness to pursue my dreams.

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LIST OF ABBREVIATION

SMEs	-	Small and Medium Enterprises
ILO	-	International Labour Organisation
USD	-	United States Dollar
NFIB	-	National Federation of Independent Business

ABSTRACT

This study seeks to analyse the factors that influence the challenges of Small Medium Enterprises (SMEs) specifically in Mwanza city. Specific research objectives were; to assess the challenges encountered by SMEs in Mwanza city, to identify the causes of these challenges, and to propose remedial actions given the causes of these challenges. The study applied a case study design whereby Mwanza city was a case study and conducted in Mwanza. The population of the study was SMEs clients of Mwanza city. The study involved a sample of 40 respondents. The researcher used judgmental selection in a non-probability method.

Data were collected from respondents by means of forty structured questionnaires (twenty for successful firms and twenty for unsuccessful firms) consisting of 20 questions. Twenty four of the questionnaires were returned of which fifteen were from successful firms and nine from unsuccessful firms. The sample was drawn from a list of all the SME owners in Mwanza city. Through an analysis of theoretical information and empirical results it is possible to establish how to facilitate more innovative and effective development that is much needed in developing countries, such as Tanzania.

Findings of the study indicate that there is a problem of business failure in Mwanza city. Although business owners of successful and unsuccessful businesses recognise the support from the government, most unsuccessful business owners feel that the lack of proper governmental assistance is still one of the most critical factors that led to failure. Finally the major recommendation of the study highlights the issue that the government should come up with strategic measures (such as business incubators) that will prolong the survival of SMEs.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This section provides brief the backbone of the proposed research. It specifically gives the background to the research problem, followed by the statement of the problem, research objectives and questions, scope, significance, and limitations.

1.1 Background to the Research Problem

Today's generation experiences widening social gaps and faces manifold challenges. It is who relatively encounter more of the uncertainties and risks generated by the process of economic and cultural globalization. Even though, in some parts of the world, people are better educated than ever before, they are faced with increasing insecurity in the labour market. Those who have the opportunity to go to school are forced to study longer and longer as job opportunities become scarcer, less well-paid and less secure, delaying the age at which they become financially independent from their parents. Those who do not have the opportunity to pursue their education or who choose to leave the school system at an early age face marginalization from the community from which they may never recover, either as a result of long-term unemployment, or low-pay, insecure and even dangerous jobs. When people have to negotiate a complex interplay of both personal and socioeconomic changes in order to plan the transition from dependence to independence, they take effective control of their own lives and assume social commitments. (Haftendorn and Carmala, 2003).

In developing countries, rapid changes in the social conditions of people as a result of changing socioeconomic and policy structures, and wider global change mean that they face a more unstable future than any preceding generation (ILO, 2009). According to the

ILO estimate, in 2009 around 83 million women and men throughout the world are died as a result of HIV/AIDS unemployed, which constitutes 40% of the 212 million unemployed people of the world. Hundreds of millions more work fewer hours than they would like, while still others work long hours with little gain and no social protection. In terms of health issues, the recognition of a unique group in society due to the many aspects of vulnerability it contains reveals some shocking truths. One-third of the 20 million people throughout the world who have already died as a result of HIV/AIDS related illnesses and another 6,000 are infected every day.

People often continue to lose their lives to acute respiratory infections and vaccination preventable diseases and malnutrition. Violence and suicide are growing problems in some communities, as is drug dependency among them. On the other hand, small and medium enterprises (SMEs) which are considered to be the places where those whom the economy failed to absorb take shelter in are increasingly becoming important economic actors in generating income and employment throughout Africa and other developing countries. This sector on average contributes about 67% employment to the total labor force in most of the developing countries (ILO, 2009).

In Tanzania, which is one of the poorest countries in the world with a per capita income of USD 1700 in 2012, the micro and small-entrepreneurial sector assumes particular importance. According to the Informal Sector Survey (2011), there are almost 5,900 SMEs in Tanzania. 86.6 per cent of which are micro-enterprises with fewer than 5 employees, accounting for 83 per cent of private sector employment. However, this figure significantly underestimates the total number of micro-enterprises, because it ignores the number of people informally in subsistence “income-generating’ activities. Besides, more than 89 % of the private individual establishments in Tanzania are micro enterprises creating employment contributing to 81% of the employment created. Thus, promotion and incentives to the creation and development of micro-entrepreneurial activities are essential for the economic growth and poverty reduction efforts of the country.

Looking at the issue from the perspective of both supply and demand factors has an impact on unemployment and underemployment in Tanzania; the labor market, which is the demand side factor, of Tanzania is very underdeveloped, lacking diversity and alternative opportunities for people. Due to this, unemployment is pervasive at about 81% of the total unemployed. The situation is worse in urban areas where the proportion of unemployment is higher than the total population (Abraham and Hannah, 2005). This calls for special promotional movement and intervention of policy makers, researchers and other development agents in this sector to develop the potential who tend to be the majority of the SMEs operators in Tanzania.

1.2 Statement of the Problem

Small and medium businesses are created to foster economic growth and development in the economy. The fact that so many of these businesses prove to be successful should be seriously considered because of the detrimental effect they have in the economy. However, most SMEs have collapsed as the results have increased the level of unemployment with its associated implication in term of increase of poverty and crime rates.

If the necessary interventions are to put into place the success rate of many businesses would increase, which in turn may have a positive effect on the economy of the country. Small and medium business would utilize scarce resources, such as capital and labour, effectively and may be able to compete on an international level if the issue of small business failure is addressed appropriately. The aim of this study is therefore, to identify and investigate the specific causes of business failure, possible solutions to these problems for aid future strategies of owners of the small and medium businesses.

1.3 Research Objectives

The objective of this study is divided into general and specific objectives.

1.3.1 General Objective

The general objective of the study was to explore the factors that influencing SMEs' challenges by using Mwanza city as a case study.

1.3.2 Specific Objectives

The specific objectives of the study are:

(i) To assess the challenges encountered by SMEs in Mwanza city.

(ii) To identify the causes of these challenges

(iii) To propose remedial actions given the causes of these challenges.

1.4 Research Questions

This study was guided by the following research questions:

(i) What are the challenges encountered by SMEs in Mwanza city?

(ii) What are the causes of these challenges?

(iii) What remedial actions have to be given to these challenges?

1.5 Scope

The research is based on forty SMEs. A broad spectrum of SMEs' owners located in Mwanza city are very essential in order to conduct a study regarding the current approaches and strategies that to be employed.

1.6 Significance of the Study

This research is very useful in general and specifically for unemployment reduction, developing a generation with a feeling of self-worth, creative and self-reliant. It is also very useful for donors and other development agents for easy intervention by identifying the main opportunities and barriers which the entrepreneur in the SMEs is particularly facing. Besides, it widens the knowledge about the situation in Tanzania, particularly in Mwanza city. Furthermore, Policy makers and academicians can also use the findings of this research to influence policy changes and budget allocation decisions as well as to answer some academic questions and/or to use them as a reference for further study.

1.7 Limitation of the Study

A major shortcoming in this sample is that most of the employees are from the previously designated group. There was consequently no equal representation in terms of race and proper business skills that people may possess. The research had the following limitations. Fore mostly, it has not drawn comparisons to other cultural groups in Tanzania. The study focused on the entrepreneurial traits and success factors of entrepreneurs. Secondly, this study was also limited in offering a detailed explanation as to why the identified traits and success factors are important. Thirdly, business owners tend to be private and do not always appreciate outside scrutiny of their businesses. Therefore the outcome of the study was dependent on the information provided by the various businesses. Lastly, using closed-ended questions to gain information regarding perceptions may be biased as respondents were not able to express themselves verbally.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter covers the review of the literature related to the subject studied. The chapter is organized according to the study purpose on global perspectives relating SMEs' performance as entrepreneurial activities performance and finally provided the summary of literature reviewed and research gap identification.

2.1 Theoretical Literature Review

The term 'Performance' is a multi - dimensional and fairly imprecise construct which lacks a universally accepted definition with multifaceted measurements that tend to differ depending on the surrounding circumstances and a variety of factors (Amstrong & Baron, 2009). While some scholars focus on performance based on individual actions as something left behind and that exists from the desired purpose, other researchers argue that performance can be determined in terms of programme set - up, survival, stability, profitability, financial health and growth. As affirmed by (Mbwambo, 2005), the term carries the same meaning as productivity, efficiency, success, growth and how well the venture is doing. As argued by (Boyd 1990), a more comprehensive view of performance embraces behaviour and results which emanate from the performer and transform abstraction into action as the outcome and product of the mental and physical effort applied to the activity.

According to (Dollinger1999), entrepreneurial performance is related to flexibility in production, a wide range of clients and a special knowledge of products or services. It is the ability of the programme to survive and operate successfully, being supported by an enabling environment and suitable government policies with conducive regulatory framework. Thus, both inputs (behaviour) and outputs (results) should be taken into consideration. Entrepreneurial performance is therefore regarded as embracing behaviour, abilities, the way in which teams and individual gets the work done and is closely interlinked to programmes' survival and growth.

From the organizational behavioral perspective, the factors that are posited to influence entrepreneurial performance include; personal factors (which are essentially the individual characteristics including skills, competence, motivation commitment, risk taking propensity, desire for autonomy, need for achievement and goal orientation). On the other hand, leadership factors (management support, work discretion, the level of encouragement, guidance and support from owners as team leaders). Furthermore, team factors (the quality of support provided by colleagues or team members) and system factors (the system of work and facilities provided by the programme and time availability). Nevertheless, contextual factors i.e. situational factors, availability of internal resources, external environmental pressures and rewards (Amstrong and Baron, 2009). As argued by Kulindwa, Sosovele and Mashindano (2001) that, any performance assessment should not only consider what individuals have done, but also the circumstances in which they have to perform.

While traditional approaches to performance assessment attribute variations in performance to personal factors, they could be caused in part by situational factors (Holt, 2004). Other researchers include training, linking owners to information and access to the market. Training enables programmes' operators to be innovative, competent and consequently successful in running their activities. Business failure or success is not only common amongst newly established businesses (up to 3 months), but is also very prominent amongst businesses that have been in existence for up to three and a half years, regardless of how successful they are. It is the aim of this chapter to first explore the background of entrepreneurship, as the owners of small and medium enterprises are referred to as the entrepreneurs of their businesses. Thereafter the success and failure of small and medium enterprises are discussed.

In recent years, entrepreneurship and the nurturing of SMEs have become one of the dominant themes in most developing countries. Entrepreneurship was and is often treated in theory as a vague and unquantifiable force that unifies labour and capital. The entire capitalist system is based on the risk of production and the distribution of resources (Nieman et al., 2003). It is the aim of this chapter to discuss the various roles of entrepreneurs or business owners, the importance of entrepreneurship, the stages of entrepreneurial growth and the various forms of entrepreneurship. Furthermore, the chapter will address specific issues that lead to the success or downfall of small medium enterprises within organisations.

According to Schumpeter cited in (Nieman, et al., 2003) the entrepreneur is the focal point and the key to effective economic development and growth. It is the entrepreneurs who put together new combinations; whose actions have consequences on the basis of the organisational skills possess and the creativity as decision makers in the organisations.

2.1.1 Entrepreneurship and its meaning

Entrepreneurship is defined as the emergence and the growth of new businesses. Amongst many other motivational factors the maximisation of profits could be regarded as one of the most important elements as to why business owners indulge in entrepreneurial activities (Nieman et al., 2003). A widely held view of the term is that an entrepreneur is the person who brings about change and who possesses characteristics to implement ideas to benefit the society as a whole. Only comparatively few people are talented enough to manage this change. Apart from this definition a simple definition of the term ‘entrepreneurship’ is that it is the person who wants to work for him or herself.

According to the Austrian economist Schumpeter, entrepreneurship is an event that introduces a new product, a product method, new markets or a new form of organisation. Schumpeter states that in a perfect scenario these actions would help generate wealth by creating a demand in the market for a newly introduced innovation. A true entrepreneur is one who combines the input factors in such a manner that they will generate a much better output. This greater output will result in creating wealth for the society (Nieman et al., 2003). During entrepreneurial activities, the owners of businesses have various important roles to play to ensure business success. These various roles are outlined in the next section of this study.

2.1.2 The competencies of entrepreneurs or business owners

According to (Zimmerer & Scarborough, 2002) the entrepreneur should consider the following factors when managing an enterprise. Entrepreneurs should have a very strong desire for responsibility: This role is important, because as an owner one should have the passion and a deep sense of personal responsibility for the outcome of the venture the entrepreneur had started. There should be a strong preference to be in control of the resources and the efficient and effective use of those resources to achieve self-determined goals. Entrepreneurs are not high-risks takers; instead they prefer to take moderate risks. An entrepreneurial activity should be very different from a normal gambler; they should see every situation from a very different perspective and believe that their goals are realistic and attainable.

Another prominent competence of entrepreneurs is that they should have a strong ability and a desire to succeed: Most entrepreneurs have an abundance of confidence in their ability to succeed. They tend to be very optimistic and their chance for success and their optimism are based on reality. According to a study by the National Federation of Independent Businesses (NFIB) it was found that one third of the entrepreneurs rated their chances of success to be 100 percent. At times, some entrepreneurs are over-optimistic, and this may at times result in business failure before they eventually become successful.

Desire for immediate feedback: An entrepreneur should enjoy the challenges that he/she faces in a business. Entrepreneurs would like to know how they are performing in the business. This is evident from their strong desire for feedback. Entrepreneurs love being told what and how they may improve in the overall functioning of the business. Another very important role of the entrepreneur is that he/she should have high levels of energy, as an entrepreneur can be much stressed at times. Entrepreneurs tend to be more energetic than the average person is. This energy is a very critical factor given the incredible effort required to launch and start up a company. Entrepreneurial ventures include tremendously long hours of hard work. These hours can stretch to sixty hours or more.

Future orientation: Business owners or entrepreneurs should have a well-defined sense of searching for opportunities in the market to obtain a sustained competitive advantage. An entrepreneur should never look back on what might have happened yesterday, but rather be concerned about what can be done tomorrow. The latter mentioned competence of future orientation is very crucial because where most people only see problems; the entrepreneur should be able to see the potential for success. Most of the traditional managers are more concerned with managing the available resources, but entrepreneurs are more concerned with spotting and capitalising on opportunities. Skills in organising the resources of the organisation: When establishing a business venture of one's own it is very important that the entrepreneur should manage his/her resources carefully. It is crucial that the entrepreneur manages the resources and combines effective people to transform their jobs into reality. Other roles of entrepreneurs include a very high degree of commitment, as this is one of the key driving forces for a successful business. Thus it is common that most business founders often commit themselves completely to their businesses.

Most, if not all, entrepreneurs have to overcome the inevitable barriers to launch a new business and to keep it growing. This requires 100% commitment to the business. An entrepreneur should also have a high degree of tolerance for ambiguity. This is mostly because businesses do not operate in a vacuum, but in a business environment in which many changes take place. These changes are linked to a high degree of uncertainty, and decisions have to be made using new information, which may be conflicting and often emanates from sources that are not familiar. Linked with the tolerance for ambiguity, it is also important for the entrepreneur to be flexible in order to adapt to changing business conditions and also to the demands from customers. In today's rapidly changing global economy, rigid businesses are deemed to failure. Having described the roles of the entrepreneur, the next section of the paper will explore the stages of entrepreneurial development (Zimmerer & Scarborough, 2002).

2.1.3 Stages of business development

When establishing a business, the owner should remember that the business has to pass through certain stages. This process can also be referred to as the life cycle of the business venture (Nieman, et al., 2003). .

2.1.3.1 The incubation stage (pre-start up)

Normally the options for harvesting during this stage are usually limited. As the business is still in the conceptual phase, there are no great prospects of harvesting. Entrepreneurs can only harvest during this stage when their concept is a potential threat to another business or an industry that is very competitive. Entrepreneurs are able to eliminate threats for instance by buying the patent for protection of their own business (Nieman, et al., 2003).

2.1.3.2 Startup stage

During this stage, harvesting does not enter into the mind of the entrepreneur, as this stage is associated with an increasing risk and potential for business failure. Market demand is usually not very certain at this stage and the ability to reap the benefits of profits are less certain (Nieman et al., 2003).

2.1.3.3 Growth stage

This is usually a good time for the owner to think about harvesting, although it may not be a very important consideration for an average entrepreneur (Nieman et al., 2003). The actual business growth and the demand for sales during this stage of the business venture are now becoming clearer. Potential competitors are on the outlook to gain access to markets that seem lucrative. Entrepreneurs will be able to sell the venture at this stage, based on the recent performance and also the projected performance for the immediate future (Nieman, et al., 2003).

2.1.3.4 Maturity stage

This stage is characterised by tougher competition, with pressure in the distribution elements of the concept of offering. During this stage, sales start to decline and so do profits. Normally during the early maturity stage, some of the growth stage principles are very relevant, but during late maturity, selling becomes less favourable. Other options that become more desirable are mergers and alliances (Nieman, et al., 2003).

2.1.3.5 Decline stage

Sales and profit decrease rapidly during this stage. Options for harvesting decline rapidly and only through creative application could harvesting be brought about. Entrepreneurs normally do not perceive this stage until it is too late. Poor strategic positioning is one of the causes of a declining business prospect during this stage (Nieman et al., 2003).

Each of these mentioned stages needs a different approach and thus it is important for the owner of the business to change the business plan of the firm at each stage. Many businesses fail because they move on to the next stage too early and consequently any actions may contribute to business failure. Each of these stages has primary areas of concern, namely planning, implementation and organisation. Thus it is crucial for the owner to acknowledge each of the stages of entrepreneurial development; otherwise the business could well experience failure.

2.1.4 The advantages and disadvantages of entrepreneurship

In the previous part of the study it was seen that there are various stages of entrepreneurial development. Whenever a business goes through all these stages there are various advantages and disadvantages accompanying these stages. The next section of the study will highlight the advantages and the disadvantages of entrepreneurship.

2.1.4.1 The advantages of entrepreneurship

When an owner of a business launches a new business, it is crucial to consider the benefits that such a business venture has to offer. A number of surveys have revealed that the owners of small medium enterprises believe that if they work harder and earn more money, they should be considerably happier than if they would have worked for a larger company (Zimmerer & Scarborough, 2002). According to (Zimmerer & Scarborough, 2002), entrepreneurship has the following benefits to offer. Being an owner of a business enables the owner to create an opportunity for him/her. This opportunity mainly occurs in the form of independence and the ability to achieve what is important to the entrepreneur as a person. When entrepreneurs have a passion for their business, they normally reap the benefits of intrinsic rewards knowing that they are the key driving forces behind their businesses. Furthermore, entrepreneurship creates the benefit for the owner of a particular business to make a difference. This difference occurs through opportunities, which are important to the owner. Entrepreneurs typically find a way to preserve the limited natural resources of the earth efficiently and effectively, and combining their concerns with social issues, they earn the good living they desire (Zimmerer & Scarborough, 2002).

Entrepreneurship enables the owner of the business to reach his/her full potential. Many people find their daily work boring and unchallenging. However, this is not the case with the typical entrepreneur, since he/she would typically notice that there is a minute difference between work and play, as these two concepts often appear synonymous. Most entrepreneurs use their businesses as instruments for self-expression and self-actualisation (Zimmerer & Scarborough, 2002). They are fully aware that the only boundaries for their success are those imposed by the creativity, enthusiasm and the vision they possess (Zimmerer & Scarborough, 2002). One of the key driving factors for entrepreneurs is money. Although most of them do not necessarily become millionaires, they reap the benefits of the profits they earn.

According to Thomas Stanley and William Danko cited in (Zimmerer and Scarborough, 2002) self-employed people are four times more likely to become millionaires than people who work for others. Entrepreneurship is a perfect opportunity for business owners to contribute to society. Small business owners appear to be the most respected and trusted members of their communities. Trust and respect is very important, as these are the hallmarks of many well-established small companies. When small business owners are aware that their businesses have a significant impact on the operations of the economy, they view this as another reward for their hard work (Zimmerer and Scarborough, 2002).

Finally, most business owners choose to establish a particular business enterprise because they have an interest in them and enjoy being in that particular business and having fun in the process. It is consequently of crucial importance that owners of businesses should have a passion for the particular business activity they decide to establish. Engaging in any particular activity does not only involve benefits, but there are also drawbacks involved. The next section of this study analyses the potential drawbacks of entrepreneurship.

2.1.4.2 The disadvantages of entrepreneurship

Owning a business normally enables the owner to reap numerous benefits, but these benefits are also coupled with problems. It is crucial for future growth and success that an entrepreneur should be aware of these drawbacks. These disadvantages – amongst many others – include the following (Zimmerer & Scarborough, 2002).

2.1.4.2.1 Uncertainty of Income

Operating a business of one's own is not a 100% guarantee that the venture will necessarily be successful. This is mainly because some small businesses barely earn enough of a profit to provide the owner with a basic income. During the start up of business operations, the owner is faced with problems such as meeting his/her financial obligations and may be forced to live on savings. There is no assurance of a steady income, as would be the case when working for someone else. The owner of the business is usually the last one to be paid.

2.1.4.2.2 Risk of losing one's entire investment

The rate at which small and medium enterprises fail is relatively high. Around 24% of new businesses fail within the first two years of startup and 51% shut down within four years, while within six years approximately 63% of small and medium enterprises would have failed. It is important that entrepreneurs have to be aware of the psychological consequences involved in business failure.

2.1.4.2.3 Long hours and hard work

Starting up a business involves long hours, hard work and demanding schedules (Zimmerer & Scarborough, 2002). According to the survey conducted by the Medium Workforce for Small Businesses, owners increased their weekly working time to 56 hours from 51 hours in 1991. It is the norm in many businesses in the startup stage for employees to go without paid vacation for six to seven workdays. The primary reason for this is small business owners are too busy running their business and are worried about the revenue that might be lost when they take a vacation. Lower quality of life until the business gets established: The long hours of work needed to launch a company can take their toll on the life of the entrepreneur. Normally the owners of a business replace their roles of husband or wife and of father or mother, since the founder of a company needs to devote his/her attention elsewhere (Zimmerer & Scarborough, 2002).

2.1.4.2.4 A lower quality of life

To a lower quality of life is that most entrepreneurs launch their businesses between the ages of 25 and 39, just as they start their families, which may well result in failed marriages and a lack of friendships.

2.1.4.2.5 High levels of stress

Although starting a business can be a rewarding experience, it could also be a highly stressful one. Entrepreneurs often make significant investments in their companies, and often sacrifice the safety and security of a steady pay cheque, as they have regular expenses, such as mortgage bonds to pay off. The failure of a business may cause total financial ruin, and create intense levels of stress and anxiety (Zimmerer & Scarborough, 2002).

2.1.4.2.6 Complete responsibility

Being an owner of one's own business is a rewarding experience, but the challenge most entrepreneurs face is that they have to make decisions on their own. Normally this challenge occurs because there is no one else to consult on a particular question, and this would then cause pressure to build up quickly. Entrepreneurs realise that their decisions have a direct impact on whether the business may fail or be successful (Zimmerer & Scarborough, 2002).

2.1.4.2.7 Discouragement

Another prominent factor that could be regarded as a drawback for entrepreneurship is discouragement. Starting up one's own business is a substantial undertaking and requires a great deal of dedication and discipline. Along the way to building a successful business, entrepreneurs would face many different obstacles, some of which appear to be insurmountable. Discouragement and disillusionment are common emotions in the face of such difficulties (Zimmerer & Scarborough, 2002). Even the most successful entrepreneurs nowadays realise that every business encounters rough spots along the way, and they face these difficult times with a great deal of hard work and an abundant reserve of optimism.

2.2. Small and Medium Enterprises (SMEs) Performance

Having discussed the various forms of ownership in the previous section, this section of the study will focus specifically as to why businesses are successful. There is no exact formula that needs to be applied for the success of any business, as there are a number of unforeseen circumstances and conditions, such as economic downturns, that could have a direct impact on business success.

2.2.1Expanding Management Skills

In any small business it is important that the entrepreneurial skills of the business manager have to be constantly expanded or improved. This is very important because it leads the business manager to examine new ideas and means of running the business operations. To ensure that the management skills of the business manager are expanded (Wright, 1995:49) proposes that the business manager or entrepreneur should read as much as possible in the field of small business, to acquire the knowledge, skills and competencies about management aspects.

However, should the entrepreneur not have the sufficient management skills, he or she can get a partner with good management skills. A partner not only ensures that the business manager adds management skills required for the success of the business, but that he or she would be relieved from the work pressure of the business and would inject money as working capital into the business. If the owner would not want to appoint a partner, he or she may also make use of consultants. Consultants are very useful in creating effective business structures and practices, such as effective accounting practices (Vasant, 1997).

2.2.2 Good Record Keeping

The second reason that makes small business successful is good record keeping. Records of the business should entail all the day to day details of the business, but at the same time they should be kept as simple as possible. Records should provide the business manager or the entrepreneur with all the information that would enable him or her to run the business successfully. In this regard, (Wright, 1995:50) has the notion that when the record keeping system is effective it enables the manager of the small business to evaluate the success of the business on a weekly and also a monthly basis. Detailed customer records also enable business managers to keep a diary for business appointments, issue detailed invoices to customers and file copies of such in an alphabetical order. Record keeping is not only important for financial, sales or administrative customer records, but will also enable the business manager to assess stock levels and also the value of the current stock in the business.

2.2.3 Cash Flow Management

Most of the successful small businesses ensure that they maintain a sound cash flow position for the business. Good cash flow management is essential because most of the small medium enterprises that have failed, failed due to poor cash flow management. (Vasant, 1997) is of the opinion that even if a business has adequate stock and assets, these cannot easily be converted into cash within a relatively short period. According to (Wright, 1995:52-53) there are quite a number of reasons as to why businesses experience cash flow problems, namely.

2.2.3.1 Credit terms are too generous, credit is too easily provided or continuous credit collection is not ensured.

If credit terms are too generous this may result in payment not being received, leading to cash flow problem. This situation could usually be addressed by formulating an effective credit policy, spelling out the rules for granting credit to customers, credit limits or the procedures that need to be followed to collect credit. Entrepreneurs should ensure that that they have proper contingency planning measures in place so as to ensure that cash flow projections are made constantly.

2.2.3.2 Cash is wasted on unprofitable products and services.

This may cause the business to land in a financial dilemma. It is important that entrepreneurs conduct a proper cost and benefit analysis to shed those business activities not contributing to the bottom line of the business. This will ensure that the business focuses more directly on its core business activities; this will lead to a better cash flow and a more profitable organisation.

2.2.3.3 A considerable amount of cash is spent on buildings, houses, machinery, even luxury cars or the owner's salary.

On the other hand, a possible reason why some businesses may be successful is that they lease or rent what is required. In addition, some owners of successful businesses drive a relatively inexpensive motor vehicle, and pay themselves a modest salary until such time as the business is well established, and becomes more profitable.

2.2.3.4 Changing Roles

As the business expands and enters its initial stages of growth, the entrepreneur or the business manager should be able to change his roles so as to enable the business to become more successful. In order to make this conversion, entrepreneurs should continuously hone their management shills to enable them to successfully manage the growing business (Vasant, 1997).

2.2.3.5 An efficient and effective marketing strategy

Most of the small medium enterprises that reap the benefits of success ensure that they have a very efficient and effective marketing strategy in place. This marketing strategy should be well formulated, and a proper market research and market analysis should also be conducted. The products and the services of the small medium enterprise should be evaluated continuously. (Wright, 1995:53) indicates that this could be achieved by analysing the products or the services of the business, formulating a marketing plan, assessing the needs of the clients and doing a proper comparative analysis of both the business and the competitors.

2.2.3.6 Proper Planning

Most of the small medium enterprises are successful if they see to it that they have a system of good planning in place to ensure business success. This planning normally involves (Vasant, 1997): Setting objectives that are appropriate; this provides a clear indication as to what the business actually tries to achieve and where the business is heading. Indicating the resources that are required to achieve these objectives; when a business sets out the objectives outlined above, financial or physical resources are required to fulfill these objectives successfully. There should be exact guidelines as to how the firm intends to achieve its objectives. This usually refers to the strategic measures the firm needs to achieve its objectives. Exact target dates have to be set as to when the organisation intends to achieve its objectives. Finally, measurement criteria are needed as to how the success is measured that the organisation wishes to achieve, and these have to be spelled out in detail.

2.2.4 Reasons Why SMEs Fail

Before considering the reasons why small and medium enterprises fail, it is important to reflect on the definition of the concept of business failure. Business failure occurs when a business reaches a point of insolvency, when it can no longer continue trading. It can be argued that by continuing to trade the owner may put him/herself into considerable trouble. At this point, the business has approached total failure and the owner needs to accept that the business will be faced with ever increasing financial and legal problems, even if he/she should try to salvage the business (Burns, 2001). In addition a general definition of business failure could be a condition whereby the business enterprise operates at a loss rather than generating profit. As outlined below, business failure may be caused by many factors, such as:

2.2.4.1 Lack of Skills

Whichever business an individual owns, and for the purpose of this study of small and medium enterprises, it is essential that the owner should dispose of the required fundamental skills to manage a business. These core skills do not necessary refer to all the business skills, such as accountancy, required to run the business successfully. It is not a major obstacle for the owner of the business to move into areas where he/she possesses limited skills as long as he/she has certain other qualities that could compensate for the lack of skills and that he/she will remain dedicated to the business. The time that the owner spends in preparing to start a new business is the most valuable time he/she will use and this has a direct bearing on the initial outcome of one's success (Vasant, 1997).

2. .2.4.2 Lack of Management Skills:

Most owners of small and medium enterprises think that the more cash they have, their problems will be solved. In doing so they negate the most critical element of business, which is “good management”. Entrepreneurs need to control a wide range of functions when controlling a business. These functions amongst many others include marketing, research and development, financial management, sales, purchasing, inventory control and production (Vasant, 1997). If an entrepreneur is unable to exercise these functions in the most appropriate and efficient manner his/her business may well be doomed to failure.

2. .2.4.3 Poor financial control and lack of accounting knowledge

Many small and medium enterprises fail because the owners of these particular businesses do not integrate accounting and accounting practices to a reasonable level in their businesses. By failing to do so, they lack financial control and consequently cash flow problems may result in the failure of their businesses. Thus it is crucial for business owners to employ a competent bookkeeper if they have weak accountancy skills, in order to ensure that the accounts are managed regularly (P. Erwee, personal communication, 26 February 2004). A lack of financial capital is also one of the prominent reasons why businesses fail. The above reasons highlight some reasons why small and medium enterprises continue to fail after the first three years of their initial start-up.

2.2.4.4 Credit Problems

According to (Zimmerer & Scarborough, 2002) in order for a small and medium enterprise to survive in today's competitive market, sound management is one of the key determining factors. Effective business managers realise that successful business ventures require proper financial planning. The two common financial pitfalls in small and medium enterprises are undercapitalisation and tax customer credit policies. Small business owners often start off undercapitalised and never seem to catch up financially as their businesses consume increasing amounts of cash to fuel their growth. Many owners of small and medium enterprises commit the error of launching their businesses on a shoestring capital base, which could be fatal. This is because entrepreneurs tend to be very optimistic and often make the mistake of misjudging the financial statements of the organisation. Small business persons often fail to recognis e and deal with problems in the most effective manner (Abdelsamad & Kindling, 1978). It is a sound plan for owners of small businesses to consider three possible outcomes when making plans: the optimistic outlook, the less optimistic (perhaps realistic), and downright pessimistic view.

The owner should study the actual implications of events not going as planned. A typical question an owner of a business could ask Is how long he/she should continue to operate if everything goes wrong, and what kind of alternative courses of action there are to be followed. This would provide a very clear indication for making suggestions and arrangements with bankers when the business is running well in the event of loans that may possibly be needed if conditions change (Zimmerer & Scarborough, 2002). Furthermore, small business owners tend to sell their products on credit, because they are of the opinion that they could gain a competitive advantage over rivals when giving credit to their clients. However, it is very important that owners of small and medium enterprises exercise strict control over credit, because a failure to do so, could exercise a negative impact on the financial health of the company. Poor credit and collection practices have been identified as one of the core factors that result in business failure (Zimmerer & Scarborough, 2002).

2.2.4.5 Marketing and Sales Problem

The secret that lies behind the success of any business is effective sales. However, most entrepreneurs have the notion that products of the business will sell themselves. Whenever a business introduces a product or service, the initial demand may be minimal making it difficult for the business to survive. Regardless of how skilled the sales staff may be, customers have to be interested in the product to start off, otherwise they will not purchase the relevant product. Market competition also has an effect on the number of sales, and this is one of the primary reasons why businesses fail. If there is no room for the product or service to enter the market because of the amount of competition, then one's sales figures will in all likelihood be very low because of similar products or services that are available to which customers may already have become accustomed (Vasant, 1997).

A well organised and vigorous marketing programme is an essential requirement that lies behind the success of any business. Many entrepreneurs view poor sales as an isolated problem, rather than a problem related to poor marketing. It is thus of crucial importance that business owners should realise that good sales go hand in hand with good marketing techniques and measures (Stegall, Steinmatz & Kline, 1976). Entrepreneurs should realise that if sales growth for a particular period of time is poor they should try to resolve such issues through price-cutting, aggressive sales techniques or advertising gimmicks. But it is a fact that these short term measure will not be the most appropriate means to curb the problem, as reduced prices are not the solution for poor location and advertising will unfortunately not sell a product that is not marketable at all (Stegall, Steinmatz, & Kline, 1976).

Entrepreneurs need to realise that that if they would want to sell their products effectively an objective analysis of the firm's product and services, its present marketing effort, competitive situation, and the genuine needs of the customers will show the way to solve the problems that may be related to sales. Small and medium enterprises may not dispose of the necessary finance to concentrate on the marketing function of the business. However, marketing should be implemented to a degree that is necessary for the product or the service not to be overlooked. Business owners often neglect the marketing aspect of their business because they think they do not have sufficient time to devote to this aspect. Consequently, their product or service fails where a few hours of marketing could have had the opposite effect (Stegall, Steinmatz & Kline, 1976).

2.2.4.6 Ignoring the human factor

Many small business owners have the notion that the businesses survive on their own, and thus encounter personnel problems. Such personnel problems retake inter alia to poor workmanship, absenteeism, long coffee breaks and the failure of employees to follow directions. Experience over the years has shown that dissatisfied workers not only waste time and materials of the organisation, but also tend to drive away customers. Many organisations lose customers because of poor customer service. Entrepreneurs spending most of their time concentrating on sales and finance, tend to solve problems related to personnel only on a crisis basis (Vasant, 1997: 193). Therefore, the foundation of efficient workforce is based on the extent to which entrepreneurs attend to hiring, training and managing employees (Vasant, 1997).

2.2.4.7 Poor time Management

Entrepreneurs have much to do in a limited time period. They typically spend around fifty to sixty hours per week on business activities. However, through experience and research conducted by various scholars, it has been proven that owners on the businesses spend a great deal of their time on trivial matters. The essence of good time management lies in learning to control the job rather than the job controlling the person. The primary objective is work smarter and not harder. Business owners should learn to manage time effectively through self-discipline. An effective manager will rank items in the most coherent manner in terms of their importance (Stegall, Steinmatz & Kline, 1976).

Delegating jobs appropriately to subordinates is also a critical aspect in time management. This is because if subordinates understand what is expected of them, they would be able to fulfill their roles effectively. Poor delegation could have a negative impact on business success, because if the owner is also involved in the day-to-day operations of the enterprise, he/she may not leave sufficient time for planning (Stegall, Steinmatz & Kline, 1976). Uncontrolled Growth or Managing Growth is a natural process to ensure the survival and success of any small medium enterprise, but a crucial part of growth is that it should be planned and controlled. According to the well-known management guru, Peter Drucker, start-up companies can expect to outgrow their capital basis each time the sales of the organisation rise from 40 to 50 percent. Most of the changes in an organisation take place during the expansion phase, which require a considerable amount of changes in the structure of the organisation, and in business practices, such as inventory and financial control procedures. As the business grows and becomes more complex, the problems may well increase in magnitude, and entrepreneurs should learn to deal with them (Zimmerer & Scarborough, 2002).

2.2.4.9 Poor Location

Choosing the right location is partly an art and partly a science to ensure the success of any small business. Too often business owners choose the locality for their small medium enterprises without conducting a proper feasibility study for the particular enterprise. Some owners even go the extent of choosing a site for a business merely because they have spotted a vacant building. However, the question of location is critical and this cannot possibly be based on a trial and error method. Location is especially important for retailing business concerns, because the lifeblood of such business is related closely to customers frequenting the business (Vasant, 1997).

2.2.4.10 Incorrect Pricing

If the price of the commodities sold is very high, the business will lose customers. This fact is reminiscent of the so-called first rule of business: "If you do not take care of your customers, somebody else will," (Vasant, 1997). On the other hand, if the prices of the commodities are very low, they may attract more customers, but could have an impact on the business if costing is done incorrectly and the price is kept artificially low. Establishing market related prices will generate profit, and thus it is essential that business owners have a clear understanding of how much it costs to manufacture market and deliver their products and services. Too often entrepreneurs simply charge what their competitors do or sell their products based on the vague idea of selling the best product at the lowest price, both of which could be very dangerous. It is common amongst small business owners to underprice their products and services (Vasant, 1997).

2.2.4.11 The entrepreneurs' inability to adapt to the changing demands of the business enterprise.

Entrepreneurs should at all-time keep in mind that their roles as owners of their businesses also change as the life cycle of the businesses change. When starting up an enterprise it usually requires a handyman who can operate the cash register, buy stock, price the goods, do the marketing, produce goods and place the products on the shelves of the shop. As the business expands, the owner would typically recruit new staff, and his/her role would change to that of manager. Instead of doing everything on his/her own, the manager should realise the objectives of the enterprise by managing other people (Vasant, 1997: 193). This means that the original entrepreneur should be willing to become the chief executive officer over a particular period as the business grows. The entrepreneur should be able to control, delegate, organise and lead the enterprise to realise the aims and objectives of the company.

2.2.4.12 Entrepreneurs fail to develop an effective strategic plan

Many business owners assume that contingency planning is only applicable to large business organisations. However, they do not realise that failure to plan for contingencies usually results in their failure to survive. If a business does not have a clearly defined strategy, it does not have a sustainable basis for creating and maintaining a competitive edge in the marketplace. When an entrepreneur establishes a strategic plan, he/she is forced to realistically assess the potential of the business. This is usually in the form of looking into issues such as whether the customers are able to buy a particular products or service and in terms of whom their target customers are (Zimmerer & Scarborough, 2002).

2.3 Empirical Literature Review

According to (Attahir 1995) a study on critical success factors of South Pacific entrepreneurs resulted in the following factors being highly rated; good management, access to finance and initial investment, personal qualities, and satisfactory government support. The study also pointed to the lack of management experience in the respondents surveyed as an explanation for the high ranking given to good management as a success factor. The findings of the study by (Attahir 1995) observed differences in views between the entrepreneurs with and without formal education regarding the importance of three factors critical to small business success; namely, level of education, prior experience and personal qualities.

Entrepreneurs in the study without formal education rated the mentioned factors more highly. In a study by (Coy, Shipley and Omer 2007) on small business owners in Pakistan the study findings revealed that Pakistani business owners believed several factors contributed to their success and listed the following; working hard for long hours, product quality, attention to customer needs, communication skills and interpersonal skills, and business connections (networking). (Coy *et al*. 2007) point out that Pakistani small business owners strongly believed that business success lay within their internal control and business connections was the only factor rated representing an external factor for business success.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter provides insights into the methods and practical ways employed to conduct the study. The chapter starts with a brief description of the adopted research design, location of the study area, population and sample size, sampling procedure , data collection method, and data analysis.

3.2 Research Design

Research design can be defined as is the conceptual structure within which research is conducted; it constitutes the blueprint for the collection, measurement and analysis of data (Kothari, 2004). The process of designing a research study involves many interrelated decisions. The most significant decision is the choice of the research approach because it determines how the information will be obtained. The main reason for employing this design was to enable researcher in the analysing factors influencing SMEs' challenges in Mwanza city with minimum expenditure of effort, time allocated and money.

According to (Hair et al 2000), most research objectives can be met by using one of three types of research designs: exploratory, descriptive and causal. This study can be regarded as descriptive; According to Hair et al (2000), descriptive research uses a set of scientific methods and procedures to collect raw data and create data structures that describe the existing. . Descriptive research enables the researcher to analyse the complicated aspects in the layout thereof in more understandable terms. Therefore, this study is an example of descriptive research which is related to the critical factors that lead to challenges of SMEs in Mwanza city, as outlined in the previous chapters. Nature of this study was designed to use a mixed methods or both quantitative and qualitative method. Researcher in this study decided to use the mixed method approach by considering the nature of problem identified, the available knowledge about the problem and availability of resources for the study.

3.3 Study Area

Mwanza city has been selected for data collection because of direct impact on the sample of respondents that are the population from the researcher. Unemployment rate in Mwanza city is assumed to be the second highest in Tanzania at around 27 percent. However, the informal and private sector is increasingly providing employment opportunity to the work force of Mwanza city. According, to Mwanza Environment Profile Report of the city dwellers directly or indirectly benefits from SMEs. The average monthly income of half of the population of the city is around Tsh. 33,600 while the vast majority (80 percent) of the city dweller subsists below poverty threshold. The employment crisis in Mwanza city also is sever, the National Census shows more than one third of the workforce was seeking work.

3.4 Population of the Study and Sample Size

According to (Malhotra and Birks 2006), "a study population is the collection of elements or objects that possesses the information sought by the researcher and about which inferences are to be made". Defining the study population involves translating the problem definition into a precise statement of who should and should not be included in the sample (Malhotra & Birks 2006). In this research, the target population of interest is successful and unsuccessful firms. (Nachmias and Nachmias 2000) consider population as a pool of cases or elements from which the researcher draws a sample. The population of relevance consisted of entrepreneurs in the SME sector. Forty questionnaires were distributed to small business in Mwanza city (twenty for successful businesses and twenty for unsuccessful businesses). The names of the business owners were randomly selected from small business owners' directory of Mwanza city.

3.5 Sampling Procedure

According to (McDaniel and Gates 2004), the major alternative sampling methods can be grouped under two headings: probability sampling methods and non-probability sampling methods. Non-probability samples are those in which specific elements from the population have been selected in a non-random manner. The researcher can arbitrarily or consciously decide which elements to include in the sample. Commonly used non-probability sampling techniques include convenience sampling, judgmental sampling, quota sampling and snowball sampling (Malhotra & Birks 2006; McDaniel & Gates 2004). Probability samples, on the other hand are selected in such a way that every element of the population has known non-zero likelihood for selection. Simple random sampling is the best-known and most widely used probability sampling method. Probability sampling methods also include systematic sampling, stratified sampling and cluster sampling (McDaniel & Gates 2004).

Based on the nature and sensitivity of the study; judgmental sampling as a non-probability method has been used to select SMEs in Mwanza city. Reason for selecting some of the SME is that there is a time and financial constraint. By using this method, the researcher is confident that the selected sample is truly representative of the entire population because it based on the ability and willingness of a person to provide information. Due to the identified reasons for judgemental sampling procedure, researcher included a total number of forty (40) respondents. In the same way, sampling procedure is a process of systematically selecting cases for inclusion in a research project. In this study, business entrepreneurs were the study population and the sampling frame was a list of all SMEs within the study area, including the clients, owners, members or employees of the SMEs. Because of the size and the distance and distribution of this population, it was decided to use a questionnaire. Questionnaires were personally delivered to business owners during the first week of June 2013. The owners were given a few weeks to complete the questionnaires, which were collected by the researcher during the last week of June 2013.

3.6 Data Collection

This method of data collection flows from the research design. Since this study was conducted based on mixed approaches, to collect the required primary and secondary data, researcher used different methods of data collection including questionnaires, personal and telephonic interviews, observation, and manuals and annual reports.

3.6.1 Questionnaires

Questionnaire is a data collection instrument in which the respondent reads the survey questions and records his or her responses. According to (Aaker et al 1998), questionnaires can be delivered by the interviewer and can be either picked up or mailed back later. In the current research, a self-administered questionnaire was used to obtain the data from the potential respondents. Questionnaires were used for the purpose of this study because of the following reasons (Sekaran, 1992: 220 cited in Van der Walt, 2002). Firstly, questionnaires will be able to reach larger number of respondents in Mwanza city. Secondly, the size of the research population makes it impossible to conduct personal or telephonic interviews, as most owners have a very busy working schedule. Lastly, personal interviews also take a tremendous amount of time.

To get the basic data on the factors influencing SMEs challenges, the study used survey method with semi-structured questionnaires that administered face-to-face and interviews with a sample of existing and turn-out SMEs challenges within successful and unsuccessful business firms. To mitigate the drawbacks of this method such as low response rate and the respondents feeling about the anonymity of their responses; researcher requested permission from the management SMEs firms together with the introduction letter for data collection from Mzumbe University, also researcher ensured the confidentiality on the information collected from the respondents.

3.6.2 Interviews

According to Kothari (2008) interview is a method of gathering information in the physical presence of the respondent. The interview method was selected because it helped the researcher to observe and verify the data according to voice expression and gestures of the respondents. Also the respondents had a chance to fully explain what they had concerning the topic and also asked for clarification when needed. During personal interviews the researcher poses personally questions to the interviewee. In telephonic interviews the process is similar, but the parties are not physically present at the interview, but they are connected by the telephone line.

3.6.3 Documentary review

Under this method reports and evaluation, strategic planning, directives, manuals, broachers, proclamations, and mass media output and formal study from external body was used in order to analyse the factors influencing the SMEs' challenges Mwanza city in. particular.

3.7 Data Analysis

In this study data analysis were analyzed through Microsoft Excel (worksheet) software programme with specific headings for each of the variables to be used. The raw data were checked for omissions, legibility and consistency before being coded appropriately for statistical analysis to accomplish the research objectives. . Each respondent received a number starting with '1' for reference purposes. Descriptive data was analyzed and results were defined in terms of percentage and frequencies and presented into charts and tables.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

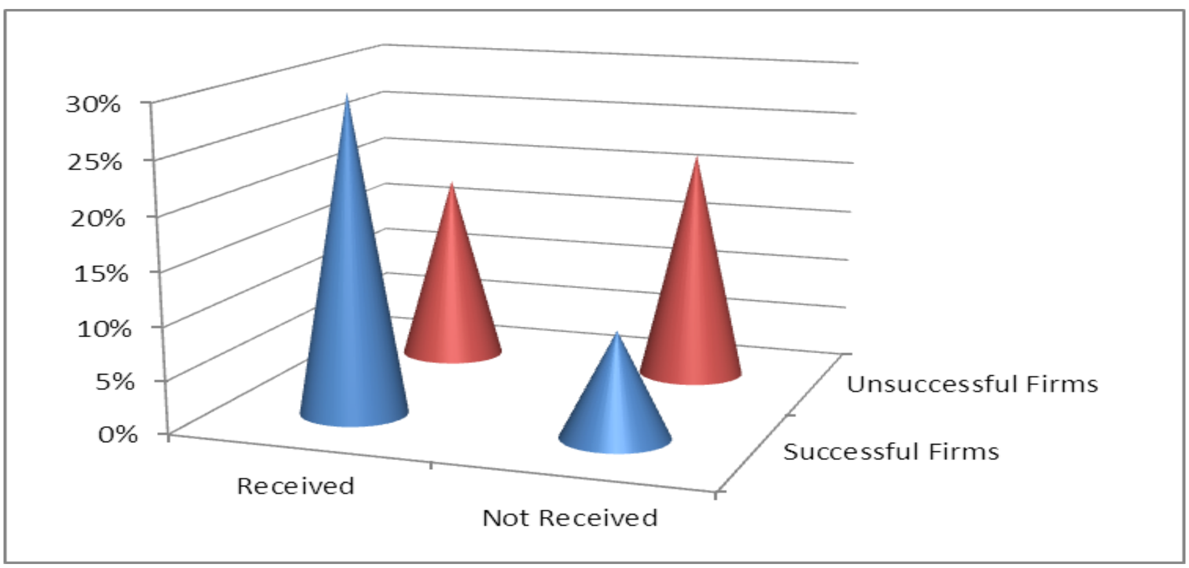
4.0 Introduction

This chapter presents and discusses the findings of the empirical study in line with the research objectives by exploring of respondents' demographic characteristics and the SME's profile. The second presents findings based on the descriptive statistical techniques applied and the SMEs challenges.

4.1 Demographic Characteristics of Respondents

Descriptive analysis usually provides a useful evaluation of data obtained from the questionnaires. Variables that descriptively analysed for this study were the respondents, the objectives of the study, profile of the respondents, background about the business of the owners, reasons behind either the success or failure of businesses, and general ideas of business owners regarding the challenges of businesses in Tanzania.

Figure 4.1: Description of the Questionnaires of SMEs



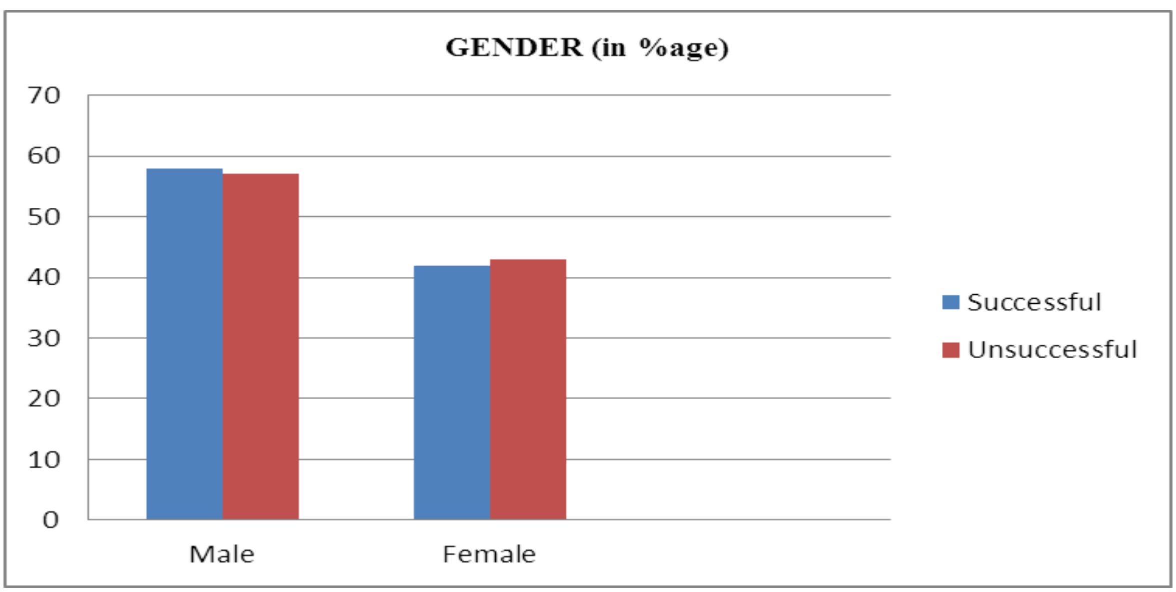
Source: *Study Findings, (2013).*

From Figure 4.1, the 40 questionnaires (20 from successful firms and 20 from firms that have failed) which were sent out, 24 questionnaires were returned from the SMEs businesses. Of these questionnaires, 15 were from successful business owners and 9 from unsuccessful business owners. Since 60% of the questionnaires were received, it could thus be argued that the researcher would be in a position to make valid conclusions.

4.2 Characteristics of the of SMEs' owners by Gender and Age

Section A of the questionnaire related inter alia to the demographic characteristics of respondents based on their gender and age. Gender and age dominations are important parameters in social analysis because, in most societies different genders and ages perform certain sets of activities, possess different traits and behave differently with specific experience that influences performance. The respondents' gender characteristics are captured, summarized and reported in Figure 4.2.

Figure 4.2: Respondents' Characteristics by Gender.



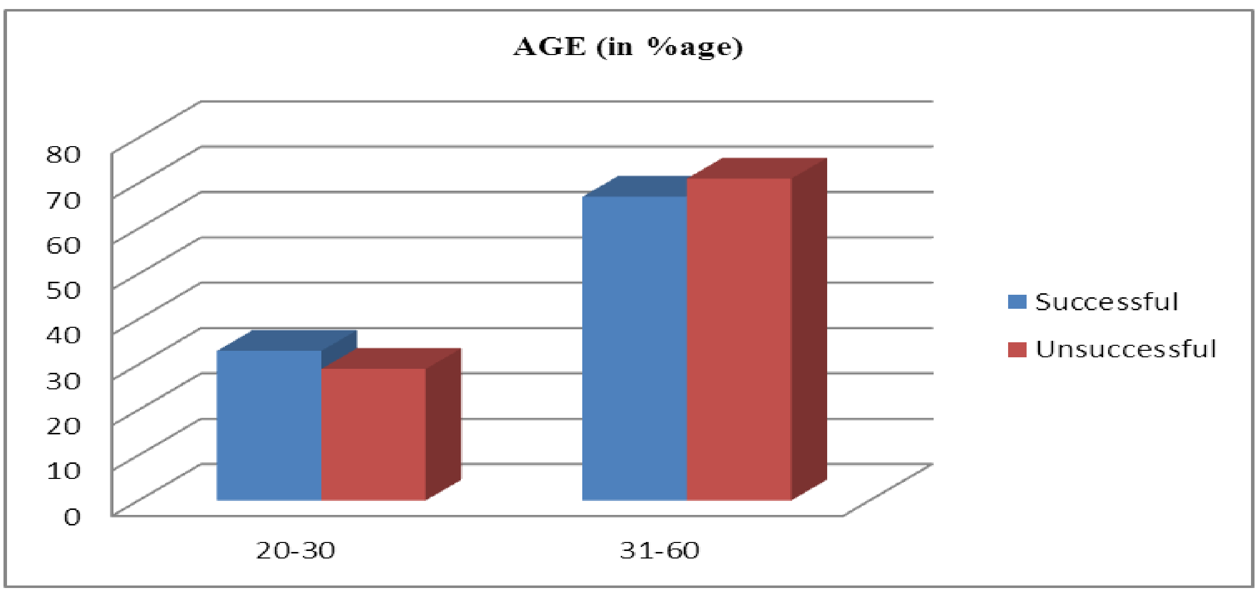
Source: *Study Findings, (2013).*

Figure 2 shows that males accounted for 58% and females 42% of the respondents. These findings are in line with many other studies in developing countries where income - generating activities are often dominated by males for numerous reasons. In many African societies women are disadvantaged when it comes to setting up and running their own income - generating activities. According to (URT, 2002), the common obstacles faced by women entrepreneurs include social stratification of roles with men dominating and controlling economic resources, the customs preventing women from undertaking certain economic activities and intra household structures which give men power over decision making.

In addition to generic barriers that women face, it is difficult to have access to land for any meaningful enterprise and thus difficult to access credit from financial institutions (OECD, 2006). Furthermore, different traditions concerning property rights among other things may limit them from accessing finance (Olomi, 2001).

The characteristics of respondents regarding their age are captured and summarized in Figure 4.3.

Figure 4.3: Respondents' Characteristics by Age



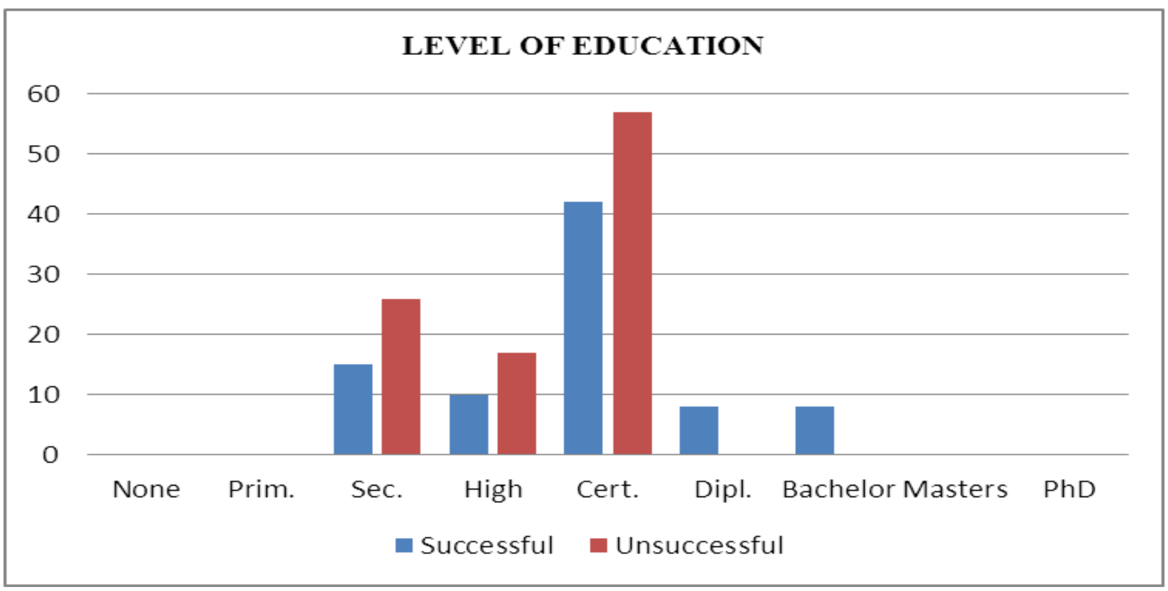
Source: *Study Findings, (2013).*

Of the 24 respondents for this study, 33% of the respondents from the successful firms were between the ages of 20 and 30, while 29% of the respondents in the unsuccessful firms were between the latter mentioned age ranges. However, 67% of the respondents from successful firms were between the age of 30 and 60, while 71% of the respondents in unsuccessful firms. Therefore, no respondents aged below the age of 20 or above 60 were found in this sample. This indicates that the respondents for this survey were people who are in the adult age.

4.3 Characteristics of the of SMEs' owners by Level of Education

The level of education was selected as an important parameter since it has a significant influence on an individual's performance. Education is valued as a means of liberating individuals from ignorance and it enables them to execute non-traditional activities. The respondents' characteristics based on their level of education are captured and summarized in Figure 4.4.

Figure 4:4: Respondents' Characteristics by Level of Education.



Source: *Study Findings, (2013).*

As seen in Figure 4, at the level of none, primary, master's degree, and Phd of successful and unsuccessful respondents had no any formal education or qualifications. A further 15% had received secondary education from successful respondents and 26% from unsuccessful respondents, 10% are high school from successful respondents and 17% from unsuccessful respondents, certificate is 42% from successful respondents and 57% from unsuccessful respondents; and lastly both diploma and bachelor degrees had 8% from successful respondents and un successful respondents. When considered in terms of gender, females are lagging behind at every level of education when compared with males. It is noted however, that most of the levels of educational were not related to tourism activities.

The level of education allows exposure to the modern world and increases freedom in decision making on personal affairs. In contrast, a low level of formal education is considered to foster negative attitudes towards changes and as such is an indicator of underdevelopment. As argued by Zeithamil and Bitner (2003), the access to education as an information resource is a critical factor for development and superior performance of a business initiative. According to them, access to relevant education and training ensures access to other useful information. The role of individuals' level of education in business is a major component, since the more one spends on schooling (attaining higher levels), the more likely one is ready to change and understand the environment in order to be successful.

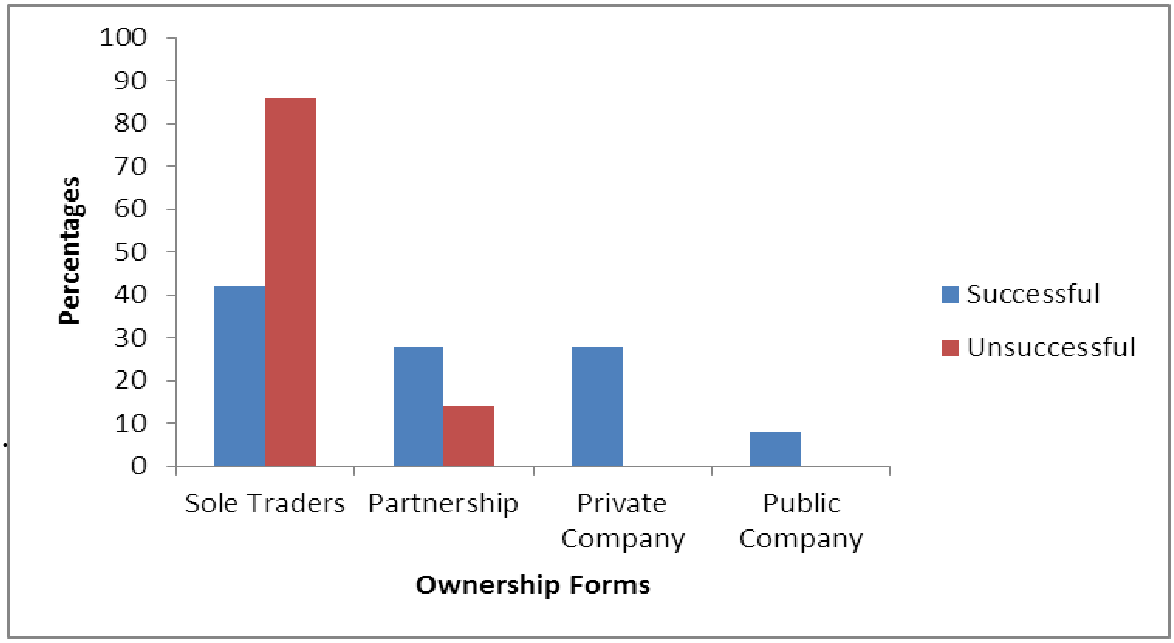
Since the environment of the business is so dynamic and changing rapidly, it demands alert and flexible institutions which in turn need qualified personnel. The lack of qualified workers for small business initiatives in general is one of the main constraints affecting SMEs challenges. It is important to note however that not all people who have received higher education are successful entrepreneurs. The literature accepts however, that not all successful entrepreneurs have received a higher education. As seen in Figure 4.4, majority of respondents were fairly well educated which and not a major constraint. Knowing that business generally do not have higher levels of formal education and that resources are scarce, their local knowledge should be complemented by short-term training courses and experience-sharing workshops which are important for achieving a satisfactory level of performance.

4.4 Background of the Business Owners

Approximately 50 % of the successful businesses have been in operation 0 to 4 years, while none of the businesses that have failed fell in this age range. This is a good indication of how successful business owners were more willing to take risks when they started their business, compared to unsuccessful business owners. A quarter (25%) of successful businesses has been in operation for 5 to 8 years, while 57% of the businesses that have failed, fall in this age range. None of the businesses that have failed was in operation for 9 to 14 years, while approximately 25% of the successful businesses fell in this range. Between the age ranges of 15 to 20, no successful firms were found, while approximately 43% of small medium enterprises that have failed fell in the range. Nearly 83% of the successful business owners were the actual business founders, while only 43% of the owners whose businesses have failed were the actual founders.

No significant difference was found in terms of percentages between owners who purchased the business from previous owners. Approximately 66% percent of successful businesses are in the service Industry, while unsuccessful businesses constitute 43% in the service sector. Nearly twenty percent (17%) of successful businesses fall in the automobile industry, while none of the respondents whose businesses have failed, was found in this sector. Slightly over fifteen percent (17%) of the respondents found themselves in the food industry, while 14% of the unsuccessful firms were found in this sector. None of the successful business fell in the artisan sector, while 57% of the failed businesses were in the artisan sector.

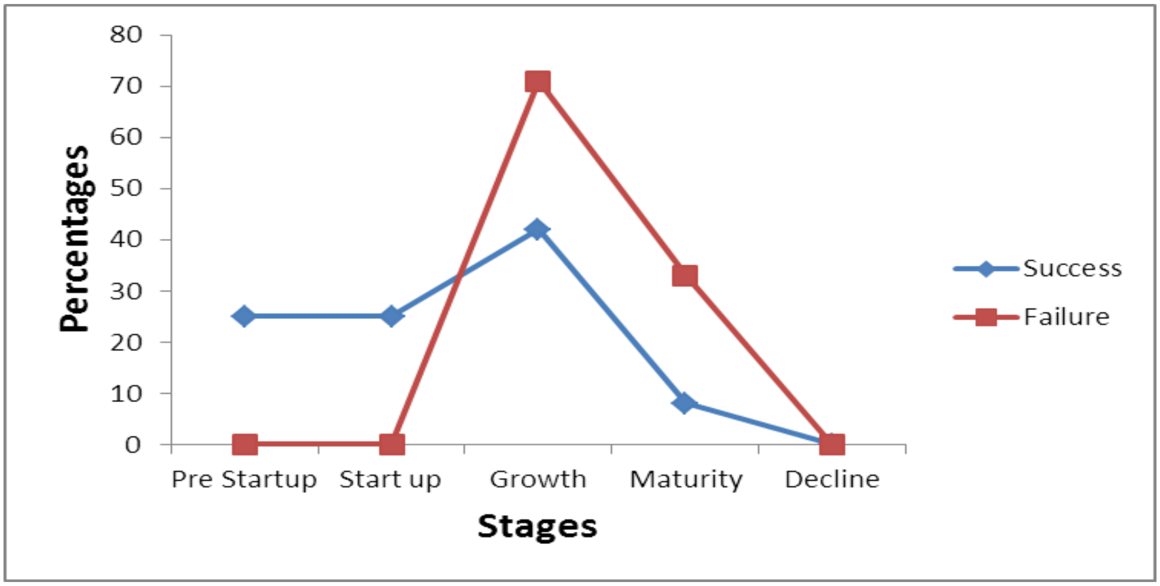
Figure 4.5: Various Forms of ownership in SMEs.



Source: *Study Findings, (2013).*

Figure 4.5 state that over 42% of the successful business owners operate their businesses as sole traders, while 86% of the owners whose businesses have failed are as partnership. The relationship in terms of percentage between partnership and private company were equal for both business owners. None of the owners whose businesses have failed had a private company, while 14% of the owners whose businesses have failed operated a partnership. Only 8% of successful business owners operated a public company, while none of the owners whose businesses have failed was found in this group.

Figure 4.6: Stages of entrepreneurial development in the SMEs.



Source: *Study Findings, (2013).*

As discussed in the literature review, businesses normally go through four stages. These stages are pre-start up, start up, growth and maturity stage. Over forty percent (42%) of successful business owners believe that the growth phase is the most important phase for the survival of the business. Business owners who are not successful feel similarly and constitute 71% of the sample. Almost thirty percent (29%) of unsuccessful business owners felt that the maturity stage plays a very crucial role for the success of the business. This stage appears to be less important for business owners who are successful and constitute only 8%. The stages of pre-start up and start up were critical for successful businesses and constitute 25% for each one of these stages. The stages of pre-start up and start up seems to play no role in unsuccessful businesses.

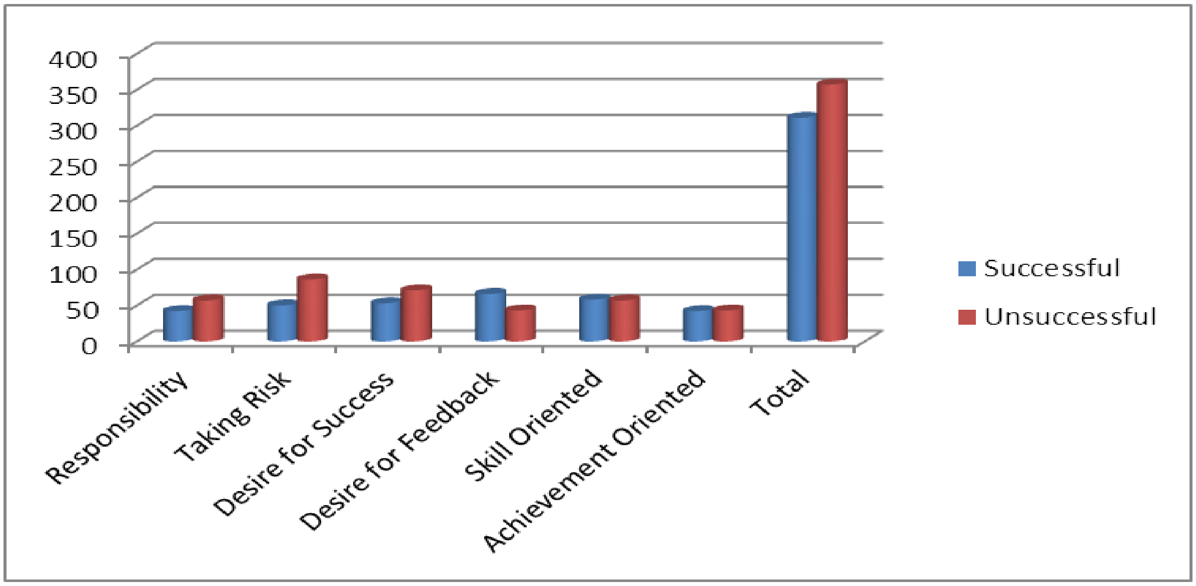
Over forty percent (42%) percent of successful business owners felt that the primary motivation why they started their businesses was to establish autonomy which could result in greater innovation. None of the business owners, who failed, felt this way. One could thus conclude that innovation, which is such a crucial element in today's competitive environment, is not an important element for business owners who have failed. Social responsibility and being one's own boss were factors that were regarded as less important for successful firms and both constituted 8% of the sample. However, being boss was considered to be a very important aspect for 57% of business owners who have failed monetary rewards were also an important aspect for 43% of unsuccessful business owners.

Monetary rewards were less important for successful business and constituted 33% of the respondents. The factors important to owners of successful and unsuccessful businesses are being one's own boss, monetary rewards, social contribution, freedom and innovation and were on a scale 1 to 5 (1 being the most important and 5 being the least important).

4.5 Reasons that make a Business Either a Success or a Failure

Factors that lead to the success of a business, included responsibility, risk taking, desire for success, and desire for immediate feedback, skill orientation and achievement orientation. Each one of these factors was ranked and rated in three different categories, namely the degree to which a particular factor is not a Key contributor, Slight Contributor and a Moderate contributor Each one of the latter mentioned dimensions were rated on a scale from one to three, three being the strongest and one as the weakest.

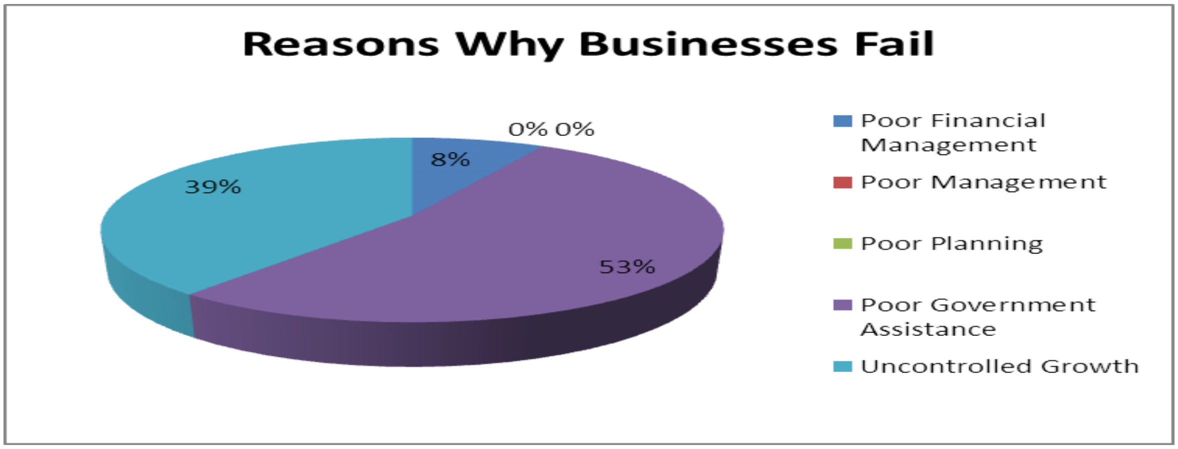
Figure 4.7: Performance Indicators



Source: *Data Findings, (2013).*

From Figure 4.7 it can clearly be seen that there was no significant difference in terms of the importance of the factors in both successful and unsuccessful firms, when one considers the extent to whether or not each one of these factors represents a key difference. However, to the researcher's surprise, successful firms indicated strongly that risk taking and responsibility are not key contributors.

Figure 4.8: Factors that contributed to the failure of SMEs.



Source: *Data Findings, (2013).*

It is clear from Figure 4.8 that 53% of the respondents' ranked poor governmental assistance as the key contributor to the failure of S MEs in Tanzania. Another prominent factor, according to the respondents of this survey, is uncontrolled growth. Unsuccessful business owners did not at any stage feel that poor planning and poor management could be amongst the contributors of business failure, because these two variables were rated 0%. The unsuccessful business owners who rated poor financing, constituted 8% of the sample.

4.6 Perspectives Regarding Successful and Unsuccessful Business Owners

These questions considered the general ideas of business owners of both successful and unsuccessful firms with regard to entrepreneurship in Tanzania. These results will be presented in the form of a table 4.1.

Table 4.1: Successful and unsuccessful entrepreneurs' perspectives

Successful Firms	Unsuccessful Firms
75% of the respondents provide autonomy to their employees while, 25% of the owners do not have any employees. Most employees in successful businesses were provided proper training.	Over eighty percent (85%) of the employees have autonomy in unsuccessful businesses, while 25% of the employees have no autonomy, but will still be trained to make decisions and issues that concern the company. Most of the employees in the particular unsuccessful firms are trained.
As was also indicated in the previous questions, some successful business owners felt that governmental assistance is rather minimal, and they would like to receive more governmental support.	Almost all employees in unsuccessful business feel the major reason for their failure is because of capital and financial mismanagement.
In general the successful business owners suggested that the competencies and the abilities of SMEs be surveyed.	Generally some unsuccessful business owners mentioned that they would like assistance with financing methods and how to operate an SME during the period of planning and preparation.

Source: *Study Findings, (2013).*

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter provides the summary of the research findings, conclusion and recommendations. The chapter is organized by the summary which highlighted objectives of the study, methodology, design, and summary of findings from the empirical part, conclusion and recommendations.

5.1 Summary

From this study, it is evident that there are many factors that influence the challenges of SMEs in Tanzania. More than fifty percent of the questionnaires that were sent out were returned. Most SME owners taking part in this study operate their businesses as sole traders. However, all the unsuccessful business owners only operated as sole traders, and this could have been the primary reason that may have resulted the failure of their businesses. Furthermore successful and unsuccessful business owners felt that the primary reason why most SMEs fail is because of poor financial control and credit problems. It was evident from this study that both successful and unsuccessful business owners had the notion that poor governmental assistance is a major obstacle to the success of their businesses.

From the discussion the entrepreneurship plays a critical role in the growth and survival of developing economies. An entrepreneur may be defined as someone who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying opportunities and assembling the necessary resources to capitalise them. The advantages and the disadvantages of entrepreneurship also form an essential part of this study. Various forms of entrepreneurship that include sole proprietorships, partnerships and private companies were discussed. Other issues outlined in this chapter relate to the reasons why small and medium enterprises are either a failure or a success. Poor planning and uncontrolled growth were amongst the key factors that result in the failure of businesses. On the other hand proper planning and changing roles were amongst the roles that could result in business success. It is vital that an entrepreneur should choose the style of ownership that suites his business best, and by not doing so, this could result in substantial financial losses for the owner.

5.2 Conclusion

The conclusion derived in this part of the study emanate from specific objectives and findings obtained after the study was conducted.

5.2.1 Profile of the respondents

A large percentage of the respondents for this study were above the age of thirty. Therefore it is assumed that more than fifty percent of the respondents were in the age range of thirty to sixty and this could have a different impact when it comes to the derivation of specific results. The conclusion is that having respondents only from a particular age group could have resulted in some similarity, and this does not create enough room for a fair comparison between each of the two age groups. Most of the respondents' parents did not have a business of their own. Furthermore, the educational background of the respondents was mostly a Junior Certificate.

The conclusion derived from this is that parents' occupational and educational backgrounds are not the only determining factors to whether an individual is a successful entrepreneur or not. This brought the researcher to the notion of whether entrepreneurs are born or made. The researcher came to the conclusion that entrepreneurs are born and some are made, and there is no distinct or specific determining factor.

5.2.2 Background of the business owners

Most of the respondents in the unsuccessful businesses operated as sole traders, while the rest of the respondents operated in partnership with other business owners. However, there was almost an equal distribution amongst the various forms of ownership in successful business. From this it could be concluded that operating mostly as sole traders could have resulted in many drawbacks rather than benefits for unsuccessful business owners. These drawbacks occur because operating in sole proprietorship means that owners cannot exchange their knowledge and skills with others, as the characteristic of a sole proprietorship states that there is only one owner, which would not be the case in any other form of ownership. This brings the researcher to the conclusion that creativity and innovation are fostered through a proper sharing of knowledge and skills amongst individuals within an organisation.

Furthermore, when looking at the stages of entrepreneurial development most owners of both successful and unsuccessful businesses indicated that the growth stage is the most important amongst all the stages. However, when observing each one of the stages, successful business owners regarded each one of these stages as important as there was almost an equal distribution of respondents amongst each one of these stages. In contrast unsuccessful business owners did not regard the pre-start up and start up stages as crucial. From this the researcher comes to the conclusion that entrepreneurs who fail, do so because they do not understand the fundamentals of entrepreneurship. The stages of pre-start up and start up are crucial for the success of any entrepreneurial venture, because this is where most of the preparation and planning for successful entrepreneurship takes place.

Most of the owners in successful businesses regard money as a important driving force as to why they have established their businesses in particular, while unsuccessful businesses have the notion that being their own boss is the most important reason why they started their businesses. From this it could be concluded that both groups of business owners started the businesses for reasons they believed were the most effective and efficient for their businesses. However, money cannot be the only motivation for establishing a business and nor can being one's own boss. Successful business owners are able to build on their success if they understand each one of the components that would be crucial for the success of their businesses. In contrast unsuccessful business owners fail because they believe the power of success lies within them, but being their own boss is not a means to an end, and it is crucial to understand the benefits and also the drawbacks of running a business as a sole trader.

5.2.3 Reasons that make a business a failure and a success

The owners of successful and unsuccessful businesses believe that poor financial control and credit problems are the most prominent reasons as to why businesses fail. A conclusion that could be made from the above, is that business owners know the reasons why particular incidents, such as the failure of businesses, happen, but they do not know how to deal with the problems of failure and what the particular signs are when the businesses are on the way to failure. In terms of the extent to which responsibility and skills orientation plays an important role for the success of the businesses, most successful business owners regarded these factors as strong moderate contributors, while in contrast unsuccessful businesses regarded these factors as weak moderate contributors. This leads to the conclusion that unsuccessful firms have no thorough understanding of the factors that are critical for the success of a SME. This could have a significant impact on the way they implement and manage their business operations.

Unsuccessful business owners have the impression that the Tanzanian government is not doing enough in terms of the financial grants that are provided to SMEs annually. The researcher is of the opinion that the government does not sufficiently explain the terms and the conditions of the grants when it is provided to business. Although the government assists the business owners financially, there is no assistance in terms of human and physical resources.

5.2.4 General ideas of successful and unsuccessful business owners in Tanzania

The research shows that successful business owners provide autonomy and training to their employees. However, unsuccessful businesses also provide autonomy and training to their employees. Nonetheless the autonomy that is provided in unsuccessful businesses is more prevalent than in successful businesses. Almost ninety percent autonomy is provided in unsuccessful businesses compared to seventy five percent in successful businesses. From this it could be concluded that too much autonomy could have a detrimental impact on the business, as could be seen in this case of unsuccessful businesses. In addition to this, unsuccessful business owners do not provide any training to their employees, although they were planning to do so in due course.

From the aforementioned, the researcher comes to the conclusion that a failure to provide training to their employees could also have been one of the main reasons that could have resulted in the failure of unsuccessful SMEs. Both successful and unsuccessful business owners felt that governmental assistance was limited, especially during the start up stages. This leads the researcher to the conclusion that a lack of governmental assistance has a significant impact on the business operations of small medium enterprises and even so could have a negative impact for successful business. If the government fails to take knowledge of the importance of SMEs for economic growth and development there will be limited growth in the country's economy.

5.3 Recommendation

The study focused the factors that influencing the challenges of SMEs in Mwanza city. From the study it was clear that there is a problem of business failure specifically in Mwanza city. Various factors, such as poor financial planning, credit problems and uncontrolled growth, were identified as one of the key factors that lead to the failure of SMEs in Mwanza city. The Government of the United Republic of Tanzania should consider establishing business incubator facilities, whereby small business owners are nurtured for future growth and development. Incubator facilities generally enable firms that lack the management, technical and financial ability to survive on their own. This will be a perfect opportunity to monitor the progress of SMEs and help where it becomes necessary.

Before small businesses are registered, it is crucial that the Tanzanian government ensure that it establishes the means and ways in which such a business can survive on a long-term basis. Only when the government has established the means and the feasibility of establishing a particular business should the owners be granted an opportunity to go ahead and develop such a business. The researcher understands that most of the small business owners in Tanzania are from a previously disadvantage background. Bearing this in mind, the government should make a tremendous effort in terms of helping small business owners to survive. Another initiative that the government could consider is creating and building relationships between business with previously disadvantaged owners and private organisations in order to expand the ability of the business to meet the existing demands of the market.

Entrepreneurial education should become part of both primary and secondary school education curriculums, whereby young citizens of the country are instructed about the basics on entrepreneurship. If they eventually choose to become owners of their businesses, they have a clear understanding of what entrepreneurship entails. A replicate study should be conducted on the factors that influencing the challenges of SMEs in the whole of Tanzania, instead of a study such as this one that only focused on Mwanza city. Moreover, The Tanzanian government should provide for research fees, so that essential data are recorded about all SMEs in Tanzania, so that more researches could be carried out to measure the trend in terms of the improvement that the government has made since independence.

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APPENDIX

QUESTIONNAIRE

SUCCESSFUL / UNSUCCESSFUL BUSINESS OWNERS

FACTORS INFLUENCING SMEs' CHALLENGES: A CASE OF MWANZA CITY

Confidential Survey for Business Owners or Entrepreneurs

I appreciate your valuable time.

The name and address of your business is randomly selected from Mwanza city directory. If you are not the owner of this business please be so kind and pass on this survey to someone who is. Results from this survey will provide a basis for a Masters dissertation in which the factors that influence the success and failure of small and medium businesses are analyzed.

Your understanding of the business in today's global competitive market will help to identify the factors that lead to business success and failure. The results obtained from this study will be used to rectify the SMEs' challenges. Through proper understanding of the reasons as to why business are either a failure or a success in Mwanza city, we will be able to create sound business owners for the future that lies ahead.

Please return your completed survey in the enclosed Replay envelope by 31 June 2013. Rest assured that the responses of this survey would be treated in strict confidence. Should you wish to verify the authenticity of this project, you can do so by telephoning Dr. Daud Mollel, Lecturer, School of Business, Mzumbe University Main Campus on 0762-264187 or 0784-264187.

Thank you for your time, your contribution is of great importance to the success of this research!

Yours sincerely

M.S.Waryoba
Masters Candidate
School of Business, Mzumbe University

SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Section A – Objective: Find out more about the owner and family history.

Questionnaire Number________

Questions		**Answers**
Q1	Date of birth	___/___19___
Q2	Sex	○ Male ○ Female
Q3	Nationality	
Q4	When you were growing up where did you live?	○ City Country ○ Other (please specify) --------------------------------------
Q5	What was your father's occupation?	
Q6	What was your mother's occupation?	
Q7	Did any of your parents own a business?	○ Yes ○ No
Q8	What was your father's highest formal qualification?	○ Primary School ○ Secondary School ○ High School ○ Certificate ○ Diploma ○ Bachelor Degree ○ Master Degree ○ PhD ○ Other (please specify) -------------------------------------

Q9	What was your mother's highest formal qualification?	○ Primary School ○ Secondary School ○ High School ○ Certificate ○ Diploma ○ Bachelor Degree ○ Master Degree ○ PhD ○ Other (please specify) ------ --------------------------------
Q10	What has been your highest formal qualification to date?	○ Primary School ○ Secondary School ○ High School ○ Certificate ○ Diploma ○ Bachelor Degree ○ Master Degree ○ PhD ○ Other (please specify) ------ --------------------------------

SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Section B – Objective: Get more insight about the owner and the business.

Questionnaire Number________

Questions		**Answers**
Q11	In which year was your business founded?	19___
Q12	In which year did you become the owner of this business?	19___
Q13	How did you become the owner of this business (e.g. retail or services)? Please tick one box only.	○ I purchase it ○ I found it ○ I inherited it ○ Other (please specify) ------ --------------------------------
Q14 (i) Q14 (ii)	Mostly in which industry is the business? For how many years have you been engaged in this industry?	--- ---
Q15	Which one of the following is a form of ownership of your business?	○ Sole trader ○ Partnership ○ Private Company ○ Limited Public Co. ○ Other (please specify) ------ --------------------------------
Q16	Which of the following entrepreneurial life cycle stages are most important for the survival of a business? (Please tick one box only).	○ Pre-start up stage ○ Startup stage ○ Growth stage ○ Maturity stage ○ Decline stage

Q17 (i) Q17 (ii)	For the past financial year, did you have a documented business plan? To what extend do you conduct business in accordance to your business plan?	○ Yes ○ No ○ Completely ○ Mostly ○ Sometimes ○ Not at all
Q18 (i) Q18 (ii)	What were the main reasons as to why you decided to start your own business? Rank the above metioned factors in a chronicle order on a scale of (1-5), 1 begin the most important and 5 being the least important	○ Being own boss ○ Monetary rewards ○ Make a societal contribution ○ Freedom ○ More innovative thinking ○ Being own boss ○ Monetary rewards ○ Make a societal contribution ○ Freedom ○ More innovative thinking

SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Section C – Objective: Finding out the reasons that result business success or failure.

Q.19 Which of the following factors do you regard as the most important contributors to failure? Please scale them to the extent that you considered them important to your enterprise.

Business	Not important	Slightly important	Moderate important	Very important	Extremely important
Lack of general business skills	1	2	3	4	5
Lack of managemet skills	1	2	3	4	5
Poor financial control	1	2	3	4	5
Credit problems	1	2	3	4	5
Poor marketing techniques	1	2	3	4	5
Uncontrolled growth	1	2	3	4	5
Poor location	1	2	3	4	5
Poor time management	1	2	3	4	5

SURVEY OF BUSINESS OWNERS OR ENTREPRENEURS

Please read the questions carefully where they appear. Answer every question.

Q.19 Which of the following factors in your business would regard as key contributors to business success? Please scale them to the extent that you considered them important to your enterprise.

Factors strong desire for:	Not a key contributor			Slightly contributor			Moderate contributor		
Responsibility	1	2	3	1	2	3	1	2	3
Risk taking	1	2	3	1	2	3	1	2	3
Desire for success	1	2	3	1	2	3	1	2	3
Desire for immediate feedback	1	2	3	1	2	3	1	2	3
Skill oriented	1	2	3	1	2	3	1	2	3
Achievement oriented	1	2	3	1	2	3	1	2	3