

**SMEs GROWTH CHALLENGES IN MWANZA
CITY: EVIDENCE FROM FOOD INDUSTRY**

By

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of the
Degree of Master of Business Administration in Corporate Management of Mzumbe
University.**

2015

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation/thesis entitled SMEs Growth Challenges in Mwanza City: Evidence from Food Industry, in partial/fulfilment of the requirements for award of the degree of Master of Business Administration in Corporate Management of Mzumbe University.

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ACKNOWLEDGEMENTS

This dissertation report is the result of a fruitful collaboration of all the people whom have kindly contributed with an enormous commitment and enthusiasm in this research. I wish to express my sincere gratitude to my supervisor Mr. Nicholaus Tutuba for sharing his great knowledge, priceless input and constant help during this research. His guidance and suggestions have made me reflect upon my work throughout the entire learning process.

I specially want to express thankfulness to the Manager of Furaha Nyanza Limited, Mr. Manebood Karmali, Manager of Simba Africa Limited, Mr. Suresh, Assistant Director of Kuku Poa, Mr. Zuberi S. Juba and General Manager of Ndiyo Bottling Limited, Sriram Chukkapalli for their great support, time and willingness to provide essential information that has been crucial for this dissertation.

At last but not least, I want to thank my family for their constant support. It has been a privilege to work together with all the people involved during the research period and a great learning experience for me.

DEDICATION

I would like to dedicate this work to my family who have contributed much to my academic career and are very much concerned with my life. I wish them a successful life and may GOD protect them in their life.

LIST OF ABBREVIATIONS

APO	-	Asian Productivity Organization
CSR	-	Corporate Social Responsibility
DTI	-	Department of Trade and Industry
FTA	-	Free Trade Agreements
GDP	-	Gross Domestic Product
IFC	-	International Finance Company
IT	-	Information Technology
LE	-	Large Enterprises
MSEs	-	Micro and Small Scale Enterprises
MNCs	-	Multi-National Corporations
R&D	-	Research and Development
SMEs	-	Small and Medium Scale Enterprises
SPSS	-	Statistical Package for Social Sciences
TCCIA	-	Tanzania Chamber of Commerce, Industry and Agriculture
TFP	-	Total Factor Productivity
UNIDO	-	United Nations Industrial Development Organization
URT	-	United Republic of Tanzania
WB	-	World Bank
WTO	-	World Trade Organization

ABSTRACT

Small and Medium-sized Enterprises (SMEs) in Mwanza are very important to economic growth. They have a significant effect on employment and economy of the country. The enterprise structure is mainly dominated by micro enterprises and the growth intensity is steady but still at a low level. Since SMEs are important contributors to economic development, it is therefore relevant to study challenges hindering their potential growth. These challenges are looked from two different perspectives; external and internal challenges which have an impact on the growth of SMEs.

This research is an evidence of four SMEs (FURAHA, NDIYO, KUKU POA and SIMBA) in food industry at Mwanza city, and together with previous literature a conclusion of internal and external challenges influencing their growth can be reached. The primary data was collected through both qualitative (interviews) and quantitative (questionnaire) approaches with operators of the selected SMEs.

The data was analyzed by using a Statistical Package for Social Sciences (SPSS). Specifically, descriptive statistics were taken from this tool. Descriptive analysis was used to reduce the data into a summary format by tabulation and measure of central tendency.

The findings of the research reveal that there are a number of significant factors affecting SMEs growth. The major factors being financial and politico-legal factors followed by working premises, entrepreneurial factors, management, technological, marketing and infrastructural factors. They also speculate the reasons to why some of the SMEs in food industry grow while others do not.

The study suggests that, The Bank of Tanzania should review the interest rates on loan because it seems to be very high; otherwise the government should find amicable solutions either to subsidize the SMEs with some sort of incentives. To make the selected SMEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is generally an imperative.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.0. Introduction

Since independence, Tanzania's development policies have focused on achieving the twin objectives of increasing economic growth and alleviating poverty. In more recent years, from 1999 through 2010, the country has achieved an average annual Gross Domestic Product (GDP) growth rate of at least 6.6 per cent. However, despite these significant advances in economic growth as well as the government's strong commitments to pro-poor policies during the same period, the country has achieved only marginal strides in reducing poverty.

In addition, it is argued that the growth of the Tanzanian economy depends to a great extent to the success of the Small and Medium Scale Enterprises (SMEs) sector since they generate a significant contribution to GDP and employment.

Visser (2006) argued that, SMEs are the backbone of growing economies and serve as a key source of income for most people living in urban and rural communities.

1.1. Background to the study

The growth of SMEs is a critical ingredient in the sustainable development of developing economies. This relative growth or lack of growth of SMEs within any national economy is fundamental to the performance of that national economy. SMEs are recognized as being the growth engine behind most economies (Fan, 2003).

Generally this sector is the largest contributor of employment in most countries. This is especially relevant for new job creation. It is a major contributor to technical innovation and new product developments.

In Tanzania, the SME sector has been recognized as a significant sector in employment creation, income generation, poverty alleviation and as a base for industrial development. If these small enterprises could grow they would greatly affect the Tanzanian economy. The Employment rate

will remain the same if Tanzania is not able to establish more SMEs and help the existing ones to grow into companies that have an effect on the country's export and import rates (URT, 2003).

Although the SME sector is important to the socio-economic development of Tanzania, studies have revealed that it is largely informal and very much under-performing due to a multitude of constraints facing it (Mutambala, 2011).

There have been a lot of discussions and written about challenges faced by SMEs. Many interventions have been made by the government through its formulated policies aimed at facilitating and empowering the growth of SMEs. Some of the government efforts focus on assisting SMEs to grow through soft loans and other physical incentives through support from international agencies and organizations like World Bank (WB) and United Nations Industrial Development Organization (UNIDO).

Recent studies on SMEs by Mfaume (2004) and Kuzilwa (2005), all of which were undertaken in Tanzania have identified the factors limiting the success of small and medium sized businesses among them being corruption, lack of education and training, government policy, in-access to finances and many more to be revised later on in this particular study.

This research, therefore, aimed to focus on the growth challenges of small and medium sized enterprises (SMEs) engaged in food industry in Mwanza region of Tanzania. SMEs in food industry have an important role in the creation of jobs as they count for a relevant number of total enterprises in the nation. However, the current situation for the majority of Mwanza SMEs in food industry is a low growth rate which can be attributed to a series of external and internal challenges.

Some of the external and internal obstacles that these SMEs were facing are deficiencies in management capabilities, marketing, technology and innovation, problems arising from global economic, social and environmental changes, new stipulation of international rules, change in consumer behaviour, the government efforts in promoting SMEs, lack of competitive advantage and the access to credit as among the greatest barriers to their operation and growth.

Therefore, in order for these SMEs to grow and stay competitive, they are dependent on a business environment which supports their growth and development.

1.2. Statement of the problem

Small and Medium Enterprises plays a significant role in the development of national economies, despite this fact there happen to be a lot of challenges that affect the growth and development of SMEs in food industry at Mwanza City.

These numbers of factors include lack of credit facility for SMEs, inadequate infrastructure, low managerial skills, low technological levels, weak institutional and regulatory framework, increased competition, Economic crisis, Consumer behavior, Geographical location, Corruption, lack of entrepreneurial influences, lack of relevant information, poor research and development (R&D) strategies, corporate social responsibility and globalization.

As argued earlier SMEs are important contributors of economic development and it is therefore relevant to study challenges hindering the growth of SMEs in the food industry at Mwanza City. This study examined both external and internal factors hampering SMEs to grow and this section will shortly discuss some of the problems identified in the literature reviewed.

One of the major constraints to the growth of SMEs is the access to credit. It has being noticed over the years that financing for smallest and medium enterprises comes from personally saving of firm owners and sometimes from friends and family. This pool of financial resource is limited and cannot sustain the lifespan of these enterprises.

Another factor that serves as a hurdle for credit facility assessment is the documentation requirement from credit facilities such as banks and others. Micro credit facilities have turned out to be a source of credit facility for small and medium enterprises. The high interest rate charged by these micro-credit institutions turns to cripple these business since all the revenue made is used to repay their loans and nothing left to develop new innovative products and expand their business (Aryeetey, 1994).

The rapid change in the development also serves as a hinder to the growth of SMEs in recent times since they do not have the capacity to conduct research and development to develop new innovative product. And also the difficulty associated in having access to new technologies and modern methods of productions in their respective area poses a strict challenge to the growth of this sector.

Furthermore, the gap in management literacy is higher since most owners of SMEs have little or no knowledge about management processes and procedures. There is the lack of management talents in this sector as compared with larger firms and Multi National Corporations (MNCs) (Kayanula & Quartey, 2000). And this can be attributed to the high cost associated with training and consulting services as others do not see the essence in upgrading their skills since their business thrive under current dispensations.

Therefore, it is due to these challenges, the researcher thinks that there is a need for more research on the SMEs growth challenges and that is exactly what this research study is set out to do.

1.3. Objectives of the study

1.3.1. General Objective

The purpose of this study was to explicitly research and explains challenges that are hampering the growth of SMEs in the food industry at Mwanza city and identify possible answers to these issues. These challenges were looked from two different perspectives; external and internal challenges which had an impact on the growth of SMEs.

1.3.2. Specific Objectives

1. To identify the growth challenges experienced by SMEs in the food industry at Mwanza City.
2. To search for practical solutions that will ensure the success of SMEs in food industry at Mwanza City.

3. To speculate why some of the SMEs in food industry grow while others do not.

1.4. Research questions

1. What are the growth challenges of SMEs in the food industry at Mwanza City?
2. What are the practical solutions that will ensure the success of SMEs in food industry at Mwanza City?
3. Why some of the SMEs in food industry grow while others do not?

1.5. Significance of the study

SMEs have taken a centre stage in the social and economic development of many nations. In Tanzania, SMEs in both formal and informal sectors have long acted as engines of economic growth. They are regarded as the seed-bed for the development of large companies and are the life blood of commerce and industry at large.

The findings of this study will be useful to the stakeholders including:

Academics/Researchers

Findings from this study will assist academicians in broadening of the prospectus with respect to this study hence providing a deeper understanding of the critical challenges that affect the growth of SMEs in food industry.

Small and Medium Enterprises

The findings of this study will help SMEs in Mwanza City and others, within an insight into the benefits of using different factors studied in this research to predict the challenges that affect the growth of their entities.

Governmental Policy Makers

The government can use the findings of this study to assist in policy formulation and development of a framework for critical finance, marketing, work premises and other factors that

affect the growth of SMEs. Moreover, the findings of this study will help the policy makers and financial institutions on how to encourage establishing or expanding SMEs. It also enables them to know what kind(s) of policies should be framed.

1.6. Limitations and Delimitations of the study

1.6.1. Limitations

Like all research, this study had limitations. The sources of difficulties encountered in this study were described as follows:

This study was limited in a sense that it ignored the recent trends in the economy (as to say the world financial crisis impacts to SMEs). The study analyzed only the general challenges affecting the growth of SMEs in food industry at Mwanza City. Because of the under-developed information management systems in Tanzania, the study was limited in such a way that it included studies (interviews) made in SMEs in food industry at Mwanza City only.

Another problem encountered in this study had to do with the operator's reluctance to cooperate due to suspicion that disclosing sales, added value and employee salary cost information could lead to negative effect on their business. It is very important to note that these limitations could not have any significant interference with the outcome of the study.

1.6.2. Delimitation of the Study

The study assessed challenges affecting the growth of SMEs in food industry at Mwanza city. Although, there are different issues that could be researched in relation to SMEs, this study was delimited to the politico-legal, working premises, technological, infrastructural, marketing, financial, management and entrepreneurial factors. Besides, the scope of this study spread across SMEs especially in the business sector of food processing at Mwanza city.

1.7. Conceptual Framework

Based on the literature review, several challenges affecting the potential growth of SMEs in food industry at Mwanza City were identified. The challenges for this study were as follows:

The dependent variable for this paper was the potential growth of SMEs in the food industry at Mwanza City. This potential growth is determined by a number of indicators including Sales, Profit and Number of employees. In this study the dependent variable was affected by independent variables which include Entrepreneurial challenge, Management challenge, Financial challenge, Technological challenge, Research and development-Innovation challenge, Marketing challenge, Corruption, Competition, Government policy, In access to finances, Bureaucratic processes and Unfavorable economic conditions.

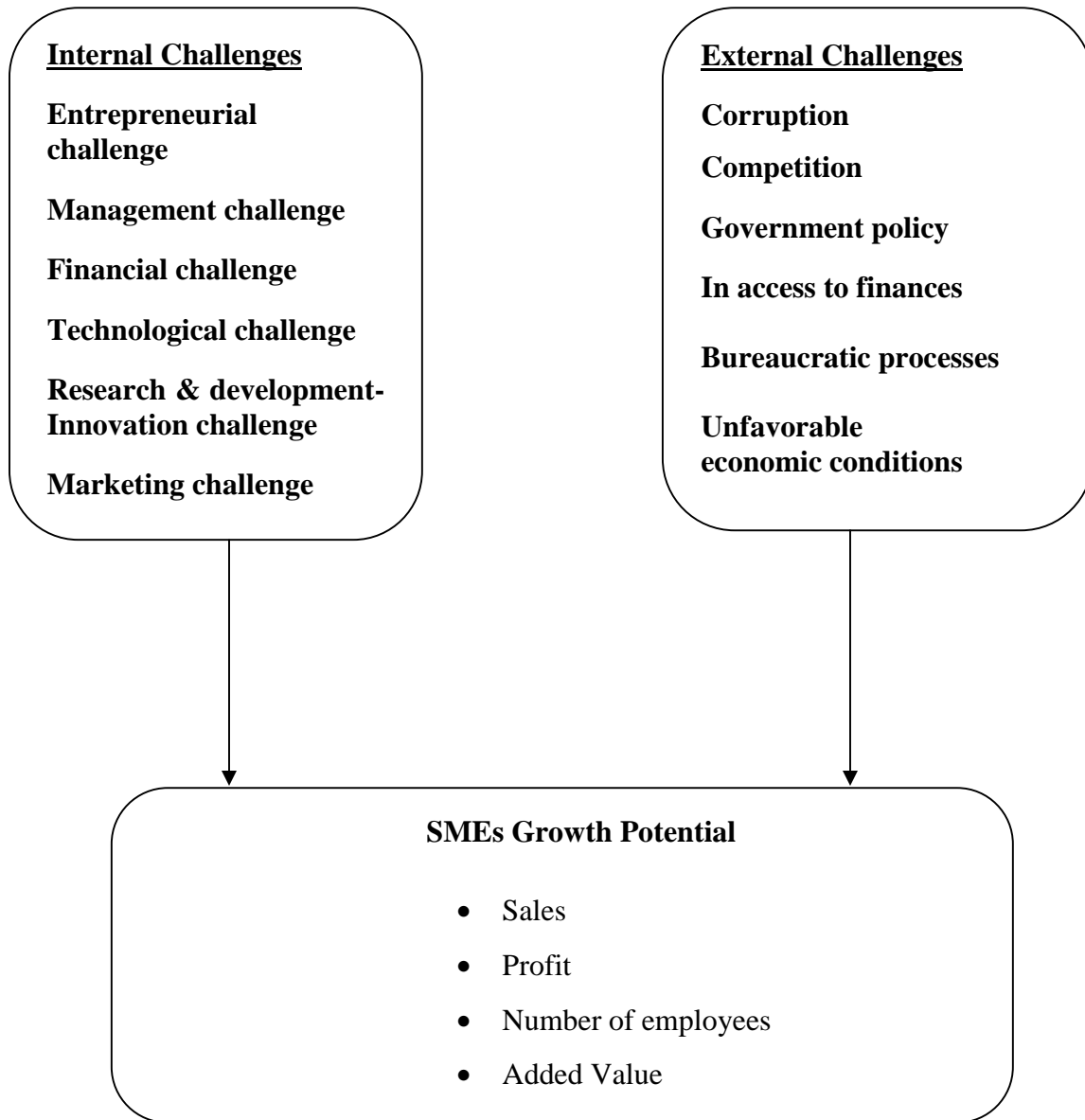


Figure 1: Conceptual Framework (Own Model)

CHAPTER TWO

LITERATURE REVIEW

2.0. Introduction

This chapter presents a review of literature which was used by the researcher during the study. The chapter also includes conceptual definitions, theoretical review and empirical analysis of the study.

2.1. Definition of Key Terms

2.1.1. Small and Medium Enterprises (SMEs)

The SMEs nomenclature is used to mean Small and Medium Scale Enterprises. It is sometimes referred to as Micro, Small and Medium Scale Enterprises (MSMEs). The MSEs cover non-farm economic activities mainly manufacturing, mining, commerce and services (URT, 2003).

MSEs can be defined as a productive activity either to produce or distribute goods and or services, mostly undertaken in the informal sector. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development.

The commonly used yard sticks are total number of employees, total investment and sales turnover (Swiss contact, 2003). In the context of Tanzania, micro enterprises are those engaging up to four people, in most cases family members or employing capital amounting up to Tshs. Five million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs. 5 million to Tshs. 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs. 200 million to Tshs. 800 million (URT, 2002).

2.1.2. Contribution of SMEs to the economy

SMEs all over the world are known to play a major role in socio-economic development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas.

URT (2003) estimated that about one third of the GDP originated from MSE sector; they tend to be labour intensive thus creating jobs. The International Finance Company (IFC) of the World Bank estimated that there are approximately 2.7 million enterprises in the country. A large majority of these (98%) are micro enterprises (employing less than 5 people), effective in the utilization of local resources using simple and affordable technology and complementing large industrial requirements through business linkages, partnerships and subcontracting relationships.

2.2. Measuring firm growth

When researching the SMEs growth challenges, it was first necessary to define firm growth, that is, how firm growth is measured. There is no general measurement for firm growth and scholars use various growth indicators when researching the field (Barkham, 1996). The most common indicator was to measure absolute sales growth or relative employment growth during a specific period of time (Sleuwaegen & Goedhuys, 2002).

Delmar (2003) identified further growth indicators applied by various scholars such as assets, market share, physical output and profits. However, these indicators are generally not commonly used as sales and employment since their applicability is limited. Thus, total assets value depends on industrial capital intensity and is sensitive to change over time. Market share and physical output vary within different industries and are therefore difficult to compare. Finally, profits are only relevant in order to measure size over a long period of time (Delmar, 2003).

Sales and employment are two important indicators when analyzing size of firms (Delmar, 2003). Employment is often used within studies since it is relatively easy to access and measure as well as it lies within interest for policy makers (Barkham, 1996). Sales are the most common measure indicator of firm growth though sales are affected by inflation and exchange rates, it can be difficult to compare sales figures in different industries. Delmar (2003) argued the importance of using multiple growth indicators when studying firm growth. Barkham (1996) highlighted the importance of using at least one indicator based on changes in turnover when studying firm growth, one alternative could be to use added value as a variable.

According to Lind (2005) SMEs in developing countries are often competing in price, thus, they do not focus on adding value to products and services. Lind (2005) pointed out the importance of added value since value creation is what makes a firm competitive and it is argued that added value is a more accurate measurement of SMEs' competitiveness than market shares, return on investment or profit. SMEs in developing countries have generally lower productivity than developed countries and since a country's ability to produce high level of productivity is one of the contributors towards improved living standards, added value could be seen as an important growth indicator.

Considering the discussion above regarding some of the different growth indicators and the advantages versus disadvantages of using them, employment and added value was used as the principal measures of firm growth in this study.

2.3. Theoretical Review

Before analyzing the growth challenges for SMEs in the food industry at Mwanza city, this study provided an overview of theories which could affect the existence, organizational structure, behavioural activity, relationship to market and business performance difference of the firm.

2.3.1. The Theory of the Firm

The theory of the firm has long posed a challenge for economists. It evolves from straightforward to multidisciplinary subjects (Casson, 2005). It explains the nature of the firm and tackles its existence, organizational structure, behavioural activity, relationship to market and business performance difference (Holmstrom & Tirole, 1989).

It is drawn from economic and organization theories and deal with different aspects of microeconomics, industrial conditions, managerial economics and organizational behaviours (Grant, 1996).

A firm is seeking to transform productive resources into goods and services that can be sold to generate revenues of which the theory of the firm needs to provide explanations of the productive transformation and revenue generation process (Lazonick, 2006).

It increases and articulates the basic development of a firm from its neoclassical roots by transaction costs, evolutionary, behavioural and resource-based perspectives to its innovative enterprise.

In the business management literature, there are different prevailing theory(s) of the firm, including economic, behavioural, strategic and innovative to be examined next in order to determine their relevant importance and implication for this study.

2.3.1.1. Economic Theory

The world economy is dynamic and there is sufficient evidence that society is undergoing change and transformation. Adam Smith in 1776/1976 in *An Inquiry into the Nature and Causes of the Wealth of Nations* defined land, labour and capital as the key input factors of the economy. Joseph Schumpeter in 1934 in *Theory of Economic Development* added innovation as one more input factor, and Poul Romer in 1986 and Robert Lucas in 1988, with others, identified knowledge as a fifth important driver of economic growth and prosperity in society (Landstrom, 2008).

The firm has played a central role in the growth and prosperity of a country's economy. The role of government and its institutions have always been given substantial weight when discussing economic development and growth at the national level. However, limited economic theories and empirical studies have investigated factors inside a firm and connected its activity and growth to its surrounding environments (Teece, 2010).

2.3.1.2. The Behavioural Theory

Behavioural theory suggests that the firm is a coalition of individuals or members, each of which has their own goals, attempting to reach realistic goals rather than maximize profits in explaining how decisions are taken in their firms. In behavioural theory, the firm exists to be able to survive and to achieve a satisfactory level of profits involving fewer risks and reflecting a compromised, weighted outcome between individuals with aspirations and conflicting interests within the firm (Slater, 1997).

This may require the firm to change its strategic behaviour in responding to business performance feedback. The behaviour of a firm is the result of a complex joint decision process within a network of agency relationships (Holmstrom & Tirole, 1989).

The firm has no access to perfect and costless information and its goals are laid down by negotiating among individuals. However, the negotiation is complicated by the role of in context learning, bounded rationality, individuals' behaviours and the sequential setting of conflicting goals when making decisions in a complex situation (Slater, 1997).

The outcome could be local rationality rather than perfect rationality leading to decentralized decision making processes achieving local optimization more willingly than organizational optimization. The behavioural theory has succeeded to explain the decision making process of the firm but has failed to explain the existence, cross country cultural context and business performance difference of the firm (Slater, 1997).

2.3.1.3 The Positioning Model and Resource-Based View Theories

To better understand the nature of the firm, an examination of the strategic management literature suggests that two main perspectives shape our understanding of strategy and strategic choices for achieving competitive advantage: the positioning school and the resource-based school (Teece, 2010).

The positioning school view provides an assessment of the industry structure that a firm needs to achieve a strategic fit with its environment by evaluating its competitive forces. The resource-based view provides an assessment of the resources that the firm requires to possess and dispose of a bundle of distinctive capabilities and competencies to assess how to extend its resources in order to compete (Barney, 2001).

2.3.1.4 The Theory of Innovative Enterprise

The theory of the firm is still a black box in understanding the innovation process of creating new products and services and their profitable commercialization. Economics may have had

success with developing an understanding of the consequences of technological change but the firm level and market determinants are still enigmatic.

Innovation economics focus on the theory of economic development that impact on the theory of the firm and its decision making where the continual increase of outputs can no longer only be explained by the increase of inputs used in the production process. However, the innovation process is the key to understanding the economic development with the firm playing the central role (Lazonick, 2006).

Innovation can be explored in a systems model inspired by the theories of the firm. Innovation may be concerned with the creation of new businesses within the existing business or the renewal of ongoing businesses that have become stagnant or in need of transformation. The firm can survive the competitive struggle not by varying its price and quantity but by innovating (Porter, 1990).

The firm must also understand the interaction of organizational conditions (Cognitive, Behavioural and strategic) which play no substantive role in the neoclassical theory or in the transformation of industrial conditions (technological and market) as being described in the theory of innovative enterprise (Lazonick & O'Sullivan, 2000).

Lazonick and O'Sullivan (2000) described the innovative firm that undertakes the transformation of industrial conditions through productive input resources to generate useful (high quality) and affordable (low cost) output products and services (innovative products and services) compared to the adaptive firm that optimizes conditions to technological and market constraints.

The transformation of industrial conditions, the firm faces, requires the transformation of organizational conditions of individuals' cognitive condition (knowledge), behavioural condition (motivation and incentive) and strategic condition in the firm which in turn depends on the control of the individuals with decision making power to exploit financial commitments and organizational integrations.

Integrating organizational learning within the firm can further transform cognitive (individual and collective rationality), behavioural (opportunism) and strategic characteristics of individuals in the firm to develop and utilize productive resources and capabilities and contribute successfully to innovation. The innovating firm is not concerned with cost increases and is constrained by the market to minimize profit outputs in cases where marginal cost is equal to marginal revenue in the long term (Lazonick & O'Sullivan, 2000).

In the short term, costs may increase due to the transformation of technological and market conditions but rather than accepting these conditions as constraints on the firm's activities (similar to the adaptive firm), the innovating firm produces high quality product and service outputs and declines unit costs as its market share increases.

The innovating firm becomes dominant by transforming industry cost and by competing for market share and prices that are related to the generation of surplus revenues and investment in new technologies. It can enable the innovative firm to outperform the optimizing firm (produces at smaller volumes and at higher prices) in terms of producing outputs and costs, transferring productive capabilities to produce outputs for other markets, differentiating from competitors, and gaining sustainable competitive advantage that shows differences from the neoclassical theory of marginal cost equals marginal revenue and its output and pricing decision mechanism (Lazonick & O'Sullivan, 2000).

However, the innovating firm can face fundamental challenges which include the design and implementation of opportunities and customer-value-and-captured strategies and mechanisms and not just the coordination to overcome transaction costs. The firm's strategies and mechanisms substantially influence its organizational structure, behavioural activity, relationship to market and business growth performance difference in which it engages in (Teece, 2010).

2.3.2 Attachment theory

Small businesses need to link up with other larger organization to benefit from better technology and supply chains for the supply of materials.

The idea of social networks and the notions of sociometry and sociograms appeared over 50 years ago. Barnes (1954) is credited with coining the notion of social networks, an outflow of his study of a Norwegian island parish in the early 1950s. Network analysis (social network theory) is the study of how the social structure of relationships around a person, group or organization affects beliefs or behaviors. Causal pressures are inherent in social structure.

Network analysis focuses on the relationships between people instead of on characteristics of people. These relationships may comprise the feelings people have for each other, the exchange of information or more tangible exchanges such as goods and money. By mapping these relationships, network analysis helps to uncover the emergent and informal communication patterns present in an organization which may then be compared to the formal communication structures. Recently there is a growing interest into why communication networks emerge and the effects of communication networks (Monge & Contractor, 2003).

2.3.3. Firm Growth theory

The theory of firm growth is used to describe a development process that spans either from micro to small and from small to large or from weak to strong. However, development is about more than just the growth of quantitative indicators like manufacturing value added and employment size. Development is also about the generation stage where the firm comes into being and the periodic processes involved in each stage.

At the same time, the growth of the firm itself is a complex adjustment process that is different from the simple extension of scale. Growth necessitates balancing the various intra-firm relations and the firm's relations with external actors and organizations and consists of moving from imbalanced to balanced growth.

Therefore, firm growth implies a development process where a firm manages to maintain balanced growth in total performance (including, but not limited to real values of capital investment, output, sales volume, profits and asset growth) or keeps realizing large enhancements of total factor productivity (TFP) performance (Sun, 2004).

2.4. Empirical Analysis of Challenges facing SMEs

However, the URT SMEs policy recognized that SMEs are confronted with unique problems including heavy costs of compliance resulting from their size. Other constraints included insufficient working premises and limited access to finance, Business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are undeveloped and not readily available.

SMEs lack information as well as appreciation from such services and can hardly afford to pay the services. As the result, operators of the sector have rather low skills. Institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector (URT, 2003).

2.4.1 External challenges hampering the growth of SMEs in food industry at Mwanza City

According to Morrison (2006) businesses are affected by external macro-environments that they cannot control such as political, economic, social, technological, environmental and legal factors which can rarely be influenced by management decisions since they are external to the company, in other words, they are beyond the control of SMEs.

Competition

By entering into competition an organization is searching for competitive advantage which to a great extent depends to the success of the business. SMEs are generally facing low competitiveness in terms of knowledge, innovation, prudent investment, business operation, and good management, which are important factors required to elevate the quality level (OSMEP, 2007a).

Developing countries are facing competition from other countries due to globalization and trade is increasing but restrictions generally favour developed countries (Lind, 2009b). The competition is increasing from transnational firms that have advantage of high levels of know-how within management as well as increased competition from foreign firms due to Free Trade

Agreements (FTA) (OSMEP, 2007a). Numerous SMEs find difficulties in complying with regulations set up by organizations such as the World Trade Organization (WTO), in other words technical barriers to trade due to poor quality.

It is important that in any discussion of competition to recognize that, entering into competition an organization is seeking competitive advantage. This competitive advantage is the key of corporate success (Lind, 2009c).

A survey for SMEs in developing countries was made by World Bank. The survey demonstrates that to any individual firm, competition poses a threat to survival. Even though competition is a threat to survival, it is the competition that drives firms to improve productivity and therefore drives growth.

Hence, as Lind (2009b) argued, SMEs must understand that the most important in business is not to compete in price since it can hamper their growth. Therefore, SMEs need to concentrate in increasing added value in order to enhance competitiveness and stay out of the vicious circle.

Globalization

Perhaps the most significant source of change impacting many organizations today is the increasing globalization of organizations and management. This occurs because firms need to control costs, especially to reduce labor costs. Of course another reason why firms are becoming more global is the response to competition.

According to Griffin and Moorhead (2009) SMEs that are internationally active are generally growing faster than their domestic equivalents. This gives pressures to SMEs to develop environmental strategies to remain competitive. Many SMEs lack the resources to meet the global challenge to internationalize.

Economic crisis

According to Cheah and Cheah (2005) economic crisis has constrained the development process in many developing countries which has a great impact on SMEs as they play an important role in these countries. It is argued that SMEs in developing countries are more vulnerable to economic crisis and due to their small size they have limited resources such as finance, knowledge, technology and skills (Cheah and Cheah, 2005).

Consumer behaviour

Consumer behaviour pressure SMEs to constantly adapt in order to meet changes in demand for instance the spread of consumer awareness of sustainable development and environmentally friendly products force firms to adjust their business (OSMEP, 2007a). Cheah and Cheah (2005) argued that it is an opportunity for SMEs to incorporate sustainability policies in their business strategies and operational activities, though, there is a need for more institutional support and governmental encourage to promote the benefits. In addition, Hassan and Agus (2005) stated that demand is changing due to globalization which also has a great impact on SMEs.

Governmental policies

The significance of SMEs within an economy emphasize the importance of having governmental policies that support SMEs, issuing regulations that help them and their ability to operate efficiently and regulations that imply low administrative costs (Harvie & Lee, 2005b). Although there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, there is still a lack of laws, administrative procedures and access to assistance from governmental agencies (Harvie, 2005).

The World Bank researchers argued that constrains that is facing the growth of SMEs is complex tax systems. Also another shortcoming in South Eastern Europe is low level of trust in the court system to enforce claims and the need to pay significant bribes for access to basic public services.

For SMEs to close the gap with their larger counterparts in the world of technology, further action by regional governments will be required. Actions need to be done in improved infrastructure, costs and IT training and in information relating to the business opportunities (Harvie & Lee, 2005b).

Access to finance

According to Asian Productivity Organization (2001) and Sleuwaegen and Goedhuys (2002) insufficient capital or lack of financial sources is the major obstacle for SMEs and usually entrepreneurs need to utilize personal financial sources to start up their business and to expand the operations since the internal financial sources are normally insufficient. Nichter and Goldmark (2009) claimed that there are policy biases towards large enterprises and small firms face problems in growing due to lack of access to finance.

SMEs have difficulty in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions (Leopairote, 1997). Moreover, SMEs in developing countries generally do not get accepted formal bank loans (Nichter & Goldmark, 2009) because of perceived high risk of default, low profitability and incapability to demonstrate required physical collateral (Harvie, 2005).

According to Guffey, business plan is essential when you start your own business. Unless you can count on the bank of your relatives you will need financial backing such as a bank loan or venture capital supplied by investors. A business plan is critical for securing financial support. (Guffey, 2008).

Throughout the region, SMEs do not have an easy access to credit and equity finance. This is because of the weak banking institutions in the region, the absence of capital markets and the weak legal framework for credit and collateral.

Finance in general are critical issues for growing businesses, forming the primary resource base from which other factor inputs are acquired. There are various ways the business owners can

finance the growth of their firms but the fundamental decision is whether or not to accept external equity finance return for part ownership of the business. If owners allow external equity finance they choose to relinquish part of their control to either a financial institution or other individuals.

Financing the firm is essential and getting access to finance plays a crucial role on firm's growth process. For many lenders it is almost impossible to assess the risks of an investment this is mainly because of the high level of uncertainty (World Bank, 2001).

Access to credit

Available literature shows different arguments towards financial institutions in providing credit to the poor people. Kimei observed that, there is a bureaucratic procedure in accessing credits from these institutions especially to the poor. He observed in the case of Tanzania that most credit schemes are limited to the elite people rather than people who are poor. Most of the poor people, who borrow funds, come from the informal sector but claimed to be constrained by lack of understanding modes of funds delivery. However, he adds that, formal sector may adopt features of the informal sector. Sometimes, this may create or strengthen linkages between the local knowledge of the informal agents and greater financial resources of the formal sector to the mutual benefit of both.

Geographical location

According to Macpherson and Holt (2006) geographical location has an impact on firm growth. Sleuwaegen and Goedhuys (2002) argued that some of the main determinants of location are the availability of industrial sites, infrastructure, distribution and transport logistics, subcontractors, access to raw materials and skilled labour.

APO (2001) highlighted the problem for SMEs outside the Bangkok region to access information; they have less knowledge regarding tax, governmental regulations, marketing opportunities and production technology. Additionally Macpherson and Holt (2007) stated that if

an enterprise chose its location strategically such as near to universities or a science park, then the firm could benefit by formal or informal contacts since these institutions could provide resource advantages that reinforce existing technological and managerial skills.

The location of business must be accessible to the customer base and should be built to ensure efficient accessibility for future clients. When choosing a location the business must take into account the costs of moving or establishing their business in the location.

According to one online article source (ezinearticles) when choosing locations many different factors must be taken into account. The labor costs, transport, proximity to suppliers, workforce disruption, language factors, and exchange rates are some of the essential location factors. According to Herzog et al, the change that initiates a location search is the need for new production capacity to meet market demand. The change that initiates a location search could be changes in perceived market opportunities or changes in the entrepreneur's own situation. After location consideration the decisions makers can gather information on the tax levels, wage rate levels and other cost levels at various locations (Herzog, 1991).

Corruption

Corruption has been a serious problem in Tanzania for many years. It has been widespread, deeply rooted, well organized and tolerated. The perception of corruption in Tanzania has been increasing over the past years. In terms of business, companies consider corruption to be a large barrier when doing business in Tanzania along with hidden costs related to government, policy instability and inefficient government bureaucracy.

Transparency International (2008) highlighted that in the case of SMEs, bribery is an even more problematic issue since they may feel powerless in the face of demands for bribes and are often unaware that bribery can be resisted.

2.4.2. Internal challenges hampering the growth of SMEs in food industry at Mwanza City

According to Morrison (2006) internal factors within an organization reveal how management decisions and the features of a company can affect on the decisions taken regarding the growth of a firm. Factors that are frequently considered part of the internal environment include the marketing objectives, Human Resource strategies such as employee motivation, staff turnover and provision of training, leadership styles, investment in R&D and its organizational culture (Morrison, 2006).

Management competence

Macpherson and Holt (2007) and Barratt-Pugh (2005) claimed that firm growth is dependent on managerial knowledge. In comparison with Large Enterprises (LEs), managers in SMEs are generally less trained (Tannock, 2001) consequently, they choose poor production technology, do not use proper accounting systems and underestimate required funding (APO, 2001).

Generally SMEs spend less on formal training than LE due to financial limitations and the fact that it can be difficult to take employees out of the production (Thassanabanjong, 2009; Tannock, 2001). Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees (Thassanabanjong, 2009). Managers of SMEs fail to listen to employees who really understand the process and product (Tannock, 2001).

Another problem, due to lack of management knowledge, identified by Lind (2005) is the lack of communication between the supplier and the customer in many developing countries. Lind highlighted the importance of listening to the customer requirements in order to understand their expected and perceived benefit of the product. The goal of the customer's customer concept is to comprehend how a firm's products and services can contribute to improving the customer's business with his customers (Lind, 2005).

Entrepreneurial influences

The entrepreneurs' personality and behavior are to be causal factors for or against growth orientated achievement. It is characteristic of small business that power decision are centralized at the level of owner manager, so his or her personality, skills, responsibilities, attitude and behavior will have decisive influence on business strategy (Levy & Powell, 2005).

Lack of skilled labour

Lack of skilled labour is a hampering factor for SMEs in developing countries (Sleuwaegen & Goedhuys, 2002). According to (Holden, 2007) firms in all sectors and of all sizes can progress through greater use of graduate labour but there is generally a mutual distrust between graduates and SMEs.

APO (2001) highlighted the lack of skilled labour as one of the most crucial obstacles for SMEs, thus, it is difficult for them to attract highly educated workers and retain skilled employees (high labour turnover) since they prefer to work for LEs that can offer higher salary, job security and career possibilities, resulting in a slowdown in workforce development which has a negative impact on the quality of goods and services (OSMEP, 2007a).

Massawe (2005) conducted a study on SMEs operators in Tanzania and found that they have rather low business skills and seem not to appreciate the importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries.

In order to meet the demands of the fast changing work environment which is typically associated with SMEs it is essential that smaller firms ensure that they are able to attract, retain and motivate high quality employees with effective transferable skills through the existence of a strategic training plan and a specific budget for training.

Marketing

Sustainability of a firm depends largely on its performance in the marketing. Unfortunately, many enterprises are facing problems of marketing due to poor quality of products, poor packaging, inadequate marketing skills and stiff competition. Inadequate marketing services have been prohibiting SMEs to become competitive in local and international markets.

According to Brush (2009) marketing is another obstacle for companies to grow since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales.

Furthermore, the OSMEP (2007a) identified other aspects such as the understanding of the domestic and international marketing, lack of capabilities to create innovation, image, exclusive branding and the lack of appropriate support from marketing infrastructure.

SMEs generally do not have the knowledge or information about other markets. Thus, this limits their ability to market their products to larger groups of customers and expand their business (APO, 2001). Though, Brush (2009) argued that massive marketing campaigns are not the best form to achieve success, conversely, close personal relationships, word of mouth referrals, repeat business and niche marketing efforts have proved to be more cost effective and successful.

Information

In this millennium information has become a prime mover of all economic undertakings. However, the situation of SMEs in Tanzania is that of limited access to information caused by lack of awareness on its importance and the prohibitive costs of acquiring the same (Massawe, 2005).

Technology

SMEs tend to have low productivity and they are weak in terms of competition which is the result of using inadvanced technology, not maximizing machinery utility and not improving in technology due to the limitation of funding and most SMEs are mainly users of technology but not adaptors of technology (OSMEP, 2007a). Many managers are not aware of applying the accurate technology in their business and they do not have the ability to choose appropriate technology for their business.

The World Bank (2009) claimed that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value added products that will improve the competitiveness for firms.

Additionally, it is crucial for small firms to make the most strategic business decisions hence government support of technology initiatives and networks with research institutions should assist SMEs in terms of technological development (Courseault Trumbach, 2006).

Research and development (R&D) - Innovation

The impacts of globalization have pressured SMEs to greater demands (Raymond & St-Pierre, 2004). Particularly in the manufacturing sector SMEs are facing a pressure to increase R&D, innovation and quality. Innovation relies on bringing together different types of research and utilizing this knowledge to design new products, thus, innovation increasingly depends on links between scientific research and industrial R&D and without a R&D focus, companies risk falling behind competitors in innovative new products (Morrison, 2006).

Normally developed countries allocate about 3% of GDP to R&D activities. Some developing countries including China, India and Brazil have rapidly increased their R&D expenditure to levels with those of the world's most developed countries (Morrison, 2006).

Thus, there is a need to increase government subsidies in terms of R&D support in order to gain competitive advantage over foreign competitors (OSMEP, 2007b; Morrison, 2006). Furthermore,

there are many SMEs managers in Tanzania that lack in education, knowledge and capability to drive advanced development in terms of innovation which consequently leads to technological weakness in Tanzania companies.

Innovation also plays a crucial role in nowadays business and it is regarded as a key characteristic of SMEs mainly due to the attitude of the manager. Innovative companies are able to respond within the bounds of the knowledge about existing products or services to changes required by the customer within their niche market (Levy & Powell, 2005).

Corporate Social Responsibility (CSR)

Environmental degradation is a global problem of increasing concern throughout society and among consumers (European Commission, 2007). The concept of CSR is usually associated with LEs and SMEs are generally assumed to be more focused on economics purposes rather than social mostly due to their relatively limited financial resources. As a consequence these types of limitations increase weakness and disadvantage of SMEs when compared to LEs (OSMEP, 2007b). Though, SMEs generally have close relations with employees, the local community and business partners and they are typically not less responsible than LEs but they may not know and use the term which limit them to take advantages of promoting CSR (OSMEP, 2007b).

2.5. The Rationale for emphasizing on SMEs growth challenges in Mwanza City

SMEs are important to almost all economies in the world, but especially to those in the southern hemisphere.

SMEs play significant contribution in the transition of agriculture led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process. SMEs shore up the expansion of systemic productive capability. They help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. Such linkages are very crucial for the attraction of foreign investment. Investing transnational corporations look for sound domestic suppliers for their supply chains (Fida, 2008).

Politicians, academicians and developmental economists are of the view that enhancing small business development and promoting entrepreneurship would be a good strategy to contribute and promote economic development. From the view point of economic development, small businesses create almost half of new jobs in the economy and it is assumed that they are good jobs (Edmiston, 2007).

One of the main characteristics of the informal sector of the economy is its flexibility in the production. Successful businesses are those that continuously introduce new and improved varieties of products. Small businesses are more flexible and better able to adapt to market conditions. Therefore, it is important to create an environment conducive in which small businesses can operate, innovate and create needed jobs as a strategy to better economic development (Edmiston, 2007).

At the core of urgent efforts to improve the economic situation of developing countries, a strong focus on macroeconomic stabilization including the promotion of SMEs, the pursuance of massive trade and investment liberalization programme are vital to encourage foreign direct investment. In order to achieve this, the country should move toward relaxation of most restrictions on current and capital transfers, introducing tax relief to investors as well as improve access to foreign exchange at near market rates in order to create a conducive environment where small businesses could be promoted (DTI, 2004).

In the economy of the United States (U.S), small businesses are considered as job creators and are what really drive the US economy. Small business with fewer than 500 employees drives the U.S by providing jobs for every half of the nation's workforce. During 2001-2002, small businesses with less than 20 employees increased employment by 853,074. Small businesses represent 99.7% of the firms, creating more than half of the private non-farm gross domestic product including 60 to 80% of the net new jobs in the economy. In 2004, there were an estimated 23,974,000 businesses in the U.S, of which 5,683,700 were small businesses who employed about 5,666,600 people (Longley, 2006).

From the socio-economic development viewpoint, SMEs provide a variety of benefits (Advani, 1997). SMEs have advantages over large-scale businesses because they can adapt easily to market conditions and they can withstand adverse economic conditions given their flexible nature. They are more labour intensive than larger firms and they have lower capital costs associated with job creation. They play critical roles to ensure market stability, employment and economic growth (Schmitz, 1995).

The contribution which small businesses can make to national economy and wealth creation need to be recognized by the government from the beginning and be considered as part and parcel of the economic development process. Small businesses which can be defined as small firms with less than 500 employees are integral part of any national economy (Edmiston, 2007).

They employ more than half the workforce in the private sector , generate about three quarters of net new jobs each year and produce more than half of the private sector's output. SMEs defined as businesses with fewer than twenty employees in New Zealand, accounted for 39% of total value added output in 2004, upwards of 2% points from the previous year. SMEs accounts for 96% of all enterprises in New Zealand. The labour led government recognizes SMEs as one of the drivers of the economic transformation envisaged in the country (Dalziel, 2006).

From the discussion so far, it is clear that, no single definition of SMEs is acceptable in the literature as the best way of describing the SMEs. It is however, observed that there is a general consensus on the significance of SMEs in the process of economic growth especially on the part of those countries belonging to the southern hemisphere.

CHAPTER 3

RESEARCH METHODOLOGY

3.0. Introduction

This chapter presents the overall research design, location of the study, sample of the study, sample size, sampling techniques that were used to select respondents, nature of the study, data collection techniques that were used to collect relevant information and data analysis as well as sources of data collection techniques.

3.1. Research Strategy

The research strategy for this research began by gathering and studying some background information regarding the situation of SMEs in the food industry at Mwanza City. Thereafter, the research questions were decided. Questions for the interviews were structured based on the research from significant literature within the SMEs area.

3.2. Research Methods

This study combined both qualitative (semi-structured interviews) and quantitative (questionnaires) aspects at many methodological steps so as to obtain primary data.

Qualitative approach refers to case studies where the collection of information can be received from a few studying objects. Furthermore, qualitative methods emphasize on understanding, interpretation, observations in natural settings and closeness to data with a sort of insider view. The benefit of applying a qualitative method in a research is that the method takes into consideration the overall picture in a way that the quantified method cannot.

Since this study is researching on what challenges are hampering SMEs growth, a qualitative approach was used more as it is an appropriate method to conduct exploratory research on SMEs due to the fact that perceptions, beliefs, ideas and opinions are difficult to measure in a quantitative way. By thoroughly studying each firm, its internal behaviour and its external

elements by using qualitative methods, it was possible to understand perceptions and opinions regarding challenges hampering the growth of SMEs in food industry at Mwanza city. However, quantitative methods were used in this research in order to determine the nature of relationship between the variables of the study, to identify challenges which are more influential and specific for the growth of SMEs in food industry at Mwanza city and to measure if these firms have been growing or not. Quantitative data were collected by means of questionnaires so as to obtain information from selected SMEs regarding added value production, number of employees and challenges affecting their growth potential.

3.3. Study population

The target population for this study was SMEs in the food industry at Mwanza City. The segment of the population that was selected for this research, in other words the sample, was based on a non-probability approach which means that the sample was not chosen by using a random selection method. Thus some organizations are more expected to be selected instead of others (Bryman & Bell, 2007).

After selecting the organizations, the subsequent task was to select the persons to be interviewed. The importance of interviewing the right person who has a central position within the company or organization was crucial since it limited the risk of misrepresentations due to a lack of knowledge and increased the accuracy of the answers.

3.4. Sample size

This study focused on four SMEs (FURAHA, NDIYO, KUKU POA and SIMBA) in food industry at Mwanza city. Managers working closely with this issue in these entities were chosen as respondents since they were considered the most appropriate contributors to find possible answers to the research questions.

3.5. Sampling techniques

This study employed a non-probability approach which means that the sample was not chosen by using a random selection method. Thus some organizations in food industry at Mwanza city were more expected to be selected instead of others.

3.6. Scientific approach

There are generally two different theories of the nature of the relationship between theory and research. These are deductive and inductive theory. It is basically the question whether data is collected in order to test theories or whether to build theories (Bryman & Bell, 2007).

In inductive theories conclusions are derived from empirical observations leading the researcher to theories and hypotheses. Although hundreds of observations are carried out, researchers can never achieve 100 % certainty about the inductive conclusion (Ghauri, 1995).

On the other hand, in deductive approach theory is considered in order to work out hypotheses and tested by data collected thus rejecting or accepting the hypotheses (Ghauri, 1995).

3.7. Data collection

Ghauri (1995) stated that when using a special technique for collecting data the collected data can be either primary or secondary. Bryman and Bell (2007) goes on by saying that primary data is information that the researcher gathers on his own, for instance by using interviews, questionnaires and tests. On the other hand, secondary data refers to the data such as literature, documents and articles that is collected by other researchers and institutions.

In this study both primary and secondary data were collected. The secondary data were critically evaluated and collected from books, scientific articles, company reports and internet sources in order to obtain some better insight of the situation of SMEs in Mwanza and to support the theoretical as well as methodological part of the research.

The primary data were collected by qualitative interviews and open-ended questions with each firm's respective manager.

3.8. Interviews

Due to the magnitude of the studies, there was a need to collect as much significant data as possible from the selected managers of SMEs in order to be able to accomplish a deeper understanding of the external and internal challenges hindering the growth of SMEs in Mwanza.

In this study a semi-structured interview technique was used. The reason for choosing the semi-structured interview technique was essentially to encourage the interviewees to freely discuss their own opinion on what is hampering the growth of their firms. This method with open-ended questions allowed adjusting questions depending on the attributes of the specific firm and the given type of problems that they faced.

According to Darmer (1995) the semi-structured interview is neither a free conversation nor a highly structured questionnaire. Semi-structured interviews provide the opportunity to regulate the order of the questions and the respondents have the possibility to expand their ideas and speak in great detail about diverse subjects rather than relying only on concepts and questions defined in advance of the interview. In other words, semi-structured interviews are more flexible than standardized methods such as the structured interview or survey.

3.9. Reliability and validity

The two concepts reliability and validity are very important to take into consideration when carrying out a qualitative research since they help to determine the objectivity of the research. Reliability and validity could be seen as two different measurement instruments that illustrate the level of trustworthiness and credibility of a research.

Bryman and Bell (2007) explained that reliability and validity are separated into internal and external concepts:

3.9.1 Data Reliability

Internal reliability refers to whether there is more than one researcher within the study group thus the observers can agree as regards to what they see and hear.

External reliability means to what extent a research can be completed again with results comparable to the original study. It might be difficult to achieve high external reliability since the scene and the setting is likely to change from the time of the original research to the time of a second one.

However, a strategy mentioned by Bryman and Bell (2007) is to adapt a similar role as taken on by the original researcher in order to be able to replicate the initial research. Subsequently, to achieve high reliability in this study, this chapter described in detail the process of gathering data as well as how the interviews were performed.

3.9.2 Data Validity

Internal validity refers to what degree the researchers are able to agree and come to same conclusions. That is if there is a good match between their observations and theoretical thoughts that they expand throughout the research. Internal validity is usually perceived as strength within qualitative research since the researchers tend to observe the social setting over a long period of time which generally results in excellent correspondence between observations and concepts (Bryman & Bell, 2007).

External validity, on the other hand, can be seen as a problem within qualitative research since it refers to the extent that findings can be applicable in other social settings and qualitative researchers generally make use of small samples and case studies (Bryman & Bell, 2007).

3.10. Data Analysis

The data analysis in this study included both qualitative and quantitative approaches. The quantitative data were analyzed using SPSS package (descriptive statistics).

The qualitative data analysis followed the strategy of analytic induction. This refers to examining of similarities between various social phenomena in order to develop concepts or ideas through a systematic approach. Analytic induction allows for modification of social concepts and their relationships throughout the process of doing research (Ragin, 1994).

The aim of qualitative data analysis is to transform and interpret qualitative data in a rigorous and scholarly manner (Sarantakos, 2005).

Consequently, the following steps were taken to analyze the data for the study. The data were edited to detect and correct possible errors and omissions that were likely to occur so as to ensure consistency across respondents.

The Statistical Package for Social Science (SPSS) was used to analyze the data obtained from primary sources. Specifically, descriptive statistics (mean and standard deviation) were taken from this tool.

Descriptive analysis was used to reduce the data into a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation). The reason for using descriptive statistics was to compare the different factors. Besides, the interview questions were analyzed using descriptive narrations.

CHAPTER 4

RESULTS AND DISCUSSION

4.0. Introduction

This chapter highlights the results of the empirical data collected from the conducted qualitative interviews as well as findings from quantitative data researched. This chapter will have two parties.

The first part of this chapter describes the results of the interviews conducted with operators of selected SMEs (FURAHA, NDIYO, KUKU POA and SIMBA) in food industry at Mwanza city which will be presented with the discussion of major challenges affecting their potential growth.

The discussion of challenges limiting SMEs growth will be divided into two groups:

First group are the challenges that originate from within the firm (in other words they are internal to the firm) and the second group is challenges that originate from outside the firm (these are external to the firm).

The second part describes the results of Measures of Central Tendency and Dispersion (Mean, Median and Standard deviation) obtained through descriptive analysis of data obtained from the questionnaires distributed to operators of selected SMEs. These descriptive results will be presented together with the responses of interviewees from the selected SMEs.

4.1. Analyses of challenges hampering the growth of SMEs in food industry at Mwanza City

In this part, external and internal factors hampering these SMEs to grow are analyzed. Several important factors have been identified through the theory and the empirical investigation conducted. Therefore, this section will highlight the most important obstacles to grow.

4.1.1. Internal challenges limiting the growth of SMEs in food industry at Mwanza city

These have to do with the characteristics and attitude of the entrepreneur(s) and the firm as a whole. These factors can be impacted by the decisions made in the firm either by the entrepreneur(s) or the staff in the firm. These factors are as listed below:

Table 4.1. Internal factors limiting the growth of selected SMEs in food industry at Mwanza city:

INTERNAL FACTORS	FURAHA	NDIYO	KUKU POA	SIMBA
Lack of motivation and drive				
Background and experience				
Capital constraint				
Lack of a proper business plan/vision				
Theft/cheating and lack of trust				
Poor management				
Lack of proper record keeping				
Inadequate education and training				

Table 4.2. Internal factors limiting the growth of selected SMEs in food industry at Mwanza city:

People factor				
Technological challenge/barrier				
Research and development-Innovation challenge				
Marketing challenge				

Key:

- Element mentioned by the particular SME as an internal factor limiting its growth.

Entrepreneurial challenge

This includes the following factors from table 4.1 above:

People factor

The people factor/lack of needed talent is another problem mentioned by interviewees from the selected SMEs in food industry at Mwanza city. From interviews conducted with operators of the selected SMEs in food industry at Mwanza city, operator from SIMBA is the only one who mentioned lack of people needed as a constraint to growth of their entity.

At times the business is in possession of needed talent but these fail to deliver up to their full potential either because of mistrust or low salaries. In the case of Tanzania, mostly because entrepreneurs want to cut costs they employ cheap labor. What is often done is that they hire unemployed relatives to help out in their businesses in return for compensations such as food allowances or other favors instead of actual cash payment.

This has costed many small business owners since these workers don't take business seriously as they know they are owned by their relatives and Tanzania being a high context culture, firing a relative is close to impossible because of face losing. In the long run it is the firm which suffers as it is constrained from growing. So without proper labor force, productivity is low in terms of quality and quantity.

Inadequate education and training

Education is a key constituent of the human capital needed for business success. It is argued that education and training provides the basis for intellectual development needed by entrepreneurs for their business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients. Respondents from FURAHA, NDIYO and KUKU POA, didn't mention inadequate education and training as a constraint to their business growth but respondent from SIMBA mentioned it as one of the internal constraints affecting the growth of their firm.

Lack of proper record keeping

The improper record keeping comes as a result basically of inadequate education and training in business. Because of this a firm loses track of its cash flows and in turn leading to cost control and liquidity problems. If the records of the transactions a business undertakes are not kept properly, growth cannot be achieved since the firm loses track of where it is heading. Interviewees from the selected SMEs in food industry at Mwanza city didn't mention improper record keeping as a constraint to their respective SME growth.

Lack of motivation and drive:

This has to do with the main reason(s) for the entrepreneur(s) establishing the business and the relationship of this with the growth of the firm. It is clear that there are positive and negative motivations for starting a business and it is quite obvious that positive motivations of the entrepreneur(s) are more likely to establish a business that grows than those with negative motivations.

Positive motives include such things as the perceptions of high demand for a product and market opportunities while negative motives include such things as dissatisfaction with an existing employer. Also included here are the entrepreneurs starting a business with no clear visions for their business meaning they are just about being in business to earn normal income to meet their basic human needs. Even though the results in this study show only respondent from SIMBA who claimed their business was constrained by lack of motivation and drive, it has been proven that this is a major constraint to many small business owners.

A study by Barkham (1992) showed a positive relation between the motivation of the entrepreneur(s) and the growth of the firm; in other words the more positive motivation of the entrepreneur(s) the more likely the business will grow.

Management challenge

This involves the following factors from table 4.1 above:

Poor management

This can be categorized in two parts these being poor management experience and lack of management training. It is argued from a theoretical perspective that management experience and continuous training provide a particular entrepreneur with the necessary skills and competences needed for successful entrepreneurship (Casson, 1982).

With adequate education mixed with management experience and training puts a manager in a better position to make tough decisions and forecasts under conditions of uncertainty which in turn with those competencies making these particular managers perform better than untrained individuals.

Research conducted in 2007 about determinants of small business growth in Nigeria by Okpara, shows that firms which provide management training are more likely to grow faster than the firms with no management training. Here it is argued that prior experience of the manager in

dealing with particular type of tasks is likely to supplement the expertise of the entrepreneur and enable business objectives to be more easily achieved.

In the results of this study as shown in the table above, all interviewees from the selected SMEs in food industry at Mwanza city raised the issue of poor management as a constraint to the successful growth of their entities.

Improper professional advice and consultation

The improper professional advice and consultation as a factor limiting SME growth is of great significance. In this aspect the sources of information and advice that business owners use or seek are analyzed. Professional advices include those from lawyers, banks and consultants.

The advices commonly sought are those in the areas of financial management advice, market research, business strategy, public relations and advertising and personnel and recruitment matters. The key point here is showing how these services influenced the growth of small firms. As shown in the table above, all respondents from selected SMEs in food industry at Mwanza city didn't mention lack of advice and consultation as a constraint to the growth of their business since they all sought advices from professionals and they were performing better.

It has been found that more rapidly growing firms are more likely to have sought and used information and professional advice from external sources than other types of small firms. But to sum it up on this matter, it is difficult to infer how the provision of these advices caused the growth of the selected firms.

Lack of background and experience in the business

It is hypothesized that background and experience are likely to be associated with more rapid growth of the selected SMEs in food industry at Mwanza city. This is so because experience automatically gives the entrepreneur(s) or manager(s) adequate managerial capabilities to handle and overcome more easily the problems which are experienced as the new business grows.

Background and experience in this context implies prior self employment, prior employment in the same business and prior business failures. It is shown in the table above that, interviewees from SIMBA linked lack of background and experience as a factor limiting the growth of their SME.

Theft and lack of trust in doing business

Theft/cheating and lack of trust in doing business on the other hand seem to have prevailed in the Tanzanian small business community. As evident in the study, all interviewees from FURAHA, NDIYO, KUKU POA and SIMBA have had a case of theft/cheating and lack of trust in their business. This can be linked to the fact that the economy of the country isn't as good and therefore salaries of normal Tanzanians aren't really enough to meet daily human needs.

A study on small entrepreneurship in Dar es Salaam by Mfaume conducted in 2004 shows a close relationship between poverty, theft/cheating to corruption and bribery in affecting small firm growth. This is as such that people working in these small firms normally are looking to make money above their normal pay even if it means that they receive black money. People are ready to go as far as bankrupting the owners business so long as they are in a position to do so and earn a better living for them and their respective families.

Lack of strategic business planning (lack of a proper business plan)

Coming down to the matter of lack of a proper business plan/vision for the business, it is evident that firms which have no proper business plans at start face the most challenges during the course of their lives. It is emphasized that a formal plan for a business is needed in order for proper goals and objectives of the firm to be laid out in the open so that the team in the organization/firm works together for the same goals in their minds.

Also the business plan is important since it is helpful in monitoring the extent to which these plans are successful in terms of materialization and it provides the opportunity to review reasons as to why the plans and outcomes differ. In addition a business plan is an important tool in

securing loans from financial institutions as evident in the interview with operators of the selected SMEs in food industry at Mwanza city although none of them mentioned it as constraint to their respective SME growth since both of them claimed to have proper business plans for successful growth of their entities.

Financial challenge

This includes the following factors from table 4.1 above:

Capital constraint (shortage of working capital)

Despite the constraint of raising funds from financial institutions being raised by the business owners, it is indeed a surprise as to why other sources of financing are overlooked; these being for example selling shares or part ownership to other parties such as business angels or financial institutions or venture capitalizing.

A study by Kuzilwa (2005) suggested that small entrepreneurs are reluctant to sharing ownership which leaves them opting to short term debt financing which may constitute a constraint upon the growth of the business. It has been argued that the businesses which shared or were willing to share part of their ownership with other parties were likely to grow or have grown rapidly than the businesses which didn't share equity (Kinsella, 1993).

In the results, all respondents from selected SMEs pointed out capital constraint as a limiting factor to the growth of SMEs in food industry at Mwanza city.

Technological challenge

This includes:

Lack of appropriate machinery and modern equipment/tools

Furthermore, another factor limiting the growth of SMEs in food industry at Mwanza city is technological barrier. It is argued that the firms that adopt modern technological tools in their

business are more likely to cause the business to grow faster than small business without modern technological tools (Gardias, 2006).

This is basically because modern tools enable efficiency and effectiveness to be achieved in doing business, therefore saving money, time and energy. However because of the poor economic conditions and low level of education, business people in Tanzania see it as a disadvantage to invest in technology since its benefits are not easily realized in the short run.

If only education about the benefits of modern tools is provided, SME growth would be materialized heavily across the country and the whole of East African region.

Lack of money to acquire new technology and inability to select proper technology

SMEs in food industry at Mwanza City tend to have low productivity which is the result of using inadvanced technology, not maximizing machinery utility and not improving in technology due to limitation of funding (OSMEP, 2007a). They do not know where to look for information regarding technology, how to choose the right option and many look at what their competitors buy and copy them. In addition, they have limited resources and do not afford to invest in new technology.

In this study, all interviewees from FURAHA, NDIYO, KUKU POA and SIMBA raised technological barrier as a constraint to their respective firm growth.

Research and development-Innovation challenge

Innovation progressively depends on links between scientific research and industrial R&D (Morrison, 2006). Raymond and St-Pierre (2004) put emphasis on how the impacts of globalization have pressured SMEs to greater demands. On the other hand, Mwanza SMEs put little focus on innovation and in addition the government is not very supportive in terms of encouraging SMEs to engage more with R&D activities (OSMEP, 2007b).

However, the cooperation between universities, government research centres and firms is still weak. In addition, the government has very limited budget for innovation. Other constraints are that SMEs have little ability to innovate and they are reluctant to invest in R&D due to their financial limitations. Furthermore, the interest and awareness for innovation is low since many SMEs do not find relevant benefits by innovating in terms of production, organization and marketing.

In this study, all interviewees from FURAHA, NDIYO, KUKU POA and SIMBA raised the challenge of research and development as a constraint to their respective firm growth.

Marketing challenge

Marketing includes selecting customer target groups and gathering information on them to determine acceptable products and quality levels. It also covers price setting and choice of appropriate promotion techniques and distribution channels. Marketing also involves decisions on customer service and support.

It is the one and only functional area that links the products or services of a business to its customers. Sustainability of a firm depends largely on its performance in the marketing. Unfortunately, many enterprises are facing problems of marketing due to poor quality of products, poor packaging, inadequate marketing skills and stiff competition. Inadequate marketing services have been prohibiting SMEs to become competitive in local and international markets.

In this study, all interviewees from FURAHA, NDIYO, KUKU POA and SIMBA raised marketing challenge as a constraint to their respective firm growth.

4.1.2. External challenges limiting the growth of SMEs in food industry at Mwanza city

These factors have to do with decisions, rules and policies that affect a small firm directly, and in response the firm has no really control over the decisions made but an influence to a change of their existence is possible. These factors originate from outside the firm.

They are as follows:

Corruption, Competition, Government policy, Technological barrier, in access to finances, Bureaucratic processes and Unfavorable economic factors.

Table 4.2. Illustrates the responses of the interviewees in relation to the above listed external factors limiting growth of selected SMEs in food industry at Mwanza city:

EXTERNAL FACTORS	FURAHA	NDIYO	KUKU POA	SIMBA
Corruption				
Competition				
Government policy				
In access to finances				
Bureaucratic processes				
Unfavorable economic conditions				

Key:

- Element mentioned by the particular SME as an external factor limiting its growth.

Corruption

As a constraint, corruption prevents fairness to prevail and therefore it is to a large extent a cost/expense to a business owner or individual, the community and the government as a whole. As corruption deprives people of their rights, this means businesses cannot be established by deserving individuals; customers and buyers of products are reaped off (prices become high) since businessmen want to compensate for the money paid out as bribery, productivity is lowered, customer loyalty and demand falls as a result and then therefore growth of small firms affected in a negative way.

The problem of corruption was raised by all interviewees from selected SMEs as a barrier to growth of their respective entities as shown in the table 4.2 above.

Competition

Competition on the other hand was not mentioned by respondents from all selected SMEs as a barrier to growth. The nature of the market into which a firm operates is a key influence upon its growth (Storey, 1987). It is argued also here that the low growth firms seem to have the poorest understanding of their competitors.

In this particular study, competition was not raised by all interviewees as a growth challenge to their entities and no clear relationship can be drawn of competition limiting small firm growth. Instead competition should be a driving force for small firms to strive to perform better than their rivals hence favoring growth.

Government policy

Moreover, there is a matter of government policy concerning SMEs. The policies are there but they aren't really benefiting the majority in developing countries. Taking the case of Tanzania, the government has discovered the importance of small firms in boosting the economy and therefore it has an SME reform policy. In this policy the main aim is to provide government support promoting growth to SMEs in the form of loans at subsidized interest rates, free or subsidized information and advice, and ensuring smaller firms get shares of government

contracts. Many organizations have been established to ensure these activities run smoothly for example SIDO and TCCIA. But the major problem remains that many small owners are not made aware of these services and surprising enough the minority ones benefiting from these schemes or services are the large scale businessmen.

In this study, interviewees from NDIYO, KUKU POA and SIMBA raised government policy as a constraint to their respective firm growth. It is not yet clear how government policies boost growth of small firms' theoretical wise since there aren't so many researches done on the area, but the fact remains that if these schemes and policies are put into use for the benefit of the majority, positive results will be achieved.

In access to finances

There are a few things that arise making it hard for entrepreneur(s) to be able to have access to proper financing. These things are such as collateral constraint, inadequate business plan, state of the economy and bureaucratic procedures in applying for loans/finances. Collateral constraint and bureaucratic procedures being cited mostly as major factors; these constrain the attainment of funding from financial institutions (Kuzilwa, 2005). In this study, all interviewees from FURAHA, NDIYO, KUKU POA and SIMBA mentioned in access to finance as a constraint of their respective firm growth.

Bureaucratic processes

Bureaucratic processes in conducting businesses in Tanzania are yet another factor which is a constraint to small business success. This is so because small businesses find it difficult (in terms of procedural processes) in areas such as business license obtaining, registering a business and tax matters.

It is so as such because there is no clear system of providing small entrepreneurs information on such matters neither by the government nor by other stakeholders. This leaves small businesses out and about with no formal way of conducting their businesses hence lacking professional appeal to their customers, stakeholders in their particular industries and even to the government.

And then therefore they miss out on many opportunities being offered either by aid from overseas or locally.

In this study as shown in table 4.2 above, only interviewees from FURAHA and SIMBA enterprises mentioned bureaucratic processes as a constraint to their respective firm growth.

Unfavorable economic conditions

Last but not the least is the question of unfavorable economic conditions. In this matter it is important to notice that most of these economic factors are hard to deal with since they are triggered by many outside factors (influenced by the world economy).

The lack of proper business education to small business owners makes them to fail to forecast the direction of the economy and the way their particular businesses would be affected by the changes. For example changes in demand of products due to inflation, currency exchange rates affecting the exports or imports of a particular product and the underestimation of the rise of costs of production due to scarcity of resources. If only adequate information and education is provided to small business owners on how changing economic situations affect their particular business; this matter shouldn't be much of a big problem since the owners would be aware of the changes beforehand and make adjustments to their business in line with the forecasted economic conditions.

In this study, all interviewees from FURAHA, NDIYO, KUKU POA and SIMBA raised unfavorable economic conditions as a constraint to their respective firm growth.

4.2. Results of Measures of Central Tendency and Dispersion

There are a number of challenges that affect the growth of SMEs in food industry at Mwanza city. This part explains the descriptive statistics calculated on the basis of the factors that affect the growth of these SMEs. The results for measures of central tendency and dispersion were obtained from the sample of respondents of SIMBA, KUKU POA, NDIYO and FURAHA as shown in the following tables:

Table 4.3. Political-Legal Challenges that affect the growth of SIMBA, KUKU POA, NDIYO and FURAHA SMEs in Mwanza city:

Measures of Central Tendency and Dispersion	The tax levied on my business is not reasonable	Bureaucracy in company registration and licensing	Lack of government support	Political intervention	Lack of accessible information on government regulations that are relevant to my business
Mean	3.25	2.50	3.50	2.75	3.00
Median	4.00	2.50	3.50	2.50	3.00
Standard deviation	1.500	1.291	1.291	0.957	0.816

As it is indicated in table above, the mean and standard deviation for the politico-legal factors were calculated. The table shows that, Lack of government support has a mean score of 3.50 with a standard deviation of 1.291; the tax levied on my business is not reasonable has a mean score of 3.25 with a standard deviation of 1.5; Lack of accessible information on government regulations that are relevant to my business has a mean score of 3.0 with a standard deviation of 0.816; Political intervention has a mean score of 2.75 with a standard deviation of 0.957 and Bureaucracy in company registration and licensing has a mean score of 2.5 with a standard deviation of 1.291.

Therefore, it can be concluded that, among the politico-legal challenges examined above, lack of government support is the main factor that affects the growth of SMEs in food industry at Mwanza City followed by tax levied on SMEs.

When the above responses are compared with the interview conducted with operators of SIMBA, KUKU POA, NDIYO and FURAHA, it was confirmed that there are problems related to

government bodies at Mwanza city. The interviewees pointed out the implementation problems widely observed in the side of the heads and lower level experts and employees of government sector offices such as lack of responsiveness to the demands of the operators. This arises either from the deliberate tendency of the executives to be bureaucratic or their lack of awareness about the peculiar procedures, policies and proclamations that favor SMEs in food industry at Mwanza city. The other possible explaining factor for this non-responsiveness to the operators can be the fact that the concerned government offices are overburdened with other routine activities of their respective offices, which resulted in abandoning or being irresponsible to the issues of the SME operators.

Table 4.4. Working Place Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Absence of own premises	Current working place is not convenient	The rent of house is too high
Mean	1.25	1.25	2.00
Median	1.00	1.00	1.50
Standard deviation	0.500	0.500	1.414

From the table above, the mean and standard deviation for the Working Place Challenges were calculated. The table shows that, the rent of house is too high has a mean score of 2.0 with a standard deviation of 1.414; absence of own premises and current working place is not convenient both have a mean score of 1.25 with a standard deviation of 0.5.

Therefore, it can be concluded that, among the working place challenges examined above, the rent of house is the main factor that affects the growth of SMEs in food industry at Mwanza City.

In an interview conducted with an operator of FURAHA, it was confirmed that, they operated in rented house and high rental charges have impeded the growth of their businesses as some charges are higher than the capacity to pay. According to them, this high rent of house resulted from absence of own premises to run business.

Table 4.5. Technological Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Lack of appropriate machinery and equipment	Lack of skills to handle new technology	Lack of money to acquire new technology	Unable to select proper technology
Mean	2.00	2.00	2.00	1.25
Median	1.00	1.00	1.00	1.00
Standard deviation	2.000	2.000	2.000	0.500

As it is indicated in the table above, the mean and standard deviation for the technological challenges were calculated. The table shows that, lack of appropriate machinery and equipment; lack of skills to handle new technology and lack of money to acquire new technology both have a mean score of 2.0 with a standard deviation of 2.0 whereas inability to select proper technology has a mean score of 1.25 with a standard deviation of 0.5.

Therefore, it can be concluded that, among the technological challenges examined, lack of appropriate machinery and equipment; lack of skills to handle new technology and lack of money to acquire new technology are the main technological factors that affected the growth of SMEs in food industry at Mwanza city.

The studied SMEs own a variety of working machines, equipments and tools, most of which were purchased. According to the interview with the operators, the loan to purchase equipments and materials were obtained from both formal and informal sources.

The operators indicated that the presence of these machines, tools and equipments has allowed the operators to produce products. In contrast to this, according to interviewee from SIMBA, they lack money to acquire new technology (equipment, machinery and tools), they lack appropriate machinery and equipment, and they also lack skills to handle new technology.

Moreover, some respondents replied that, if new and appropriate technologies were obtained, the presence of them will result in the growth of their business.

Table 4.6. Infrastructural Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Power interruptions	Insufficient and interrupted water supply	Lack of business development services	Lack of sufficient and quick transportation service	Lack of appropriate dry waste and sewerage system
Mean	4.50	4.00	3.25	2.75	1.75
Median	4.50	4.00	3.50	2.50	1.50
Standard deviation	0.577	0.816	1.708	2.062	0.957

From the table above, the mean and standard deviation for the Infrastructural Challenges were calculated. The table shows that, power interruptions has a mean score of 4.5 with a standard deviation of 0.577; Insufficient and interrupted water supply has a mean score of 4.0 with a standard deviation of 0.816; lack of business development services has a mean score of 3.25 with a standard deviation of 1.708; lack of sufficient and quick transportation service has a mean score of 2.75 with a standard deviation of 2.062 and lack of appropriate dry waste and sewerage system has a mean score of 1.75 with a standard deviation of 0.957.

Therefore, it can be concluded that, among the Infrastructural Challenges examined, power interruptions followed by insufficient and interrupted water supply are the main infrastructural factors that affect the growth of SMEs in food industry at Mwanza city.

In the view of operators interviewed, interviewee from FURAHA, mentioned lack of business development services followed by power interruptions, and insufficient and interrupted water supply as the main infrastructural challenges affecting the growth of their business.

A respondent from SIMBA cited that, power interruptions followed by lack of business development services, and lack of sufficient and quick transportation service as the main infrastructural challenges affecting the growth of their business.

An operator of NDIYO mentioned power interruptions, insufficient and interrupted water supply, and lack of sufficient and quick transportation service as the main infrastructural factors affecting the growth of their entity whereas a respondent of KUKU POA mentioned power interruptions, and insufficient and interrupted water supply as the main infrastructural factors affecting the growth of their business.

Table 4.7. Marketing Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Inadequate market for my product	Searching new market is so difficult	Lack of demand forecasting	Lack of market information	Lack of relationship with an organization that conduct marketing research	Lack of promotion to attract potential users	Poor customer relationship and handling
Mean	1.25	3.25	2.50	2.75	2.25	2.00	1.25
Median	1.00	4.00	2.50	3.00	2.00	1.50	1.00
Standard deviation	0.500	1.500	1.732	1.500	1.500	1.414	0.500

From the table above, the mean and standard deviation for the Marketing Challenges were calculated. The table show that, searching new market is so difficult factor has a mean score of 3.25 with a standard deviation of 1.5; lack of market information has a mean score of 2.75 with a standard deviation of 1.5; lack of demand forecasting has a mean score of 2.5 with a standard deviation of 1.732; lack of relationship with an organization that conduct marketing research has a mean score of 2.25 with a standard deviation of 1.5; lack of promotion to attract potential users has a mean score of 2.00 with a standard deviation of 1.414 whereas inadequate market for product and poor customer relationship and handling both have a mean score of 1.25 with a standard deviation of 0.5.

Therefore, it can be concluded that, among the Marketing Challenges examined, searching new markets followed by lack of market information are the main marketing factors affecting the growth of SMEs in food industry at Mwanza city.

In the view of operators interviewed, interviewee from FURAHA, mentioned lack of market information, absence of relationship with an organization that conduct marketing research, and lack of promotion to attract potential users as the main marketing challenges affecting the growth of their business. A respondent from SIMBA cited that, the difficultness in searching new market, and lack of demand forecasting are the main marketing challenges affecting the growth of their business. An operator of NDIYO mentioned the difficultness in searching new market, lack of demand forecasting, and lack of market information as the main marketing factors affecting the growth of their entity whereas a respondent of KUKU POA mentioned the difficultness in searching new market as the main marketing factor affecting the growth of their business.

Table 4.8. Financial Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Inadequacy of credit institutions	Lack of cash management skills	Shortage of working capital	High collateral requirement from banks and other lending institutions	High interest rate charged by banks and other lending institutions	Loan application procedures of banks and other lending institutions are too complicated
Mean	2.50	1.25	2.25	4.00	4.25	3.25
Median	2.50	1.00	2.00	4.00	4.00	4.00
Standard deviation	1.291	0.500	1.500	0.000	0.500	1.500

From the table above, the mean and standard deviation for the Financial Challenges were calculated. The table show that, High interest rate charged by banks and other lending institutions has a mean score of 4.25 with a standard deviation of 0.5; High collateral requirement from banks and other lending institutions has a mean score of 4.00 with a standard

deviation of 0.0; Loan application procedures of banks and other lending institutions are too complicated has a mean score of 3.25 with a standard deviation of 1.5; Inadequacy of credit institutions has a mean score of 2.5 with a standard deviation of 1.291; Shortage of working capital has a mean score of 2.25 with a standard deviation of 1.5 and Lack of cash management skills has a mean score of 1.25 with a standard deviation of 0.5.

Therefore, it can be concluded that, among the Financial Challenges examined, High interest rate charged by banks and other lending institutions followed by High collateral requirement from banks and other lending institutions are the main financial factors affecting the growth of SMEs in food industry at Mwanza City.

In the view of operators interviewed, interviewee from FURAHA, mentioned inadequacy of credit institutions, high collateral requirement from banks and other lending institutions, high interest rate charged by banks and other lending institutions, and complicated loan application procedures of banks and other lending institutions as the main financial challenges affecting the growth of their business.

A respondent from SIMBA cited that, shortage of working capital, high collateral requirement from banks and other lending institutions, high interest rate charged by banks and other lending institutions as the main financial challenges affecting the growth of their business.

An operator of NDIYO mentioned high interest rate charged by banks and other lending institutions, and high collateral requirement from banks and other lending institutions as the main financial factors affecting the growth of their entity whereas a respondent of KUKU POA mentioned high collateral requirement from banks and other lending institutions, high interest rate charged by banks and other lending institutions, and complicated loan application procedures of banks and other lending institutions are the main financial factors affecting the growth of their business.

Majority of interviewees widely outlined that, they are frequently using informal sources as a main financial sources. According to them, this is because of the view that the requirement of

collateral and loan application procedures are relatively rare (completely none) in case of informal sources. Since such sources usually take place among parties with intimate knowledge and trust of each other, making the need for security (in the form of asset collateral/guarantee) low.

Table 4.9. Management Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Lack of clear division of duties and responsibility among employees	Poor organization and ineffective communication	Poor selection of associates in business	Lack of well trained and experienced employees	Lack of low cost and accessible training facilities	Lack of strategic business planning
Mean	1.25	1.25	1.25	1.50	1.50	1.25
Median	1.00	1.00	1.00	1.00	1.00	1.00
Standard deviation	0.500	0.500	0.500	1.000	1.000	0.500

From the table above, the mean and standard deviation for the Management Challenges were calculated. The table shows that, Lack of well trained and experienced employees and Lack of low cost and accessible training facilities both have a mean score of 1.5 with a standard deviation of 1.0 whereas Lack of clear division of duties and responsibility among employees; Poor organization and ineffective communication; Poor selection of associates in business and Lack of strategic business planning both have a mean score of 1.25 with a standard deviation of 0.5.

Therefore, it can be concluded that, among the Management Challenges examined, Lack of well trained and experienced employees and Lack of low cost and accessible training facilities are the main management factors affecting the growth of SMEs in food industry at Mwanza city.

In this regard in an interview conducted with operators of SMEs in food industry at Mwanza city, it was confirmed that they had many management problems which stem from factors such as poor record keeping, insufficient training and lack of relevant qualifications.

Furthermore, most of these enterprises operate without systems in line with good management practice in which the owner manager is the sole decision maker and his/her absence leads to a halt (temporarily stop) in decision making. Similarly, interviewees unanimously indicated that, inability (low technical skills) to troubleshoot failures on machinery and/or equipments is a critical problem. Since the operators of SMEs cannot afford to employ specialists in the fields of maintenance with technical knowledge.

Coming down to the matter of lack of a proper business plan for the business, in an interview conducted with operators, it was confirmed that operators of SMEs that have no proper business plans at start faces the most challenges during the course of their lives. According to operators, lack of trust in doing business on the other hand seems to have prevailed in most of the cooperative and partnership business (mistrust between business associates).

To conclude, all these managerial constraints were confirmed by the respondents in this survey who indicated that their businesses were constrained by poor management practice, mistrust among business associates, insufficient training, lack of proper business plan and lack of relevant qualifications among employees.

Table 4.10. Entrepreneurial Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Lack of motivation and drive	Lack of tolerance to work hard	Lack of persistence and courage to take responsibility for ones failure	Absence of initiative to assess ones strengths and weakness	Lack of entrepreneurs hip training	Lack of information to exploit business opportunities
Mean	1.75	2.00	1.75	2.00	2.00	1.25
Median	1.00	1.50	1.50	1.50	1.50	1.00
Standard deviation	1.500	1.414	0.957	1.414	1.414	0.500

From the table above, the mean and standard deviation for the Entrepreneurial Challenges were calculated. The table shows that, Lack of tolerance to work hard; Absence of initiative to assess

ones strengths and weakness, and Lack of entrepreneurship training both have a mean score of 2.0 with a standard deviation of 1.414 whereas Lack of persistence and courage to take responsibility for ones failure has a mean score of 1.75 with a standard deviation of 0.957; Lack of motivation and drive has a mean score of 1.75 with a standard deviation of 1.5 and Lack of information to exploit business opportunities has a mean score of 1.25 with a standard deviation of 0.5.

Therefore, it can be concluded that, among the Entrepreneurial Challenges examined, Lack of tolerance to work hard; Absence of initiative to assess ones strengths and weakness, and Lack of entrepreneurship training are the main entrepreneurial factors affecting the growth of SMEs in food industry at Mwanza city.

Starting with lack of motivation and drive, this has to do with the main reason(s) for the entrepreneur(s) establishing the business and the relationship of this with the growth of the firm. In an interview conducted with an operator of SMEs in food industry at Mwanza city, operators of FURAHA, KUKU POA and NDIYO disagreed with the fact that, lack of motivation and drive affect the growth of their business. But an operator of SIMBA agreed that lack of motivation and drive constrains the growth of their business. It has been proved that this is a major constraint to many small business owners. A study by Bark Ham showed a positive relation between motivation of the entrepreneur(s) and the growth of the firm; in other words the more positive motivation of the entrepreneur(s) the more likely the business will grow (Bark, 1992).

According to interview conducted with operators of SIMBA, KUKU POA, FURAHA and NDIYO it was confirmed that, lack of tolerance to work hard and absence of initiative to assess ones strengths and weaknesses are another factor affecting the growth of their enterprises. According to them this is due to negligence on the part of employees and/or owner managers to develop and implement such a culture of tolerance and assessment of strengths and weaknesses.

Lack of entrepreneurial training was mentioned by operators in the entire study area. According to interviewees, it featured as a key problem for SMEs in food industry at Mwanza city. A

number of interviewee respondent felt that enough training in entrepreneurship would better prepare to perform in their business endeavours.

Furthermore, with regard to lack of information to exploit business opportunities, from the interview conducted with operators of NDIYO, SIMBA, FURAHA and KUKU POA, it was confirmed that, the operators do not heighten the ability and awareness for recognizing and audaciously exploiting business opportunities. According to them, this is due to lack of persistently and continually seeking of information opportunities. Consequently, it hampers the growth of their SMEs and the fulfillment of competitive urges in general.

4.2.1. Comparison of Factors

Even though, all the politico-legal, infrastructure, working premises, technology, marketing, financial, management and entrepreneurial factors affect the growth of SMEs, this does not necessarily mean that all factors have equal impact. The following table clearly compares the overall impact of all key factors discussed in detail above.

Table 4.11. General Challenges that affect the growth of SMEs:

Measures of Central Tendency and Dispersion	Politico-legal challenges	Working place challenges	Technological challenges	Infrastructural challenges	Marketing challenges	Financial challenges	Managerial challenges	Entrepreneurial challenges
Mean	3.00	3.00	2.50	1.75	2.50	3.50	2.75	3.00
Median	2.50	3.00	2.00	1.00	2.00	4.00	2.50	3.00
Standard deviation	1.414	1.826	1.915	1.500	1.915	1.732	1.708	2.000

From the table above, the mean and standard deviation for the General challenges affecting the growth of SMEs in food industry at Mwanza City were calculated. The table shows that, financial challenges have a mean score of 3.5 with a standard deviation of 1.732; politico-legal

challenges have a mean score of 3.0 with a standard deviation of 1.414; working place challenges have a mean score of 3.0 with a standard deviation of 1.826; entrepreneurial challenges have a mean score of 3.0 with a standard deviation of 2.0; managerial challenges have a mean score of 2.75 with a standard deviation of 1.708; Technological and Marketing challenges both have a mean score of 2.50 with a standard deviation of 1.915 whereas infrastructural challenges have a mean score of 1.75 with a standard deviation of 1.5.

It can now be seen that financial and politico-legal factors has the biggest potential to contribute to the growth of SMEs in food industry at Mwanza city, followed by working premises, entrepreneurial factors, management, technological, marketing and infrastructural factors. In another words, the result shows that financial, politico-legal and working premises factors are the three topmost factors that affected the growth of SMEs in the selected area. This result is supported by Haftu et al. (2009) who found that lack of finance and working space rank on top being reported as the major constraints by a large proportion of the enterprises.

Therefore it can be concluded that, finance, politico-legal and working premises factors do largely affect the growth of SMEs in food industry at Mwanza city.

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

In this chapter the conclusions and recommendations are discussed. For clarity purpose, the conclusions are based on the research objectives of the study. Based on the findings of the study recommendations are made to government bodies, to operators of SMEs and suggestion for other stakeholders.

5.1. Conclusions

This research was conducted in Mwanza city with a prime intent of critically assessing the challenges that are hampering the growth of SMEs in the food industry. Specifically, the study attempted to examine the growth challenges experienced by SMEs in the food industry at Mwanza city, to search for practical solutions that will ensure their success and to speculate why some of the SMEs in food industry grow while others do not. This will therefore enable entrepreneurs, the Tanzanian community and the government as a whole to be in a position to overcome the threats posed while doing business in the country.

Based on the objectives and findings of the study, the following conclusions are worth drawn:

Firstly, a number of factors have been identified as the reasons to why most of SMEs in Mwanza fail to grow. The study has discussed these constraints in light of literature concerning factors influencing growth of small firms and barriers to growth in small firms. Comparing the results obtained from the interviews with operators of FURAHA, NDIYO, KUKU POA and SIMBA, a few factors emerged stronger in limiting the growth of their entities as they were mentioned more times than the others by the interviewees.

These constraints include lack of government support, high taxes levied on SMEs, high rental charges, lack of appropriate machinery and equipment, lack of skills to handle new technology, high cost of acquiring new technology, power interruptions, insufficient and interrupted water

supply, searching new markets, lack of marketing information, high interest rate charged by banks and other lending institutions, high collateral requirement from banks and other lending institutions, lack of well trained and experienced employees, lack of low cost and accessible training facilities, and lack of entrepreneurship training.

Those factors mentioned above are the key constraints which have emerged as the most specific and influential in impacting the growth of SMEs in food industry at Mwanza city.

Secondly, the most important contextual factors identified are financial factors which included high interest rate charged by banks and other lending institutions, high collateral requirement from banks and other lending institutions, too complicated loan application procedures of banks and other lending institutions, inadequacy of credit institutions, shortage of working capital and lack of cash management skills.

The main sources of startup and expansion finance or funds for most SMEs in food industry at Mwanza city, are personal savings followed by family and friends or relatives. The formal financial institutions have not been able to meet the credit needs of these SMEs. Since there is high interest rate and collateral requirement, most SMEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the SMEs.

In most cases these problems are due to the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources.

Thirdly, though various governmental bodies designed various programs aimed at developing SMEs in food industry at Mwanza city, most of the programs were not given the appropriate backing and as such the impact of the programs could not be felt in the growth and competitiveness of these SMEs. This is mainly because of the fact that these programmes or policies are not effectively implemented in line with their intended objectives owing to various

reasons. According to the findings, the reason ranges from lack of visible commitment of some governmental bodies to lack of regular integration between the SMEs operators and the concerned bodies of the government.

Lastly, the following are the reasons to why some of SMEs in food industry at Mwanza city grow while others do not:

Poor access to finance. There are many complaints by some of the SMEs regarding difficult qualification criteria for accessing funds from financial institutions. Some SMEs meets those criteria hence favouring their respective growth compared to others.

Some SMEs in food industry at Mwanza city consistently invest in marketing research, R&D and innovation hence increasing their competitiveness which favours their respective growth compared to SMEs which do not have strategies that allow them to access new markets, increase their revenue and expand their customer base.

5.2. Recommendations

Suggestions for corrective and complementary measures to enhance the potential growth of SMEs in food industry at Mwanza city are essential. Such recommendations demand an in-depth analysis of the influence of different factors regarding the growth of these entities. Based on the findings and conclusions of the study, the following recommendations are forwarded:

Financial institutions should provide adequate information regarding the accessibility to credit and finance to the existing, new or potential entrepreneurs. The Bank of Tanzania should review the interest rates on loan because it seems to be very high; otherwise the government should find amicable solutions either to subsidize the SMEs with some sort of incentives. This can be done by communicating with the banks and other credit institutions to lessen their requirements. This should be done so that SMEs can get enough access to finance for their business activities.

In order to enhance the growth of SMEs in food industry at Mwanza City, the public services like registration of an enterprise, tender awarding, various permit application must be

decentralized so as to remove bureaucratic procedures hence reducing the lead time of documents processing. The strengthening of government institutions at different levels would play a major role in positively influencing the growth of SMEs, thus to reduce delays in processing legal requirements. The government through various relevant departments should specialize more in taking up a facilitative role, especially by reviewing all the blockings by laws, to address issues of getting a license or getting premises for SMEs to operate. A number of factors should be considered in designing all-encompassing policy for the promotion of SMEs growth.

Each SME growth challenge examined deserve a greater research attention on its own in order to find out at what degree it can impact negatively to the growth of SMEs in food industry at Mwanza City. Also by identifying the other contributory factors to each challenge and how they could be addressed, would provide more information which will enable the entrepreneur to be in complete control of their business activities and to make better decisions that would enable further growth of their entities. The management skills require a greater study, as entrepreneurs often lack the business skills required to run a business successful. To make the selected SMEs competitive and profitable, increasing the capacity and skill of the operators through continuous trainings, experience sharing from successful enterprises, and provision of advice and consultancy are crucial. Moreover, improved provision of necessary infrastructure and enabling the environment for business operations is generally an imperative. Uninterrupted power supply and quick transportations are basic to effective growth of these enterprises.

SMEs should also find other ways to diversify their business and invest in marketing researches in order to avoid competitions. The SMEs feel not protected by the government upon foreign competition, therefore the government should limit the foreign business to engage in some small business activities which could be meant for local enterprises only unless a joint venture between a foreign company and the local company. The operators of SMEs in food industry at Mwanza city should form groups and make use of pooled negotiating power for borrowing purposes. Through networking, these SMEs will be able to exchange services such as advertising amongst

themselves for free. This will enhance their competitiveness through a reduction in the cost of production. The benefit of sharing such service for the operators of selected SMEs is that it will strengthen the future survival, profitability and eventual growth of their entities.

Finally, there is a need to study how the internal and external challenges identified affect the growth path followed by SMEs in food industry at Mwanza City. Further scope of the study could be on how the growth of the SMEs be integrated with sustainable development and innovation. There should be empirical research on how internal and external challenges contribute in sustainable innovativeness in SMEs. It is the researcher's view that future research could therefore investigate the other sectors like construction, agriculture and retail so as to come up with specific findings which will potentially contribute a lot in the development of the country in general.

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Appendices - Interviews

Interview

Name:

Title:

Enterprise name:

Date:

Time:

Questions:

1. Year of funding
2. Number of employees
3. Is it a family run SME?
4. Is the firm part of any group?
5. What is the core product or service?
6. What is your position within the firm?
7. How long have you been working for the firm? How long in the current position?
8. What is your formal background (education and training)?
9. What is the typical formal background of your employees (education and training)?
10. What are your duties as manager of the enterprise in terms of the daily operational activity?
11. In your opinion, what internal challenges do you perceive as hampering the growth of your business?
12. In your opinion, what external challenges do you perceive as hampering the growth of your business?
13. How do you master these challenges?
14. Do you have any growth strategy planned?
15. Did you employ any staff during this period?
16. Have there been any changes within the organization, for example in production, marketing, employee responsibility, changes in management style and hierarchy?

17. In what ways have investments and operations been financed?
18. Was there any problem for you to receive the bank loan for the new factory?
19. In case you have received support from SME institutions – what kind of support?
20. Do you find it difficult to get access or acquire new technology? Do you find it difficult to stay innovative?
21. Do you spend any time or/and money on research and development?
22. Where do you perceive your position in the market and do you find competitors hampering your firm growth?
23. Do you perceive other countries especially those with low production costs as competitors due to globalization?
24. Have you faced any problems with technical barriers to trade such as difficulties with international organizations like WTO that regulate trading?
25. Do you have any strategies in terms of corporate social responsibility to attract customers?
26. Are there any governmental laws that you perceive as hampering the growth of your business?
27. Have you faced any problems with corruption and crime?
28. Do you think that the location of your firm affect your business?
29. You speak English very well but have you had any problems with language when doing business?
30. Are there any other challenges that are hampering your firm growth?
31. Could you rank from 1 to 5 of the most essential challenges that are hampering the growth of your business?

QUESTIONNAIRE
MZUMBE UNIVERSITY

MBA PROGRAM

SECTION 1: INTRODUCTION

Dear respondent,

I am a student of Masters of Business Administration in Corporate Management at Mzumbe University. Currently, I am undertaking a research entitled *SMEs growth challenges in Mwanza city: Evidence from food industry*.

You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of the challenges affecting the growth of SMEs in food industry at Mwanza City. Your participation is entirely voluntary and the questionnaire is completely anonymous.

Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Sincerely,

Deogratias Renatus

Instructions

- No need of writing your name
- For Likert scale type statements and multiple choice questions indicate your answers with a check mark () in the appropriate block.

SECTION 2: GENERAL INFORMATION ON BUSINESS ENTERPRISES

1. What is the main activity of the enterprise?

A. Textile and garment B. Food processing C. Wood and metal work

2. How did you raise funds to start-up your business?

A. Personal saving D. NGOs G. Micro finance institutions

B. Family E. Friends/Relatives H. Others (specify)

C. Banks

3. Which one of the following aspect is the most important for the success of your business venture?

A. A business plan C. An entrepreneurial team

B. Business opportunities D. Training in business skills

SECTION 3: SMEs GROWTH CHALLENGES

The major challenges that affect the growth of SMEs are listed below. Please indicate the degree to which these factors are affecting the growth of your business enterprise. After you read each of the factors, evaluate them in relation to your business and then put a tick mark () under the choices below. Where, **5** = strongly agree, **4** = agree, **3** = undecided, **2** = disagree and **1**= strongly disagree.

4. Please indicate the degree to which you agree with the following statements concerning politico-legal challenges.

S. No.	Politico-Legal Challenges	5	4	3	2	1
4.1	The tax levied on my business is not reasonable					
4.2	Bureaucracy in company registration and licensing					
4.3	Lack of government support					
4.4	Political intervention					
4.5	Lack of accessible information on government regulations that are relevant to my business					

5. Please indicate the degree to which you agree with the following statements concerning working place challenges.

S. No.	Working Place Challenges	5	4	3	2	1
5.1	Absence of own premises					
5.2	Current working place is not convenient					
5.3	The rent of house is too high					

6. Please indicate the degree to which you agree with the following statements concerning technology challenges.

S. No.	Technological Challenges	5	4	3	2	1
6.1	Lack of appropriate machinery and equipment					
6.2	Lack of skills to handle new technology					
6.3	Lack of money to acquire new technology					
6.4	Unable to select proper technology					

7. Please indicate the degree to which you agree with the following statements concerning infrastructural challenges.

S. No.	Infrastructural challenges	5	4	3	2	1
7.1	Power interruptions					

7.2	Insufficient and interrupted water supply					
7.3	Lack of business development services					
7.4	Lack of sufficient and quick transportation service					
7.5	Lack of appropriate dry waste and sewerage system					

8. Please indicate the degree to which you agree with the following statements concerning marketing challenges.

S. No.	Marketing Challenges	5	4	3	2	1
8.1	Inadequate market for my product					
8.2	Searching new market is so difficult					
8.3	Lack of demand forecasting					
8.4	Lack of market information					
8.5	Absence of relationship with an organization that conduct marketing research					
8.6	Lack of promotion to attract potential users					
8.7	Poor customer relationship and handling					

9. Please indicate the degree to which you agree with the following statements concerning financial challenges.

S. No.	Financial Challenges	5	4	3	2	1
9.1	Inadequacy of credit institutions					
9.2	Lack of cash management skills					
9.3	Shortage of working capital					
9.4	High collateral requirement from banks and other lending institutions					
9.5	High interest rate charged by banks and other lending institutions					
9.6	Loan application procedures of banks and other lending institutions are too complicated					

10. Please indicate the degree to which you agree with the following statements concerning management challenges.

S. No.	Management Challenges	5	4	3	2	1
10.1	Lack of clear division of duties and responsibility among employees					
10.2	Poor organization and ineffective communication					
10.3	Poor selection of associates in business					
10.4	Lack of well trained and experienced employees					
10.5	Lack of low cost and accessible training facilities					

10.6	Lack of strategic business planning					
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11. Please indicate the degree to which you agree with the following statements concerning entrepreneurship challenges.

S. No.	Entrepreneurial Challenges	5	4	3	2	1
11.1	Lack of motivation and drive					
11.2	Lack of tolerance to work hard					
11.3	Lack of persistence and courage to take responsibility for ones failure					
11.4	Absence of initiative to assess ones strengths and weakness					
11.5	Lack of entrepreneurship training					
11.6	Lack of information to exploit business opportunities					

12. Please indicate the degree to which you agree with the following challenges that have a direct influence on the growth of your business?

S. No.	General Challenges	5	4	3	2	1
12.1	Politico-legal challenges					
12.2	Working place challenges					
12.3	Technological challenges					

12.4	Infrastructural challenges					
12.5	Marketing challenges					
12.6	Financial challenges					
12.7	Managerial challenges					
12.8	Entrepreneurial challenges					