# ASSESSMENT OF THE FACTORS INFLUENCING THE SELECTION OF ENTRY MODES INTO FOREIGN MARKETS BY SMES:

# THE CASE OF KINONDONI DISTRICT IN DAR ES SALAAM

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# THE CASE OF KINONDONI DISTRICT IN DAR ES SALAAM

**By**

**Amos Phillip Mwanitete**

**A Dissertation Submitted in Partial Fulfilment of the Requirement for the Degree of Master of Business Administration in Corporate Management (MBA) of Mzumbe University.**

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## CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a dissertation entitled: **Assessment of the Factors Influencing the Selection of Entry Modes into Foreign Markets by SMEs: The Case of Kinondoni District in Dar es Salaam** in partial fulfillment of the requirements for award of the Master of degree Business Administration (MBA) of Mzumbe University.

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Major Supervisor

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Internal Examiner

Accepted for the Board of …………………….

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## AND
## COPYRIGHT

I, **Amos Phillip Mwanitete**, declare that, this dissertation is my own original work and that it has not been presented to any other university for a similar or any other degree award.

Signature________________________

Date____________________________

## DEDICATION

I dedicate this work and the effort that went into it to the most understanding and caring people I know: My Parent, Mr. Phillip Esau Mwanitete when times are good, they make me laugh uncontrollably. When times are tough, the smile doesn't leave my face because of the unconditional love and joy they bring to my heart.

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**ABSTRACT**

This research was carried out to find out factors influencing SMEs’ selection of foreign market entry mode, objectives governed the research were: identifying various modes of SMEs foreign market entry, identifying factors influencing SMEs' selection of foreign market entry modes, discussing the significance of SMEs internationalization and assessing the impact of particular mode of foreign market entry to the performance of an SME.
Research methods used to collect data were questionnaires; interview and documentary review, a respondents from Kinondoni Dar es Salaam were involved. The data was analysed by using Statistical tool so as to give the meaningful information.

The research findings shows that large number of Tanzanian entrepreneurs have not yet internationalized their business abroad due to number of factors including, lack of capital to expand their business abroad, lack of information regarding business opportunities abroad and complexity of procedure to be followed to get the approval of trading abroad, on the other hand few have been trading abroad and the report shows that most of the entrepreneurs are using exhibition as the most appropriate entry mode to the global market as they said it is the easiest one, other modes identified includes exporting, licensing, joint venture and sole venture.

Regarding factors influencing the selection mode of entry to the global market it was observed that market attractiveness is the one mostly influence large number of entrepreneurs to choose the entry mode, other factors mentioned includes competition, country risk, psychic distance, organizational culture and size of the firm, Lastly the report shows that entry modes to the global market have great impact to the performance of the SMEs as explained in the previous pages. The researcher recommends that the financial institutions should to promote entrepreneurship by giving them loans and setting low (affordable) interest rates.

This will help to encourage more entrepreneurs to get involved in entrepreneurial activities and those who are already doing business will get the chance to expand their businesses further, furthermore the government of Tanzania should establish a coordinating office for outreach services for entrepreneurs owned businesses. The study recommends that there is a need to establish the coordinating office for facilitating the assessments of the financial resources and educating the entrepreneurs. This could take the form of a network of small and medium enterprise centers in various regions across the country, or the appointment of a dedicated entrepreneur’s officer in government regional offices.

## ACRONYMS & ABBREVIATIONS

| | | |
|---|---|---|
| BOT | - | Bank of Tanzania |
| BRELA | - | Business Registration and Licences |
| FDI | - | Foreign Direct Investment |
| GDP | - | Gross Domestic Product |
| MNCs | - | Multinational Companies |
| MSMEs | - | Micro Small and Medium Enterprises |
| NGOs | - | Non-Governmental Organisations |
| PEST | - | Political, Economical, Social and Technological |
| RBV | - | Resource Based View |
| SMEs | - | Small Medium Enterprises |
| TC | - | Transaction Cost |
| TNCs | - | Transactional Companies |
| TRA | - | Tanzania Revenue Authority |
| VIBINDO | - | Vikundi vya Biashara ndogo ndogo |

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# CHAPTER ONE

# PROBLEM SETTINGS

## 1.1 Introduction

Globalization has led to increase in the number of Small and Medium Enterprises (SMEs) operating in the international markets. This is mainly due to the lowering of barriers to international trade. Increasing SMEs activities in the international arena has heightened interests of researchers to undertake studies on the modes of entry into foreign markets adopted by SMEs. Consequently, several researches have been carried out globally on foreign market entry modes. However these researches have been limited in scope in the sense that most of them were based in developed countries, such as the United States, Canada and Australia and that they are narrow in scope. In particular, these studies have not dealt with the impact of company's internal and external factors on the entry mode selection. In addition, most empirical studies on foreign market entry mode selection related to large companies instead of SMEs (Gustavsson and Lundgren, 2004).

In the case of Tanzania, despite the fact that firm internationalization has been studied extensively, inquiry into how small and medium firms enter foreign markets has not received much attention. There is an ongoing debate among theorist in international marketing and international entrepreneurship on the of internationalization strategies for small companies (Manolova and Manev, 2004). Previous studies conclude that there is no foreign market entry mode that is considered to be the best (Hellensen, 1998; Gustavsson and Lundgren, 2004). Selection of mode of entry in foreign market differs from one company depending on a number of factors both internal and external to the company. The purpose of this study is to find out factors influencing the selection of modes of entry in foreign market by Small and Medium Enterprises (SMEs) in Dar es Salaam, Tanzania. Data will be collected from SMEs located and operating in the Kinondoni municipality in Dar es Salaam region. This chapter generally deals with the problem setting by specifically giving the background to research problem. The Chapter further provides objectives of the study, research questions**.**

## 1.2 Background to the Study

SMEs all over in the world are known to play a major role in social economy 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. The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (**MSMEs**). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 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. This is illustrated in the table below:

### 1.2.1 Categories of SMEs in Tanzania

**Category Employees Capital Investment in Machinery (Tshs.)**

(i.) Micro enterprise 1 – 4 Up to 5 mil.

(ii.) Small enterprise 5 – 49 Above 5 mil. to 200 mil.

(iii.) Medium enterprise 50 – 99 above 200mil.to 800 mil.

(iv.) Large enterprise 100 + above 800 mil.

N.B. In the event of an enterprise falling under more than one category, then the level of investment will be the deciding factor.

## 1.3 Statement of the Problem

Many Tanzania Business men involves in importation and exportation businesses. The available data from BOT shows that, the figures for importation has been decreasing monthly wise. For example in April 2014, the value of imports USD969.70Million, while of March 2014 was Usd 1,257.70Million, which is 30% of the decrease in the importation business.

Tanzania major exports are agricultural commodities with tobacco, coffee, cotton, cashewnuts, tea and cloves being the most important. Other exports include gold and manufactured goods. Tanzania main exports partners are India, Japan, China, United Arab Emirates, Netherlands and Germany. The exports value in April 2014 were USD 673.80Million, while in March 2014, were USD 658.10 Million, which is 2% as an increase in the exportation business. Despite various methods used by traders in doing business in foreign markets, it's unclear if whether the modes have been helpful to businessmen in making their business profits. It's not clear if the methods have assisted local firms dealing with foreign markets have helped to retain the customers and expanded their businesses.

With the effort taken by the Tanzania Government to remove the trade barriers for exporting business, there is the need for the government to intervene in the selection of the entry mode processes to small businessmen?

However, little is known about the modes adopted by SMEs enter foreign markets. As pointed out above, few studies have been undertaken on strategies adopted by internationalizing SMEs in developing countries.

This study aims at addressing the research gap which has been observed in the area of selection of foreign market entry modes. To this end this study is an attempt to finding out factors influencing the SMEs selection of foreign market entry modes.

### 1.3 Objectives of the Study

#### 1.3.1 General Objective

The general research objective is to find out factors influencing SMEs' selection of foreign market entry mode.

#### 1.3.2 Specific Objectives

(i) To identify various modes of SMEs foreign market entry;

(ii) To identify factors influencing SMEs' selection of foreign market entry modes;

(iii) To examine the significance of SMEs in internationalization;

(iv) To assess the impact of particular mode of foreign market entry to the performance of SME

### 1.4 General Question

What are factors Influencing SMEs on selection modes of entry into foreign markets?

#### 1.4.1 Specific Questions

(i) What are the various modes of SMEs foreign market entry?

(ii) What are the factors influencing SMEs selection of foreign market entry?

(iii) What are the significance of SMEs in internationalization?

(iv) What are the impacts of particular mode of foreign market entry to the performance of SMEs

### 1.5 Significance of the Study

It is estimated that about a third of the GDP originates from the SME sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons that was, about 20% of the Tanzanian labour force. Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy.

The ability of the SMEs and Medium Enterprises to operate and generate goods and services for Internal market and exports depends much on Government supports on the provisions of the support environments to traders Some of environments are infrastructures, Information access, training colleges, taxes incentives and other business guarantees. Apart from the Government support to SMEs and medium Enterprises which operates into foreign markets, they have been facing challenges from many foreign companies, evading their local markets. In this case this have narrowed their chance of expanding of their business locally, the Government revenues and the employment level both have been narrowed. Many traders have good business plan in papers, but in reality they do not work.

The Study will identify factors determining SMEs' selection of foreign market entry modes and further find out challenges faced by internationalizing SMEs in course of their selection of foreign market entry modes. The study will also identify ways on how the identified challenges can be overcome. It is hoped that this study will be of much value to a number of people and organizations, in the following ways.

(i) Helping SMEs management and individuals entrepreneurs to appreciate factors determining the SMEs selection of modes of foreign market entry mode;
(ii) Helping the policy makers understand the challenges faced by internationalizing SMEs and ways of countering such challenges and hence promoting the growth and development of SMEs;
(iii) Helping researchers to identify gaps which require further research;
(iv) Being used as an empirical reference for future researchers on in foreign market and entry mode selection by SMEs;
(v) Specifically enabling the researcher to fulfill the requirement for the Degree of Master of Business Administration of the University of Mzumbe.

## 1.6 Scope of the Study

Results of the study were based on data from clients of Kinondoni collected in Dar es Salaam Region.

## 1.7 Limitations and Delimitations of the Study

This section presents limitations that the study expects to encounter and how to address them. In carrying out the research, some of the limitations will likely encounter in the study includes:-

### (i) Limited Resources

The study is carried out under limited resources since the researcher funds it through own sources. The costs includes, traveling costs and stationary. To address this challenge, the researcher chose to conduct the study based in Dar es Salaam to minimize the cost. Furthermore, the researcher exchanges information with the supervisor through online methods to lower the cost of stationaries.

### (ii) Time

The study is conducted under limited time to meet the academic calendar of Mzumbe University. The study collects data from the sample and generalizes them to meet the challenge of time. Also, the researcher extends working time to include weekends in addressing the challenge.

### (iii) Resistance from Respondents

The study collects data from respondents who are willing to participate; it is expected that some respondents (among respondents) was resist providing the information. The researcher provides required information to make respondents understand the importance of taking part in the process. Additionally, the study ensures that respondents' information is anonymous.

### (iv) Language Barriers

The accepted language of for academic communications in Tanzania is English. On the other hand, Swahili is the national language of Tanzania; therefore most of respondents are not competent in communicating through English. The researcher translates the questions to include Swahili language for easy understanding. Also, the researcher use English language editor to proof read his work for grammatical correctness**.**

## 1.8 Delimitation of the Study

Koul (1997) asserts that, delimitation of the study concerns with the boundaries of the study that were supposed to be made clear with reference to both the scope of study by specifying the areas to which the conclusions have to be confined and the procedural treatment including the sampling procedures, the technique of data collection and analysis, the development of measuring tools and their use in the study, to this end this study is an attempt to finding out factors influencing the SMEs selection of foreign market entry modes.

## 1.9 Organization of the Study

The research was organized in the following, chapter one involves the introduction, background of the study, statement of the problem, research questions, general objective, scope of the study, general and specific objectives, also in this page the significance of the study is explained.

Chapter two involves literature review which is devided into theoretical part of it and empirical part this chapter tries to view critical points of current knowledge of the study. This chapter also explains the conceptual framework and measurement of variables.
Chapter three explains those methods or techniques that were used for conducting of the research. It shows a way to systematically solve the Research problem, and it's understood as a science of studying how research is done scientifically.

Chapter four covers the discussion of the presentation and interpretation of the findings obtained in chapter three to reflect the assessment of factors influencing the selection of mode of entry in foreign markets by SMEs, in Kinondoni District.

Chapter five intends to put forward the summary, conclusion and recommendations which are found in the previous chapter in order to help the SMEs as to improve the modes of entry into foreign businesses.

## CHAPTER TWO

## LITERATURE REVIEW

### 2.1 Introduction

The main objective of the chapter is to present a theoretical framework and relevant empirical findings related to the current study. It further expresses the conceptual framework, mathematical equation variables and the relationships between the equation variables.

### 2.2 Conceptual Definition

The following are the definition of key terms used in this study:

**Domestic market**

According to the *Wikipedia* the domestic market is a market within a given country for products and services. Also known as an internal market, it has a more limited scope than international markets, usually with reduced competition.

**Foreign**

Means dealing with or involving other countries (From Oxford Advanced Learners Dictionary of Current English, 2010).

**Globalization**

The term globalization is generally used to describe an increasing internationalization of markets for goods and services, the means of production, financial systems, competition, corporations, technology and industries. Amongst other things this gives rise to increased mobility of capital, faster propagation of technological innovations and an increasing interdependency and uniformity of national markets (Acs, 1999).

**Host Country**

A country where a company that is based in another country has business activities (From *Cambridge Online English Business Dictionary*).

**International Market and Foreign Market**

International market and foreign market are used interchangeably. They refer to a market outside the borders of home country in which various international entities or suppliers and buyers exchange goods and services (Joshi, 2005).

**Internationalization**

This is the process whereby a firm or company expands its operation beyond the borders of the home country (Kotler and Keller. 2012).

**Local Firm**

An organization or economic system where goods and services are exchanged for one another or for money in a particular country. Every business requires some form of investment and enough customers to whom its output can be sold on a consistent basis in order to make a profit. Businesses can be privately owned, not-for-profit or state-owned. An example of a corporate business is PepsiCo, while a mom-and-pop catering business is a private enterprise. (From Businessdictionary.com found at: http://www.businessdictionary.com/definition/business.)

**Market**

(i) T he business or activity of buying and selling a particular product or service; or

(ii) A part of the world where something is or might be sold, or a particular group of people who buy or might buy something; or

(iii) Demand for a product or service, or the number of possible buyers for it; or

(iv) An economic system in which prices, salaries, employment, etc. are decided by how much people want and will pay for goods and services (From *Cambridge Online English Business Dictionary*).

### Modes of Entry

An entry mode is defined as the institutional arrangement by which a firm transfers its products, technologies, human skills, or other resources into a market (Quan, 2012).

### SMEs

There is no single definition for SMEs. In Tanzanian context and according to the SME Development Policy 2002 defines SMEs by categorizing as follows:- micro enterprises as those with 1 to 4 employees or capital investment up to Tanzanian shillings 5millions; Small enterprises are those with 5 to 49 employees or capital investment up to above Tanzanian shillings 5millions and less than or equal to 200millions; Medium those with 50 to 99 employees or capital investment up to Tanzanian shillings above 200millions and up to 800 millions.

## 2.3 Theories and Concepts

Several theories have been propounded in relation to the SMEs generally and SMEs internationalization in particular especially in the fields of international entrepreneurship, international business and international marketing. These theories include, competitive advantage theory; resource based theory; geographical, psychic, cultural and political distance theory and transaction costs analysis theory.

### 2.3.1 Competitive Advantage Theory

According to the competitive advantage theory, the drivers of globalization are continuously dismantling the barriers, geographic or otherwise, which segmented the competitive environment of domestic and international firms. Firms of all sizes now share a common competing space (Dana, *et al*., 2000). As a consequence, it is increasingly difficult for independent SMEs to survive unless they become internationally competitive, whether or not they operate in international markets. SMEs face competition from both domestic and international firms. Domestic market are becoming integral parts of a broader, global whole and therefore competing globally is not an option but an economic imperative (Cruz-Carreon, 2006).

Globalization refers to the web of linkages and interconnections between states, societies and organizations that make up the present world economic system (Acs, 1999) It has made internationalization of firms a necessity and a strategic option for firm survival against stiff competition. Besides, it creates new structures and new relationships, with the result that business decisions and action in one part of the world have significant consequences in the other places Internationalization of markets for sales and purchasing indirectly influences every business. Technological progress in logistics and distribution enables nearly every business to buy, sell and cooperate on global scale (Moekotte & Freye, 2008). Information communication has been made efficient and less costly. Where there is a higher competition in market firms tend to adopt a low level of control in the entry mode so that not to expose themselves to greater risks.

In this study, the Competitive Advantage Theory will be applied in assessing the operations of SMEs in Tanzania. Increase of competition in the domestic market obviously reduces the firms market share in the domestic market. Consequently, firms to are left with an alternative to expand their operation beyond their home country borders so that to widen their market base. In case of higher competition in the foreign market, firms will be likely to adopt the low control mode of entry, such as export.

### 2.3.2 Normative Decision Theory

Normative decision theory suggests that the choice of a foreign market entry mode should be based on tradeoff between risks and returns. A firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment (Agarwal and Ramaswami, 1991).

Hollensen (1998) argues that entry mode with high control will increase the return and the risk, and low control entry modes on the other hand reduces resource commitment and therefore also the risk and this often at the expense of the return. Thus, the selection of the entry mode becomes a tradeoff for companies; they can trade different levels of control for a reduction of resource commitment hopping for a reduction in the risk. It is equally argued that, a company selling to several different foreign markets will face lower risk than companies that only do business with their domestic markets.

Quan (2012) identifies two types of strategies adopted by SMEs when making decisions on entry mode in the foreign market that is rational decision making strategy and cybernetic decision making strategy. The rational decision making strategy assumes that, the business environment is predictable for decision makers. In this way, managers are said to make accurate interpretation and evaluate all available information to make their strategic decisions. This view runs contrary to the view held by the advocates of the cybernetic decision making who assert that decision makers have limited analytic capability. Only limited information can be used when managers make their strategic decisions (Steinbruner, 1974).

In Tanzanian context, most SMEs have inadequate fund. Therefore, the decision to invest abroad has to be made in the face of scarcity of fund. As such, presumably, Tanzanian SMEs give high consideration of risks associated before deciding to venture aboard. The theory of Normative Decision will be used to prove the correctness of the above assumption.

### 2.3.3 Resource-based Theory

The Resource-based theory became popular in 1980s and until today it is still applied (Musso and Francioni, 2009). Resource-based approach illustrates the primary concept of strategic management. This concept explains how a firm can compete when there is a fit between the firm's resources and external opportunities. According to Resource-based View (RBV) a firm is a bundle of collected tangible and intangible resource stocks. Grant (1991) states that there are five categories of resources: financial, physical, human, technological and reputational (Musso and Francioni, 2009). Amit and Shoemaker (1993) added one more category, the organizational resource or management system (Musso and Francioni, 2009).

RBV is said to be an inward-looking perspective, as it attributes secondary importance to the external factors. Studies based on RBV have assumed that the selection of an appropriate entry mode is a function of the interplay of both the internal and external resources (Musso and Francioni, 2009). Firms resources include its locational advantage, international experience, mastery of technology, organizational culture, financial capability and firms size, among others. In this study the extent to which these factors affect the Tanzanian SMEs selection of modes of foreign market entry will be examined.

**This Theory Underlies the Following Hypotheses for This Study**

(i.) Belonging to industrial cluster reduces the likelihood of using entry strategies that imply a high degree of control;

(ii.) The longer is the international experience, the higher is the level of control in the entry mode;

(iii.) The higher is the likelihood that organizational culture is a sustainable advantage; the higher is the level of control in the entry mode.

### 2.3.4 Geographical, Cultural, Psychic, Economic and Political Distance Theory

Joshi (2005) in International Marketing argues that a firm has to overcome geographical, cultural, psychic, economic and political barriers to reach its overseas markets. Geographical distance refers to the proximity of the market from the supplier. The author explains that usually neighboring countries tend to be natural target markets due to lower physical distances and logistical complexities. It follows from this theory that, the most likely target for Tanzanian SMEs would be the neighboring country. The ongoing process of East African economic and political integration would according to this theory necessitate most Tanzanian SMEs to resort to East African market is the highly attractive market for Tanzanian SMEs in terms of physical distance and logistical convenience. Economic distance determines the final cost of product in the target market and ease of transacting business. Though physical distance between home country and host country may be small, economic distance may be higher if there is lack of necessary infrastructure such as banking and financial infrastructure.

The selection of target markets also depends on the political relationship between the governments of an exporting country with the importing country. Adverse political intercourse may be a barrier to entrance in the market that is otherwise lucrative. For this reason we would expect that Tanzanian SMEs operations in the post apartheid South African are far better than during the apartheid era. Psychic distance refers to psychological gaps between the exporting and the importing country. Psychological gaps often creates communication barriers reflected in differences of languages, life styles, cultural orientation, awareness levels, political ideologies, or the level of technical skills. As discussed above the international market selection is determined by combination of these distances this theory forms basis for the following hypotheses:

(i.) The higher is the cultural distance between the firm's home country and the host country; the lower is the level is the level of control in the entry mode.

(ii.) The higher the country risk, the lower is the level of control in the entry mode

### 2.3.5 Transaction Cost Theory

Transaction cost (TC) theory has been widely used in entry mode research to explain why large companies utilize different modes in expanding abroad. TC theory suggests that asset specificity, behavioral uncertainties and environmental uncertainties create two main costs: market transaction costs and control costs (Brouthers and Nakos, 2004). Assets specifity refers to the physical and human resources which may lose value in another use that a company employs to complete a specific task. A firm that possesses unique technology and know-how has to take extra precautions in order to protect its differentiated assets from falling into the hands of competitors. Asset specifity is a resource of the firm. According to the TC theory when asset specifity is low, firms will incur few costs in protecting their knowhow from competitors. Brouthers and Nakos (2004) studies have shown that when asset specificity is low, firms tend to use low control entry modes. On the contrary, when asset specificity is high, firms are more concerned with protecting proprietary knowledge or technology from competitors and thus tend to employ low entry modes. Most SMEs in Tanzania do not possess proprietary knowledge or technology and therefore it is expect that this study will show that Tanzanian SMEs tend to use low control modes of entry.

TC theory suggests that firms face two types of uncertainty: behavioural and environment. Behavioral uncertainties arise from the inability of a company to predict the behaviour of individual in a foreign country. Brothers and Nakos (2004) argue that behavioral uncertainty may lead to opportunistic behaviour involving cheating, distortion of information, shirking of responsibility and other form of dishonest behaviour. An internationalization theory asserts that, firms develop skills at controlling international operations through experience. Firms lacking international control-related experience tend to prefer low control modes of entry, as a means of controlling the behaviour-related uncertainties. SMEs are generally regarded as inexperienced in international operations and so may not have well-developed systems and process for managing foreign operations. Therefore, behavioral uncertainties may discourage SMEs from organizing foreign operations in a hierarchical form (Brouthers and Nakos, 2004). Most SMEs in Tanzania like SMEs in other developing countries lack international experience. This theory underscore the hypothesis that the longer the international experience the higher is the level of control in the entry mode.

### 2.3.6 International Market Entry Modes

Once target markets have been chosen, the question remains is what is the best way to enter those markets. An international market entry mode is an institutional arrangement necessary for the entry of a company’s products, technology and human capital into a foreign market.

For most SMEs the market entry represents a critical first step. Different of entry modes are combined by firms to develop a specific foreign market and also to compete with each other.

### 2.3.7 Classification of Market Entry Modes

There are three main groupings of entry modes, which are available to companies that wish to take advantage of foreign market opportunities. There are different degrees of control, risk, and flexibility associated with each of these different market entry modes.

Export modes: there are three major types of export modes may be identified

(i.) Indirect export: domestic companies perform exporting activities without the manufacturing firms' involvement in the foreign sales of theirs products

(ii.) Direct export: producing firm takes care of exporting activities

(iii.) Cooperative export: involves collaborative agreement with other firms when performing exporting activities

Intermediate modes (contractual entry modes) Licensing, franchising, contract manufacture, technical agreement, coproduction agreement.

Hierarchical modes (Investment modes)

(i.) Joint ventures

(ii.) Foreign direct investment (FDI) and acquisition

### 2.3.8 Factor Influencing the Choice of Entry Mode

As shown in figure 4, four groups of factors are believed to influence the entry mode decision:

(i.) Internal factors

(ii.) External factors

(iii.) Desired mode characteristics

(iv.) Transaction-specific behavior

**Factors Influencing the Choice of Entry Mode (Hollensen, 2008)**

Internal factors affecting the entry mode decision are company's size, international experience and the product offered. The company's size determines the availability of resources. In the case of SMEs they tend to choose export modes, which require lesser amount of input from a company. International experience of managers can act as a factor affecting the entry mode decision. The international experience also reduces costs and uncertainty, which speeds up the internationalization process. Yet the product itself can also affect the choice of entry mode since products vary in their characteristics and usage. (Hollensen, 2008, 298-299). External factors affecting the international entry mode are sociocultural distance, country risks, market size and competition. Sociocultural distance refers to similarity of countries. It is always easier to do business with those who share the similar mindset and culture. Country risks include the assumption that foreign markets are more uncertain that domestic ones. Market size affect the choice of entry mode since the market is growing, the more likely is that mangers continue to invest in it. If the market is already full of competition it makes the market less profitable, so there is little for a company to gain in those markets, which thus affect the choice of entry mode. (Hollensen, 2008, 299-301) One major factor affecting the choice of entry mode is the desired mode characteristics. Those characteristics include risk adverse, control and flexibility. (Hollensen, 2008, 301-302)

## 2.4 Market risks and Entry Barriers

According to (Hollensen, 2008), critical barriers in the process of internationalization may generally be divided into three groups: general market risks, commercial risks and political risks,

### 2.4.1 PEST Analysis

PEST refers to political, economical, social and technological factors. PEST analysis helps company to detect and monitor trends in the hope of finding their way into the competitive environment.

**PEST Analysis (BECKMANN BIO 2010**)

Although each factor is dealt and analyzed in turn; the interrelationships between all four factors of “PEST” does exist.

### (a) Political Factors

Political factor deals with effects of government policies such as government stability, taxation policy, and government regulation. A player within the industry would have been wise to conduct some form of PEST analysis in order to determine the effects of these politically driven changes within the industry and on their organization. (Hill, 2009)

### (b) Economic Factors

Key economic indicators include interest rates, disposable income, unemployment rates, retail price index (inflation), gross domestic product (GDP), and exchange rates. However, economic data can be notoriously fickle and ambiguous. In addition, an economic indicator can never provide a complete picture, but rather provides a snapshot and simplification of complex economic phenomena. This makes scanning and monitoring the general environment for signs of economic shifts, which might impact an organization's industry a little difficult. The strengthening of an economy will generally benefit industries, but the extent of its effect will vary according to which economic factors are most affected. (Hill, 2009)

### (c) Social Factors

Social factors include cultural changes within the environment and are often referred to cultural attitudes, ethical beliefs, shared values, level of differentiation in lifestyle, demographics, education levels, ect… Observing social factors helps organization maintain their reputation among stakeholders. (Hill, 2009)

### (d) Technological Factors

Without doubt some of the major changes taking place in the general environment that are impacting the competitive environment are technological. Technological factors include the rates of obsolescence, i.e. the speed with which new technological discoveries supersede established technologies. The rate of change in technology and innovations has the effect of causing new industries to emerge and also changes the ways in which existing industries compete. Technological advances include the Internet, the use of sophisticated software, genetic engineering, and nano technology.

The rapid rate of change of technology has changed the dynamics of industries such as banking, financial services, and insurance. This has allowed new entrants to enter the market at a lower cost base than incumbents, thereby offering more competitively priced products and services and gaining market share in the process. Hill, 2009)

### 2.5 Empirical Studies

Empirical studies are past researches that have been conducted in the same subject. In this study two types of empirical studies are reviewed. The first category is the Tanzanian empirical studies, which consists of all studies in the subjects which have been carried out by other authors focusing on Tanzania as a case study. The second category is the foreign empirical studies, which consists of all studies in the subjects which have been carried out by other authors focusing on countries other than Tanzania. In the subsequent paragraphs, empirical studies are examined from each case.

#### 2.5.1 Abroad Case

Several studies have been conducted overseas in the area of selection of foreign market entry modes by SMEs.

Gustavsson and Lundgren (2004) conducted empirical studies on the internationalization of SMEs, in which an analysis and discussion on the challenges facing SMEs while selecting foreign market entry mode are provided. The authors underscore the significance of entry mode in determining the degree of control a company has over its marketing mix in the foreign target market and also the impact it has on the performance of the firm. The authors argue that a company's selection of entry mode depends on the market, the company's strategy and in what stage of the life cycle the company is. Generally, there is no mode of entry that is considered as the best. The selection of mode is different from one company to another depending on a number of factors, both internal and external to the company (Gustavsson and Lundgren, 2004). The authors examine internal factors influencing the firm's selection of foreign market entry mode which according to the authors the factors include perceptive management, specific internal events and inward internationalization.

Hollensen (1998) argues that managers often become aware of the opportunities an expansion of their company to a new market will give them (Gustavsson and Lundgren, 2004). One trigger for management can be travelling to other countries where manager discover new business opportunity. Also authors argue that an event specific to the company can also be a trigger for entering new markets. A specific event can be overproduction or reduction in domestic market. Finally the authors point out that, there is a connection between inward internationalization (import) and outward internationalization (export) in a way that affect import activities, especially in the initial stage of internationalization process.

Agarwal and Ramaswami (2013) undertook a research on *Choice of Entry Market Mode* and identified four common foreign market entry mode namely exporting, licensing, joint venture and sole venture. The authors argue that the choice of an entry mode for a target market is influenced by three types of determinants factors: ownership advantages of a firm; location advantages of a market and internalization advantages of integrating transactions within the firm. It is further pointed out that though previous studies have made substantial contribution to our understanding of the entry mode behaviour of firms, an important gap in the empirical literature is the issue of how the interrelationships among the determinant factors influences firms' entry choices.

### 2.5.2 Tanzanian Case

Since the beginning of social and economic reform in late 1980s, Tanzania had transformed itself from socialism and self reliance (*Ujamaa na Kujitegemea)* economy into market economy necessitating economic liberalization and globalization to be regarded as legitimate object of attention (Hamisi, 2011). This structural shift in the Tanzania economy greatly exposed SMEs to fierce national, regional and international competition from large enterprises not least transnational companies (TNCs) and multinational companies (MNCs).

Hamisi (2011) argues that, in order to enhance their competitiveness, Tanzanian SMEs can seek ways to reduce costs, improve efficiency and customer services through efficient supply chain management. Similarly, Calipinar (2007) observed that SMEs can become self sufficient and get stronger if they implement supply chain management (Hamisi, 2011).

Generally, there are several studies which have been conducted on SMEs in Tanzania. However, very few studies have been specifically studied in the area of SMEs internationalization or SMEs selection of foreign market entry modes. Rutashobya and Jaensson (2004) conducted a study on *Small Firms Internationalization for Development in Tanzania.* In this study the authors explore the role of networks in small firms' internationalization. The authors admit that "while firm internationalization has been studied extensively, inquiry into how small firms enter foreign markets and the strategy they use has not received much attention". The authors conclude that the study had shown that in Tanzania networks eliminate small firm's ownership disadvantages and their perceived psychic distance, thereby facilitating their entry into foreign markets.

In another study, Rutashobya and Allan (2012) argue that network has been identified as one of the solution to the problems faced by SME especially at the start up stage. Many problems faced by SMEs are said to be related to their liabilities of smallness, newness and therefore isolation. The authors' further point out that smaller and new firm face higher risks of failure than larger and older firms. The major advantage of large firms arises from their dependent relationships, economies of scale and government support in times of crises. The current globalization poses a serious threat to the small firms in developing countries, which may be isolated by nature of their size and lack of technology. It is argued that networks should enable SMEs to overcome isolation because firms are dependent on the environment to secure a number of strategic resources such as raw materials, intermediate components, capital, information, distribution outlets, customers and the like. Therefore, network should also have influence on the internationalization of SMEs and the manner in which the latter choose entry mode in the foreign market.

## 2.6 Conceptual Framework

The conceptual framework which emerges from the studied literature in the thesis produced to help us to answer the research question. In order to do so literature perceived as the most relevant to the research study will be selected and presented. Furthermore, each presented theory is connected to the research question.

In the literature we studied the different theories and models relevant to the research question.

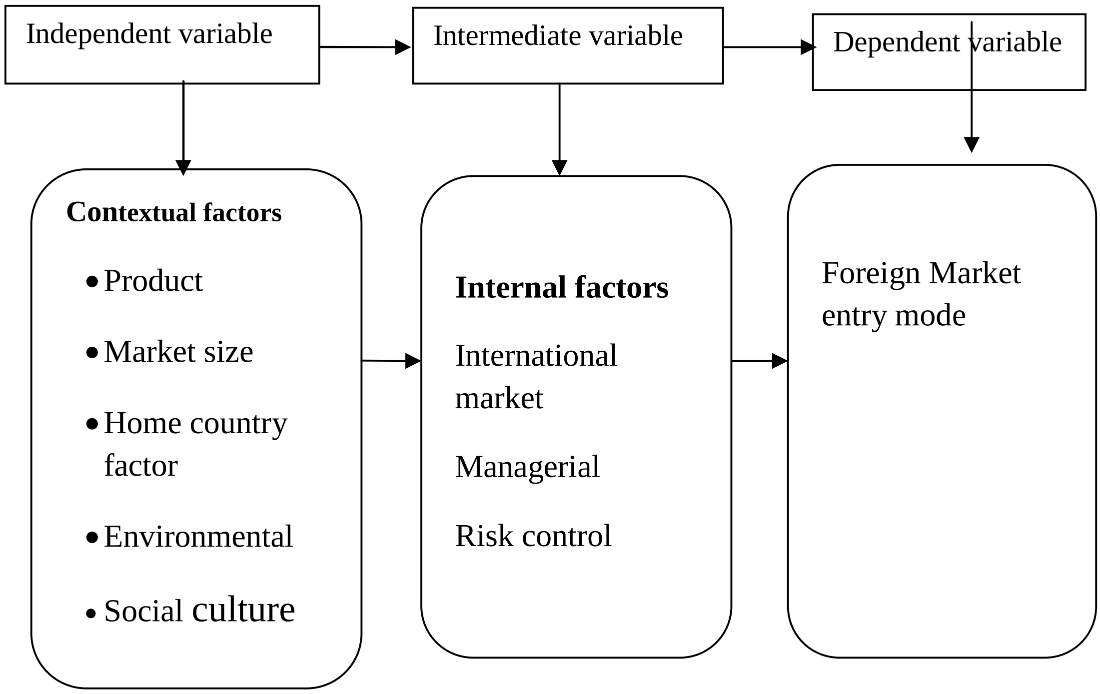
Normative decision theory suggests that the choice of a foreign market entry mode should be based on tradeoff between risks and returns. A firm is expected to choose the entry mode that offers the highest risk-adjusted return on investment (Agarwal and Ramaswami, 1991). Dunning (1980) states that specific organizational skills or technologies permit a firm a competitive advantage in the marketplace. The transaction cost model explains internal, external, risk return cost, choice of entry mode and profit maximization.

Root (1994) divided these factors into two groups. Koch (2000) introduced a third group called mixed factors. In the literature Internal factors are a set of strategies and characteristics of a company which influence on entry mode. Internal factors are controllable and modifiable, while external factors are uncontrollable and affect entry mode decisions. In the context of selection of market entry mode decisions, Luo (2002) states that particular country specific location disadvantages affect entry strategies in all markets. The researchers affirmed the underdeveloped information (factor & mode of market entry) should be considered while making decisions in SMEs play important role in affecting particular companies given performance.

The conceptual framework of this study is represented in Figure 2.1 below. The framework describes suitable entry mode as a consequence of the interplay of firm-specific resources, host country factors and home country factors appertaining to the industrial district and degree of control.

By using this framework the author has developed question and on the basis of those author will attempt to verify a direct or inverse relationship between the .Independent variables and the degree of control in the international activities related to the selected entry mode.

**Figure 2.1: Illustrative Diagram to Conceptual frame work**




The socio cultural gap between the home country and the overseas country creates an uncertain situation for the company which leads to influence in selection of entry mode. When there is far distance between two countries. Companies hesitate to use entry modes like joint venture and foreign direct investment. At this situation company uses market entry mode with low resource commitment and high flexibility.

Environmental uncertainties connected with country risk political and legal enforcement of contracts and control. Brouthers & Nakos (1994) state ‘Companies operating in environmental uncertainties select the non-equity low resource entry mode’. Through this it is easier for the company to adapt to circumstances or change the partners or easily exit from the market.

To study the Market size is important and has influence on the market entry mode. Small markets encourage entry modes that have low breakeven sales volume. We research on SMEs and with limited resources of the company. Root (1994) states size refers to the resources available to the firm like finance, technology and human skills. He further states that resources give edge to the company in selecting the market size of the host country.

A home country factor refers to home market, production and environmental factors. If the size of the home country market is big, this enables the company to expand their activities in the home market before going foreign market. If the cost of production is high in the domestic market and company will choose the overseas market entry modes such as exporting contractual and investment. Another factor is the home country government rules and regulation regarding domestic firms.

Resource commitment refers to a company with sufficient resource capital, management, technology, marketing skills, production skills. The various market entry mode choices with scarce resources are constrained to use multi market entry modes. Therefore, size of a company is a critical factor in the choice of entry mode.

Differentiated products Root (1994) argues highly differentiated products with distinct features give a significant edge to seller over competitors. These products bear high transportation cost, heavy import duties and competitiveness in the overseas country. Conversely, low differentiated or weak products must compete on a price basis in the target market which is only possible through local production. Hence, highly differentiated products favor export entry while low differentiated products pushes a company to local production and suitable entry mode option is manufacture contract or equity investment.

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The purpose of this chapter is identifying the appropriate methodology that was undertaken for this study. The methodology demonstrates the entire process of this study, as well as an analysis of the various research methods employed during the conduct of the research. This chapter highlights the study design, the sources of data, the research design, the sample selection and size, data collection procedures. This, in different ways enabled the study to achieve the research objectives and questions that was a guide to the researcher in the study.

Additionally, the chapter examines the research methodology suitable for analyzing the factors influencing SMEs' selection of foreign market entry mode in Kinondoni municipality Dar es Salaam under the dissertation. The methodology demonstrates the entire research process as well as an analysis of the various research techniques that have been administered. Besides, the chapter considers the research design and methodology on which the dissertation is based. The chapter highlights the salient features of the research methodology, while developing the underlying thesis of the dissertation. This section describes the practical procedures for carrying out the study. It gives the details of the research design that were adopted, population study, sampling procedures, data collection procedures, and the final data analysis techniques that was applied. It gives the framework within which data was collected and analyzed.

## 3.2 Research Design

There are various explanations on the meaning of research design. Generally, a research design is a systematic planning, organizing and executing a research within specified time and resource limits. It tells type of data to be collected (primary or secondary), the source of and the procedures to be followed in data collection. Research design provides suitable framework that guides the collection and analysis of data. Also, Ghauri and Gronhang (2005) talk of a research design as a plan outlining how information is to be gathered for an assessment or evaluation that includes identifying the data, how to administer the instruments and how to organize the information and lastly how to analyze data.

This study was employed the descriptive design to assess the factors influencing the selection of entry modes into foreign markets by SMEs. It also involved both quantitative and qualitative data collection. In this chapter, the researcher was have background against which findings of the study was assess regarding its validity and reliability. Therefore this section highlighted the research design, area and population of study, sample selection and size, the data collection methods and data analysis.

In case of method design this study were employ structured questionnaire for collection of primary data from respondents. Regarding sample design the target population includes all SMEs based in Dar es Salaam. Sampling frame were all SMEs based in Dar es Salaam which also operate in international markets. The sample of at least fifty SMEs was selected from the sampling frame for data collection.

### 3.3 Area of the Study

This study was carried out in Kinondoni municipality, is located in the eastern part of Dar Es Salaam. It has an area of about 1,393 square kilometres, covering a coastal zone of some 10 kilometres to 2 kilometres wide.

The sources of data were collected from SMEs operating in Kinondoni. In particular, primary data was collected from Managers or Owner of various SMEs located in Kinondoni operates in the foreign markets as well. Secondary data will be collected from the Ministry of Trade and Industries, Tanzania Chamber of Commerce, Industries and Agriculture, National Bureau of Statistics, Mzumbe University (Dar es Salaam Business School) Library, Business Registration and Licensing Authority (BRELA) and the Confederation of Tanzanian Industries. The study will be carried out in a period of not exceeding five months.

## Research Approach

For the better result, the study combined qualitative and quantitative approaches. Participatory approach was employed as qualitative design. Questionnaire with key informants, in- deep interview and documentary review methods were triangulated in order to allow new insight. The method helps to obtain information that would not emerge from survey approach (Mbwambo, 2002). Research design has employed for quantitative approach. It has been simply expressed as gathering information about a large number of people by collecting information from a few of them (Black and Champion, 1986). For this purpose questionnaires were supplied. Due to scarcity of resources this design saves cost on time and money.

## 3.4 Population

The populations of the study were consisting of all SMEs based in Kinondoni municipality which approximate more than 3000. The list of such SMEs were collected from the Tanzania Chamber of Commerce, Industry and Agriculture, Ministry of Trade and Industry, National Bureau of Statistics, businesses associations such as *Vikundi vya Biashara Ndogo ndogo* (VIBINDO) and Business Registration Licensing Agency (BRELA).

## 3.5 Sampling and Sampling Technique

The research population for this study included all SMEs as categorized in accordance with the Tanzania SME Policy 200 located in the Dar es Salaam region. In this study, the researcher drew sample by identifying fifty SMEs in Dar es Salaam. Purposive or judgmental sampling (non-probability sampling) were adopted and used in this study. Purposive sampling is proposed since it enables the researcher to choose only those elements which he believes can deliver the required data. The other advantage of choosing purposive sampling is that it is relatively less costly. By using purposive sampling the researcher was select at least sixteen SMEs in each of the Dar es Salaam district of Kinondoni .Considering the limitation of time and financial resources, primary data was only collected from the three main sub-sectors namely carpentry industry, retail businesses and manufacturing sub-sector.

**Table 4.1: Distribution of Respondents**

| S/N | RESPONDENTS | FREQUENCY | PERCENTAGE |
|---|---|---|---|
| 1 | Director | 3 | 0.001 |
| 2 | Managers | 10 | 0.003 |
| 3 | Suppliers | 3 | 0.001 |
| 4 | Administrative Officers | 4 | 0.0013 |
| 5 | Others respondents | 30 | 0.01 |

### 3.6.1 Purposive Sampling

The purposive sampling refers to a methods used purposely to pick up the people who the researcher thinks and regards to have adequate knowledge of the variable information regarding the nature of the target group or population and its important features which can be used to make a close or judgment on each research. The researcher was employ judgmental/purposive technique to ensure that the adequate and accurate information from right people about laundering of money information in their places. This technique was involved mostly to head of SMEs section. This is the class that ought to have information about business policies and practices plans of the enterprises to be implemented to their workers.

## 3.7 Types of Data Collected

In this study the researcher used both primary and secondary data to gather information for the analysis and making appropriate suggestions and conclusion. Whereby primary data were collected by use questionnaires and interviewing respondents. And Secondary data was collected by reading magazines etc.

### 3.7.1 Primary Data

These are first hand data. The data was collect through interviews and questionnaires. The key point here is that the data that was collected were unique to publish; no one else has access to it.

### 3.7.2 Secondary Data

According to Thornhill (2003; 189) Secondary data is the information which has been collected by other people which have already passed through the statistics process. They are mainly collection through the methods. A library method is when people collect data by reading what other people have written about the problem under study. The researcher was obtained information through reading books, manuals, magazines, journals, statistical documents and internet reports and student's dissertations, employee's information guide from Tanzania Chamber of Commerce, Industry and Agriculture, Ministry of Trade and Industry, National Bureau of Statistics, businesses associations, Business Registration and Licensing Authority (BRELA) and the Confederation of Tanzanian Industries.

## 3.8 Data Collection Method

Data collection methods which were employed for this research were questionnaires, interview and documentary. Questionnaires were personally administered to the SMEs employees.

### 3.8.1 Questionnaires

Questionnaires are techniques for data collection in which one person is asked to respond the same set of questions in a predetermined order. Self-administered questionnaire was applied in this research; whereas closed ended and open ended questions formulated and distributed to the targeted respondents to be filled accordingly. Inappropriate questions, incorrect ordering of questions, incorrect scaling, or bad questionnaire format can make the study valueless, as it may not accurately reflect the views and opinions of the participants. A useful method for checking a questionnaire and making sure it is accurately capturing the intended information is to pretest among a smaller subset of target respondents. Survey questionnaires were used for data collection. The sample of the said questionnaire is attached as an annex to this dissertation.

### 3.8.2 Interview

Interviewing is the primary method of collecting testimonial evidence, which is flexible in the manner that the researcher could rephrase a question if the question was well understandable to respondents. Interview was conducted with owners, owner and supervisor responsible for the decisions on the internationalization process of their firm. A firm was identified from Tanzania Chamber of Commerce, Industry and Agriculture, Confederation of Tanzanian Employers, Ministry of Trade and Industries and SMEs associations such as VIBINDO.

### 3.8.3 Documentary Review

Secondary data was collected through documentary or literature review. The researcher visited libraries and documentation centers. In particular, the researcher was visited the Mzumbe University, Dar es Salaam Business School library, the Tanganyika Library and the University of Dar es Salaam library. The researcher were also collect secondary data by reviewing reports and other publications in various documentation centers or archives such as the National Bureau of Statistics, the Tanzania Chamber of Commerce Industry and Agriculture, the Board of External Trade, Confederation of Tanzanian Industries, the Ministry of Trade Industry and Agriculture and the Export Processing Zone Authority.

## 3.9 Data Validity

Validity refers to the extent to which a test measures what we actually wish to measure. According to Kothari, (2004), an instrument of data is said to be valid when it measures what is supposed to measure. The researcher was based on the fact obtained in questionnaires. As far as the external validity is concerned the researcher believes that each respondent who was chosen will reach the information.

## 3.10 Data Reliability

The reliability of data is the ability to obtain similar results by measuring an object, trait or construct with and independent but comparable measurers. The researcher was examining the internal consistency of the scale by computing the coefficient of reliability.

### 3.11 Data Processing and Analysis Methods

All the information from quantitative and qualitative data has mainly presented in a descriptive manner. It is important to apply both techniques because of the nature of some data collecting methods like observation and interview which are purely qualitative. The researcher had to check errors and inconsistencies of data after the field work, this was data processing where by data entry was done, followed by data editing, cleaning and coding. The analysis of the quantitative data gathered from the field will be performed using the Statistical Package for Software System (SPSS 20 edition for Windows Version 12). Univariate analysis was done whereby frequency distribution of sample were captured and presented**.** A basic way of presenting univariate data is to create a frequency distribution of the individual cases, which involves presenting the number of cases in the sample that fall into each category of values of the variable. This was done in a table format and bar chart representation.The findings presented into tables, charts, explanation and examples. Hence used the permission to explain that there is no risk of getting bad image by providing the required data.

# CHAPTER FOUR

# PRESENTATION AND INTERPRETATION OF FINDINGS

## 4.1 Introduction

The data were analyzed both qualitatively and quantitatively such that presentation of the findings uses description or narrations and tables and figures, respectively. The socio-demographic characteristics of the respondents were analyzed in terms of their personal characteristics which include sex, education level, occupation, and … as shown below, the findings on the factors influencing SMEs’ selection of foreign market entry mode. The presentation of findings have been presented and analysed in tables, charts and explanation. The results included quantitative information that is mainly from 40 respondents, also the qualitative information were taken from the key 10 informants and unstructured interviews. Internal records were mainly from Annual Reports and Corporate plans while External Sources of data were captured from books Survey of Tanzania, Journals, Magazine and Brochures.

The researcher after gathering opinions from different informants who are beneficiaries of benefits of SMEs the data than sorted for a thorough analysis. Information collected from different user of the factors influencing SMEs’ selection of foreign market entry mode was tabulated in their raw form, cleaned and coded. These data are presented under various headings which constitute the different areas of the researcher. An appropriate interpretation had been then carried out coupled with supporting arguments; other views from other researchers were used to support or discuss the findings.

It was done in accordance with the four objectives and research questions that guided the study which was to identify various modes of SMEs foreign market entry, to identify factors influencing SMEs' selection of foreign market entry modes, to discuss the significance of SMEs internationalization and to assess the impact of particular mode of foreign market entry to the performance of SME.

## 4.2 Characteristics of the Respondents

The respondents to this study were made up of 60 respondents from city of Dar es Salaam in Kinondoni to whom questionnaires were distributed to the respective respondents. However, only 50 were completed and returned, representing 83.33% response rate. Respondents were both randomly and purposively selected of which includes SMEs from districts of Kinondoni in Dar es Salaam.

### 4.2.1 Age of the Firm

The study sought to find out the age of the firm. It captured the age of the firm in SMEs. Table 4.1 shows their response.

**Table 4.1: Age of the Firm**

| Age | Frequency | Percentage |
|---|---|---|
| 0-5 | 15 | 30 |
| 6-10 | 16 | 32 |
| 11-15 | 10 | 20 |
| 16-20 | 4 | 8 |
| 20+ | 5 | 10 |
| Total | 50 | 100 |

**Source:** Research Findings 2014

The above table 4.1 show the respondents according to age of the firm 30% of respondents indicates age from 0-5 years were 32% of respondents indicates age from 6-10 years while 20% of respondents indicates age from 11-15 years, 8% of respondents indicates age from 16-20 years and only 10% of respondents indicates above 20 years old of the firm, therefore in this study it implies that most of the firm operating from 6-10 age of the firms compare to others.

### 4.3. Identifying Various Modes of SMEs Foreign Market Entry

In this research objective the researcher wanted to identify different modes of SMEs foreign market entry used by different entrepreneurs in Tanzania in order to internationalize their business.

#### 4.3.1 Size of the firm in Term of Employees

**Table 4.1: Size of the Firm**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Micro (1-4 employees) | 18 | 36.0 | 36.0 | 36.0 |
| | Small (5-49 employees) | 32 | 64.0 | 64.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

During the study informants were approached and asked to state the size of their firm in term of employees who are working in their firm, results from the study shows that 64 percent of all business ventures visited are small enterprises employing up to 49 employees in their company whereby 36 percent are under micro enterprise none was found to be in the medium and large enterprise, this has been contributed a lot by a number of factors including the lack of capital to expand their business hence employ more employees, inability of getting loans from the financial institutions to expand their business due to lack of collateral, women entrepreneurs are often prevented from running competitive businesses by their relatively low education and skill levels which generally limit their access to various support services, entrepreneurs if are given the right support, they can be part of the collective process of enterprise development and improve their success rates, for example it was established from the study that until recently, women entrepreneurs faced strong barriers to enterprise development in the prevailing laws and regulations. Obtaining licenses, registering the business in their own name, and applying for loans were nightmares they had to live with.

The enterprise culture in Tanzania is still under-developed. This is partly because for 20 years, the enterprise culture was suppressed in favor of socialism. As a result, there are few people with exposure to or experience in private business activities. Those who are in business are almost exclusively first generation. For more details the table below entails.

### 4.3.2 Firm's Business Operations

**Table 4.2: Kind of Firms Business Operations**

| | | Frequency | Percent | Valid per cent | Cumulative per cent |
|---|---|---|---|---|---|
| Valid | Handcraft | 16 | 32.0 | 32.0 | 32.0 |
| | Tailoring/textile | 14 | 28.0 | 28.0 | 60.0 |
| | Carpentry | 5 | 10.0 | 10.0 | 70.0 |
| | Others | 15 | 30.0 | 30.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

Regarding kind of business operations run by the entrepreneurs the report shows that 32 percent of all firms visited deals with hand craft or sculpture, the reason behind why large number of entrepreneurs are doing such a business is probably due to the easy access to the material, that is, wood which is plenty available within the country used to make different carvings having a promising market within and into an international arena, it was further said that there are lots of foreigners who comes to buy such products from abroad and for those who have already been running the business abroad they noted that carvings have a promising market outside our borders, this has attracted many people to work on such business, though the industry has been negatively perceived by the local people that carvings are for foreigners and not natives, on the other hand 30 percent of entrepreneurs are running their business in the area different from carpentry and tailoring, they do, liquid soap making, shampoo, sofa making, women ornament/decoration making from an empty coconut shell, candle making, fruits extract, basket and mat making , loin cloth and batik making, audio and video distribution, selling women cloth and portrait making, the table below entails more.

### 4.3.3 Internationalization of the Business

The table below entails more.

**Table 4.3: Company Operates Abroad**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 10 | 20.0 | 20.0 | 20.0 |
| | No | 40 | 80.0 | 80.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

**Source:** Research findings 2014

Large number of informants approached have not yet internationalized their business, this was affirmed after 80 percent of respondents having responded negatively and only 20 percent are doing their business abroad, there are lots of reasons highlighted to why are they not operating abroad, they includes, lack of support from the government, they further said that the government have been undermining entrepreneurs instead of supporting and encouraging them, getting the TBS approval takes lots of time and consumes lots of money due to high level of corruption and bureaucracy on top of that lack of capital to import high quality raw material or export their finished goods and products abroad is a big challenge, some said that, they can't see the different in term of earnings and improved life style among those who have been running their business into an international arena apart from lots of complaints, that, they do not get any profit by doing their business outside the country, and in fact if you take a look into their life style you can't differentiate those who run their business outside and the one running within the country, one informant noted that,

> *"I won't get profit like what am getting here because, abroad there are other entrepreneurs who are in the medium or large firms who will interfere with my products as their products are of better quality compared to mine"*

This statement implies that some entrepreneurs are not yet ready to compete into an international affaire due to the fear of quality of their goods compared to that of other entrepreneurs abroad. The other informant said that

> "*the procedures to be followed in case you want to do business abroad are so long and complicated on top of that complying with them needs lots of money this really discourages most of us entrepreneurs*".

It was also discovered that the other thing that hinder entrepreneurs from entering the international market is the lack of experience as the experience they have developed is not enough to compete in the global market hence necessitate them to do their business within our boundary, if you take a look into lots of comments you find that large percent of informants suffer from the lack of capital to expand their business into an international arena, they father said that it is difficult and challenging to get loans from the financial institutions to expand their business due to lack of collateral, one informant said that,

> *"I don't have enough capital to expand my business abroad on top of that I don't know the (process) procedures to be followed and I guess it is complicated I find as if I won't make i."*.

This further entails that entrepreneurs lacks some crucial information that would enable them to enter into an international arena, lack of education was also mentioned as an obstacle toward running the business abroad one informant noted by saying

> "*Running the business here is so difficult am I going to make it if I decides to internationalize my business taking into consideration my poor education"*

### 4.3.4 Mode of Operations Abroad

Informants who have already internationalize their business were asked about the mode of operation while doing their business, report shows that 50 per cent of all informants approached have been running their business abroad through exhibitions this is in most general sense an organized presentation and display of a selection of items and it usually occurs in museum, galleries and exhibition halls and world's fairs, in most cases they are temporally scheduled to an open and closing date but there are some exhibition shown in multiple locations called travelling exhibition, when asked why are they mostly opted to use such a mode they said it is the most easier mode of entry and they have enough experience with it and pays a lot, that is they get better earnings, the other category of informants have been running the business abroad through buying materials that are of high quality and cheap compared to what is available within our borders and some are forced to buy materials abroad not because they are of good quality or cheap price but because such materials could be accessed only from abroad they are not available from our country, on the other hand 40 per cent of informants are using exporting mode of entry that is selling of goods and services produced in Tanzania to other countries the advantages mentioned here includes extending sales life of existing products and services by finding new markets to sell them in, it reduces the dependence on the market someone has developed within the country, also if for example the business is plagued by destabilizing fluctuations in the internal market due to seasonal changes or demand cycles one can even out his sales by tapping markets with different or even countercyclical fluctuations and finally by entering global market you will learn how to compete against foreign companies and even take the battle to them on their own ground, some said that by selling products outside they earn more money compared to running here, one informant noted

> "*We get more profit by selling our products abroad when we change their currency into our Tanzanian shilling we get handsome money*"

And the other one said that their products are more valued outside than in our country. More could be traced from the table below.

**Table 4.4: Mode of Operations Abroad**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Exporting | 4 | 40.0 | 40.0 | 40.0 |
| | Sole venture | 1 | 10.0 | 10.0 | 50.0 |
| | Others | 5 | 50.0 | 50.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

On the other hand entrepreneurs who are also looking forward to expand their business abroad were asked which modes of operation are they going to use 41 percent of all informants said that they would prefer to enter global market through exporting of finished goods, number of reasons were given out for example some said that by selling goods outside they are going to earn foreign currency which by exchanging them into Tanzanian shillings they will get good money because abroad there is a good market for their products compared to selling them within the country, generally speaking entrepreneurs believes that products that they produce here are of good quality to an extent that they can compete into the global market and are sure that they won't be defeated by other businessmen from other nations, but the only thing that most of them lack is experience, they don't know where to start the process and how to do business into an international affairs, 35 percent opted to use other means of entries especially those whose products depends on materials from abroad, they said that they will entre global market by importing raw materials from abroad because buying them here is more cost full compared to importing them, in additional to that, the quality of these materials are better compared to what we get from here. The other group 12 percent said that they will enter through sole venture because they believe that by investing outside will help their company prosper, and some said to them joint venture is a good idea since they lack some experience from running the business abroad if join with the locals of the host country will help them master the market quickly, one informant said that,

> *I would prefer to join with my colleagues (joint venture approach) in order to generate capital by doing so we shall be able to produce quality products in a bulk and be able to compete in the global market.*

This statement shows that large numbers of entrepreneurs are triggered by lack of capital in order to extend their business abroad. The table below entails more.

**Table 4.5: Expected Mode of Entry in the Foreign Market**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Exporting | 16 | 41.0 | 41.0 | 41.0 |
| | Joint venture | 4 | 10.3 | 10.3 | 51.3 |
| | Sole venture | 5 | 12.8 | 12.8 | 64.1 |
| | Others | 14 | 35.9 | 35.9 | 100.0 |
| | Total | 39 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

### 4.3.5 Government Creating Awareness of SME Market Opportunities Abroad

Large percent of entrepreneurs approached during the study (40 percent) disagreed that the government have been creating awareness on markets opportunities but rather it has been the sanction to efforts done by entrepreneurs who try to pave their own way in order to enter the global market, they added that information is not given out by the government, one informant noted that

> "*We have always been asking the government to find us markets abroad so that we could sell our products they end up on promising us that "sure we shall do that we have seen the effort" but no information is given to us on where we should direct our products*",

Most of us face problems in accessing information on technologies and markets, both national and international. There is no systematic distribution of information by the government regarding technologies, markets, partnership opportunities, and so forth that would target entrepreneurs.

The researcher observes that entrepreneurs generally have little information about the possibilities and facilities at their disposal for training or credit or about any organizations or associations from the government where they could apply for assistance. Nor do the support institutions know much about programs outside their own institutions, and they are, therefore, not in a position to provide guidance or comprehensive information to entrepreneurs.

Many of the laws and regulations affecting businesses (including licensing procedures) were designed for relatively large enterprises and are therefore beyond the reach of most MSEs, particularly the micro-enterprises, which are predominantly owned by women. Corruption and bureaucracy from the government institutions make matters worse especially for women, who do not have the same opportunities as men to meet and negotiate (bribe) with predominantly male public officials. Most women entrepreneurs choose to deal in legal ways when conducting their businesses, ending up being denied a number of key rights from corrupt individuals in municipal councils, port of Dar es Salaam, TRA and other offices they have deal with in their business undertakings, 26 percent of informants are not sure whether the government has or is playing her role of creating awareness on markets opportunities abroad or not this has been contributed by the same reason mentioned above that there is no formal means of distributing information to entrepreneurs regarding market opportunities. More could be traced from the table below.

**Table 4.6: Government has Created Awareness of SME Market Opportunities Abroad**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Agree | 4 | 8.0 | 8.0 | 8.0 |
| | Not sure | 13 | 26.0 | 26.0 | 34.0 |
| | Disagree | 20 | 40.0 | 40.0 | 74.0 |
| | Strong disagree | 8 | 16.0 | 16.0 | 90.0 |
| | Don’t know | 5 | 10.0 | 10.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

**Source:** Research findings 2014

## 4.4 Identifying Factors Influencing SMEs Selection of Foreign Market Entry Mode

In this research objective the researcher wanted to identify factors influencing SME selection of foreign market entry mode, these factors could be classifying into internal and external factors informants said. Internal factors are factors influencing on decisions of organization in relation to mode of entering to external markets. whereby external factors are factors out of direct control of organization that are able to influence selecting entry mode to market, informants added that finding out how external factors influence selecting entry mode to market depends on internal factors.

### 4.4.1 Organizational Culture

The report shows that resources of enterprise including, management, capital, technology, production skills, marketing skills influences on selecting entry mode to market , enterprise is more free for making decision when the above mentioned factors are not limited. Within limited resources, enterprise only selects solutions requiring fewer resources and commitment. When asked whether organizational culture fuels their decision toward entering global market, the report shows that 50 percent said that it has prompted them highly because it is within their strategic plan that the company must grow and compete into an international sphere on the other hand 50 percent noted that organizational culture has slightly prompted them to entering the global market, the table below entails more.

**Table 4.7: Organizational Culture**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Slightly | 5 | 50.0 | 50.0 | 50.0 |
| | Very high | 5 | 50.0 | 50.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Sources:** Research Findings 2014

### 4.4.2 Market Attractiveness

It was noted that, current size of market and its anticipation in future has great influence on entry mode. Informants stated that another area of the market driving them to choose the mode of entry into the global market is the target market competitive structure, a complete competitive market is more appropriate for complete exclusive or multi exclusive market in which, entering it requires selecting suitable investment method to enable enterprise for over-coming dominant enterprises. 60 percent of informants responded positively that market attractiveness in term of size and competition to deciding on entering global market is an appropriate entry mode, because if the products market abroad is big and less competitive that means it is an opportunity, exporting would be a good idea, on top of that 40 percent also responded positively by saying it has highly influencing them toward selecting the best entry mode into the global market so generally speaking market attractiveness has a great influence into the selection of entry mode by entrepreneurs, the table below entails more.

**Table 4.8: Market Attractiveness**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | High | 4 | 40.0 | 40.0 | 40.0 |
| | Very high | 6 | 60.0 | 60.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

### 4.4.3 Competition

Competition from the origin country influence on selecting entry mode to external markets, having great local market enables enterprise to growth enough before entering international market. Enterprises in exclusive industry prefer to imitate their rivals, informants said that due to high competition of their products in Tanzania it has prompted them to enter into the global market, on the other hand the uniqueness of Tanzanians products like carvings they face little competition from abroad the thing that makes them dominate the global market in that category, other factors influencing the selection of the entry mode includes great cost of production in origin country that encourages target country to pay more attention on method of production in target country and issuing license, production contract and investment easier. 30 percent of informants responded positively and strongly that competition is a driving factor for them selecting the mode of entry while entering the global market, whereby the other 30 percent said it has slightly prompted them as the table below shows more in details.

**Table 4.9: Competition**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Not at all | 2 | 20.0 | 20.0 | 20.0 |
| | Slightly | 3 | 30.0 | 30.0 | 50.0 |
| | High | 2 | 20.0 | 20.0 | 70.0 |
| | Very high | 3 | 30.0 | 30.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

### 4.4.4 Size of the Firm

Informants outlined some internal factors influencing selection of entry mode to external market including: size of enterprise and its resources has a great influence toward selecting the mode of entry into the global market, other factors includes, accessible resources of enterprise, place of management control in making decision, share of target market, method of calculating profit and loss or costs, profitability goals such as: low but guaranteed profit, quick flow of profit and previous record of using entry modes to market, when asked to what extent does the size of their firm prompted them entering global market 60 percent of informants said that it slightly prompted them because size of the firm is not that big deal when it comes to the selection of market entry mode into the global market, it’s all about opportunities available into the global market, surprising enough 20 percent of respondents responded negatively that size of their firm didn’t play any role into their entry to the global market provided that most of them are still in the micro and small enterprises, the table below entails more.

**Table 4.10: Firms Size**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Not at all | 2 | 20.0 | 20.0 | 20.0 |
| | Slightly | 6 | 60.0 | 60.0 | 80.0 |
| | High | 1 | 10.0 | 10.0 | 90.0 |
| | Very high | 1 | 10.0 | 10.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

### 4.4.5 Country Risk

Informants stated that political, economic, cultural and social property stability of target market has considerable influence on selecting entry mode to market this is due to the fact that countries that are not stable politically or economically are not suitable for example sole investment we don't expect an entrepreneur to go and invest directly due to the risk of losing his belongings, probably joint venture might be a good idea because joining hands with locals of that particular target market country would help to minimize the risk and the most important of them is governmental regulations and policies in relation to international business. 70 percent of informants responded positively that country risk highly influence them toward selecting the best mode of entry into the global market, and 20 percent showed a strong influence of the country risk, the table below shows more.

**Table 4.11: Country Risk**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Slightly | 1 | 10.0 | 10.0 | 10.0 |
| | High | 7 | 70.0 | 70.0 | 80.0 |
| | Very high | 2 | 20.0 | 20.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

### 4.4.6 Psychic Distance

Informants were approached and asked to hear their view to whether psychic distance has any influence toward the selection of the entry mode into the global market, the report shows that 50 percent of all informants approached said it has slightly influenced them toward selecting the entry mode, the other 30 percent of informants said that it has highly influenced them this is because geographical distance and cultural distance has great importance, since, enterprises prefer to be more close to culture of target country. The table below entails more.

**Table 4.12: Psychic Distance**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Not at all | 2 | 20.0 | 20.0 | 20.0 |
| | Slightly | 5 | 50.0 | 50.0 | 70.0 |
| | High | 3 | 30.0 | 30.0 | 100.0 |
| | Total | 10 | 100.0 | 100.0 | |

**Source:** Research Findings 2014

## 4.5 Discussing the Significance of SMEs Internationalization

From this research objective the researcher wanted to assess the significant of extending the business abroad into the global market.

### 4.5.1 International Entrepreneurship is an Attractive Venture

The report shows that 40 percent of informants agree that international entrepreneurships is an attractive venture because by doing so one is exposing his business into an international affairs by strengthening the relationship with other business men from abroad by doing so we become popular and you going to find people ordering products from your company because they know how better are your staffs in that way you are expanding your company and accumulating markets abroad so when the internal market fails within you still have an opportunity to sell your products abroad, quite different from someone who just depends on the internal market when the market go wrong the he has no option. Some said that due to globalization there is no way we could work in isolation we have to find ways to internationalize our market, the world has become like a village and we all could see that our market is expanding into global market, one informant noted that,

> "*Abroad the market for our commodities is very high (growing up) customers likes a lot our products and are even eager to know how actually do we make them (technical know-how)"* the other one noted that *"by doing business abroad you make yourself popular among businessmen and by doing so it enables you to learn more from them in term of new technology, and other ways that will enable you to improve running the business in a better"*.

It was further said by those who import products that when customer comes to know that the materials used to make products are from abroad they tend to like them because they believe that materials from abroad are better and are with high quality in that way they are willing to buy finished goods as a result entrepreneurs earn better money, this had been observed even from the past that most Tanzanians believes that goods or materials from abroad were of good quality compared to what were produced by the locals, but then for the moment people have started losing trust to some countries like China that used to be a good supplier of materials and finished goods since the independence but these days people don't trust goods from China they would rather prefer buying goods from Italy, Japan, German and other European countries than from Asia. It was further noted that benefit that entrepreneurs get after entering the global market is making their business expand and grow to an extent that will make them sell more of their goods and services hence make profit, on top of that they are making their product to be known globally, that is, exposing their commodities into an international arena which is good for the future improved income generation and company prosperity.

**Table 4.13: International Entrepreneurship Is an Attractive Venture**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | Strong agree | 15 | 30.0 | 30.0 | 30.0 |
| | Agree | 20 | 40.0 | 40.0 | 70.0 |
| | Not sure | 10 | 20.0 | 20.0 | 90.0 |
| Valid | Disagree | 1 | 2.0 | 2.0 | 92.0 |
| | Strongly disagree | 1 | 2.0 | 2.0 | 94.0 |
| | Don't know | 3 | 6.0 | 6.0 | 100.0 |
| | Total | 50 | 100.0 | 100.0 | |

**Source**: Research Findings 2014

Regardless of huge advantages they get by doing the business abroad there are also lots of challenges that they encounter while doing the business into an international affairs , they mentioned that goods produced abroad are of high quality compared to what they produce so in that way you find that competition becomes tense, as if that is not enough tax charged is so big in such a way that entrepreneurs find it difficult to pay especially when sales are not good, the issue of weather condition was also mentioned that when they enter into a new country they weather condition is so different from their home place this makes them sometimes fall sick, by doing so they can't do the business resulting into less sales, some said that doing the business abroad is risk because as you know travelling is not always safe anything can happen there are so many accidents happening so it needs a courage, sometime culture of people abroad is different from ours in term of valuing home products, when we get there is a tense competition from the host entrepreneurs because people in their country like more products produced in their country than imported ones so for us to make good sales depends on how scarce such product is in their country.

Other challenges that entrepreneurs come across within the country especially those who have been in business for quite some time and have enough experience in attempt to realize their goals of profit maximization. Findings from in-depth interview with famous and experienced entrepreneurs revealed a number of these challenges as follows;

### 4.5.2 Insufficient capital among Entrepreneurs

Entrepreneurs in growth modes who require financing beyond the low cap micro-finance levels are seriously restricted by their inability to successfully obtain loans from financial institutions, even if they are referred to them, because they are unable to meet the loan conditions pertaining to security. Most financial institutions demand collaterals like houses, tracts of land or other worthy belongings of which majority of entrepreneurs do not have.

### 4.5.3 Access to Support Services

Limited access to support services is another constraint for these entrepreneurs. Key informants advised that entrepreneurs lack access to advice, counseling and encouragement. This is largely attributed to a lack of donor-supported services. Entrepreneurs, in most cases, do not have the funds to pay for these services, and those that can afford user pay programming do not prioritize funds to pay for these services.

### 4.5.4 Laws and Regulations

Many of the laws and regulations affecting businesses (including licensing procedures) were designed for relatively large enterprises and are therefore beyond the reach of most MSEs, particularly the micro-enterprises, which are predominantly many as it could be seen from early discussion in the area of firm’s size.

### 4.5.5 Corruption and Bureaucracy

Corruption and bureaucracy make matters worse especially for women, who do not have the same opportunities as men to meet and negotiate (bribe) with predominantly male public officials. Most women entrepreneurs choose to deal in legal ways when conducting their businesses, ending up being denied a number of key rights from corrupt individuals in municipal councils, port of Dar es Salaam, TRA and other offices they have deal with in their business undertakings.

#### 4.5.6 Lack of Entrepreneurs Associations

Outside of lending groups, few entrepreneurs are members of targeted organizations. As a result, they lack opportunities to enhance their management know how by learning from successful entrepreneurs and sharing information on different opportunities available in the global market.

#### 4.5.7 Low Entrepreneurial and Management Skills

Entrepreneurial skills and knowledge on business management are important in making business organization succeed, but this is largely lacking among many Tanzanian entrepreneurs. Tanzanian entrepreneurs should be encouraged to attend the open trainings on entrepreneurial skills and to be informed on the available opportunities particularly in trainings on entrepreneurship matters.

### 4.6 Assessing the Impact of Particular Modes of Foreign Market Entry to the Performance of SMEs

The researcher wants to assess the impact of joint venture, licensing, exporting and importing, sole venture and other modes of foreign market entry mode to the performance of SMEs.

#### 4.6.1 Impact of Joint Venture to the Performance of SMEs

Informants said that, a joint venture is a business enterprise undertaken by two or more persons or organizations to share the expense and (hopefully) profit of a particular business project. A joint venture is not a business organization in the sense of a proprietorship, partnership, or corporation. It is an agreement between parties for a particular purpose and usually a defined timeframe. Joint ventures may be very informal, such as a handshake and an agreement for two firms to share a booth at a trade show. Joint ventures have grown in popularity in recent years, despite the relatively high failure rate of such efforts for one reason or another. Creative small business owners have been able to use this business strategy to good advantage over the years, although the practice remains one primarily associated with larger corporations.

Most joint ventures are formed for the ultimate purpose of saving money. Joint ventures are attractive because they enable companies to share both risks and costs. One informant said

> *"Among the most significant benefits derived from joint ventures is that parties to the venture save money and reduce their risks through capital and resource sharing".*

Joint ventures also give smaller companies the chance to work with larger ones to develop, manufacture, and market new products. They also give companies of all sizes the opportunity to increase sales, gain access to wider markets, and enhance technological capabilities; many entrepreneurs have become more willing to participate in joint ventures in these areas. Government's increased involvement in the private business environment has created more opportunities for companies to engage in domestic and international joint ventures.

### 4.6.2 Impact of Licensing to the Performance of SMEs

Respondents said that, licensing, is a contractual arrangement in which a firm (the licensor) sells the right to use its intellectual property (technology, patents, work methods, brand names, trademarks, copyrights, and company name) to a firm (the licensee) in return for fees, further more informants said that granting license to other companies plays a great role by helping firms survive and compete within a rapidly changing international industrial environment, other factors contributing to rapid growth of licensing among Tanzanian entrepreneurs including, protectionism and regulation of FDI, emergence of small, high-technology firms, shortening product life cycles and so forth, it was further added that, it is important that both the licensee and the licensor understand the risks involved in any such agreement so that steps are taken to avoid any issue that might arise in future. Key issues that a licensing association includes, limiting market opportunities for the licensor and the licensee if they both agree to work with each other's and not with any other firm in similar business, the licensor may be creating a future competitor in form of the licensee, loss of control of technology by the licensor as information and rights of use are allowed to the licensee, minimum performance by licensee may be agreed in the contract, but in reality the potential for the business may be much larger in the market – licensee may opt to just achieve the minimum performance to fulfill the contractual obligations and misuse of trademarks by the licensee, the critical success factors of a licensing agreement as mentioned by the informants includes, avoiding licensing arrangements with any firm that could become future competitor, trade protection, specifying compensation practices for breaching agreement, setting standards for performance, quality, careful selection and evaluation of prospective licensee, maintain long term relationship with licensee.

### 4.6.3 Impact of Exporting to the Performance of SMEs

The Tanzania market for almost everything is huge, but it's not large enough for many entrepreneurs, the report shows. For these growth-minded business owners, the rest of the world is their oyster. Seeking international growth offers opportunity aplenty by going global as an importer-exporter. Informants highlighted some of the specific advantages presented by successfully exporting globally include: extending the sales life of existing products and services by finding new markets to sell them in, one can reduce dependence on the markets developed in the Tanzania, If someone's business is plagued by destabilizing fluctuations from the internal markets due to seasonal changes or demand cycles he can even out his sales by tapping markets with different or even countercyclical fluctuations, exploiting corporate technology and know-how, one informant noted that,

> *"By entering the global marketplace, one learn how to compete against foreign companies-and even take the battle to them on their own ground".*

The overriding reason to go global, of course, is to improve one's potential for expansion and growth. Informants mentioned some of the most common exporting mistakes that most of them commit:

Failing to plan the best strategy would make someone fail to prosper into an international market like copying from others without carrying a research one decides to market globally just because dozens of countries show interest doesn't mean that one is ready to market his product everywhere, patience is key to success, assuming if it works in Tanzania, it'll work anywhere. But that's not true one need to tailor his sales and marketing efforts to each country, ignoring the cultural differences that shape the marketplace. The same goes for pricing, shipping, payment terms and packaging.

Today almost all entrepreneurial strategies for international expansion should take currency fluctuations into account. Often, the number of dollars it takes to equal a unit of a particular foreign currency can make the difference between a deal worth doing and a deal that would be a disaster. The simplest way for exporters to deal with currency risk is to insist that all deals with foreign partners be done in dollars. However, that can drive away potential customers who prefer to do business in their local currency. One informant noted that

> *"As an international entrepreneur, you face risks every day you do business. The cargo you're exporting could fall off the ship, or it might get stolen in transit. Or maybe a customer went out of business and didn't pay for the last shipment you delivered. Even acts of nature can throw a wrench into an otherwise smoothly functioning global business. So if you haven't already, it's time to consider whether or not you're prepared for what the future might bring"*.

Insurance offers protection, peace of mind and much more. The types of coverage available to exporters are numerous and include cargo insurance (to protect your goods in transit), credit insurance (to protect against non-payment), fire and theft insurance, and foreign investment and trade risk insurance (for confiscation or expropriation of your property overseas). One informant noted that:

> *"To determine the kind of protection you'll need, consider each country and situation individually, and research the risks involved. You may even want to talk to a professional consultant."*

The cost of insurance depends on many factors, such as where you are shipping cargo, who your customer is, how valuable the goods are, and the means by which you ship. And policies, which expire anywhere from after one transaction to after one year, should be continually reviewed

### 4.6.4 Impact of FDI to the Impact of SMEs

While there are some negative impacts of sole venture or FDI especially when investors comes to invest directly into our country but informants noted that advantages overweigh the disadvantages. One of the primary benefits is that it allows money to freely go to whatever business has the best prospects for growth anywhere in the world. That's because investors aggressively seek the best return for their money with the least risk. This motive is colour-blind, doesn't care about religion or form of government. This gives well-run businesses regardless of race, colour or creed a competitive advantage. It reduces (but, of course, doesn't eliminate) the effects of politics, cronyism and bribery. As a result, the smartest money goes to the best businesses all over the world, bringing these goods and services to market faster than if unrestricted FDI weren't available. Investors receive additional benefits. Their risk is reduced because they can diversify their holdings outside of a specific country, industry or political system. Diversification always increases return without increasing risk.

Businesses benefit by receiving management, accounting or legal guidance in keeping with the best practices practiced by their lenders. They can also incorporate the latest technology, innovations in operational practices, and new financing tools that they might not otherwise be aware of. By adopting these practices, they enhance their employees' lifestyles, helping to create a better standard of living for the recipient country. In addition, since the best companies get rewarded with these benefits, local governments have less influence, and aren't as able to pursue poor economic policies. The standard of living in the recipient country is also improved by higher tax revenue from the company that received the foreign direct investment. However, sometimes countries neutralize that increased revenue by offering tax incentives to attract the FDI in the first place. Another advantage of FDI is that it can offset the volatile created by "hot money." Short-term lenders and currency traders can create an asset bubble in a country by investing lots of money in a short period of time, then selling their investments just as quickly. This can create a boom-bust cycle that can wreak economies and political regimes. Foreign direct investment takes longer to set up, and has a more permanent footprint in a country.

The negative impacts were observed in the following areas that, too much foreign ownership of companies can be a concern, especially in industries that are strategically important. Second, sophisticated foreign investors can use their skills to strip the company of its value without adding any. They can sell off unprofitable portions of the company to local, less sophisticated investors. Or, they can borrow against the company's collateral locally, and lend the funds back to the parent company.

# CHAPTER FIVE

# SUMMARY OF FINDINGS CONCLUSSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter describes the summary of the research findings and the conclusion; it will also present some recommendations to the government, financial institutions \ entrepreneurs and all other stakeholders.

## 5.2 Summary of Findings

The findings shows that large number of Tanzanian entrepreneurs have not yet internationalized their business, this was affirmed after 80 per cent of respondents having responded negatively and only 20 per cent are doing their business abroad, there are lots of reasons highlighted to why are they not operating abroad, they includes, lack of support from the government, they further said that the government have been undermining entrepreneurs instead of supporting and encouraging them, getting the TBS approval takes lots of time and consumes lots of money due to high level of corruption and bureaucracy on top of that lack of capital to import high quality raw material or export their finished goods and products abroad is a big challenge.

Entrepreneurs who have already internationalize their business explained the mode of operation abroad, report shows that 50 per cent of all informants approached have been running their business abroad through exhibitions, this is in most general sense, an organized presentation and display of a selection of items and it usually occurs in museum, galleries and exhibition halls and world's fairs, in most cases they are temporally scheduled to an open and closing date but there are some exhibition shown in multiple locations called travelling exhibition, when asked why are they mostly opted to use such a mode they said it is the most easier mode of entry and they have enough experience with it on top of that, it pays a lot, that is they get better earnings, the other category of informants have been running the business abroad through buying materials that are of high quality and cheap compared to what is available within our borders and some are forced to buy materials abroad not because they are of good quality or cheap price but because such materials could be accessed only from abroad they are not available from our country, 40 percent of informants are using exporting mode of entry that is selling of goods and services produced in Tanzania to other countries the advantages mentioned here includes: extending sales life of existing products and services by finding new markets to sell them in, it reduces the dependence on the market someone has developed within the country, also if for example the business is plagued by destabilizing fluctuations in the internal market due to seasonal changes or demand cycles one can even out his sales by tapping markets with different or even countercyclical fluctuations and finally by entering global market.

On the other hand entrepreneurs who are looking forward to expand their business abroad 41 per cent of all informants said that they would prefer to enter global market through exporting of finished goods, number of reasons were given out for example some said that by selling goods outside they are going to earn foreign currency which by exchanging them into Tanzanian shillings they will get good money because abroad there is a good market for their products compared to selling them within the country, generally speaking entrepreneurs believes that products that they produce here are of good quality to an extent that they can compete into the global market and are sure that they won't be defeated by other businessmen from other nations, but the only thing that most of them lack is experience, they don't know where to start the process and how to do business into an international affairs, 35 per cent opted to use other means of entries especially those whose products depends on materials from abroad, they said that they will entre global market by importing raw materials from abroad because buying them here is more cost full compared to importing them, in additional to that, the quality of these materials are better compared to what we get from here.

The other group 12 per cent said that they will enter through sole venture because they believe that by investing outside will help their company prosper, and some said to them joint venture is a good idea since they lack some experience from running the business abroad if they will join with the locals of the host country will help them master the market quickly.

Regarding factors influencing selection of entry mode to the global market informants had different opinions as follows, when asked whether organizational culture fuels their decision toward entering global market, the report shows that 50 per cent said that it has prompted them highly because it is within their strategic plan that the company must grow and compete into an international sphere on the other hand 50 per cent noted that organizational culture has slightly prompted them to entering the global market, regarding market attractiveness informants said a complete competitive market is more appropriate for complete exclusive or multi exclusive market in which, entering it requires selecting suitable investment method to enable enterprise for over-coming dominant enterprises. 60 per cent of informants responded positively that market attractiveness in term of size and competition to deciding on entering global market is an appropriate entry mode, because if the products market abroad is big and less competitive that means it is an opportunity, exporting would be a good idea, on top of that 40 per cent also responded positively by saying it has highly influencing them toward selecting the best entry mode into the global market, furthermore competition from the origin country influence entrepreneurs selecting entry mode to external markets, having great local market enables enterprise to growth enough before entering international market.

Enterprises in exclusive industry prefer to imitate their rivals, informants said that due to high competition of their products in Tanzania it has prompted them to enter into the global market, on the other hand the uniqueness of Tanzanians products like carvings they face little competition from abroad the thing that makes them dominate the global market, when asked to what extent does the size of their firm prompted them entering global market 60 per cent of informants said that it has slightly prompted them because size of the firm is not that big deal when it comes to the selection of market entry mode into the global market, it's all about opportunities available into the global market, surprising enough 20 per cent of respondents responded negatively that size of their firm didn't play any role into their entry to the global market provided that most of them are still in the micro and small enterprises. 70 percent of informants responded positively that country risk like political or economic stability has highly influenced them toward selecting the best mode of entry into the global market, and 20 percent showed a strong influence of the country risk toward selecting the best entry mode to the global market. Lastly the report shows that 50 percent of all informants approached said psychic distance has slightly influenced them toward selecting the entry mode, the other 30 per cent of informants said that it has highly influenced them because geographical distance and cultural distance has great importance, since, enterprises prefer to be more close to culture of target country.

Regarding the significant of internationalizing the business, the report shows that 40 percent of informants agree that international entrepreneurships is an attractive venture because by doing so one is exposing his business into an international affairs, it strengthen the relationship with other business men from abroad by doing so one become popular and as a result you going to find people ordering products from your company because they know how better are your staffs, in that way you are expanding your company and accumulating markets abroad, when the internal market fails you still have an opportunity to sell your products abroad, quite different from someone who just depends on the internal market when the market go wrong the he has no option. Some said that due to globalization there is no way one could work in isolation, one have to find ways to internationalize the market, the world has become like a village and we all could see that our market is expanding into global market.

It was further said by those who import products, when customer comes to know that the materials used to make products are from abroad they tend to like them because they believe that materials from abroad are better and are of high quality in that way they are willing to buy finished goods as a result entrepreneurs earn better money, It was further noted that benefit that entrepreneurs get after entering the global market is making their business expand and grow to an extent that will make them sell more of their goods and services hence make profit, on top of that they are making their product to be known globally, that is, exposing their commodities into an international arena which is good for the future improved income generation and company prosperity.

The report shows that different entry mode to the global market has different impact to the performance of SMEs as described here under:

A joint venture was mentioned as a business enterprise undertaken by two or more persons or organizations to share the expense and (hopefully) profit of a particular business project. Joint ventures are attractive because they enable companies to share both risks and costs. Among the most significant benefits derived from joint ventures is that parties to the venture save money and reduce their risks through capital and resource sharing. Joint ventures also give smaller companies the chance to work with larger ones to develop, manufacture, and market new products. They also give companies of all sizes the opportunity to increase sales, gain access to wider markets, and enhance technological capabilities; many entrepreneurs have become more willing to participate in joint ventures in these areas.

Licensing was defined as a contractual arrangement in which a firm (the licensor) sells the right to use its intellectual property (technology, patents, work methods, brand names, trademarks, copyrights, and company name) to a firm (the licensee) in return for fees, further more informants said that granting license to other companies plays a great role for example on ,helping firms survive and compete within a rapidly changing international industrial environment, other factors contributing to rapid growth of licensing among Tanzanian entrepreneurs including, protectionism and regulation of FDI, emergence of small, high-technology firms, shortening product life cycles and so forth, key issues that a licensing association may face are in the following, limiting market opportunities for the licensor and the licensee if they both agree to work with each other's and not with any other firm in similar business, the licensor may be creating a future competitor in form of the licensee, loss of control of technology by the licensor as information and rights of use are allowed to the licensee, minimum performance by licensee may be agreed in the contract, but in reality the potential for the business may be much larger in the market – licensee may opt to just achieve the minimum performance to fulfill the contractual obligations and misuse of trademarks by the licensee, said the informants.

With regard to exporting, informants said the Tanzania market for almost everything is huge, but it's not large enough for many entrepreneurs. For these growth-minded business owners, the rest of the world is their oyster. Seeking international growth offers opportunity aplenty by going global as an importer-exporter. Some of the specific advantages presented by successfully growing globally include: extending the sales life of existing products and services by finding new markets to sell them in, one can reduce dependence on the markets developed in the Tanzania, but still there are number of risks associated with exporting goods.

Talking about sole venture, respondents said that while there are some negative impacts of sole venture or FDI especially when investors comes to invest directly into our country but informants noted that advantages overweigh the disadvantages. One of the primary benefits is that it allows money to freely go to whatever business has the best prospects for growth anywhere in the world. Another advantage of FDI is that it can offset the volatile created by "hot money." Short-term lenders and currency traders can create an asset bubble in a country by investing lots of money in a short period of time, then selling their investments just as quickly. This can create a boom-bust cycle that can wreak economies and political regimes. Foreign direct investment takes longer to set up, and has a more permanent footprint in a country. The negative impacts were observed in the following areas that, too much foreign ownership of companies can be a concern, especially in industries that are strategically important. Second, sophisticated foreign investors can use their skills to strip the company of its value without adding any.

## 5.3 Conclusion

This research was carried out to identifying factors determining selection of modes of entry into foreign markets by SMEs run by entrepreneurs in Tanzania, the research findings shows that large number of Tanzanian entrepreneurs have not yet internationalized their business abroad due to number of factors including, lack of capital to expand their business abroad, lack of information regarding business opportunities abroad and complexity of procedure to be followed to get the approval of trading abroad, on the other hand few have been trading abroad and the report shows that most of the entrepreneurs are using exhibition as the most appropriate entry mode to the global market as they said it is the easiest one, other modes identified includes exporting, licensing, joint venture and sole venture. Regarding factors influencing the selection mode of entry to the global market it was observed that, the exporting mode was seemingly to be the easier to adopt and deal with it by SMEs, compared to other modes, therefore provides the doors for entering into foreign markets, though market attractiveness is the one mostly influences large number of entrepreneurs to choose the entry mode, other factors mentioned includes competition, country risk, psychic distance, organizational culture and size of the firm, Lastly the report shows that entry modes to the global market have great impact to the performance of the SMEs as explained in the previous pages.

## 5.4 Recommendation

Following the observations from this study, the researcher recommends the following;

(i.) The government of Tanzania in collaboration with the higher learning institutions should work towards the provision of entrepreneurial skills and knowledge on business management. Entrepreneurial skills and knowledge on business management are important in making business organization a success. It is therefore recommended that entrepreneurs be encouraged to attend the open trainings on entrepreneurial skills and to be informed on the available opportunities particularly on trainings on entrepreneurship matters.

(ii.) Access to credit facilities. The financial institutions are argued to promote entrepreneurship by giving them loans and setting low (affordable) interest rates. This will help to encourage more entrepreneurs to get involved in entrepreneurial activities and those who are already doing business will get the chance to expand their businesses further.

(iii.) The government should also create conducive business environment for entrepreneurs to excel in business. In this case, they should ensure peace and security throughout in the country, regulate tax regimes and discourage corruption at all levels, as a means of getting more entrepreneurs to be involved in global entrepreneurial activities.

(iv.) The government of Tanzania should establish a coordinating office for outreach services for entrepreneurs owned businesses. It is recommended that a coordinating office be established to facilitate access to financial resources and education for entrepreneurs. This could take the form of a network of small and medium enterprise centers in various regions across the country, or the appointment of a dedicated entrepreneur's officer in government regional offices.

(v.) The role of this office/officer would be to streamline needs based services to entrepreneurs, with the specific objective of upgrading the level of their enterprises by improving their access to financial resources and education.

(vi.) The government of Tanzania, higher learning institutions, NGOs and other stakeholders should collaborate in making entrepreneurs more aware of existing laws, regulations, financing options, marketing information, training opportunities and other services through a series of regional seminars or media campaigns..

(vii.) Entrepreneurs should form their associations which help in increasing their influence in business dealings. Business information should be disseminated through these entrepreneurs' associations.

(viii.) Entrepreneurs' associations should be supported in their efforts to disseminate marketing and other business information through their membership networks; these associations should be expanded to improve such access.

(ix.) The government of Tanzania in collaboration with the higher learning institutions should train technical college and university graduates to become service providers in the entrepreneurs market. One way of doing this would be to design a training/education component in MSE counseling/consultancy so as to prepare technical college and university graduates for careers as advisers. A contingent of these graduates should be focused on the global market.

(x.) The government of Tanzania and other stakeholders should assist Micro and small owned Enterprises to identify weaknesses and growth opportunities in their businesses, facilitators should be trained to provide one-on-one, group and sectoral business development interventions at the local and international level.

(xi.) The government of Tanzania, financial institutions and other business stakeholders should increase the supply of premises, equipped production facilities and capital to spearhead an initiative to make production facilities available in sectors in which entrepreneurs are predominant (e.g., textiles, food processing) to give them access to production premises and appropriate technologies that will enable them to expand their enterprises abroad.

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# APPENDICES

## Questionnaire

NAME OF THE COMPANY/FIRM ……………………………………………………….

LOCATION OF BUSINESS…………………………………………...…………...

A survey of SMEs in Kinondoni municipality, Dar es Salaam Region

**Dear Participant,**

The below questionnaire seek to collect information that will strictly be treated as data collected and will be strictly confidential, and participants' responses will remain anonymous.

**INSTRUCTION**; Put [Tick] to the correct answer(s) in the bracket and fill the blank space as particular question requires.

1. Please, indicate the age of your firm:
   (i.) 0-5 ( )
   (ii.) 6-10 ( )
   (iii.) 11-15 ( )
   (iv.) 16-20 ( )
   (v.) 20+ ( )

2. Please, indicate the size of your firm in terms of existing number of employees:
   (i.) Micro (1-4 employees) ( )
   (ii.) Small (5-49 employees) ( )
   (iii.) Medium (50-99employees) ( )
   (iv.) Large (100+ employees) ( )

3. Please, what is the industry of your firm's business operations?

……………………………………………………………………………………….

……………………………………………………………………………………….

4. What position are you holding in the company?

……………………………………………………………………………………….

……………………………………………………………………………………….

5. How long have you been working with the company?

……………………………………………………………………………………….

……………………………………………………………………………………….

6. Does your company operate aboard?

……………………………………………………………………………………….

……………………………………………………………………………………….

If NO go to question 13.

7. If the answer to Q6 is YES please select the mode through which does your company operate abroad from the list below and explain why:

A: Exporting

Reason………………………………………………………………………………

B: Licensing

Reason………………………………………………………………………………

C: Joint venture

Reason………………………………………………………………………………

D: Sole venture

Reason………………………………………………………………………………

E: Other

Reason…………………………………………………………………………

8. To what extent did the following factors influenced your company's mode of operation in the foreign market/foreign entry mode? (Please tick box).

| S/N | Factor | Not at all | Slightly | High | Very High |
|---|---|---|---|---|---|
| | Firm size | | | | |
| | International business experience | | | | |
| | Organizational culture | | | | |
| | Cultural distance | | | | |
| | Country risk | | | | |
| | Market attractiveness | | | | |
| | Competition | | | | |

9. Apart from the above factors, what are other factors that have influenced your company in choosing the mode of entry in the foreign market?

____________________________________________________________

____________________________________________________________

____________________________________________________________

10. What advantages does your company get by operating in the foreign market?

____________________________________________________________

____________________________________________________________

____________________________________________________________

11. What are the challenges facing is your company while operating aboard?

____________________________________________________________

____________________________________________________________

____________________________________________________________

12. Does Government do enough to create awareness of SMEs market opportunities aboard (Please tick the box)

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| **Strongly Agree** | **Agree** | **Unsure** | **Disagree** | **Disagree Strongly** | **Don't know** |
| | | | | | |

13. Please tick the response that best describes your reaction to the following statements: International Entrepreneurship (extending your business operation abroad) is an attractive venture?

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| **Strongly Agree** | **Agree** | **Unsure** | **Disagree** | **Disagree Strongly** | **Don't know** |
| | | | | | |

14. Why doesn't your company operate aboard?

______________________________________________________________

______________________________________________________________

______________________________________________________________

15. My company has necessary experience for starting business abroad

| 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|
| **Strongly Agree** | **Agree** | **Unsure** | **Disagree** | **Disagree Strongly** | **Don't know** |
| | | | | | |

16. Do you intend to expand your business abroad at some stage?

(i.) Yes ( )

(ii.) No ( )

If No go to question 19.

17. If YES you do to expand your business abroad at some stage, what would you consider the ideal mode of entry in the foreign market?

| | | |
|---|---|---|
| (i.) | Exporting | ( ) |
| (ii.) | Licensing | ( ) |
| (iii.) | Joint Venture | ( ) |
| (iv.) | Sole venture | ( ) |

Other______________________________________________________

18. Please explain why you chose (in Question 17 above) this mode of foreign market entry:

______________________________________________________

______________________________________________________

______________________________________________________

19. Please tick the response that best describes your reaction to each of the following statements:

| | 1 Strongly Agree | 2 Agree | 3 Not Sure | 4 Disagree | 5 Strongly Disagree | 6 Don't Know |
|---|---|---|---|---|---|---|
| The company requires enough resources to be able to enter and compete in foreign market. | | | | | | |
| Geographical and cultural proximity has a positive influence on the internationalization strategy of a company. | | | | | | |
| The degree of country risk determine the company choice of its foreign market entry mode | | | | | | |
| The market attractiveness of a foreign market has an influence on the company's decision of mode of entry | | | | | | |
| The competition of the host country market influences the company's decision on foreign market entry. | | | | | | |

**Interview guideline to the SMEs managers and others**

1. Explains the various modes of SMEs foreign market entry?
2. Discuss the factors influencing SMEs selection of foreign market entry?
3. Elaborate the significance of SMEs in internationalization?
4. Describe the impacts of particular mode of foreign market entry to the performance of SMEs?
5. What advantages does your company get by operating in the foreign market?

   ____________________________________________________________

   ____________________________________________________________

   ____________________________________________________________

6. What are the challenges facing is your company while operating aboard?

   ____________________________________________________________

   ____________________________________________________________

   ____________________________________________________________

7. How long have you been working with the company?