EXAMINING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN SHINYANGA MUNICIPALITY

EXAMINING THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES (SMEs) IN SHINYANGA MUNICIPALITY

By

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A Dissertation Submitted to the Faculty of Social Science in Partial Fulfillment of the Requirements for Award of the Degree of Master of Science in Economics of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a thesis entitled: **Examining the performance of small and medium enterprises (SMEs) in Shinyanga Municipality,** in partial fulfillment of the requirements for award of the degree of Masters of Science in Economics of Mzumbe University

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I, Allex G. Mpasa, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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The work is dedicated to my beloved parents Gervas Mpasa and Janeth Kauzen and my relatives especially those who were founder of my inspirations through guidance and ensuring that I was being educated up to this level

ACRONYMYS AND ABBREVIATIONS

ACED	American Committee for Economic Development
BLUE	Best Linear Unbiased Estimators
BSC	Balanced Scorecard
CEO	Chief Executive Officer
CLRM	Classical Linear Regression Model
DPs	Development Partners
GDP	Gross Domestic Product
ILO	International Labor Organization
MSEs	Micro and Small Enterprises
NGOs	Non Governmental Organizations
OECD	Organization for Economic Co-Operation and Development
OLS	Ordinary Least Square
SMC	Shinyanga Municipal Council
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
UK	United Kingdom
URT	United Republic of Tanzania

ABSTRACT

The study attempted to examine performance of Small and Medium Enterprises (SMEs) in Shinyanga municipality. The aim of the study was to provide the knowledge to the people on how to start and manage Small and Medium Enterprises (SMEs) and be aware with the factors affecting performance of Small and Medium Enterprises (SMEs). This would help them to manage their business sustainably. The factors tested were: demographic characteristics (age, sex, and education level of SMEs owners), business characteristics (capital structure and age of SMEs), institutional characteristics (business information and financial accessibility) and marketing strategy as the intermediate variable.

The study was conducted in Shinyanga municipality covering Small and Medium Enterprises (SMEs) operating within the geographical area. The study used the cross sectional study design in which data of 189 SMEs owners, and employee was collected only once. Both descriptive and empirical methods were applied during the study. The regression results show that, the significant factors which affect small and medium enterprises (SMEs) performance were: demographic factors (age and education level of SMEs owners), business characteristics (capital structure) and institution characteristics (access to finance and business information). On the other hand demographic characteristics (sex of respondent) and business characteristics (age of SMEs) are insignificantly contribute to the Small and Medium Enterprises (SMEs) performance.

This study recommends for policy makers to make sure that education is given to the SMEs' owners and employees by providing appropriate business and entrepreneurial knowledge and skills which will encourage them to start and manage business successful. There is also, a need for the government to make sure that, businessmen and women are enabled to have access to loans (credits) with few conditions from banks and other financial intermediaries for expanding their businesses. Moreover soft loans should be provided to those who want to start new businesses and encourage women to engage in Small and Medium Enterprises (SMEs) activities.

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CHAPTER ONE

INTRODUCTION

1.1 Background to research problem

The phrase 'small business' is portrayed differently that different scholars and organizations attach different basis in defining the concept. The study conducted by International Labor Organization in 2005 more than 50 definition on Small and Micro Enterprises (SMEs) were identified in different 75 countries (ILO, 2005). Nonetheless technical definitions differ from one country to another but are usually based on level of employment or number of asset or a combination both (State Bank of Pakistan, 2007). The levels of development for a country determine measures of size for Small and Micro Enterprises (SMEs) but the common agreement point are total investment, sales turnover and total number of employees (URT, 2003)

Small and Micro Enterprises (SMEs) play an important economic role in different countries; they are considered to be the main drivers for innovation, poverty eradication, employment creation, and social integration. For the past 10 years, different economic planners have realized the importance of incorporating small enterprise sector in achieving sustainable economic development. That is a reason to why some governments and development organizations nowadays have focused on promotion of Small and Micro Enterprises (SMEs) as a means to encourage wider participation of the private sector (Onyango, 2008)

Small and Medium Enterprises (SMEs) play a vital role across the globe. In Europe, they are considered as a main source of entrepreneurship skills, technological innovation and employment creation (European Commission, 2005). Accordingly, more than 23 million Small and Micro Enterprises (SMEs) provide approximately 75 million jobs in this region. In order to adopt free market economic principle European countries opened the door to the Small and Micro Enterprises (SMEs) which account to 40% of their economies (Mateev and Anastasov, 2010). For instance in the United States of America (U.S.A), Small and Micro Enterprises (SMEs) account for 76.5% of the entire job opportunities created. This considerable number reflects the major role played by Small and Micro Enterprises (SMEs) sector

in the development of American economy. In the United Kingdom (U.K), results shows that self-employment accounts for 27% of the total labor force which is regarded as major founder for all available jobs (Vesper, 1990). In addition to that, Small and Micro Enterprises (SMEs) contribute highly in international economic development for the Asian countries. For example, Small and Micro Enterprises (SMEs) are the spinal cord of Singapore's economy, which contributes approximately 47% of the country's Gross Domestic Product (GDP) and generating more than 62% of the available jobs within the country (Sariaslan, 1994).

Through SMEs most of marginalized and vulnerable people such as women in rural areas, youths, and the landless are able diversify their incomes through creating new sources of income for their economic growth. The income diversifications like employment creation increase the national Gross Domestic Product (GDP). It is estimated that in Organization for Economic Co-operation and Development (OECD) countries over 60% to 70% of employment created are from Small and Micro Enterprises (SMEs). Organization for Economic Co-operation and Development (OECD) survey indicates that Small and Micro Enterprises (SMEs) contribute over 55% of the Gross Domestic Product (GDP) and 65% of the available employment in developed countries while for less developed countries it contributes to 60% of Gross Domestic Product (GDP) and 70% of the available employment (OECD, 2004).

Promoting SMEs as a leading informal sector is seen as viable approach to sustainable development because it makes proper allocation of resources for African countries. Small and Micro Enterprises (SMEs) are viewed as main creator of employment in both developing and developed countries. In Africa about 90% of the businesses are in operations which contribute approximately 50% of the Gross Domestic Product (GDP) and employment. Many countries in the South Eastern have realized efficacy of small business toward improving the productivity of their nations. Due to this reason they are keeping vigilant eye on the growth of Small and Micro Enterprises (SMEs) and encourage broader participation of people in running Small and Micro Enterprises (SMEs), (ILO, 2005)

In the context of Tanzania, the Small and Micro Enterprises (SMEs) involve activities which do not associate with farming activities, such mining, manufacturing, service and commerce. Micro enterprises is defined as enterprises which involve up to 4 people who are within single family, in most cases the running capital are up to Tshs 5 million. It always falls under the non formal sector (URT, 2003). Small enterprises are enterprises in which the numbers of employees are between 5 and 49 with capital investment ranging from Tshs 5 to 200 million. Medium enterprises are enterprises in which number of employed people range between 50 and 99 with the amount of capital invested ranging from Tshs 200 to 800 million. Finally Large enterprises in which the numbers of employees are above 100 people and the amount of capital for investment are above Tshs.800 million (URT, 2003).

The history of Small and Micro Enterprises (SMEs) in Tanzania had long been agonized as being excavated by Müller (2005) that, the Germans colonialists at the end of 19th Century they forbade local blacksmithing in Tanzania. Because African blacksmith have a long history of technical competence and skills in producing an iron material like guns and arrows. After the independent of both Tanganyika and Zanzibar in 1961 and 1964, much effort had been done in order to improve social economic development. For instance in 1967 Arusha declaration was launched with the aim of promoting public ownership of major means of production through socialism ideology (Hamisi, 2011).

In the mid-1980s, there was economic policy about-turn, Arusha declaration was reformed to embrace socialism; the capitalist, market-oriented and private sector economic developments were adopted. From there onwards, a series of socioeconomic strategies, policies and reforms were formulated (The list is long but includes: National Economic Survival Programme (NESP) (1981); Structural Adjustment Programme (SAP) (1982/83 to 1984/85); Economic Recovery Programme (ERP) I and II (1986); Economic and Social Action Programme (ESAP) (1989); Vision 2025; Poverty Reduction Strategy; National Strategy for Growth and Poverty Reduction (MKUKUTA); Business Environment Strengthening Programme for Tanzania(BEST); Strategy to Formalize Properties and Business in Tanzania

(MKURABITA)).The structural shift of Tanzanian economy made Small and Micro Enterprises (SMEs) to face ferocious national, regional and international competition from fully equipped large enterprises, particularly, Trans-Nations Companies (TNCs) and Multi-Nation Companies (MNCs). This made the Small and Micro Enterprises (SMEs) to improve their product so as to compete with large enterprises in order to survive in free trade economy (Hamisi, 2011).

Tanzanian economy mainly depends on Small and Micro Enterprises (SMEs) sector for its growth, the prior survey by Magehema (2014) indicates that one-third of Tanzania Gross Domestic Product (GDP) accrued from Small and Micro Enterprises (SMEs) sector. The small enterprises in the non formal sector consist of 1.7 million businesses and employ about 3 million people which account approximately 20% of labor force in Tanzanian economy. Although the data of Small and Micro Enterprises (SMEs) sector in Tanzania are sketchy and reliable but Small and Micro Enterprises (SMEs) plays an important role in the economy (URT, 2003).

There is positive relationship between Small and Micro Enterprises (SMEs) growth and economic growth for both developing and developed countries, whereas the growth of Small and Micro Enterprises (SMEs) leads to rapid industrialization of the particular country (Karo, 2012). Sarder (1997) argued that small business leads to better standard of living, higher national income, higher per capital income, better education, investment, secure welfare and encourage higher saving.

Despite the fact that Small and Medium Enterprises (SMEs) contributes much to the economic growth of many developing countries, many of them are not being sustained and thus reduce the contribution to poverty reduction of these countries (Arinaitwe, 2002). The challenges facing Small and Medium Enterprises (SMEs) in developing country can be grouped into internal and external challenge. The internal challenges include low financial support, lack of managerial skills, poor location, laws and regulations, low levels of education, underdeveloped infrastructure, low demand for product and services and huge transaction costs such as multiple taxes, license fees, corruption, customs and trade regulations. The external challenge includes external competition, high cost of imported equipment and technology, poor

access to international markets, unfavorable regulatory issues and poorly coordinated institutional framework. The earlier research on Small and Micro Enterprises (SMEs) postulates that the rate of failure of Small and Micro Enterprises (SMEs) in less developed countries (LDC) is higher compared to that of developed countries. The analysis shows that three over five of small business fail in the first few months of business operation (Arinaitwe, 2002).

Given the importance of Small and Micro Enterprises (SMEs) to the Tanzanian economy and the exposure of risks owing to the Small and Micro Enterprises (SMEs), the researcher perceived the need to conduct the study on Small and Micro Enterprises (SMEs) performance in Shinyanga Municipality.

1.2 Problem statement

The contribution of Small and Micro Enterprises (SMEs) to job creation and output growth has been documented in both developed and developing countries. They have been and are still central hub in generating income for many urban dwellers without any formal paid employment (Lema 2013). Mead (1998) indicated that the growth of the economy in general, has a strong relationship with growth and nature of Small and Micro Enterprises (SMEs). Therefore promoting Small and Micro Enterprises (SMEs) are important for the development of Tanzanian economy as most of people were employed in Small and Micro Enterprises (SMEs) sector (URT, 2003).

A Tanzanian government have made number of efforts to ensure a sustained growth of Small and Micro Enterprises (SMEs). These include the formulation of Small and Micro Enterprises (SMEs) policy and strategies that aim at creating and enabling environment for Small and Micro Enterprises (SMEs) growth (URT, 2003). Despite government effort to promote Small and Micro Enterprises (SMEs) activity, little success has been attained, judging by looking on informal sector performance (URT, 2003). The contribution of informal sector to the national Gross Domestic Product (GDP) was 39.5% where 34% of all households were engaged in informal sector which show little progress on performance of Small and Micro Enterprises (SMEs), (TRA, 2011). Therefore, sufficient information generated from empirical studies and

theories are required for understanding performance of Small and Micro Enterprises (SMEs).

A number of theories have been developed to explain the performance of Small and Medium Enterprises (SMEs). Notable among these is the Balanced Scorecard which was developed by Kaplan and Norton in 1996. The theory suggests four perspective of organizational performance namely; customer perspective (company's proposed plans for it to be successful), internal perspective (meeting customer expectation in the market and those of stakeholders), financial perspective (a measure of company earnings) and innovation and learning perspective (infrastructure necessary for the achievements of objective of the above-highlighted perspectives). According to the theory, organization performance depends on customer's loyalty, capital investment, knowledge creation (skills) and financial results. However the theory has certain limitation. For example, it does not address the influence institutional environment surrounding the firms on performance. Therefore, institutional theory can complement the Balanced Scorecard.

Institutional theory suggests firm to see itself as part of a global (rather than local) in organizational field. The firms progressively adopt the behaviors and processes that provide legitimacy within that field (Scott, 2001). According to the theory the impact of institutions on performance of Small and Micro Enterprises (SMEs) sector depend on external financial support and provision of subsidies to the small-scale entrepreneurs (North, 2005). Thus, institutional theory complement balance scorecard theory as it helps to explain the nature of the institutional characteristics and how do they affect Small and Micro Enterprises (SMEs) performance.

The empirical studies have been conducted to examine the performance of small business and its associated factor; For instance, Ntakobajira (2013) found that accessibility on business information, financial accessibility and use of technological input in payment system affect the performance of Small and Micro Enterprises (SMEs). In Nigeria, Olugbenga et al. (2012) found that access to finance, stringent government policies, lack of government support on Small and Micro Enterprises (SMEs) programs and technology were major problem affecting the Small and Micro

Enterprises (SMEs). According to Chadamoyo et al. (2012), Small and Micro Enterprises (SMEs) face fierce competition from large and well established firms. However Small and Micro Enterprises (SMEs) capitalize on their innovativeness and ability to customize their offerings to gain competitive advantage over their competitors. Zindiye (2008) indicated that hyper inflation and some economic reasons like adequate foreign currency, exchange rate and interest rate affect negatively performance of Small and Micro Enterprises (SMEs) in Zimbabwe.

Despite useful insights indicated by these studies, number of weaknesses exist that prompt further empirical research. Firstly, the number and nature of factor vary across studies, which make it difficult to ascertain on the kinds of factors that matter. Secondly, most of the studies have examined the type of factors with the purpose of understanding the frequency of their occurrences among firms. However, limited analysis has been done to examine the extent to which the identified factors actually affect performance of Small and Micro Enterprises (SMEs). Therefore, this study will identify dominant factors affecting Small and Micro Enterprises (SMEs) performance and examines what extent affect Small and Micro Enterprises (SMEs).

1.3 Objectives

1.3.1 General objective

The general objective of this study was to examine the performance of Small and Medium Enterprises (SMEs).

1.3.2 Specific objectives

The specific objectives of the study were:

a) To determine the effect of socio-demographic characteristics of business owner on business performance.
b) To examine business characteristics that affect performance of Small and Micro Enterprises (SMEs)
c) To analyze institutional characteristics that affect Small and Micro Enterprises (SMEs) performance
d) To determine the relationship between marketing strategies and Small and Micro Enterprises (SMEs) performance.

1.4 Significance of the Study

The results of this study are meant to contribute on efforts towards improvement of Small and Micro Enterprises (SMEs) and consequently improve livelihoods of Tanzanians in general and people of Shinyanga in particular. Policy and decision makers will see this result useful for short-term, medium-term and long-term strategies for sustainable development of Small and Micro Enterprises (SMEs). The public (especially entrepreneurs) can be aware on any changes pertaining to business activities environment. Furthermore, the result of this study are helpful for the government through its ministries like Ministries of Trade and Industries, and Ministries of finance in developing policies for the disbursement of funds to the Small and Micro Enterprises (SMEs). Also other development organization can utilize the result of this study for planning purpose. For example Non government organizations which deal with poverty reduction can see this report helpful.

The theoretical significance of these studies is to help to fill the gap in the body of knowledge in the small business performance. Which will lead proper understand on dynamics of Small and Micro Enterprises (SMEs) not only for academic purpose but also for growth of economy as whole hence promote action plan to regulate Small and Micro Enterprises (SMEs) sector.

1.5 Study delimitation

This study was delimited to the small businesses which were conducted within Shinyanga Municipality because it has many Small and Micro Enterprises (SMEs) of different sector. This area is proper for this study due to the factor that different business sector like manufacturing, service and trade sector are obtained there.

1.6 Scope of the study

This study was conducted in Shinyanga Municipality, with a purpose of taking Small and Micro Enterprises (SMEs) based on manufacturing, service provision and trade. The study considered only performance of Small and Micro Enterprises (SMEs) with no attempt to the growth of Small and Micro Enterprises (SMEs).

1.7 Study organization

The study has been arranged in six chapters:

The first chapter presents the decision made by researcher to undertake this research with no attempt to the other. The chapter gives introductory information about the nature of research objective and explains what will be done.

In chapter two, the study reviews literature sources in developing idea from the previous researches. Furthermore previous people's ideas were included in this research with the intention of proper understanding of research topic. The purpose of incorporating previous ideas was to understand how previous researchers, organizations, governments and readers elaborate about the matter in question.

Chapter three explains the methodology used in the study. This elaborates various methods and different techniques used by researcher in conducting research.

Chapter four, this chapter presents the findings as observed during the research, instrument like figures, charts, tables, frequency and percent have been used to present differences and similarities of the research results

Chapter five presents discussion of the findings in line with the findings presented in chapter four. Magnitude, similarities and differences of the findings are discussed.

Chapter six presents the summary, recommendation, conclusion and policy implication of the study. The study makes summary on what have been done, observed, presented and implications of the findings. The suggestion from conclusion and recommendations were made to the policy makers.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents the theoretical literature and the empirical literature. The literature review is the evaluation of the theoretical orientation and empirical studies that have been undertaken by different researchers on the relationship among the variables to be investigated. The chapter consists of concepts of the variables under the study, theoretical literature review, empirical literature review, summary of theories and summary of literatures reviewed. Theoretical review provides description and summary of different theories explaining the relationship between the variables under study while empirical literature review presents the description and summary of the earlier studies connected to the problem, comparison and conceptualization of the current study in relation to the earlier studies.

2.1 Theoretical Framework

In regard to theoretical review of literature various theory related to this study are going to be reviewed to know how these theories are correlated to the study topic. This will help to understand the views of previous writers, academicians, stakeholders and Small and Micro Enterprises (SMEs) practitioners on regarding to SMEs performance.

2.1.1 Definition of key concepts

Small B**usiness** is a firm in which its market share is relative small, with little amount of capital invested. The ownership in small business is held by individual or small group of people and area for operation is mainly local. The worker and Small and Micro Enterprises (SMEs) owners are in one community but markets need not to be local (American Committee for Economic Development (ACED), 1972).The common used yardsticks in small business are amount capital for investment, sales turnover and number of employees (URT, 2003)

Performance is a broad concept used in various areas. Performance refers to a set of financial and nonfinancial indicators with the aim of achieving desired objective and

result (Wu, 2009). In enterprise management, Moulin, (2003) defines an organization's performance as "how well the organization is managed" and "the value the organization delivers for customers and other stakeholders. Business performance defined as firm's success in the market, which may have different outcomes. It consists of a set of processes which help organizations optimize their business objectives and provides a framework for automating, organizing and analyzing business methodologies, processes metrics, and systems that drive business performance. Small business performance can be explained as a short or long term phenomenon and can be termed as the capacity of the firm to create reasonable actions and outcomes (Vesper, 1990). For this research, 'performance' is the process of measuring if the intended objectives have been achieved and it is measured in terms of sales revenue.

2.1.2 Review of theories

This section in particular, presents a review of theories that guide this study, the Balanced Scorecard and the Institutional theory was applied so as to understand the problem under research.

2.1.2.1 The Balanced Scorecard (BSC) theory

The theory was developed by Kaplan and Norton in 1992. The concept of the Balanced Scorecard (BSC) is based on the assumption that the efficient use of investment capital is no longer the sole determinant for competitive advantages, but increasingly soft factors such as intellectual capital, knowledge creation or excellent customer orientation become more important. The aim of Balanced Scorecard (BSC) was to make the contribution and the transformation of soft factors and intangible assets into long-termed financial success which are controllable. The four perspectives of Balanced Scorecard (BSC) are characterized as; Firstly, Financial perspective, which indicates if the transformation of a strategy leads to, improved economic success. The financial perspective assumes a double role in a Balanced Scorecard (BSC). On one hand, it is a strategy in which a firm is expected to achieve with the endpoint of cause and effect relationship. On second hand, measure financial earning like return on capital, sales, cost and asset utilization which

considered as most important categories in financial perspective (Kaplan & Norton 1997). The general objectives used under this perspective are profitability, productivity, growth turnover and value creation; Secondly, Customer perspective which put down client segment as target to achieve the desired economic result. Also it laid which value proposition, the company plans to be successful in the market for example customer satisfaction which are priority for different businesses especially nowadays where there is much competition in the market (Kaplan and Norton, 1992). The main concerns under customer perspective are quality, time, cost and service. Therefore, the firms are obliged to align its targets depending on these four elements under customer perspective. Thirdly, internal perspective which identifies and enable firm to meet expectations of customers in the target markets and those of shareholders. Finally, the innovation and learning perspective which focus on the capabilities, infrastructure and skills that the company intended to achieve. Under innovation and learning perspective the performance measure are employee satisfaction, goal orientation of employees' retention rates, employee education and skill level. Compared to large enterprises, Small and Medium Enterprises (SMEs) seem to benefit much from using Balanced Scorecard (BSC), because they have open communication and having an easier process of decision making which minimize resistance to change, thus respond in flexible in different changes in the market demand

According to the theory, organization performance indicates to depend on investment capital, knowledge creation or excellent customer orientation and financial results.

The Balanced scorecard have been used by previous author in study of organization performance, these include Wu (2009) who conduct research on measuring performance in Small and Medium Enterprises in the Information and Communication Technology Industries. Kamunge et al. (2014) who conduct research on factor affecting Small and Medium Enterprises (SMEs) performance at Limuru market center in Kenya and Murphy (1996) who conduct research on Effective Performance Management. In this study the theory is relevant in the sense that it

informs necessary variable in address determinants of performance. For instance education, capital structure, information system and marketing strategy

Despite the relevance of the theory it does not explain the variable institutional characteristics as determinant of performance. Therefore this weakness was addressed by Institutional theory.

2.1.2.2 Institutional Theory

The theory is not really a consistent system of rules but collection of different ideas which form somewhat consistent, perspective of the mechanisms supporting and restricting social behavior (Scott 2001). Four types of institutions tend to focus on different sorts of higher-order determinants and differ among each other. For instance, firstly, historical institutionalism, it is an approach to political research that aim at asking big questions, highlights the importance of institutions in explanations, and rejects functionalist explanations for why institutions emerge (Pierson and Skocpol, 2002). Secondly, political institutionalism, it form a theoretical school with a weaker self identity. It typically situates their claims at the state or macro political level and argues that the process of formation of states, political systems, and political party systems strongly influence political processes and outcomes (Amenta, 2005). Thirdly, New Institutional Economics (NIE), this approach remains with the notion of bounded rationality as it assumes limited economic utilization through reducing transaction cost. It is elaborated from different strands of theory like Transaction Cost Theory, Game theory, Agency theory and Public Choice processes which are parts of the strand of New Institutional Economic theory (Goldstone, 2003). Finally, the sociological institutions which focus on the sociology of organizations and those examining the influence of the "world society", also it focuses on cultural and ideational causes (Meyer et al, 1997). New Institutional Sociology (NIS) addresses the behavior of organizations as motivated by forces in wider society. It argues that organizations will seek legitimacy by adhering to rules and norms that are valued by society and more specifically certain institutions in society (Scott 2001).

The theory assumes organizational choice is constrained by multiple external pressures and that organizations are concerned with building legitimacy and acceptance in relation to external stakeholders. It also assumes that organizations operate within a social framework of norms, values and what constitutes appropriate behavior. Furthermore organizations face competitive pressures and may be impacted by other actors in the environment. New Institutional Sociology (NIS) provide the clear understanding by arguing that an environment have social and cultural forces which did not depend only on production of resources but also on task related information. The study is based on New Institutional Sociology (NIS)

According to North (1991), Institutions are defined as the "rules of the game," consisting of formal legal rules and the informal social norms that govern individual behavior and structure social interactions (institutional frameworks). Formal institutions as defined by North (1990) as rules that human being devise e.g laws and regulations enacted by governments. Formal rules are constitutions, statutes, and other government regulations. This includes, among others, legal regulations, business registration, taxes, social security payments licenses, and accounting standards. Government and support institutions play significant roles in the development and performance of Small and Medium Enterprises (SMEs) like providing favorable business environment to stimulate economic growth through entrepreneurship.

According to Hassan, (2013) informal institution is defined as community based, social, local or grass-roots institutions, such as micro-credit schemes and groups formed for the purpose of managing common pool resources. Informal institutions are regarded as productive if encourage cooperation and reduce transactions costs. Informal institutions influence such as attitudes, values and culture has also an impact on the growth of Small and Medium Enterprises (SMEs). These reflect the various factors affecting Small and Medium Enterprises (SMEs) and entrepreneurship development such as shortage of qualified workers. Sometime family owner has no any ideas about entrepreneur skills to handle the business or fail to secure competent labor and see market opportunities. These Informal institutions

mostly involve social behavior like personal attitudes, economic behavior and culture. Therefore, in absence of the appropriate institutional setting, the informal factors emerge as constraints to the flourish of the firms.

The institutional framework of a society consist of fundamental political, social, and legal ground rules that are established on the basis of production, distribution, and organizations of resources which organization must conform in order to receive support and legitimacy (Welter, 2009). North (2005) noted that, the growth of Small and Medium Enterprises (SMEs) depend on available institutional matrix. Following North observation the impact of institutions on performance of Small and Medium Enterprises (SMEs) sector can occur in two ways. Firstly, promoting Small and Medium Enterprises (SMEs) development requires external financial support and provision of subsidies to the small-scale entrepreneurs. Secondly, Small and Medium Enterprises (SMEs) depend on other actors in the environment that tend to have many business linkages from external actors. As explained by Roxas, et al. (2006), the environmental factors can serve as prone or cones for the growth of Small and Medium Enterprises (SMEs). Also that, the quality of institutions can help to lower cost of making transaction by facilitating economic activities more predictable. The Institutional theory is applicable to units of analysis which exhibit other form of social behavior. These features make institutional theory more applicable in Small and Medium Enterprises (SMEs) research, in which the mere focus is to manage external social behavior regarding to SMEs performance.

According to Institutional theory, organization performance depends on social and cultural forces, task-related information, external financial support and provision of subsidies to the small-scale entrepreneurs. In this study the theory is relevant as it informs about external characteristics that affect business performance. In this regard external institutional factor such as access to credit and access to business information are crucial.

Table 2.1: Summary of the theory

	Balance scorecard	**Institutional theory**
Background when it was founded	The theory was developed by Kaplan and Norton in 1992, to produce a performance measurement model to overcome the weakness of traditional financial measure	Institutional theory is collection of ideas for policy makers who emphasizes on formal and legal aspects that govern the government structures.
Objective	The aim of Balance scorecard was to make the contribution and the transformation of various factors and intangible assets into long-termed financial achievement which are controllable. Organizational performance are measured across four perspectives namely; customers, financial, internal and learning and innovation perspective	It describes how an organization adopts practices that are considered acceptable and legitimate within its organizational field. The impact of institutions on performance of SME sector occur through, external financial support and provision of subsidies to the small-scale entrepreneurs.
Assumption	The idea behind Balance scorecard is based on the assumption that the efficient use of investment capital is not single determinant for competitive advantages, but other factors like intellectual capital, knowledge creation or excellent customer orientation become more important	The theory assumes that; - Organizational decision is restricted by several external pressures. -Organizations are concerned with building legitimacy and acceptance in relation to external stakeholders. -Organizations operate within a social framework of norms, values, that constitutes appropriate behavior. -Organizations face external competition and may be impacted by their competitor in the environment.
Limitation	Despite the relevance of the theory it does not explain the variable institutional characteristics as determinant of performance	The theory provide the clear understanding by arguing that an environment have social and cultural forces which did not depend only on production of resources but also on task related information.

2.2 Review of empirical studies

An empirical review presents the discussion of various studies that have already undertaken by different researchers, identifying the research gaps and conceptualizing the current study. There have been numerous studies on factor affecting performance of small business but the findings of these studies differ.

Aidis (2002) conducted an analysis to find out gender influence on the performance of Small and Medium Enterprises (SMEs) in Lithuania using descriptive analysis and ordinary least square (OLS) model. The hypothesis tested were size of the business, business turnover, financial improvement and business growth. The results indicated that, Small and Medium Enterprises (SMEs) headed by female are few in number compared to those headed by male. The estimation results under business size showed that, there were strong negative relationship between sex of respondent and performance of Small and Medium Enterprises (SMEs). In business turnover, the results indicated that sex of respondent had statistical significant with business turnover while the Small and Medium Enterprises (SMEs) which are owned individually did not face higher possibility of closure. In business financial success, the results also, showed that, Small and Medium Enterprises (SMEs) owned by male have a higher probability of greater financial success compared to that owned by female. In planned business growth, sex of respondent was statistically insignificant to the determinant of business growth. Under business success the study found that, female did not evaluate business success well compared to evaluation done by male. The study concluded that, in measuring business growth there is no technical difference observed between male and female who own Small and Medium Enterprises (SMEs). The summary of result showed that although SMEs owned by female had lower turnover compared male owned Small and Medium Enterprises (SMEs), but female have higher commitment in business (Aidis, 2002).

Chadamoyo et al. (2012) investigate a competitive strategy and business environment influencing Small and Medium Enterprises (SMEs) performance using descriptive survey design. The study argued that; transaction cost, differentiation of product and innovation strategy are major competitive strategies used by Small and Medium

Enterprises (SMEs). The environment is harsh to the competitive advantage of the Small and Medium Enterprises (SMEs) in the form of legal/government, political, economic and social factors. Furthermore the adoption of the marketing strategies is a mechanism done by entrepreneur through conception of marketing or induction marketing. This implied that, the potential benefits for Small and Medium Enterprises (SMEs) obtained from its adoption depend on what entrepreneurs do when he think are in position to implement a marketing programme. This sheds light about entrepreneur's conception of marketing, with the aim to verify whether their interpretation differs much compared to that proposed by marketing researchers. Jones and Bartlett (2010) through the use of stratified sampling technique argued that, for any business with growth market strategies, the organization can attempt to gain more sales from existing market, and alternatively native growth perspective may lead the firm to develop a new product or service that can generate sales from existing customers.

Mateev and Anastasov (2010) conducted a research on various determinants factors for SMEs growth in East and central Europe using panel data involving set of 560 fast-growing SMEs. The study used variables such as: Small and Medium Enterprises (SMEs) growth which was dependent variable and firm characteristics (firm size and firm age) and other factors (assets, internal finance, future growth endowments and factor productivity) as explanatory variable. The finding of the study suggests, firstly, the growth of the firm was not only related to traditional determinant of size but also other factor regarding to production and financial structure: Secondly, they found that, firm size which was measured as total assets tend to increase sales revenues. Thirdly, the growths in the number of employees in the firm show additional impact on the growth assets: Fourthly, in transition economies, Small and Medium Enterprises (SMEs) depend on internal generated fund to support sales growth and external capital for increase in asset. Lastly results show that, startup capital and labor availability had positive relationship with growth of the firm in term of asset and sales (Mateev and Anastasov, 2010). However, this study did not take into account the extent to which the identified factors actually affect performance of Small and Medium Enterprises (SMEs).

Ntakobajira (2013) conducted research to investigate performance of Small and Medium Enterprises (SMEs) and its associate factor in Nairobi, using survey research design for sample of 47 SMEs Traders. The study argued that; accessibility on business information, financial accessibility and use of technological input in payment system affect the performance of Small and Medium Enterprises (SMEs). Also the environment like geographic location has its implications for access to markets and other resources like finance, subcontractors, infrastructure, distribution skilled labor, and transport logistics and other facilities. The study continues to stress that in the urban areas there is firm development due to different economies of scale. For example, Small and Medium Enterprises (SMEs) in the urban area are favored by easily in customer accessibility and input required like banks, internet network and labor for production of goods and services. However he didn't take in consideration the counterfactual existence of successful Small and Medium Enterprises (SMEs) located in rural area with resource-sparse environments and benefit from protective greenhouse conditions (i.e. lower densities of economic activity with few numbers of competitors).

Investigation on the consequences of finance, infrastructure and technological supports on Small and Medium Enterprises (SMEs) performance conducted in Nigeria was set by Olugbenga and Ekiti (2012). Linear regression model was used to analyze factor for performance that is finance, infrastructure and technology. The variables were subdivided as financial factors (initial capital, bank credit and non-bank credit), infrastructure (employees, acquisition mode of machines, training, water expenditure, age of enterprise and education) and technological factors (output, asset and energy expenditure). The research result shows that finance and technological factor had positive impact on Small and Medium Enterprises (SMEs) performance. On the other hand infrastructures have negative impact on Small and Medium Enterprises (SMEs) performance. The finding of the study recommended supportive policy on regarding to finance and other technical issues for Small and Medium Enterprises (SMEs) performance.

Zindiye (2008) did a research on factor affecting the performance of Small and Medium Enterprises (SMEs) based on manufacturing sector in Harare city, Zimbabwe using quantitative research design with predetermined sample of 241 respondents. The result hypothesized that poor human resources, lack of management skills (financial, production and marketing management) lead to poor performance of Small and Medium Enterprises (SMEs) in respective sector. He further argued that hyperinflation and some economic reasons like adequate foreign currency, exchange rate and interest rate affect negatively performance of Small and Medium Enterprises (SMEs) in Zimbabwe. However, firm characteristics were still relevant but limited attention was paid to understand their effect.

Table 2.2: Summary of empirical review

Study	Objectives	Methodology	Variables Studied	Major Findings
Chadamoyo et al. (2012)	To investigate a competitive strategy and business environment influencing Small and Medium Enterprises (SMEs) performance	Descriptive survey design.	Dependent variable is performance of SMEs, Independent variable are marketing, cost, differentiation and innovation strategy	Transaction cost, differentiation of product and innovation strategy are major competitive strategies used by SMEs
Mateev and Anastasov (2010)	To analyze various determinants factors for SMEs growth in East and central Europe	Panel data involving set of 560 fast-growing SMEs	Dependent variable is SMEs growth, Independent variable are firm characteristics (firm size and firm age) and other factors (assets, internal finance, future growth endowments and factor productivity) as explanatory variable.	Firstly, Growth of the firm was not only related to traditional determinant of size but also other factor regarding to production and financial structure. Secondly, firm size which was measured as total assets tend to increase sales revenues, Finally startup capital and labor availability had positive relationship with growth of the firm in term of asset and sales
Ntakobajira, (2013)	To investigate performance of SMEs and its associate factor in Nairobi	Survey research design for sample of 47 SMEs Traders.	Dependent variable is performance of SMEs, Independent variable are accessibility to business information services, access to finance and use of technology	Accessibility on business information, financial accessibility and use of technological input in payment system affect the performance of SMEs
Olugbenga and Ekiti (2012).	Investigation on the consequences of finance, infrastructure and technological supports on SMEs performance	Linear equations model	Dependent variable is performance of SMEs, Independent variable are technology, infrastructure and finance	Finance and technological factor had positive impact on SMEs performance while infrastructures have negative impact on SMEs performance
Zindiye (2008)	To asses factor affecting performance of Small and Medium Enterprises (SMEs) based on manufacturing sector	Quantitative research design with predetermined sample of 241 respondents.	Dependent variable is performance of SMEs, Independent variable are poor human resources, lack of management skills (financial, production and marketing management) hyper inflation and some economic reasons like adequate foreign currency, exchange rate and interest rate	Poor human resources, lack of management skills (financial, production and marketing management) lead to poor performance of SMEs. Also hyper inflation and some economic reasons like adequate foreign currency, exchange rate and interest rate affect negatively performance of SMEs

2.3 Discussion of the reviewed empirical literature

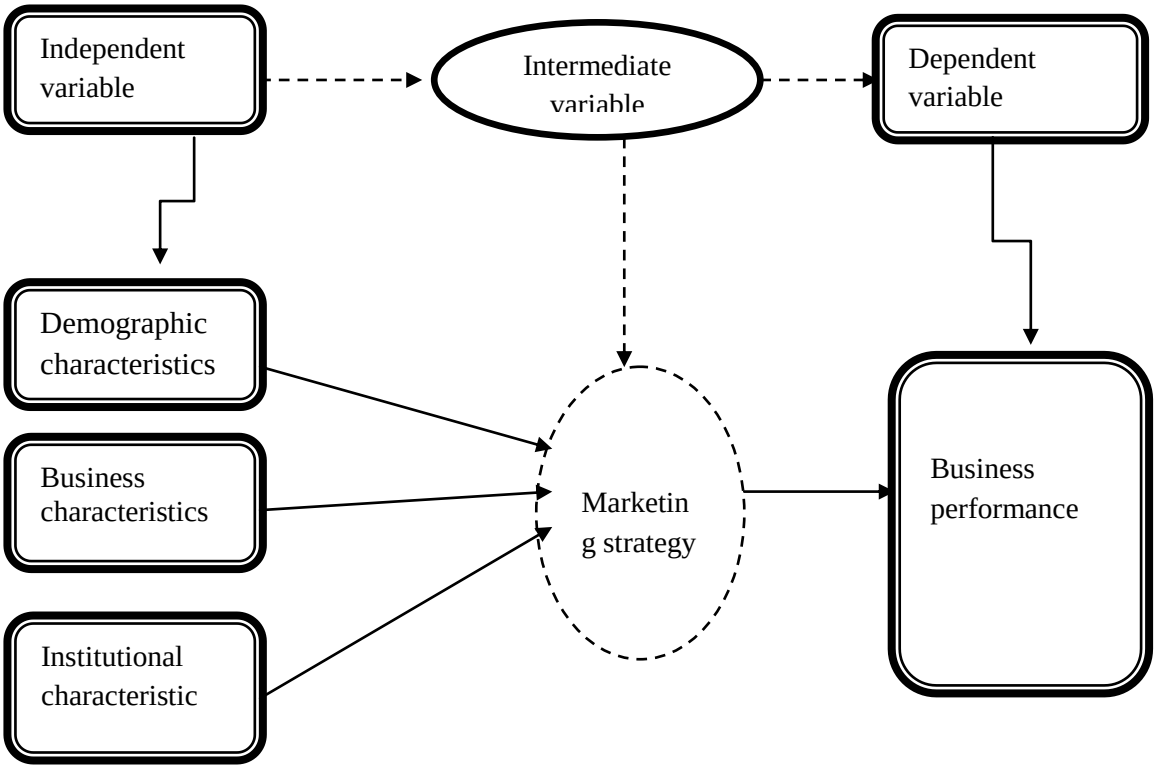
The result from the reviewed literature shows difference in results with number and nature of factor varying across studies, which makes it difficult to ascertain on the kinds of factors that matter. For instance, factors like firm characteristics (size and age), determining factors (total assets, leverage, internally generated funds), marketing and innovation strategy, accessibility to business information services, access to finance, use of technology, poor human resources, lack of management skills (financial, production and marketing management) hyper inflation and some economic reasons like adequate foreign currency, exchange rate and interest rate are considered most as important factor affecting performance of Small and Medium Enterprises (SMEs). Some variables are uncommon and are considered by few researchers; for instance education and training, sex of entrepreneur, business location, entrepreneur's age and capital structure. Some studies confirmed the significant impact of variables to Small and Medium Enterprises (SMEs) performance. For instance Aidis (2002), Mateev and Anastasov (2010), McGrath (2002), Ntakobajira (2013), Olugbenga and Ekiti (2012), Scarborough (1998), and Zindiye (2008). Nevertheless, Minniti (2003), Staw(1991), and Sarder, et al. (1997) argued on the insignificance of some variables. Despite of investigation done by previous studies the issue of Small and Medium Enterprises (SMEs) performance has not been well understood. The studies present inconsistent results. The inconsistency of the findings is due to the fact that, firstly, studies differ in type of data used in studies; some used primary data other use secondary data. Secondly, the types of study design used are also different. Some used the cross sectional study design while others used the longitudinal design. Finally, analytical methods used in their investigation are not the same. Some analyzed the data with the use of cross tabulation method and univariate method while other use econometric techniques like Ordinary Least Square (OLS), Logit model, Probit model and Tobit model. Moreover some of studies have examined the type of factors for performance of Small and Medium Enterprises (SMEs) with the purpose of understanding the frequency of their occurrences among firms.

Basing on theoretical and empirical literature review, variables were divided into three groups which include socio demographic characteristics, business characteristics, and institutional characteristics as determinant factors of Small and Medium Enterprises (SMEs) performance. From each group the study examined the factors which are significant. A comparison was made among results of different studies to analyze the general factor for performance of Small and Medium Enterprises (SMEs). This makes the process of implementing the policy much easier by targeting a particular group of variable in giving support for sustainable Small and Medium Enterprises (SMEs) growth. Furthermore, it increases awareness of what groups of those factors contribute mostly on Small and Medium Enterprises (SMEs) performance

2.4 Conceptual framework

Figure 2.1 shows the relationship that exists between Small and Medium Enterprises (SMEs) performance which is the dependent variable and the independent variables which are: Demographic characteristics (education, sex, and age of SMEs owners/managers), Business characteristics (firm size and age and capital structure), institutional characteristics (accessibility on business information and financial accessibility) and marketing strategy as intermediate variable.

Figure 2.1: Conceptual framework



Source: Research design (2016)

Demographic characteristics

Education of respondent is a variable which is studied frequently by many researchers. It incorporates skills, self confidence, knowledge, discipline and motivation of the person toward achieving intended objective. The respondents who get formal education have higher opportunity cost of remaining in the business compared to uneducated one (Cooper et al., 1992). The earlier surveys which confirm positive relationship between the level of education and business performance include McGrath (2002), Mateev and Anastasov (2010) and Zindiye (2008). For instance, McGrath (2002) suggests that people who are highly educated are seen to be successful in the business because business success need entrepreneur to be well educated in terms of skill, training and management for running particular enterprises. Nevertheless other reported negative relationships, for instance, Minniti

(2003) argued that people with formal education are not necessarily entrepreneurial because the people with higher education are not risk taker as they are not willing to incur loss in the business. The study expected education to have positive relationship with performance.

Hypothesis$_1$: *There is a positive relationship between Education of respondent and SMEs performance*

In regard to sex of respondent, it is argued that there is low number female participating and owning SMEs compared to male in the business. This was due to various social cultural practices which prevailed at that particular period of time (Lema, 2013). The balance scorecard theory on customer perspective insists to put down client segment as target to achieve the desired economic result. The prior findings, for instance Aidis (2002) shows that Small and Medium Enterprises (SMEs) owned by female are few in number compared to those owned by male. On the other hand, in current years the number of women who own enterprises has increases compared to the previous years but they were underrepresented in term of growth ratio (URT, 2012).

Hypothesis$_2$**:** *The SMEs owned by male perform better than those owned by female*

Entrepreneur's age has seen to have positive relationship on performance (Bonte et al, 2009; Scarborough, 1998) but other studies indicate entrepreneur's age to have negative relationship (Staw, 1991). For instance, Scarborough (1998) stated that the years for entrepreneurship in the United State of America (USA) are between 30s and 40s years. It is argued that young entrepreneurs are very aggressive, tolerant and ready to undertake business risk. On the other hand, Staw (1991) argues that in order to start business, age of entrepreneur is not a considerable factor, but with enough experience, preparation and training people can achieve business success. He proceeds to argue that for age to be decisive factor must include chronological age and entrepreneurial age. Wagner (2003) found that there are no hard and fast rules

concerning the right age for starting a business. In this regard, study expects entrepreneur's age to have positive relationship with performance.

Hypothesis$_3$*: *There is positive relationship between the age of the SMEs owner and SMEs performance

Business characteristics

Firm age: refers period in years where the business is being operating. The Small and Medium Enterprises (SMEs) which existed for many years would have to perform better as compared to those existed for few years due to fact that, the old Small and Medium Enterprises (SMEs) have better management environment to diversify their business and be advanced in technological capabilities that promote performance (Cooper *et al.*, 1991). Firm size and age are seen to have positive relationship on performance (Aidis, 2002; Mateev and Anastasov, 2010). For instance, Mateev and Anastasov (2010) study suggests firm size which was measured as total assets tend to increase sales revenues. Other studies (Robert, 2013) indicate firm size to have negative relationship. He confirms that the size of enterprise and growth rates have inversely relationship with the probability of closing it. In this regard, study expects the business which existed for many years would have to perform better as compared to those existed for few years.

Hypothesis$_4$*: *There is positive relationship between the SMEs age and performance

The initial startup capital is related to the preliminary strategy adopted by Small and Medium Enterprises (SMEs)(Cooper *et al.*, 1991). Capital structure has seen to have positive relationship on performance (Mateev and Anastasov, 2010; Olugbenga and Ekiti, 2012) For instance, Mateev and Anastasov, (2010) argued that startup capital and labor availability had positive relationship with growth of the firm in term of asset and sales. That's why in transition economies, Small and Medium Enterprises (SMEs) depend on internal generated fund to support sales growth and external capital for increase in asset. According to the balance scorecard theory the general objectives used in financial perspective are profitability and improving productivity,

turnover growth (diversification) and value creation. On the other hand, other studies indicate capital structure to have negative relationship (Sarder et al., 1997). They found that the firms which is receiving external support like financial support, training support, consultancy, information and technical support either from public or individual agencies showed insignificant increase in sales and productivity.

Hypothesis$_5$: *There is positive relationship between capital structure and Small and Medium Enterprises (SMEs) performance*

Institutional characteristics

The institutional characteristics are informed by theoretical and empirical literature. Access to finance is seen to have positive relationship on performance, (Ntakobajira, 2013; Olugbenga and Ekiti, 2012; Zindiye, 2008). For instance, Ntakobajira (2013) views that, accessibility on business information, financial accessibility and use of technological input in payment system affect the performance of Small and Medium Enterprises (SMEs). It affects performance of Small and Medium Enterprises (SMEs) because of limited ability of entrepreneur to enjoy economies of scale when they arose. Institutions theory argued that the impact of Small and Medium Enterprises (SMEs) sector can occur through external financial support and provision of subsidies to the small-scale entrepreneurs. In this regard, study expects access to finance have positive relationship with performance

Hypothesis$_6$: *Small and Medium Enterprises (SMEs) with access to credit perform better than those with little or no access to credit.*

Access to business information is seen to have positive relationship on performance (Ntakobajira, 2013; Mateev and Anastasov, 2010). For instance, Ntakobajira (2013), accessibility on business information affect Small and Medium Enterprises (SMEs) performance. Institutional theory provide the clear understanding by arguing that an environment have social and cultural forces which did not depend only on production of resources but also on task related information. In this regard, study expects access to business information have positive relationship with performance.

Hypothesis$_7$: *There is positive relationship between access to business information and Small and Medium Enterprises (SMEs) performance*

Marketing strategy

In accordance with marketing strategy the study sought to find out the strategy brought about the better performance between the Small and Medium Enterprises (SMEs) among: promotion strategy, diversification strategy, price strategy and advertisement strategy. Marketing strategies are the vital tool in promoting sales. For example, Jones and Bartlett (2010) argued that, for any business with growth marketing strategies, the organization is attempting to gain more sales from existing market. Alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers. In balance scorecard, financial perspective indicated if the transformation of a strategy leads to improved economic success while Institutional theory elaborated that sometime family owner has no any ideas about entrepreneur skills to handle the business or fail to secure competent labor and see market opportunities.

Hypothesis$_8$: *There is positive relationship between marketing strategy and Small and Medium Enterprises (SMEs) performance.*

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology employed to answer the questions posed in this study. The chapter is structured into five parts which consist of research design, study area, target population, sample size and sampling technique, and data presentation and data analysis.

3.2 Research design

Research design is defined as an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). The study used cross-sectional research design to achieve the intended objectives. The most significant prone of cross sectional studies is that in generally they are quick and cheap as there is no follow up, little resource are required to conduct the study and single study can examine number of various variables. This study design is capable of estimating the relationship between different variables used in the investigation. McGahan (1997) confirmed that a good survey design is the one which possess unique characteristics as the information obtained are not available from other source and the information are collected from available respondent.

3.3 Study area

Shinyanga municipality has a history somewhat different from others districts in terms of evolution on Small and Medium Enterprises (SMEs), there were large number of Small and Medium Enterprises (SMEs) compared to other district within Shinyanga region. The community and government focus attention in revitalizing Small and Medium Enterprises (SMEs) in the region due to its landlocked nature of the area. Also the area was selected due to easiness of being reached as data were collected from the owner of Small and Medium Enterprises (SMEs) within the geographical area. Shinyanga Municipality is the one of the 6 Councils which forms Shinyanga region. It shares borders with Shinyanga District on the North and North

West, West and South West and with Kishapu District on East and South East. The Council is situated between latitudes 3^{o} $20^{'}$ and $3^{o}45^{'}$ South of the Equator and between longitude 33^{0} $20^{'}$ and 35^{o} $35^{'}$ East of the Greenwich Meridian. According to national population census of 2012, the area has population of 161,391 people and a population density of 548 /km^{2}. The main economic activities within Shinyanga municipality are agricultural cultivation, livestock keeping, bee keeping, Industries, trading and mining.

3.4 Target population

According to Msabila and Nalaila (2013), population is a complete set of elements (persons or objects) that possesses similar characteristics defined by the sampling criteria established by particular researcher. The population studied was SMEs owners/managers and the employees found in Shinyanga Municipality. The study covered three sector of manufacturing sector, service sector and trade sector.

3.5 Sample size and sampling technique

3.5.1 Sampling technique

Stratified random sampling was employed for selection of respondents. According to Patton, (2002) stratified random sampling is defined as the process of selecting a sample in such a way that identified subgroups in the population are represented in the sample in the same proportion as they exist in the population. This technique is more useful as it help to minimize biasness when research is dealing with population due to equal selection of the sample. With stratified sampling technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for inclusion in the sample. Janet (2006) confirms that stratified groups will be the representative of final sample when stratified sampling technique is used. In this study the strata was divided into three which include manufacturing strata, service strata and trade strata.

3.5.2 Sample size

Sample size refers to the number of items to be selected from the universe to constitute a sample (Kothari, 2004). In general the sample size was determined by using the following formula as developed by Yamane (1967).

$$n = \frac{N}{1 + N(e)^2}$$

Where by n=sample size

N=Total number of respondents

e= standard error with level of confidence is 10%

Thus sample size was calculated as follows;

$$n = \frac{358}{1 + 358(0.05)^2} = 189$$

$$n = 189$$

Therefore for this study the number of sample size was 189. Sekaran (2003) recommends that when selecting number of sample size, the representation of more than 30 and less than 500 people are appropriate sample for social science research. In general each stratum where equally selected regarding to its proportional size .i.e. proportional allocation

3.6 Methods of data collection

In order to accomplish this study, primary data and secondary data were collected with different data collection methods. This was used in order to collect relevant information to be used for the study.

3.6.1 Primary sources

Primary data were collected through the use of questionnaire technique with the intention of collecting necessary information directly from the people that might not be reflected in various monthly and annual reports of the Municipal.

3.6.1.1 Data collection instruments

The questionnaire instrument was used for data collection:

3.6.1.1.1 Questionnaires

The researcher used open and close ended questions in data collection. The technique was used through distributing of question to the respondent and then follow up was made in order to pick up an answered question by respondent. The data collected from primary source was then analyzed by an appropriate method of data analysis. The decision to use questionnaire as data collection method was based on the advantages of questionnaires which include the following; information can be collected from a large sample, confidentiality is maintained, saves time since questions are presented on paper format and there is no opportunity for interviewer bias. However; there are some disadvantages when questionnaire is used as instruments for data collection, among them are the following: responses can be quite low, there is no direct contact so respondent can misunderstand the question, and there is no opportunity to ask additional question.

To overcome the challenges listed above a pilot test was conducted in order to establish whether the questionnaires are answering what they are supposed to measure, the wording is clear, if all questions are interpreted in the same way by respondents, if there is any research bias and what response is provoked. The researcher also ensured that the language is clear to assist respondents to answer questions, the questions were having a specific purpose that contribute to the study, instructions were clearly given and questions focused and limited to a single idea.

3.7 Validity and reliability

Validity of research instrument refers to extent in which the concepts of the study are measured correctly while Reliability is defined as the extent to which a used scale produces consistent results, if repeated measurements are made (Isaga, 2012). There are different ways of assessing validity and reliability of the data but this study adopted the following method to measure validity and reliability of data.

Before going to collect data at the research site the researcher conducted a pilot study on the instrument for data collection. A pilot study was conducted to 15 entrepreneurs with the objective of pre-test the research questionnaire. After pre-test the questionnaire was modified depending on the suggestion provided by entrepreneurs. The pre-testing helped the researcher to refine the items which were unclear to the respondent.

Furthermore external validity was made especially in choosing population and area to be covered. Moreover when the data was collected the degree of reliability and internal validity was determined. The internal consistency method was used to measure reliability. This research adopted Cronbach's Alpha measure to asses' consistency of the entire scale. Cronbach's Alpha measures the internal reliability of a set of related items. That is, it summarizes the extent to which a set of items are interrelated with each other (Hair et al. 2006). The result has a coefficient ranging from 1 to 0; but a value of 0.7 or less generally indicates unsatisfactory internal reliability.

3.8 Description of variables and measurement

3.8.1 Dependent variable

The dependent variable is the performance of Small and Medium Enterprises (SMEs) measured in term of sales revenue.

3.8.2 Independent variables

The independent variables were categorized into four groups which are factors affecting the performance of Small and Medium Enterprises (SMEs): These are

firstly, demographic factors which consist of age, sex and education of SMEs owner, secondly, business characteristics which consist of age of the business and capital structure, thirdly institutional characteristics which consist of access to credit and access to business information. Lastly market strategy act as mediating variable among demographic characteristics, business characteristics and institutional characteristics and Small and Medium Enterprises (SMEs) performance

Table 3.1: Variables and their measurements

Variables	**Description and Measurement**
Demographic characteristics of business owner	
Age of business owner	Number of complete living years from the date of birth to time research done.
Sex of business owner	Dummy; i.e. 1 if male 0 otherwise
Marital status	Dummy; 1 if the respondent is married, 0 otherwise
Social group	Dummy; 1 if the respondent is a member, 0 otherwise
Education of business owner	Dummy variable with none formal being a base category 1 if primary level, 0 otherwise 1 if secondary level, 0 otherwise 1 if college level, 0 otherwise 1 if university level, 0 otherwise
Business characteristics	
Firm age	Natural logarithm of number of year business being operating (continuous)
Sector of business	Categorical (1-manufacturing, 2-serves, 3-Trade)
Firm size	Number of employees
Capital structure	Natural logarithm of amount of startup capital in TSHs (Continuous)
Institutional characteristics	
Credit	1 if there is access to credit, 0 otherwise
Access to business information	Measured in a five point likert scale from strongly disagree to strongly agree,
Marketing strategy	
Market strategy	Measured in a five point likert scale from strongly disagree to strongly agree
SMEs performance	
Performance	Measured in term of sales revenue in a five point likert scale from strongly disagree to strongly agree

Source: Research formulation

3.9 Data presentation and analysis

3.9.0 Introduction

Data presentation and analysis helped the researcher to interpret the findings collected from the field. The data obtained was coded, edited and analyzed with quantitative techniques with the purpose of getting meaningful relationship between variables. The data were analyzed by regression analysis. In statistics, regression analysis includes any techniques of modeling and analyzing several variables, when the focus is on the relationship between a dependent and independent variables.

3.9.1 Data presentation

Various data presentation forms used include graphs, tables and pie charts

3.9.2 Data analysis

Data analysis carried out using Statistical Parkage for Social Science (SPSS) version 20, stata/SE 9.0 and *Excel* statistical computer programmes.

3.9.2.1 Data processing

The methods of data processing used in this study were both manual and computerized way of data processing; where data editing, data coding, data classification and tabulation were made. Data processing has two phases namely: data clean-up and data reduction. During data clean-up the collected raw data was edited to detect anomalies, errors and omissions in responses and checking that the questions are answered accurately and uniformly. Then numerical and other symbols were assigned in order to reduce responses into a limited number of categories or classes. After this, the processes of classification or arranging large volume of raw data into classes or groups on the basis of common characteristics were applied. Finally, tabulation and pie charts were used to summarize the raw data and displayed in the form of tabulation for further interpretation.

3.9.2.2 Descriptive statistical analysis

The general purpose of descriptive statistical method is to summarize, organize and simplify a set of scores (Gravetter and Wallnau, 2007). In the present study, the

central tendency (average or representative score) for numeric data (interval or ratio) was determined by mean. The central tendency determination for discrete variables was a mode. The measure of variability within the numeric (interval or ratio) data was standard deviation. The categorical variables were summarized using bar charts and pie charts whereas numerical variables were summarized using histograms.

3.9.2.3 Inferential statistical analysis

According to Gravetter and Wallnau (2007), inferential statistics use the limited information from samples to answer general questions about the population. The present study made use of various inferential statistical analyses: standard error of the mean (SEM) is the standard deviation of the sampling distribution. It shows how likely it is that a particular sample comes from that population. It is the discrepancy between sample statistic (M) and population parameter (μ). Interval estimations using the 95% confidence interval were made to both sample proportions and means when generalizing to the target population. Various hypotheses were tested in the present study using both parametric (t-test) and non-parametric tests (Spearman Rank Order Correlation).

3.9.2.4 Factor analysis

The analysis was done using principal component analysis/factor analysis. The factor analysis is a statistical method which can be used to address the problem of analyzing the structure of the interrelationships (correlations) among a large number of variables by defining a set of common underlying dimensions, known as factors. Factor analysis was used to identify the separate dimensions of the structure and then determine the extent to which each variable is explained by each dimension. The varieties in factor analysis are formed to maximize their explanation of the entire variable set and not to predict a dependent variable (Isaga, 2012).

3.9.2.5 Econometric model

The research adopted regression model in data analysis, particularly Multiple Regression models were used to develop a better understanding of the relationship between a dependent variable and a set of independent variables (Pallant, 2005). The

study used multiple regressions model to analyze the performance of Small and Medium Enterprises (SMEs) taking sales as a proxy of performance. The reason for using Ordinary Least Square (OLS) in this regression analysis is because it minimizes the residual sum of squares of the estimated parameters. It is used when you want to explore the predictive ability of a set of independent variables on one continuous dependent measure. Also it tests the predictive power of the set of variable and assesses the relative contribution of each individual variable (Pallant, 2005).

Gujarati (2004) argues that, under multiple regressions model, the assumptions of Classical Linear Regression Model (CLRM) should hold. These are;

(i) The multiple regression model is linear in parameters

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_3 + \mu_i$$

Y is linear in parameters; however, Y and Xs may be nonlinear

(ii) Zero mean value of error term μ_i. Given the value of Xs, the expected value of random error term is zero, that is: $E\left(\mu_i / X_{2i,} X_{3i}\right) = 0$ for each value i

(iii) Zero covariance (cov) between error term μ_i and each X values, that is;

$$Cov(\mu_i, X_{2i}) = \text{cov}(\mu_i, X_{3i}) = 0$$

(iv) The variance of error term is homoscedasticity, that is: $Var(\mu_i) = \delta^2$

(v) No autocorrelation between the disturbances. Given any two X- values X_i and X_j $(i \neq j)$, the correlation between any two μ_i and μ_j $(i \neq j)$ is zero, that is:

$$Cov\left(\mu_i, \mu_j / X_i, X_j\right) = 0$$

Therefore, basing on the assumptions above, the estimated econometric model for SMEs performance can be derived as:

$$Y = \beta_0 + \sum \beta_i X_i + \varepsilon \qquad (3.1)$$

Where: Y is the performance of Small and Medium Enterprises (SMEs), β_o is the constant term, X_i is the independent (explanatory) variables; β_i refers to regression coefficient and ε is a random error term

3.9.2.6 Test for Multicollinearity

Multicollinearity refers to the situation where there is either an exact or approximately exact linear relationship or correlation among the independent variables. The consequences associated with multicollinearity are: the standard error of the coefficients would be very large thus, increasing the probability of type two errors (failing to reject the null hypothesis). Another consequence perfect multicollinearity is that the Ordinary Least Square (OLS) of estimation will not run (Gujarat, 2004).

Multicollinearity test was conducted by using Variance Inflating Factor (VIF) in multiple regression models. $VIF = \frac{1}{1-r^2_{23}}$ where r^2_{23} is the coefficient of correlation between X_2 and X_3. As a rule of thumb, if the VIF of a variable exceeds 10, that variable is said to be highly collinear (Gujarati, 2004). Furthermore, for the qualitative explanatory variables used, the dummy variables introduced were less by one than the categories of the variables. This was done in order to avoid from falling into the dummy variable trap because by including the full set of the dummy variables, one may end up with a perfect linear relation between the set of dummies and the constant (Green 2003).

3.9.2.7 Test for Heteroscedasticity

The existence of heteroscedasticity means the assumption of homoscedasticity or constant variance of the error term of the Classical Linear Regression Model (CLRM) is violated. When heteroscedasticity occurs the Ordinary Least Square (OLS) estimators are no longer minimum variance or efficient, that is, they are not Best Linear Unbiased Estimator (BLUE). The Best Linear Unbiased Estimator

(BLUE) estimators are provided by the method of weighted least squares (Gujarat, 2004).

Due to variations arising from the use of the variables such as age of respondent, business age, capital structure and business information, the researcher suspected that there might be the problem of heteroscedasticity. To overcome, the problem, the numeric variables were transformed into natural logarithm in the Ordinary Least Square (OLS) regression analysis. Moreover, the standard errors were adjusted for heteroscedasticity by making them robust standard error.

3.9.2.8 Test for the fitness of the model

In order to test the fitness of the overall model, F-test was used to test whether explanatory variables have joint effect on dependent variables. F-test is given by:

$$F = \frac{ESS/df}{RSS/df} = \frac{ESS/k-1}{RSS/n-k}$$

Where,

$ESS =$ Explained Sum of Squares

$RSS =$ Residual Sum of Squares

$df =$ Degree of freedom

$n =$ Number of observation

$k =$ Number of parameters

To test hypothesis; null hypothesis H_0: $\beta_1 = \beta_2 = \beta_k = 0$ that is all slope coefficients are simultaneous zero versus alternative hypothesis (not all slope coefficients are simultaneous zero). If $F > F_\alpha(k-1),(n-k)$, reject null hypothesis; alternatively if the p-value of F is low H_0 is rejected (Gujarati, 2004).

3.10 Ethical issues

Ethics can be defined as the code of conduct or expected societal norm of behavior when conducting research (Sekaran 2003). For social science research, ethical issues had great important to be taken into consideration, particularly when human subject

are involved in research. The ethical issues are raised in each stage of the research process starting from problem identification to the dissemination of research results (Marczyk, DeMatteo and Festinger 2005). In this study the following ethical codes have been developed to provide guidance when doing research. These include firstly, protecting human participants, such as respecting the respondents, doing no harm to the respondents and selecting the respondents fairly. Secondly, ethics related to confidentiality of information provided by respondents so as to ensure privacy and dignity of research participant. The respondents were guaranteed that the information provided would not be made available to anyone who was not directly involved in the study (Malhotra 2006).

Thirdly, ethical issue relates to informed consent, which means that prospective research participants must be fully informed about the procedures and risks involved in the research and must give their consent to participate. The informed consent requires informing participants in advance about the overall purpose of the study, such as the main features of the study and its importance as well as the risks and benefits of their participation. The consent may be communicated in a written form, verbally, or in an audiotape or videotape, depending on the nature of the study (Isaga, 2012). In this study, an introductory letter was sent to the owner-managers/employees explaining the purpose of the study and the importance of undertaking the study. Additionally, all sources used in this study were acknowledged.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.0 Introduction

This chapter presents result of the analysis carried out using the data collected from 189 entrepreneurs across the three sectors of manufacturing, trade and service sector in Shinyanga Municipality. The analysis is divided into two main sections. First descriptive analyses are presented followed by the inferential analysis. The second section deals with testing the hypotheses formulated and statistics tests for relationships among variables using correlation and regression analysis. Statistics tests were run to explore association between two variables by establishing how they co-vary. For instance, how values of dependent variables correspond either higher or lower values on some independent variable (Tabachnich and Fidel (2001). Test statistics like linktest (model specification); variance inflation factor (an indicator for multicollinearity) and normality test were used in analysis.

4.1 Descriptive results

4.1.1 Demographic characteristics

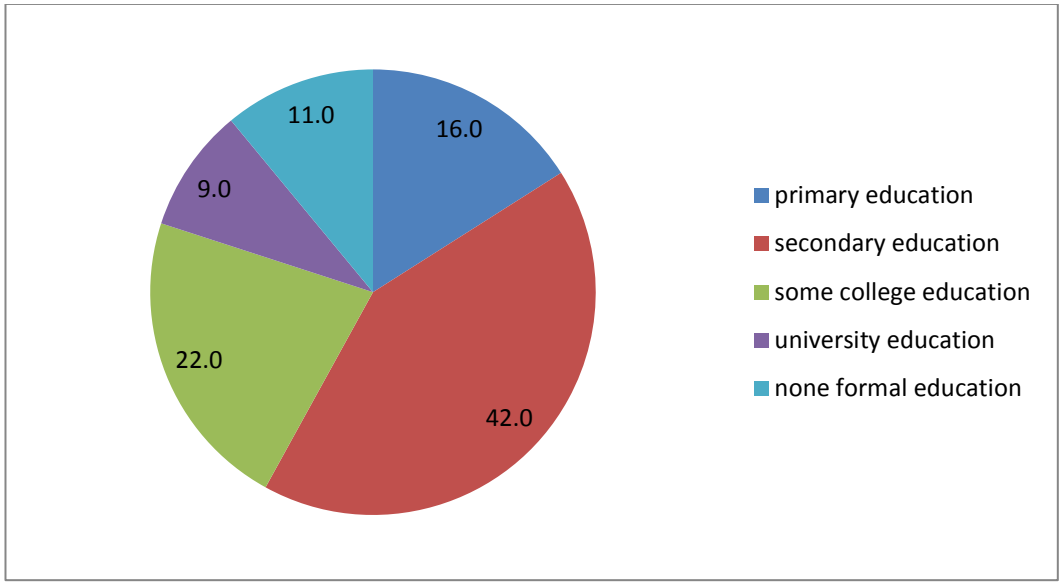
This part include descriptive analysis of the backgrounds of the owner of Small and Medium Enterprises (SMEs) studied in terms of three main factors; these are age, education, and sex.

4.1.1.1 Respondent education

The results of the survey on the educational background of the respondents are divided into two; those who had no formal education accounts 11 percent while those with formal education account 89 percent. Those with formal education are arranged from primary school education to university education. The secondary school education had the highest number of respondents with 42 percent, followed by 22 percent for some college education, 16 percent primary education, and 9 percent university education. These results therefore, show that most of the Small and Medium Enterprises (SMEs) in the study area are owned, managed and operated by

people with secondary education followed by those with college education. However there are also other people with only primary education or even those without education owning, and managing an enterprise. Furthermore many respondents with no formal education are in trade sector because many entrepreneurs in the trade sector started retail business without any formal education (Figure 4.1.1).

Figure 4.1.1: Respondent's educational qualification (%)



Source: Survey Data (2016).

Table 4.1.1 shows sector for the business operation, the manufacturing sector account 20 percent of respondents, the services sector had 27 percent while the trade sector had 53 percent. This signifies that many respondents are engaged in trade sector compared to manufacturing and service sector. The reason is that entering in trade sector did not need much start-up capital compared to other sector which need huge amount of startup capital with qualified human working skills.

Table 4.1.1: Sector of production

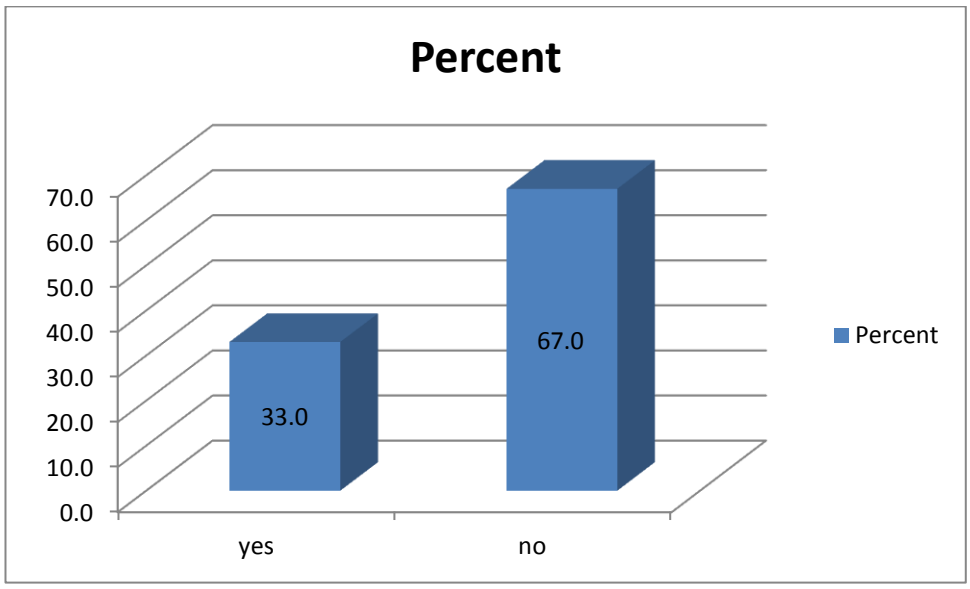
	frequency	**percent**
Manufacturing	38	20
Service	51	27
Trade	100	53

Source: Survey Data (2016).

4.1.1.2 Management training

The Figure 4.1.2 illustrates on the question of having obtained training on managing Small and Medium Enterprises (SMEs), about 33 percent of respondents indicated that they had participated in obtaining some form of training on Small and Medium Enterprises (SMEs) management for past 12 month. Conversely, 67 percent of the respondents indicated that they had not attended any type of training on management of SMEs. Therefore the majority of the respondents had not acquired any management training, as out of the 189, only 62 (33%) had received short coarse training on running Small and Medium Enterprises (SMEs). The explanation being that Small and Medium Enterprises (SMEs) have not yet been regarded by many people as a formal business which require managerial skills like any other business.

Figure 4.1.2: Respondent trained



Source: Survey Data (2016).

4.1.1.3 Respondents age

The respondents' ages ranged from '18 to 65 years', and a little over half of them i. e. 51 percent were between the ages '25 to 40 years' old which indicate age to be normally distributed, i.e. symmetry of distribution (skewness) 0.513. The mean age of the respondents was 38 years and standard deviation of 13.768. The age group `25 to 40 years' (modal class) had the highest number of respondents suggesting that

owner manages of Small and Medium Enterprises (SMEs) was young people. This results are similar to other studies which show that in Tanzania on average the entrepreneurship ages are between 25 to 39 years old (Isaga, 2012).

Table 4.1.2: Respondents age

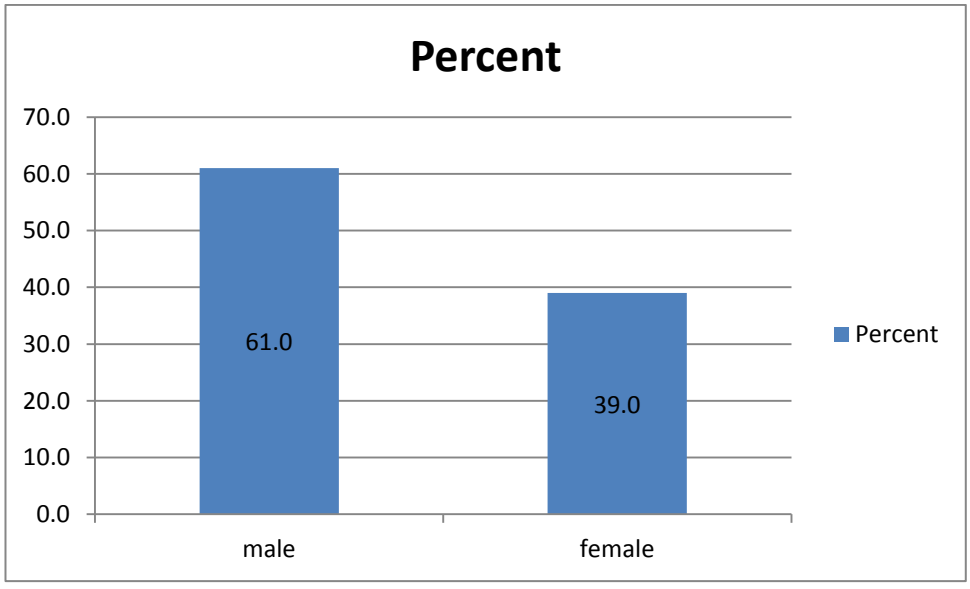
	Age
Mean	38.1
Std. Deviation	13.768
Skewness	0.513
Kurtosis	-0.901
N(listwise)	189

Source: Survey Data (2016).

4.1.1.4 Sex of respondents

Also in sex of the respondents the descriptive results show that, out of 189 respondents, 117 respondents were male and 72 were female. This implies that in the study area male constituted about 61 percent and female constituted about 39 percent (Figure 4.1.3). These results showed that men were leading in the total number of those own and manage Small and Medium Enterprises (SMEs) followed by women

Figure 4.1.3: Sex of respondent



Source: Survey Data (2016).

4.1.2 Business characteristics

4.1.2.1 Age of business

Business ages range from '1 to 20 years', most of Small and Medium Enterprises (SMEs) in Shinyanga Municipality are young in term of year of operating as they fall below 10 years. The mean age for business is 7.98 years old, whereby largest category lie between 3 to 10 years while few of them are over 10 years and fall in manufacturing sector. The mean age of 7.98 did not match with number of years where a respondent are self employed whose mean age was 38 year old (Table 4.1.2 Respondent age). The trade sector is sector with youngest number of years for firm being operating. It only survive for first three years after that they replenish, therefore the number of firm decrease as business age increase. The manufacturing sector is the sector with highest number of business age and the owner of Small and Medium Enterprises (SMEs) in that sector had managerial experience than that of services and trade sectors. This lead the entrepreneur to engage in manufacturing sector should have required experience and proper trained personnel, if this are not taken into consideration will lead business loss. Isaga (2012) confirms that the relative younger of Small and Medium Enterprises (SMEs) in Tanzania is due to late introduction of free market economy.

Table 4.1.3: Business age

	Business age
Mean	7.98
Std. Deviation	5.439
Skewness	1.951
Kurtosis	5.154
N (listwise)	189

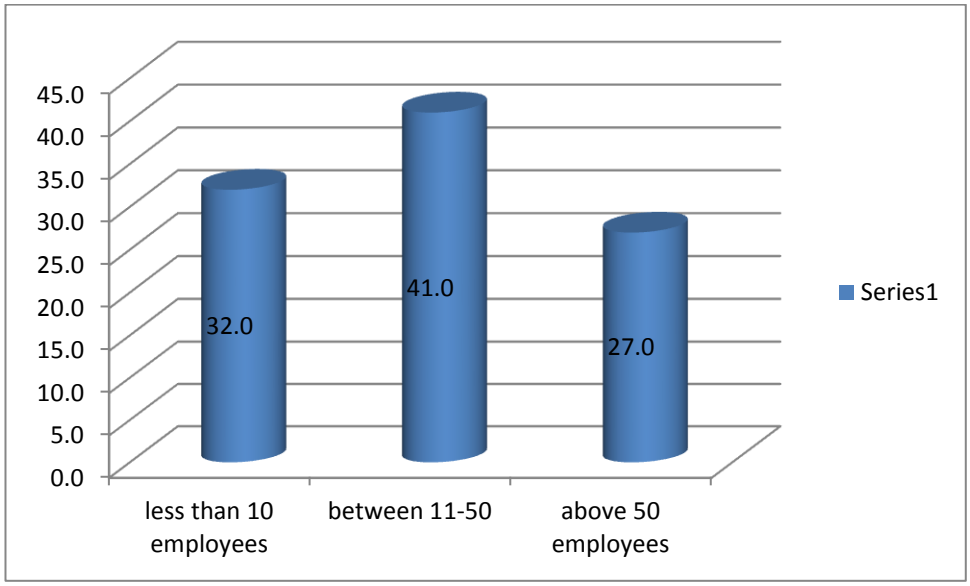
Source: Survey Data (2016).

4.1.2.2 Size of Small and Medium Enterprises (SMEs)

The survey shows that 32% had less than 10 number of employee, 41 % have number of employee between 11 and 50 and 27% had number of employee above 50. Depending on previous definition of size of Small and Medium Enterprises (SMEs), the Small and Medium Enterprises (SMEs) which poses below 50 numbers of employees are regarded as small enterprises in which for this study include 32% and

41% and make a total of 73%. Although 32% of Small and Medium Enterprises (SMEs) employed less than 10 employees who were classified as micro enterprises and are not part of this study but they were included in the analysis due to the fact that they fulfill the criteria of being small enterprises i.e with less than 50 employees. Therefore 73% of Small and Medium Enterprises (SMEs) surveyed are small enterprises while the remaining 27% are medium enterprises which had more than 50 employees. Therefore there were many small sized SMEs in Shinyanga municipality compared to medium sized SMEs (Figure 4.1.4)

Figure 4.1.4: Number of employees



Source: Survey Data (2016).

4.1.2.3 Capital structure

Starting own business requires a starting capital rather than mere existence of ideas (Lema 2013). The survey intended to know the initial amount of capital invested by the SMEs owner when they start their business. The descriptive part of the results indicate that, the minimum startup capital was four hundred thousand (400,000) and maximum are twenty million (20,000,000). On average the initial startup capital was Tshs. 4,674,603. The largest category of Small and Medium Enterprises (SMEs**)** owner startup the business with the capital below 5 million and are from trade and

service sector which account 53% and 27% respectively (Table 4.1.1 Sector of production), while the smallest category startup capital are between 5 and 20 million accounting 20% and were from manufacturing sector. Most Small and Medium Enterprises (SMEs owners get their initial capital through their personal savings, bank loans, and donations from family and friends. Lema (2013) found that the initial amount of startup capital is positively related to business success. It is through availability of capital that a business will be able to meet its obligations and implement their strategies in a timely manner for the success of the organization**.**

Table 4.1.4: Initial capital of business

	Business age
Mean	4,674,603.17
Std. Deviation	4,343764.24
Skewness	1.343
Kurtosis	2.659
N	189

Source: Survey Data (2016).

4.1.2.4 Membership in association

The research intended to know if the respondents are member of any business association. The descriptive results showed that 8% of the respondents are member of business association (Wanawake tunaweza, Bugane, and Kikundi cha kusaidiana Ndala) while 92% are not a member of any business association. This signifies that most of Small and Medium Enterprises (SMEs) owner are neither member of business association nor member of social network in Shinyanga municipality.

Table 4.1.5: Social group membership

S/N	**Response**	**Frequency**	**Percent**
1	Yes	15	8
2	No	174	92
Total		**189**	**100**

Source: Survey Data (2016).

4.1.3 Institutional characteristics

4.1.3.1 Financial accessibility

The research findings indicate that 79% of the Small and Medium Enterprises (SMEs) owner had applied external financial support after starting business operation while 21% did not applied loan after starting the business. Those who apply loan they borrow from community saving and credit cooperatives societies (SACCOS) (36%), Non Government Organization (NGOs) (5%), commercial banks (9%), micro financial institutions (17%) and money lenders (12%).

Table 4.1.6: Financial application for SMEs

Apply for loan	Frequency	Percent
Yes	149	79
No	40	21
Total	**189**	**100**

Source: Survey Data (2016).

Furthermore, the respondents were asked to explain what they consider as major obstacle for loan application. Many of them accounting to 58% indicated that high interest rate charged by money lender or any financial institutions are higher compared to profit obtained in the business. About 23% said that the need of collateral security like house, car and other home furniture are another obstacle on accessibility to finance. Moreover the remaining percent indicated that there is minute duration of payback period for a loan which restricts them to make progress on their borrowed loan.

Table 4.1.7: Obstacle for loan application

Obstacle	Frequency	Percent
High interest rate	110	58
Collateral security	43	23
Loan payback period	36	19
Total	**189**	**100**

Source: Survey Data (2016).

4.1.3.2 Access to business information

The study sought to establish the influence of access to business information services on the performance of Small and Medium Enterprises (SMEs) in Shinyanga

municipality. The respondents were required to score the level of their agreement with various statements on the business information services. The scale ranged from 1-5 where 1= strongly disagree 2= disagree, 3= neutral, 4= agree and 5= strongly agree. The study computed means and standard deviation which help to measure the respondents feeling about contribution of business information on Small and Medium Enterprises (SMEs) performance. The findings presented in Table 4.1.7

On whether the business information was readily available they disagreed as shown by (*M*=2.59, *SD*= 1.005). When asked whether the information available was relevant for their business they also disagreed as supported by (*M*=2.65, *SD*= 1.003). On whether the information available informed them of the changes in the business environment, the respondents remain neutral as supported by (*M*=2.67, *SD*= 0.989). On whether the information available informed them of the business registration requirements they strongly agreed as indicated by (*M*= 4.03, *SD*= 1.155). When asked whether the information necessary for their business growth was availed on time, they agreed as supported by (*M*= 3.84, *SD*= 1.01). In general business information services affect Small and Medium Enterprises (SMEs) performance (*M*= 15.78, *SD*= 5.162).

Table 4.1.8: Accessibility to business information services

Statement	Mean	Standard deviation
The business information on SMEs performance is readily available when needed	2.59	1.005
The available information is relevant for business performance	2.65	1.003
The available information provide changes in the business environment	2.67	0.989
The available information inform requirement on business registration	4.03	1.155
The necessary information is available on time	3.84	1.01
Grand mean/standard deviation	**15.78**	**5.162**

M=Mean, SD=Standard deviation

Source: Survey Data (2016).

4.1.4 Marketing strategy

The study sought to establish the extent to which market strategy mediates the relationship between independent variable and Small and Medium Enterprises (SMEs) performance. The respondents were required to score the level of their agreement with various statements on market strategy. The scale ranged from 1-5 where 1= strongly disagree 2= disagree, 3= neutral, 4= agree and 5= strongly agree. The study computed means and standard deviation to help measure the respondents feeling about how market strategy mediates the relationship between independent variable and Small and Medium Enterprises (SMEs) performance. The findings were in Table 4.1.8

The respondent were asked on the ways used to increase sales and they reply as follows; On promotion of product they remain neutral as shown by (*M*= 2.96, *SD*= 0.904), but they strongly agreed to promote their business sales through lowering price (*M*= 4.28, *SD*= 1.241). When asked whether the diversification of product increase sales they agreed (*M*=3.63, *SD*= 0.995), also they agreed on providing new products to the existing market (*M*=3.77, *SD*= 1.029). Overall, the market strategy mediates the relationship between independent variable and Small and Medium Enterprises (SMEs) performance to a medium extent (*M*= 14.64, *SD*= 4.169)

Table 4.1.9: Marketing strategy

Statement	**Mean**	**Std deviation**
To increase sales I often promote product.	2.96	0.904
To increase sales I often lower price of product.	4.28	1.241
To increase sales I often diversify the product.	3.63	0.995
To increase sales I often introduce new products and services to existing market	3.77	1.029
Grand mean/standard deviation	**14.64**	**4.169**

M=Mean, SD=Standard deviation

Source: Survey Data (2016).

4.1.5 Measure of SMEs performance as proxy of sales

The study established the measure on performance as a proxy of sale. The result showed that majority of the respondents' strong agree as sales increase their business improve substantially (*M*=4.26, *SD*= 1.226), other agreed as sales increase business profit (*M*=3.77, *SD*= 1.029) and number of customers (*M*=3.50, *SD*= 1.165) improved to the great extent. Furthermore other remain neutral as sales increase initial cost of investment (*M*=3.32, *SD*= 1.128) and number of product (*M*=3.31, *SD*= 1.037) improved.

Table 4.1.10: Business performance

Statement:	**Mean**	**Std Deviation**
When sales increase my business improved substantially	4.26	1.226
When sales increase business profits improve to a great extent.	3.77	1.029
When sales increase the business recover all initial costs of investment	3.32	1.128
When sales increase the number products to the market improved	3.31	1.037
When sales increase my business attract large number of customer	3.50	1.165
Grand mean/standard deviation	**18.16**	**5.585**

M=Mean, SD=Standard deviation.

Source: Survey Data (2016).

Lastly, the study sought to understand the ways used by entrepreneurs to overcome difficulties facing them. Many respondents' said that to overcome profit and loss occurred they borrow money in order to increase capital (29%). Other said before starting the business they got proper training on the particular business (16%). Also some produce high quality commodity so as to attract the market (21%). Some lower price of their commodity so as to increase the customer's base (32%). Lastly, they seek for perfect information on the demand of their commodity (2%), as a way of improving the businesses at Shinyanga Municipality.

Table 4.1.11: Ways to improve performance

Statement	Frequency	Percent
Access to finance	54	29
Management training	30	16
High quality commodity	40	21
Lowering price	60	32
Seek for perfect information	5	2
Total	**189**	**100**

Source: Survey Data (2016).

4.2.0 Result of econometric analysis

The econometrics model adopted in this party is multiple regressions model, where the hypothesis outlined in chapter two are to be analyzed. Before the analysis of the data preliminary test of the data was done through Cronbach's alpha followed by factor analysis. The main objective of using factor analysis was to reduce the data by summarizing important information into few numbers of factors.

4.2.1 Reliability test

The Cronbach's Alpha was used to measure the internal consistency and reliability of the data. It measures the coefficient that reflects how items in a set are positively correlated to one another (Dabo 2006). Cronbach's Alpha with less than 0.6 are considered to be poor while the range of 0.7 being acceptable, and those over 0.8 to be good. The rule of thumb is that the closer the reliability coefficient gets to 1.0, the more reliable of the scale. The result of Cronbach's Alpha reliability test is 0.943 coefficients with 25 number of item, this show that the data for this study was internally stable

4.2.2 Factor analysis

The respondent were asked to give their response in five point likert scale from strong agree to strong disagree. Factor analysis was used to extract three questions on business information, market strategy and performance measure by creating new composite variable for each factor. Further the composite factor was used in the subsequent analysis.

4.2.2.1 Business information

The factor analysis was done for business information variable; where principal component analysis was used. The business information has 5 variables which result to the extraction of 1 component among 5 variables (Table 4.2.2). Latent Root Criterion was used to determine the number of factors to be extracted. Only the factors having latent roots or eigenvalues greater than 1 were considered significant and selected while all factors with latent roots less than 1 were considered insignificant and disregarded. The rationale for the latent root criterion is that any individual factor should be accounted for the variance of at least a single variable if it is to be retained for interpretation.

Table 4.2.2: Total variance explained for business information

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.140	82.795	82.795	4.140	82.795	82.795	2.515	50.296	50.296
2	.524	10.470	93.265				2.148	42.969	93.265
3	.195	3.893	97.158						
4	.116	2.315	99.473						
5	.026	.527	100.000						

Extraction Method: Principal Component Analysis

Source: SPSS result

Table 4.2.3: Rotated component matrix for business information

	Component	
	1	2
The business information SMEs performance is readily available when needed	0.889	0.348
The available information is relevant for business performance	0.868	0.403
The available information provide changes in the business environment	0.776	0.500
The available information inform requirement on business registration	0.379	0.917
The necessary information is available on time	0.454	0.879

Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization

a. Rotation converged in 6 iterations
Source: SPSS result

4.2.2.2 Marketing strategy

The factor analysis was employed to measure marketing strategy variable, where principal component analysis was used. The marketing strategy has 4 variables which result to the extraction of 1 component among 4 variables (Table 4.2.4). This is considered to be valid as was supported with Kaiser-Meyer-Olkin (KMO) of 0.786 and Bartlett's Test of Sphericity 0.0001 significant level. The rule of thumb is that Kaiser-Meyer-Olkin (KMO) index ranges from 0 to 1 value, the one with 0.6 have a minimum value for good factor analysis.

Table 4.2.4: Total variance explained for marketing strategy

Component	Initial Eigenvalues			Extraction Sums of Square Loading		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.656	9.389	91.389	3.656	91.389	91.389
2	.213	5.334	96.723			
3	.100	2.497	99.219			
4	.031	.781	100.000			

Extraction Method: Principal Component Analysis
Source: SPSS result

4.2.2.3 Measure of Small and Medium Enterprises (SMEs) performance

The factor analysis was done on factors used to measure business performance. The principal component analysis method was used to combine variable under performance measure. The measure on performance has 5 variables which result to the extraction of 1 component among 5 variables (Table 4.2.5).

Table 4.2.5: Total variance explained for measure on performance

Component	Initial Eigenvalues			Extraction Sums of Square Loading		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.370	87.407	87.407	4.370	87.407	87.407
2	.445	8.898	96.304			
3	.110	2.191	98.495			
4	.062	1.239	99.734			
5	.013	.226	100.000			

Extraction Method: Principal Component Analysis

Source: SPSS result

Having identified the factors, the next step is to convert the factors into factors that can be used for further analysis in the regression model. Tables 4.2.2, 4.2.4, and 4.2.5 show the results of loading for each factor scores and the labels. In the following section, the factor scores are used to the test the hypotheses using multiple regression.

4.2.3 Hypotheses testing

The research hypothesis was tested using multiple regressions. The study employed multiple regression analysis using Ordinary Least Square (OLS) techniques to estimate factors affecting performance of Small and Medium Enterprises (SMEs). The performance of Small and Medium Enterprises (SMEs) measured as a proxy of sale was an independent variable whereby demographic factor, business characteristics and institutional characteristics was independent variable.

4.2.3.1 Test for Multicollinearity

Before running the model, the study conducted a multicollinearity test to see whether the explanatory variables have strong relationship. Variance Inflating Factor (VIF) was used to test for the problem of multicollinearity among explanatory variables used in the multiple regression models. Multicollinearity is considered not a serious problem when Variance Inflating Factor (VIF) does not exceed 10 in multiple regression model (Gujarati, 2004). The results for the test of multicollinearity shows that the Variance Inflating Factor (VIF) value was less than 10 indicating no serious multicollinearity as shown in Table 4.2.6.

Table 4.2.6: Results of multicollinearity

Variable	VIF	1/VIF
Secondary education	4.95	0.02
Primary education	4.51	0.221
Business information	4.21	0.237
Some college education	3.56	0.28
Access to credit	3.15	0.317
Respondent age	3.11	0.321
Sex	2.89	0.346
Business age	2.39	0.418
University education	1.29	0.775
Startup capital	1.25	0.8
Mean VIF	**3.131**	**0.392**

Source: STATA output

4.2.3.2 Result of fitness of the model

F-test was used to test whether explanatory variables have joint effect on dependent variables in the model. To test hypothesis; null hypothesis H_0: all slope coefficients are simultaneous zero versus alternative hypothesis H_1: not all slope coefficients are simultaneous zero. Null hypothesis is rejected if the p-value of F is low (Gujarati, 2004).

Given the results null hypothesis is rejected at the 1% level of significance since the p-value is 0.0000 as shown in Table 4.2.7. This indicates that the model is fit.

Table 4.2.7: Fitness of the model

	Dependent variable: Business performance as proxy of sale
Prob> F	0.000
R-squared	0.515

Source: STATA output

4.2.4 Multiple regressions results

The results in Table 4.2.8 show that, the coefficients of age of the respondents have positive relation to business performance. The study reveals that, age of the respondents is statistically significant at 5% level of significant whereas it was found to have 1.659 coefficients which mean that; a unit increase in the age of the Small and Medium Enterprises (SMEs) owners/managers there was an increase in sales by 1.659 units while other factors remain constant.

Regarding on sex of the respondent, the results show that sex is not statistically significant to business performance which means the Small and Medium Enterprises (SMEs) headed by male did not perform better than those headed by female. The estimation results showed that, the coefficient for the male respondents was found to be 0.025 which show positive relationship between sex of respondent and business performance.

The entrepreneur's education was measured in five aspects namely, primary education, secondary education, some college education, university education and none formal education by using dummy variable. In regression the reference category for the level of education attained by the enterprise owners was none formal education. The findings show that, levels of education are statistically significant at different levels, for instance secondary education at 1% level, primary education at 5% level, some college education and university education at 10% level. The coefficient for primary education (beta coefficient 0.611), secondary education (beta coefficient 0.915) and some college education (beta coefficient, 1.24) shows positive relationship between respondent education and business performance. On the other hand, university educations (beta coefficient, -1.233) show the negative relationship between level of education and business performance.

The empirical results from the regression show positive relationship between the start-up capital and business performance, the coefficient for the initial capital was found to be 0.291, which was highly statistically significant at 5% level of significant. This result implies that, a unit increase in the amount invested by the enterprise owner there was an increase in sale by 0.291 units while other factors remain constant.

Regarding the age of Small and Medium Enterprises (SMEs), the results show that the variable is not significant to business performance. The estimation results showed that, the coefficient for the age of Small and Medium Enterprises (SMEs) was found to be -1.202 which shows negative relationship between age of Small and Medium Enterprises (SMEs) and business performance.

The estimation results from the regression show that, the coefficient for the business information was 0.558 which were statistical significant at 10% and show positive relationship between accessibility on business information and increase in sales. This result implies that, a unit increase in access to business information there were increase in sale by 0.558 units while other factors remain constant.

The access to finance was analyzed using dummy variables, the respondent who receive loan after startup of business and those who didn't receive loan. The empirical results from the regression showed that, the coefficient for the access to finance was found to be 0.505 which was statistical significant at 1% and have positive relationship. This result implies that, a unit increase in access to finance there was an increase in sale by 0.505 units while other factors remain constant.

Table 4.2.8: Multiple regressions results

Variable	Coefficient	Robust Standard error	P>|t|
Demographic characteristics			
Dsex (male) Others (female)	0.025 Reference	0.142 Reference	0.942 Reference
Ln respondent age	1.659* *	0.641	0.001
Deductn1 (Primary education) Deductn2 (Secondary education) Deductn3 (Some college education) Deductn4 (University education) Others (non formal education)	0.611** 0.915* 1.24* ** -1.233** * Reference	0.79 0.651 0.495 0.624 Reference	0.034 0.000 0.084 0.076 Reference
Business characteristics			
Ln startup capital	0.291**	0.087	0.004
Ln business age	-1.202	0.258	0.448
Institutional characteristics			
Dcredit (Yes) Others (no)	0.505* Reference	0.216 Reference	0.000 Reference
Business information	0.558** *	0.319	0.070
constant	4.068	2.464	0.097
Model Goodness of fit			
Number of observation =189 R square = 0.501 Adjusted R Square = 0.473 F (10, 178) = 17.88 Sig. F = 0.000 Mean VIF = 3.13			

Source: STATA output

Where

*Significant at 1 percent level of significance,

**Significant at 5 percent level of significance,

***Significance at 10 percent level of significant.

D = Dummy variable

Ln = Natural logarithm

4.2.4 Marketing strategy

Non parametric alternative to Pearson's product-moment correlation i.e. Spearman's Rank Order Correlation (rho) was used to calculate the strength of the relationship between marketing strategies and business performance as a proxy of sale. The results are displayed in Table 4.2.9.

The relationship between market strategies and business performance (measured as proxy of sale) was investigated using Spearman's Rank Order Correlation (rho) coefficient. Preliminary analysis was performed to ensure no violation of the assumption of normality, linearity and homoscedasticity. There was a strong, positive correlation between the two variables (r=0.595, n=189, p<0.0005), with high level of business performance, with lower level of marketing strategies.

Table 4.2.9: Correlation for marketing strategy

			Bsale	Regrmarktgy
Spearman's rho	Bsale	Correlation coefficient Sig. (2-tailed) N	1.000 . 189	.595 .000 189
	Regrmarktgy	Correlation coefficient Sig. (2-tailed) N	.595 .000 189	1.000 . 189

**Correlation is significant at the 0.01 level (2-tailed)

Source: SPSS output result

Where

Bsale = the average amount of sales in a business per day

Regrmarktgy = Factor rotation of market strategy, factor score 1 for analysis 1

CHAPTER FIVE

DISCUSSIONS OF THE FINDINGS

5.1 Demographic characteristics

The demographic characteristics was established based on three aspect of age of respondent, sex of respondent and education level of respondent as follows;

5.1.1 Respondents education

The entrepreneur's education was measured in five aspects namely, primary education, secondary education, some college education, university education and none formal education. In regression the reference category for the level of education attained by the enterprise owners, and managers was none formal education, the coefficient for primary education was 0.611, secondary education (beta coefficient, 0.915), some college education (beta coefficient, 1.24) and university education (beta coefficient, -1.23) **(**see Table 4.2.8). This result implies that, those Small and Medium Enterprises (SMEs) owners/managers with secondary education perform better compared to those with primary education, some college education and university education. This might be due to the reason that, the Small and Medium Enterprises (SMEs) owners and employees who have a secondary school education got business knowledge and skills during their studies, since in most of the secondary schools across the country teach business subjects, for example, Agriculture, Commerce and Book-keeping that encouraged them to start businesses after completion of the studies when they fail to proceed with higher learning and use that knowledge and skills to manage business risks that made their businesses to perform better compared to those with primary schools. For the case of those with university education most of them might prefer to be employed by the government and large firms due to payments and fringe benefits offered that is why they are not interested in starting or employed in Small and Medium Enterprises (SMEs) in the study area. This is supported by McGrath, (2002) who argued that people who are highly educated are seen to be successful in the business because business success need entrepreneur to be well educated in terms of skill, training and management for

running particular enterprises. Also in Balance Scorecard (BSC) theory, the use of intellectual capital, knowledge creation and skills are seen as factors which determine competitive advantage for Small and Medium Enterprises (SMEs) performance. This result supports our hypothesis number one that, there is a positive relation between demographic characteristics (education of respondent) and Small and Medium Enterprises (SMEs) performance

5.1.2 Respondents age

The empirical results shows that, age of respondents was another factor under the demographic characteristics which was statistically significant, whereas it was found to have 1.659 coefficient which mean that; a unit increase in the age of the Small and Medium Enterprises (SMEs) owners/managers there was an increase in sales by 1.659 units **(**see Table 4.2.8). These results shows that, the Small and Medium Enterprises (SMEs) owners/managers who are old used to get low income compared to their counterparts who are young and get more income from their enterprises. The major reasons for this might be that, the young Small and Medium Enterprises (SMEs) owners/managers are creative in doing their businesses, since they have enough knowledge and skills due to the entrepreneurship knowledge provided by the government and Non Government Organization (NGOs) through seminars and workshops, the methods of starting new businesses, concepts on risk management and the ways of making their business sustainable. Other reasons include the proliferation of the information and communication technology (ICT) which enables them to communicate and explore market opportunities through internet and learning about the new business strategies through online, business studies offered by different institutions around the world through globalization, which did not existed in previous years. While the old ones did not have this opportunity of which these knowledge was little or totally not offered to them in previous years. Also, in curriculum the government had put more emphasis on business studies in recent years compared to previous years.

Another reason is that, the young Small and Medium Enterprises (SMEs) owners/managers are energetic in the sense that, they can work hard since they are favored by age. It is common known that the young age (middle-age) is where now a person can work for a long time since he or she can endure different challenges like, hunger, sunshine and cold compared to old ones whom their energy have started to decrease due to their old age. Furthermore, for old people it is sometimes difficult to make spot decisions when something bad or opportunity arises in the business. This result is inconsistent to that done by Staw (1991) who argued that in order to start business, age of entrepreneur is not a considerable factor, but with enough experience, preparation and training people can achieve business success. He proceeds to argue that for age to be decisive factor must include chronological age and entrepreneurial age. This result support our hypothesis number two that, there is positive relation between chronological age for Small and Medium Enterprises (SMEs) owner and Small and Medium Enterprises (SMEs) performance.

5.1.3 Sex of Small and Medium Enterprises (SMEs) owners

The estimation results showed that, the coefficient for the sex of the respondents was found to be 0.025 and it was statistically insignificant **(**see Table 4.2.8). Therefore, sex is not a determinant factor of whether an enterprise performed better or not, however in the descriptive results many Small and Medium Enterprises (SMEs) were owned and managed by men. In current years the number of women who own enterprises has increases compared to the previous years but they were underrepresented in term of growth ratio (URT, 2012). The result not support our hypothesis number three that, the Small and Medium Enterprises (SMEs) owned by male perform better than those owned by female

Therefore, this shows that, demographic characteristics (education level and age of respondents) are the factors which affect the performance of the Small and Medium Enterprises (SMEs). For the Small and Medium Enterprises (SMEs) to get low or higher incomes the owner need to manage perfectly their enterprises. Hence proper

education and training and considerable age leads to better results. In contrast sex of respondent did not affect performance of Small and Medium Enterprises (SMEs)

5.2 Business characteristics

5.2.1 Age of Small and Medium Enterprises (SMEs)

The estimation results showed that, the coefficient for the age of Small and Medium Enterprises (SMEs) was found to be -1.202 which was statistically insignificant **(**see Table 4.2.8). Therefore, age of Small and Medium Enterprises (SMEs) is not a determinant factor of whether an enterprise performed better or not. The trade sector is a sector with youngest number of years for firm being operating. It only survives for first three years after which they replenish; therefore the number of firms decreases as business age increases. The manufacturing sector is the sector with highest number of business age and the owner of Small and Medium Enterprises (SMEs) in that sector had managerial experience than that of services and trade sectors. This leads an entrepreneur to engage in manufacturing sector should have required experience and proper trained personnel, which if not taken into consideration will lead a business to loss. This result is inconsistent with King and McGrath (2002) who asserted that, experience is the best predictor of business success, especially when the new business is related to earlier business experiences; hence the old SMEs perform better as compared to the young Small and Medium Enterprises (SMEs). The result did not support our hypothesis number four that, there is positive relation between age of business and Small and Medium Enterprises (SMEs) performance

5.2.2 Capital structure

The empirical results from the regression showed that, the coefficient for the initial capital was found to be 0.291 which was statistically significant **(**see Table 4.2.8). This result implies that a unit increase in the amount invested by the enterprise owner there was an increase in sale by 0.291 units. This means that Small and Medium Enterprises (SMEs) owner who invested large amount of money in a business had higher probability of getting more income compared to those who invested the little

amount of money. This was due to fact that large amount of money enable an entrepreneur to purchase modern equipment like machines, transportation equipment (trucks, cars), building office, employ qualified skilled labors, and investing in market research which in future brought higher outputs.

Therefore, Small and Medium Enterprises (SMEs) that were established by the large amount of money performed better compared to those started by the small amount of money. Hence, capital structure (capital size) has a great effect on Small and Medium Enterprises (SMEs) performance since it can determine the amount of income accrued by the owners. Olugbenga and Ekiti (2012) found a positive relation between output and the initial amount of capital invested. This result support hypothesis number five that, there is a positive relation between capital structure and Small and Medium Enterprises (SMEs) performance

5.3 Institutional characteristics

5.3.1 Accessibility on business information

On the estimation results from the regression showed that, the coefficient for the business information was found to be 0.558 which was statistically significant **(**see Table 4.2.8). This result implies that, a unit increase in access to business information there were increase in sale by 0.558 units. On accessibility to business information, the study established that information available to the businessmen informed them of the changes in the business environment and on business registration requirement but the information was not readily available when needed and not relevant for business. These findings are in contrast to what Robert (2013) found out that most of Small and Medium Enterprises (SMEs) are in information-poor environment due to lack of support from the government and poorly information technological infrastructures. The businesses in Shinyanga seem to be operating in an environment characterized by good information networks hence have easy access to relevant information for their businesses. The governments address challenge through provision of information on business performance and opportunities available for businesses. With the widespread of mobile phone usage in

Shnyanga, the business men/women are in a position to access relevant information on market performances in time hence make relevant decisions that promote financial performance. This result support hypothesis that, there is a positive relation between business information and Small and Medium Enterprises (SMEs) performance

5.3.2 Financial accessibility

The empirical results from the regression showed that, the coefficient for the access to finance was found to be 0.505, which was highly statistically significant **(**see Table 4.2.8). This result implies that a unit increase in access to finance there was an increase in sale by 0.505. The results show that many Small and Medium Enterprises (SMEs) owner applied external financial support after starting business operation. Those who apply loan they borrow from community saving and credit cooperatives societies (SACCOS), Non government organization (NGOs), commercial banks, micro financial institutions and money lenders. The access to credit enable entrepreneur to increase the income for their business and lead to the expansion of enterprises. Nevertheless there are few loan providing institutions in the study area and the existing few provides loans with a lot of conditions, for example, high interest rates, collateral requirement, too complicated loan application procedures and short periods of paying back the loans set by the banks and cooperative societies such as saving and credit cooperatives societies (SACCOS). In some cases this problems may be due to inability of many entrepreneurs to meet formal financial institutions requirements, for example business plan, standard financial statements as well as a proven track record of repaying their debts. These findings support those of Dabo (2006) who identified insufficient fund as key constraints for Small and Medium Enterprises (SMEs) growth. Karo, (2012) also added that lack of financial credit as key problem for Small and Medium Enterprises (SMEs) performance. As such, the growth and performance of Small and Medium Enterprises (SMEs) may be greatly affected by their access to finance. Limited access to finance means that the entrepreneurs may not be in a position to take an opportunity as when they arise.

This result support hypothesis that, there is a positive relation between access to finance and Small and Medium Enterprises (SMEs) performance

5.4 Marketing strategy

There was a strong, positive correlation between the market strategy and business performance ($r=0.595$, $n=189$, $p<0.0005$), with high level of business performance, with lower level of market strategies (See Table 4.2.9 Correlation). This result implies that for any business with growth market strategies, the organization is attempting to gain more sales from existing market. This result is supported by studies carried out by Keh et al.(2007) where they found that the use of marketing information lead to a higher probability of growth of a particular organization which enhance the competitiveness as well as proper decision making. The study found out that the marketing strategy has a mediate the relation between independent variable and Small and Medium Enterprises (SMEs) performance

CHAPTER SIX

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

6.1 Summary

The study aimed at examining the performance of Small and Medium Enterprises (SMEs) in Shinyanga Municipality. It explains factors by taking much attention on demographic characteristics (age, sex, and the education level of SMEs owners), business characteristics (age of the SMEs and capital structure), institutional characteristics (accessibility on business information and financial accessibility) and marketing strategies as a mediating factor. The study measured business performance as a proxy of sales in which the average amount of sale per day was termed as dependent variable. Regression model was used to generate the estimates that used in the analysis.

The results have shown that there are differences in sales among Small and Medium Enterprises (SMEs) which were an indicator for performance, that is, Small and Medium Enterprises (SMEs) that got more sales per day performed better compared to those which have low sale in regarding to the factors that affect Small and Medium Enterprises (SMEs) performance. Justification of this is supported by the evidence that, the results which were found on regarding to demographic characteristics (age, sex, and education level) showed that, on age of the respondents with middle-aged people found to get high income compared to those owned and managed by the old people. Also on sex the results showed that most of enterprises were owned by men, however it did not affect the performance of these enterprises; and on regarding to education level of the enterprise owners and employees the results have shown that, education contributed significantly to Small and Medium Enterprises (SMEs) performance.

The results on business characteristics (age of enterprise and capital structure) showed that, Small and Medium Enterprises (SMEs) age is not decisive factor on performance of SMEs. In capital structure the results have shown that, the Small and

Medium Enterprises (SMEs) that started by large amount (capital) investments performed better compared to those started by small amount invested.

The results on institutional characteristics (accessibility on business information and financial accessibility) showed that, the businesses in Shinyanga seem to be operating in an environment characterized by good information networks which provides for access to relevant information for their businesses. Moreover, under the access to finance, the results revealed that, many Small and Medium Enterprises (SMEs) owner applied for external financial support in which they borrow from financial institution, non financial institution, Non government Organization (NGOs) and money lenders.

6.2 Conclusions

From the presentation of chapter five and summary above the study concludes that demographic characteristics (age, and education level of the SMEs owners), business characteristics (capital structure of SMEs) and institutional characteristics (accessibility on business information and financial accessibility) have positive and significant impact on business performance while age of the Small and Medium Enterprises (SMEs) and sex of respondent did not bear any effect on the performance of Small and Medium Enterprises (SMEs). The study conclude that lack financial resources affect Small and Medium Enterprises (SMEs) performance negatively as entrepreneurs were found to have insufficient capital to finance their business operations. Lack of government support made entrepreneurs to face the problem like insufficient capital compared to corporate sectors which had huge financial capital. This makes Small and Medium Enterprises (SMEs) to face global competition and consequently fail to survive.

6.3 Recommendations

In order to improve performance of Small and Medium Enterprises (SMEs), the study recommends the government to come up with alternative sources of finance for Small and Medium Enterprises (SMEs) growth. This can be done by giving order to commercial banks and other credit institutions to lower and reduce the condition for

loan application. On the other hand, Small and Medium Enterprises (SMEs) owners should not totally depend for subsidies from government instead they should come up with new way of financing their enterprises.

The entrepreneur can form small business groups such as “Vikundi vya Biashara Ndogondogo” (VIBINDO) to strengthen their collective bargaining power in borrowing and collective purchase of raw material which reduces the cost of production. The benefit of sharing such service for the entrepreneur is that, it strengthens survival, profitability and growth of Small and Medium Enterprises (SMEs).

The government should ensure in place various initiatives to support growth of Small and Medium Enterprises (SMEs); these may include improving the infrastructures, implementing scheme such as Small Industries Development Organization (SIDO), Vocational Education Training Authority (VETA), Micro Finance Bank (NMB) and Industrial Support Organizations. Also investment on market research and innovation can be done in order to improve the quality of product produced.

The study also recommends Small and Medium Enterprises (SMEs) to have a mission and vision as they are critical for the success of the business, keep employee records, accounting records, sales records, production records, and costs records. The respondents had no internal control systems in their businesses; the accounting ratios are important in determining the performance of the business and ensure that management teams in their enterprises have at least two (2) years' experience in running the enterprise to improve their enterprises performance

6.4 Policy implications

Following the economic reform programmes which was implemented by Tanzania government, which transform the economy from command height economy to free market economy. The private sectors were given the role to transform the economy by establishing various Small and Medium Enterprises (SMEs) and industry. The government was left with the role to produce public goods and regulatory role like creating conducive environment for the private sector to take a lead in driving

economic growth. This policy statement of transforming economy was given emphasis since its inception in 1986. Nowadays private sector has started to play their role by providing base for private sector led growth through increasing income, employment and foreign exchange through export of commodity. It accounts a large share of active enterprises in the entrepreneur era.

Small and Medium Enterprises (SMEs) have faced many challenges despite of the ongoing reform in Tanzania these are; Firstly, there is culture of ignoring entrepreneurship as the important sector in the economy as many people discourage their children to enter in the entrepreneurship sector they encourage to be employed by the government. Secondly, difficulties in business registration, there is complex, bureaucratic and costly legal and regulatory authority where Small and Medium Enterprises (SMEs) owner fail to follow them. Thirdly, lack of credit market in Tanzania, there are few financial institution like banks which are willing to provide loan to Small and Medium Enterprises (SMEs); Lastly, Small and Medium Enterprises (SMEs) lack business development services like training, counseling, advising and consultancy due to lack of knowledge about the benefit of it in improving competitiveness (URT, 2012). Due to these problems the government of Tanzania introduced a Small and Medium Enterprises (SMEs) development policy in 2002, with the aim of addressing constraints facing Small and Medium Enterprises (SMEs) operations. The Small and Medium Enterprises (SMEs) policy also entailed different strategies that the government intended to benefit the SMEs sector.

The government had to undertake various measures to ensure sustainability of Small and Medium Enterprises (SMEs) like; Firstly, providing support to existing and new SMEs, secondly, simplify tax, thirdly reduce licensing procedures and business registration, fourthly implementing an established plan like BEST and lastly informal sector should be formalized

For that matter, in this study having seen that factors affecting performance, the government has much to do in order to improve income accrued from the SMEs.

Therefore in demographic characteristics regarding education, the government or policy making bodies should make sure that small and medium enterprises (SMEs) owners are given training through seminars and workshops concerning business management that will enable them to manage business risks and making them sustainable. The government should also include in the national curriculum business studies in primary and secondary levels as compulsory subjects to impart knowledge and skills to the learners so that even though those who fail to proceed with tertiary education could have enough knowledge and skills when they will decide to start business or employed in different Small and Medium Enterprises (SMEs).

When Small and Medium Enterprises (SMEs) owners seek for loans from the different financial institutions, these institutions should be governed to provide them with business education before lending them. This will enable the Small and Medium Enterprises (SMEs) owners to have good ideas on the means of starting, and managing new business and on how to expand the existing ones which in turn could bring better performance. In regard to age, the government should encourage more middle-aged people and the young to engage in small businesses since we have seen that, their business performed better compared to the old people. On sex there is a need to encourage women to engage in Small and Medium Enterprises (SMEs) business. This is because the number of female who own or manage SMEs and employed by the SMEs was small compared to male. This could be possible through training and provision of loans that will enable women to avoid losing their economic opportunities of improving their income and therefore will reduce their dependence on men to their daily basic needs, hence lead to economic development.

In accordance with business characteristics (age of the SMEs), there is a need for the government to look at those Small and Medium Enterprises (SMEs) that have existed for a long time and support them by being their gaunter in accessing loans from different financial institutions particularly in banks and other financial intermediaries so as to expand their business. This is because having done a business for a long time they have got enough experience and loan security will be of high.

On regard to the capital structure we have seen that, business started with large amount of capital (money) performed better than those started by small amount of money. Therefore there is a need for the government to support new entrepreneurs by providing them with enough loans when they want to start new business which will allow them to perform better.

In accordance to institutional characteristics, business information have a great contribution to Small and Medium Enterprises (SMEs) performance since the businesses operating in an environment characterized by good information networks have room for access to relevant information for their businesses, while access to finance have a great contribution to Small and Medium Enterprises (SMEs) performance since most of the Small and Medium Enterprises (SMEs) appeared to face financial difficulties in operating their business. The government should formulate an organ which will responsibly deals with loans provision to the Small and Medium Enterprises (SMEs) for the sake of overcoming financial problem which are facing Small and Medium Enterprises (SMEs) to increase their revenues. Also, the government should govern the financial institutions to reduce conditions when providing loans to the Small and Medium Enterprises (SMEs) owners that could enable people to start new businesses and expand the existing ones which in turn will bring about better performance.

6.5 Study limitations

The limited time allocated from research proposal preparation, carrying out of field work and the production of the research report forced this study to focus on a few variables. The disorganized nature of Small and Medium Enterprises (SMEs) operating in Shinyanga Municipality led to problems in data collection. This was solved by hiring research assistance for distributing and collecting questionnaire so that the mobile entrepreneurs were covered at first day of data collection. This study also faced respondent who were unwilling to respond the question asked by researcher due to fear of victimizations when such information are leaked. The

researcher countered this by assuring confidentiality to the respondents in all the answers they gave.

6.6 Areas for further study

The study examined the performance of Small and Medium Enterprises (SMEs). However, this study did not take into consideration the challenge facing Small and Medium Enterprises (SMEs) and their possible solution. In future, other studies should be conducted to analyze the possible challenge facing small and medium enterprises (SMEs) based on loans application and give the possible solution. Also, comparison can be made on performance of Small and Medium Enterprises (SMEs) which receive loan and that which did not receive loan.

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QUESTIONNAIRE: FOR STUDY OF SMALL BUSINESS PERFORMANCE

Dear Respondent,

My name is Allex Mpasa, I am a student at the Mzumbe University undertaking a degree in Masters of Science in Economics. I am undertaking a research on **performance of small and medium enterprises (SMEs).** You have been selected to participate in this study to obtain your perceptions and views regarding various aspects of the Small Business sector. There are no good or wrong answers but your honest participation in answering the questions will assist in establishing the factors affecting performance of small business in Shinyanga Municipality. The information provided will be treated confidentially.

SECTION A: PERSONAL CHARACTERISTICS

1. Sex of respondent: a) Female ( )
   b) Male ( )

2. Marital status: a) Single ( )
   b) Married ( )
   c) Separated ( )
   d) Widowed ( )

3. What is your age?.....

4. a) Education level
   a) Primary education ( )
   b) Secondary education ( )
   c) Some college education ( )
   d) University level ( )
   e) None

b) Do you acquire any entrepreneurship/business management training for past 12 month?

i) Yes ( )

ii) No ( )

SECTION B: BUSINESS CHARACTERISTICS

5. In which sector does your business operate?

A. Trade ( )

B. Manufacturing ( )

C. Services ( )

D. Other (specify……

6. Number of employees in the business:

i) Less than 10 employee ( )

ii) Between 11- 50 employee ( )

iii) Over 50 employee ( )

7. How much was your startup capital? ……

8. For how long (in year) has your business been operating?.....

9. How much (in term of average sales) do you sell per day? (Tsh)……..

10. Did you access any form of credit in past 12 month? Yes ( ) No ( )

If yes from which sources?.....

11 Are you a member of business association or social group?

a) Yes ( )

b) No ( )

12. Here are some statements as regards the influence of accessibility to business information services on the performance of business in Shinyanga Municipality. On a scale of 1-5 where 1= strongly disagree,2= disagree3= neutral, 4= agree, 5=strongly agree, please indicate your level of agreement with each statement by ticking.

S/N	Statement: Access to Business Information Services	1	2	3	4	5
1	The business information on SMEs performance is readily available when needed					
2	The available information is relevant for business performance					
3	The available information provide changes in the business environment					
4	The available information inform requirement on business registration					
5	The necessary information is available on time					

SECTION C: BUSINESS STRATEGY AND PERFORMANCE

13. Here are some statement on how market strategy mediates the relationship between independent variable and SMEs performance. On a scale of 1-5 where 1= strongly disagree, 2= disagree3= neutral, 4= agree, 5=strongly agree, please indicate your level of agreement with each statement by ticking.

S/N	Statement: marketing strategy	1	2	3	4	5
1	To increase sales I often promote product.					
2	To increase sales I often lower price of product.					
3	To increase sales I often diversify the product.					
4	To increase sales I often introduce new products and services to existing market					

14. Here are some statements on how performance (as a proxy of sale) is being measured in the SMEs. On a scale of 1-5 where 1= strongly disagree, 2= disagree3=

neutral, 4= agree, 5=strongly agree, please indicate your level of agreement with each statement by ticking.

S/N	Statement: Performance measurement	1	2	3	4	5
1	When sales increase my business improved substantially					
2	When sales increase business profits improve to a great extent.					
3	When sales increase the business recover all initial costs of investment					
4	When sales increase the number products to the market improved					
5	When sales increase my business attract large number of customer					

15. What kinds of challenges does your business experience?

……

……

……

……

16. What strategy do you use to overcome the challenges?

,……

……

……

Thank you for your time and assistance

APPENDEX

1.0 Multiple Regression Analysis

```
 Source |       SS       df       MS              Number of obs =     189
-------------+------------------------------           F( 10,   178) =   17.88
       Model |  137.606074    10  13.7606074           Prob> F       =  0.0000
    Residual |  137.010059   178  .769719433           R-squared     =  0.5011
-------------+------------------------------           Adj R-squared =  0.4731
       Total |  274.616133   188  1.46072411           Root MSE      =  .87734

------------------------------------------------------------------------------
      Lnbsale |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
        Dsex |   .0259472   .3572289     0.07   0.942    -.6790015    .7308959
    Deductn1 |    .611361   .9717533    -0.63   0.001      -2.529    1.306278
    Deductn2 |   .9159966   .8784017    -1.04   0.000    -2.649418    .8174246
    Deductn3 |   -1.24086   .7139102    -1.74   0.084    -2.649677    .1679567
    Deductn4 |  -1.233857   .4175368    -2.96   0.076    -2.057816   -.4098975
     Lnrage |   1.659487   .6042728     2.75   0.007     .4670269    2.851948
    Lnstatca |   .2917446   .0872604     3.34   0.001     .1195467    .4639425
     Lnbage |  -1.202668   .2337841    -5.14   0.448    -1.664014   -.7413233
    Dcredit |    .505809   .6649045     0.76   0.000    -.8063008    1.817919
      Buinf |   .5589609   .3062267     1.83   0.070     -.045341    1.163263
      _cons |   4.068813   2.435777     1.67   0.097    -.7379029    8.87553
------------------------------------------------------------------------------
```

2.0 Robust analysis

```
Linear regression                               Number of obs =     189
F( 10,   178) =   53.85
Prob> F       =  0.0000
                                                R-squared     =  0.5011
                                                Root MSE      =  .87734

------------------------------------------------------------------------------
             |               Robust
      Lnbsale |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
--------------+---------------------------------------------------------------
        Dsex |   .0259472   .1422647     0.18   0.855    -.2547954    .3066897
    Deductn1 |   -.611361   .7907447    -0.77   0.034    -2.171801    .9490794
    Deductn2 |  -.9159966    .651851    -1.41   0.000    -2.202347    .3703537
    Deductn3 |   -1.24086   .495741    -2.50   0.084   -2.219146   -.2625743
    Deductn4 |  -1.233857   .6240915    -1.98   0.076    -2.465427   -.0022865
     Lnrage |   1.659487   .6414127     2.59   0.001     .3937358    2.925239
    Lnstatca |   .2917446   .0876078     3.33   0.004     .1188611    .4646281
     Lnbage |  -1.202668   .2581315    -4.66   0.325     -1.71206   -.6932767
    Dcredit |    .505809   .2167657     2.33   0.000     .0780477    .9335703
      Buinf |   .5589609   .3194503     1.75   0.070    -.0714363    1.189358
      _cons |   4.068813   2.464255     1.65   0.100    -.7940995    8.931726
------------------------------------------------------------------------------
```

3.0 Multicolinearity test

. vif

```
    Variable |       VIF       1/VIF
-------------+----------------------
    Deductn2 |      4.95    0.020202
    Deductn1 |      4.51    0.221729
Buinf |      4.21    0.23753
    Deductn3 |      3.56    0.280899
Dcredit |      3.15    0.31746
Lnrage |      3.11    0.321543
Dsex |      2.89    0.346021
Lnbage |      2.39    0.41841
    Deductn4 |      1.29    0.775194
Lnstatca |      1.25    0.8
-------------+----------------------
    Mean VIF |      3.131
```

4.0 Model specification

linktest

```
      Source |       SS       df       MS              Number of obs =     189
-------------+------------------------------           F(  2,   186) =   98.90
       Model |  141.529655     2  70.7648277           Prob> F       =  0.0000
    Residual |  133.086477   186  .715518696           R-squared     =  0.5154
-------------+------------------------------           Adj R-squared =  0.5102
       Total |  274.616133   188  1.46072411           Root MSE      =  .84588

------------------------------------------------------------------------------
Lnbsale |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
       _hat |  -2.945773   1.686548    -1.75   0.082    -6.272996    .3814489
     _hatsq |   .1715707   .0732677     2.34   0.020     .0270282    .3161131
      _cons |   22.55915   9.670178     2.33   0.021     3.481821    41.63648
------------------------------------------------------------------------------
```