

**ASSESSMENT OF THE FACTORS AFFECTING PERFORMANCE
OF SMALL AND MEDIUM ENTERPRISES (SMEs)
THE CASE OF KILIMANJARO REGION**

By

Lema, John. P.

**A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of
the Degree of Masters of Science in Economics (MSC. Economics) of Mzumbe
University**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommended for acceptance by the Mzumbe University, a dissertation entitled **Assessment of the factors affecting performance of small and medium enterprises (SMEs): The Case of Kilimanjaro Region**, in partial/fulfillment of the requirements for the degree of Masters of Science in Economics of Mzumbe University.

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ABBREVIATIONS AND ACRONYMS

OECD	-	Organization for Economic Co-operation and Development
SMEs	-	Small and Medium Enterprises
IFAD	-	International Fund for Agriculture Development
R & D	-	Research and Development
EU	-	European Union
GVA	-	Gross Value Added
HTM	-	High-Tech Manufacturing
KIS	-	Knowledge-Intensive Services
LDCs	-	Least Developing Countries
SAPs	-	Structural Adjustment Programmes
FDI	-	Foreign Direct Investment
ESP	-	Enhancing Small and Medium enterprises Performance
GDP	-	Gross Domestic Product
OLS	-	Ordinary Least Squares
ICT	-	Information Communication Technology
SACCOS	-	Savings and Credits Cooperatives
AU	-	African Union
MEs	-	Medium enterprises
TZS	-	Tanzania shillings
US	-	United States
\$	-	US dollar
NGOs	-	Non-governmental organizations

ABSTRACT

This study attempted to assess the factors that are affecting performance of small and medium enterprises (SMEs) in Kilimanjaro region in Tanzania. The aim of this study is to provide the knowledge to the people in the region on how they should start and manage their SMEs by being aware with the factors affecting performance of SMEs which in turn will help them to manage their business sustainably. The factors tested were: Demographic characteristics (age, sex, and education level of SMEs owners and managers); Business characteristics (age of SMEs); Capital structure (source of initial capital, and capital size); Legal structure (means of operating SMEs); the Marketing strategy used by the enterprise to increase sales revenue and the Enterprise management. The study was conducted in Moshi urban, Moshi Rural, Hai, Siha, Same and Mwanga towns in Kilimanjaro region. The study used the cross sectional study design in which data of 200 SMEs owners, and managers from all Moshi urban, Moshi Rural, Hai, Siha, Same and Mwanga towns was collected only once. Both descriptive and empirical methods were applied during the study. The regression results shown that, the most significant factors affecting the performance of SMEs determined by income in the study area were: Demographic characteristics (age and education level of SMEs owners and managers), Business characteristics (age of SMEs), Capital structure (source of initial capital, and capital size), and the Marketing strategy. Sex and Legal structure (enterprise management) did not significantly contributed to the SMEs performance in this study.

There is a need for policy makers to make sure that education is given to the SMEs owners, managers and the employees together, with supporting them, if possible there is a need of having curriculum in primary and secondary schools by making business and entrepreneurship subjects as compulsory subjects, this will help to equip learners with 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 reasonable conditions from banks and other financial intermediaries for expanding their businesses; also soft loans should be provided to those who want to start new businesses. There is also, a need to put more emphasis on how to encourage women to engage in SMEs business and lastly there is a need to make sure that education on saving behavior is encouraged among the people in the study area, this is because in this research most of the businessmen/women started their businesses from personal savings as their source of initial capital.

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CHATER ONE

INTRODUCTION

1.1 Background information

The rapid growth of global markets observed over the last decade has stimulated competition in both developed and developing countries, forcing entrepreneurs and policy makers to adopt market-oriented policies. The fact that, the share of SMEs has increased in these countries suggests that efficient SMEs have actually been able to deploy new strategies in order to maintain, or even enhance, their competitiveness in a globalised economy (Mateev and Anastasov, 2010).

SMEs account for over 95 percent of enterprises and 60 to 70 percent of employment, and generate a large share of new jobs in OECD economies (OECD, 2009). In the European Union, SMEs accounts for over 99 percent of all enterprises in these countries. About, 91 percent of these enterprises are small-firms with fewer than 10 workers. Given their importance in all economies, the growth of SMEs is essential for economic recovery and development from the 2008 crisis (EU, 2011).

According to Subhan *et al.*, (2013), SMEs are the driving force for the promotion of an economy. Due to their significance, all the countries either, developed or developing, are concentrating on the development of SMEs. He also argued that, Small enterprises are considered as main driver for innovation, poverty reduction, employment generation, and social integration. SMEs sector may amplify the production capacity which has significant impact for the promotion of economic and social development. Avendano (2013) mentioned that, SMEs provide the vast majority of employment in developing countries and are keystones in the productive structures of emerging economies.

The worldview of SMEs as an index of technological backwardness or as a sign of industrial backwardness is changing tremendously with time. Indeed, in many developed and developing nations of the world, SMEs are now appreciated as a necessary complement to the industrial structure of any modern economy (AU, 2010). The

Growing SMEs conference is the international setting for both entrepreneurs starting or growing a business in emerging markets and investors seeking for high potential business plans and committed entrepreneurs. Together with experts on different fields, networkers and business centers, they gather to connect exchange and ultimately invest (AU, 2010).

The dimensions of the recent attention on SMEs border on the perceived wisdom that they could leapfrog their initial early stage and embrace modern large businesses in the development process many developing countries have recorded success and positive results from the discovery of SMEs in the past two or three decades (Chile and Julio, 2007). In many countries, the dynamic role of SMEs as tools through which the growth objectives of development can be achieved has long been recognized. It is estimated that SMEs employ 22 percent of the adult population in developing countries. In view of the importance and place of SMEs in an economy, it is imperative that SMEs sector should be given the priority it deserves (Chile and Julio, 2007).

During the past two decades the perception of SMEs and their roles in economic development has changed substantially. MSEs have shown great resilience during the time of crisis (Avendano, 2013). SMEs usually utilize local resources like capital (family savings); skills harnessed to produce a variety of products for the markets and utilize local material resources often to a greater extent and have proved to be a dependable source of employment even or especially during the periods of economic crisis to many countries (Avendano, 2013).

Moreover, SMEs which are fairly labor-intensive creates employment opportunities at relatively low capital cost and they have been an important source of incomes not only to people who could not find employment in other sectors but they have also provided an important cushion to falling incomes to employees in the formal sector and they are an important source of off-farm employment in different countries (Audretch and Fritsch, 1994).

Also, according to Zheng (2013) he argued that, recent policy shift towards private sector development has given a new impetus to SMEs development. Attitudes towards private sector have become positive and in this context the role of MSEs as a seed bed for a larger entrepreneurship has receive greater recognition and increasing concern about the need to achieve high growth which shared and amenable to achieving human development has given a new focus SMEs development. This is due to the fact that, SMEs tend to develop in different regions of the country, hence contributing to reduce concentration of enterprises in urban areas and promoting balanced economic growth. They are more amenable to spreading to small towns and rural areas but also they have proved to be efficient and dynamic to countries which have given the opportunities to develop and to access appropriate support (Zheng, 2013).

SMEs allow the rural poor – including some of the most marginalized and vulnerable strata such as rural women, youth, and the landless to diversify their incomes, create new sources of economic growth and generate additional employment (including self-employment) in rural areas (OECD, 2009). The same strata may also be reached through SMEs support to small-scale local entrepreneurs, whose business expansion can create new jobs for the rural poor (OECD, 2009).

Furthermore, Tambunan (2006) argued that, the importance of SMEs in developing countries is because of their unique characteristics, which includes: their number is huge and they are scattered widely throughout the rural areas and therefore they may have a special "local" significance for the rural economy; they are labor intensive; SMEs in developing countries are mainly agriculturally based activities, these enterprises, especially MEs, finance their operations overwhelmingly by personal savings of the owners; supplemented by gifts or loans from relatives or from local informal moneylenders, traders, input suppliers, and payments in advance from consumers and they provide an avenue for the development of entrepreneurship.

It is now increasingly recognition that, the SMEs play a crucial role in employment creation and income generation all over the world and in Tanzania in particular (URT, 2002). They can be easily established since their requirements in terms of capital, technology, management and even utilities does not require large amount of capital as compared to the case of large enterprises, and also they can be established in rural settings where there is a large number of poor people and thus can add value to the agro-products and at the same time facilitate the dispersal of enterprises (URT, 2002).

Indeed, SMEs development is closely associated with more equitable distribution of income and thus it is important as in regarding poverty alleviation. SMEs serve as a training ground for emerging entrepreneurs (URT, 2002).

1.2 Statement of the Problem

The importance of SMEs in contributing to job creation and output growth is now widely accepted in both developed and developing countries. Of particular interest is the process of expansion of these enterprises from very small into medium size, as it is when they become medium-sized that growth-oriented SMEs make their most tangible contribution to economic growth and job creation (UNACTAD, 2001).

Despite of the fact that, there are various initiatives which have been undertaken by the Tanzania government and non-governmental organization to promote SMEs development across the country, but yet their performance is still low in which SMEs owners gets low income from them and yet they still living under poor condition and therefore, the sector's contribution to economic growth in the country is still low. These initiatives and schemes including: improving and building new infrastructures especially roads; and schemes aimed at promoting SMEs development such as, the ongoing schemes aimed at strengthening SMEs service providers under the Small Industries Development Organization (SIDO), Vocational Education Training Authority (VETA),

Microfinance bank (NMB), and the Industrial development support schemes (URT, 2002).

Many researchers have written a lot on factors affecting the growth and development (performance) of SMEs in different areas around the world but not in Kilimanjaro region particularly in Moshi urban, Moshi rural, Hai, Siha, and Mwanga towns. For, example, Kirui. M (2002) conducted a research on “ Challenges facing SMEs in Kenya”, Subhan *et al*, (2013) conducted a research on “Innovation in SMEs and impact of economic development in Pakistan”, Monge.G *et al*,(2005) conducted a research on “Information and Communication Technologies and SMEs performance in Costa Rica”, Olugbenga A, and Ekiti A, (2012) conducted a research on “Policy support and performance of SMEs enterprises in South west Nigeria”, and Seker M. and Correa P. (2010) they also conducted a research to study the “Obstacles to growth for SMEs in Turkey.

However, to the best of my knowledge this is my first study to assess the factors that are affecting SMEs performance due to the fact that, in the region, the full potential of the SMEs has not yet be tapped due to the existence of a number of factors hampering their performance and give recommendations to the SMEs owners, managers, employees and the society at large on how to overcome those problems affecting SMEs performance which in turn they can be able to improve their SMEs performance by accruing more income from them. This also, will help them to improve their living standard and promote rapid economic growth of the region and for the nation at large.

1.3 Objectives of the study

1.3.1 The General objective

The general objective of this study is the assessment the factors affecting performance of small and medium enterprises (SME)s.

1.3.2 Specific objectives

Specifically the study will seek to:

- (i) Determine the impact of demographic characteristics (age, sex, and education)
 - Age of SMEs owners/managers to SMEs performance.
 - Sex of SMEs owners/managers to SMEs performance.
 - Education level of SMEs owners/managers to SMEs performance.
- (ii) Find out the relationship between business characteristics (age of the SMEs) to SMEs performance.
- (iii) Determine the impact of capital structure (source of initial capital, and capital size) to SMEs performance.
- (iv) Examine the impact of legal structure (Means of operating SMEs) to SMEs performance.
- (v) Find out the relationship between the marketing strategies to SMEs performance.

1.4 Significance of the Study

This study will help to inform the society particularly the SMEs owners, managers, and employees on the factors that are affecting performance in SMEs that leading to low income in their respective enterprises, so that they can formulate the ways of combating those problems which in turn will improve the performance (raise income) accrued from their enterprises.

It will also increase the body of knowledge to the people who are interested in starting new SMEs by making them aware with the factors that would affect the performance to their businesses. This will enable them to start businesses which are sustainable. Also, this study is significant to me simply because it can contribute to be rewarded with the Degree of Masters of Science in Economics (MSC. Economics) of Mzumbe university in 2013.

1.5 Organization of the Dissertation

The study has been organized in five chapters.

Chapter One: consists of the purpose of the researcher to decide to undertake this particular research and the other. This chapter provides preliminary information about the nature of the research and what will exactly be done by the researcher.

Chapter Two: reveals literature sources which the researcher passed through when developing his idea about this particular research. Other practioners ideas (views) were incorporated with the aim understanding well the research problem. The purpose was to know how other researchers, readers, organizations, practioners and governments say about the problem under the study.

Chapter Three: reveals the methodology part undertaken by the researcher to accomplish the research work. This section explains the way the research has been conducted and methods and techniques adopted.

Chapter Four: This chapter presents the findings as observed during the research. Instruments like, charts, per cent, tables and figures were used to present similarities and differences of the research findings.

Chapter Five: this chapter presents and discusses the findings as were obtained from the software.

Chapter five: is the summary, conclusion and policy implication. The researcher makes summary of what has been done, observed and presented, implications of the findings and recommendations to policy makers.

The last part presents the bibliography and the appendices.

CHAPTER TWO

LITRATURE REVIEW

2.1 Theoretical and Empirical literature review

2.1.1 Theoretical literature review

In accordance with theoretical literature review, different theories related to this study are going to be reviewed to see how these theories are related to the topic under the study by seen what other academicians, SMEs practioners, different writers and stakeholders have been saying on regarding to SMEs performance.

There are varying global definitions of SMEs depending on the level of economy. Although there is so far no common definition in almost all East African Community countries (Kenya, Tanzania, Uganda, Burundi and Rwanda) they all use the same basics of capital investment; turnover; and number of employees. SMEs are defined in multiple benchmarks: the size of capital employed in machinery, manpower directly engaged and sales turnover (URT, 2009).

In Tanzanian context, enterprises are defined or categorized based on number of employees and capital directly employed in machinery (URT, 2002).

Table 2.1: Definition of Micro, small, medium and large enterprises in Tanzania context

TYPE OF ENTERPRISE	NUMBER OF EMPLOYEES	WORKING CAPITAL (TZS)
Micro enterprises	1-4	0-5 million
Small enterprises	5- 49	>5- 200 million
Medium enterprises	50-99	>200-800 million
Large enterprises	100 and above	Above 800 million

Source: URT, 2002

The contributions of the SMEs in the economic, social and political reforms embarked by Tanzania for the past years as stipulated in the Five Year Development Plan 2011/12 to 2015/16 (FYDP); “to improve the business environment so as to increase economic

growth and finally reduce the prevalent poverty level” (URT, 2009). SMEs are the bedrock of the country’s economy. “They predominate in productive activities and it is thus important to enable them to prosper and expand even more, thus creating the growth and jobs that the economy desperately needs” (URT, 2009). The Tanzanian business community should continue organizing forums to sensitize and utilize the open opportunities available as one of the firms put it, “these Mid-sized companies are instrumental in realization of Tanzania’s Vision 2025 (The Citizen, Thursday, 15 November 2012).

One of the strategies and priority areas for regional cooperation in the East African Community in investment and industrial development in the area as provided by article 80(1) (c) of the East African Community establishment, was the facilitation of development of small and medium scale industries including sub-contracting and other relations between large and small firms to improve the production of goods and therefore, to expand market all over the world (URT, 2009).

The important economic contribution of SMEs has aroused significant interest from both international organizations and academic researchers whose goals include using public policies to trigger growth in SMEs, ultimately enhancing overall economic performance. Accordingly, since the 1970’s, many researchers have worked to establish an explanatory framework for the growth of SMEs, for, example Farouk and Saleh, (2010), established an explanatory framework for the growth of SMEs in Egypt. They argued that, despite the considerable attention paid to SME growth, to date very few theories have been able to adequately explain why some SMEs grow and others fail. They concluded that, the growth of SMEs is a complex phenomenon. Although it has gained vast academic interest, not a single model has been developed to date that can adequately explain why some SMEs grow and others do not (Farouk and Saleh, 2010).

Theory on Mergers and Acquisitions by SMEs by Aaberge (2012) has been developed almost exclusively from the study of large deals by large firms. In this theory he argued

that the behavior and success of mergers and acquisitions by (SMEs) may be significantly different. He developed a theoretical framework, and several testable hypotheses, regarding the distinctive features of SMEs mergers and acquisitions. The empirical results supported his expectations and showed that, compared to large firms, acquiring SMEs: rely more intensively on external growth via mergers and acquisitions; are more likely to be withdrawn, suggesting that SMEs are more flexible, and more able to avoid deals that turn sour; and, finally, SMEs mergers and acquisitions were more likely to be financed with equity rather than debt, indicated that the influential financial pecking order theory was of less relevance to SMEs (Aaberge, 2012).

SMEs Theory of Chinese on factors that affected the growth of township and village's enterprises run by township and villages defined as collective at provincial by Biggeri *et al.*, (1999). The paper examined SMEs theory and the role of human capital in the SMEs development. Following this, it analyzed the development of Chinese township and village's enterprises and their role in the socio-economic development of rural areas and of the national economy. A panel analysis was then performed, using provincial panel data of Collective Township and village's enterprises over the period 1986 to 93, in order to capture the major determinants of provincial growth. The results of the panel estimations highlighted some important features of township and village's enterprises run by town and village sector, and provide empirical evidence in support to the positive role of clustering and human capital in the provincial growth of this sector (Biggeri *et al.*, 1999).

According to McIntyre (2001) on the role of SMEs in transitional: growth and entrepreneurship theory he argued that, the direct economic effects of making new services and products available and creating employment, the SME has several equally important effects on the functioning of transitional societies that move through more indirect channels. The development of this sector is essential to create the political and social 'environmental conditions' necessary to allow desirable changes to occur elsewhere in the system. The SMEs sector must simultaneously absorb resources and

workers from the large enterprise sector and at the same time help to create a labour market situation in which the process of reorientation and fundamental reorganization of the large enterprise sector can be carried through without threatening social peace (McIntyre, 2001). In addition to slowing down the restructuring process, the failure to develop the SME may increase the volume of required transfer payments for unemployment, early retirement and other programmes and (under certain fiscal policy assumptions) crowd-out investment and other employment creating expenditures (McIntyre, 2001).

The grounded theory approach on measuring performance of SMEs developed by Chong (2008); the theory helped set the process of extensive in-depth semi-structured interviews and observations while maintaining the natural settings of the business processes. It identified the financial and non-financial measures based on short-term and long-term matrices. The theory concluded that, in line with the goal approach, the owners-managers focused their evaluation process on abilities to attain the internally generated goals and targets.

Halim *et al.*, (2011) they looked at the internationalization process of Malaysian SMEs and how it fits the internationalization theories particularly, Uppsala model, network approach and international new venture or born global theory. Findings indicated that all three theories were still applicable as not all SMEs that internationalized are born global in nature. Exporting was the most used mode of entry and increasing profit was the main reason for internationalization.

Small business management theory developed by Chittithaworn *et al.*, (2011) stated that, SMEs characteristic, management and know-how, products and services, customer and market, the way of doing business and cooperation, resources and finance, strategy, and external environment are the factors affecting business success of SMEs in Thailand.

Alberto *et al.*, (2013) developed a SMEs theory of planned behavior on what marketing for SMEs entrepreneurs, the need to market the marketing approach. The theory stated that, the adoption of the marketing approach is conditioned by entrepreneurs' own conception of marketing, which may be substantially different from that proposed, in a paradigmatic way, by academics under different names that, is, the transactional, relationship existing between and among these SMEs, or inductive marketing. This implied that, the potential benefits for SMEs, coming from its adoption, rely upon what entrepreneurs really do when they think they are implementing a marketing programme (Alberto *et al.*, 2013). Therefore the aim of this theory was: to shed light on SME entrepreneurs' conception of marketing, in order to verify whether their interpretation differs from that proposed by marketing researchers, and to assess quantitatively the psychological determinants of the entrepreneurs' intention (marketing technique) to adopt a marketing approach by applying a well-known model for predicting both human and organizational behaviors (Alberto *et al.*, 2013).

Jones and Bartlett (2010) argued that, for any business with growth market strategies, the organization was attempting to gain more sales from existing market and alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers. Nguyen *et al.*, (2010) argued that, Vietnamese government has mainly focused on increase the number of SMEs rather than improving the performance of SMEs and strengthening the business competitiveness. This must be facilitated by the critical entrepreneurial role of the state and the evolving relationship between the state's entrepreneurial role and market factors are parts of the success picture.

Type of enterprise, enterprise scale, the current ratio, fixed assets ratio, the net assets of interest rate, through the quality authentication, credit rating significantly affect the availability of credit of small and medium agro-enterprises (Lijun and Hongan, 2011). Therefore, the small and medium agro-enterprises should pay attention to improve their

own quality. In the condition of scale, type and fixed assets are short-term hard to change, strengthen the financial management, sound financial system, improve the operating conditions (Lijun and Hongan, 2011). Adjust measures to local conditions, timely adjustment of product structure, give full play to the local resources, market, technology, and other aspects of the comparative advantage, form a competitive advantage and regional characteristics leading products, enhances the enterprise the profitability; improve product quality and safety, pay attention to the understanding of the product quality, and reduce the management risk. The process of employing technological instruments to massify promotion and the access of the small and medium-sized companies to the institutional products and services will bring about the positive results in SMEs performance (Santiago and Julio, 2007).

Schimitt *et al.*, (2002) found that, it was plausible that, the moment when the small business owner has to switch management practices from a highly informal and flexible “direct supervision” to a professional management of “supervised supervision” depends on a series of internal and external factors, such as: the experiences and management capacities of the owner-manager, the general and technical educational level of employees and employer, the branch in which the SME operates and the complexity of its operations, thus; direct supervision is easier and possible to a larger scale in a firm that produces standardized and scale-intensive goods than in an entity with several product lines or more complex production and marketing processes; the traditional relationship between employers and employees, the organizational culture and the predominant values with regard to work and duty. When the risk of non-fulfillment of duties or even negative behavior by the employees was high the limits to a direct supervision management were narrow; the legal and regulatory framework. When the rules of the game are clear and transparent, the management of the SMEs by direct supervision will be much easier than under poorly defined and changing framework conditions (Schimitt *et al.*, 2002).

The contribution of (SMEs) to employment, growth and sustainable development is now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help to achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution (UNACTAD, 2000).

SMEs play a pivotal role in the development of the country. It has made significant contribution to industrial production, export and employment generation. In developing countries as well as developed countries they are important from the point of view of employment generations, which is very important in countries like India with huge backlog of unemployment in the urban sections of the economy. It has been observed that their composition depends upon the way the production is being organized in the economy (Zaidi, 2013).

Higher personal household wealth, a higher proportion of home ownership, a high percentage of skilled labour, a higher rate of unemployment, and the size structure of existing enterprises can be factors influencing the rate of new business formation. Many researchers suggested that areas having many small firms are likely to have high rates of new firm formation for example Garofoli (1994) mentioned that. public services had positive and statistically significant effects on business location and growth.

2.1.2 Empirical literature review

According to Tambunan (2006), the importance of (SMEs) in developing countries is because of their unique characteristics, which include the followings: first, their number is huge and they are scattered widely throughout the rural areas and therefore they may have a special "local" significance for the rural economy; second, they are labor intensive; third, SMEs in developing countries are mainly agriculturally based activities; fourth these enterprises, especially SMEs, finance their operations overwhelmingly by personal savings of the owners, supplemented by gifts or loans from relatives or from

local informal moneylenders, traders, input suppliers, and payments in advance from consumers; and fifth SMEs provide an avenue for the development of entrepreneurship. With respect to this, that is why the development or growth of SMEs is often seen as an indicator of entrepreneurship development (Tambunan, 2006).

Many studies have shown that firm growth decreases monotonically with size and age. Employment growth of firms in Turkey with an emphasis on SMEs was included in those studies. For, example Seker *et al.*, (2010) argued that, in Turkey, SMEs accounted for almost 77 percent of employment and play a crucial role in the economy. However, the analysis of firm dynamics in Turkey showed that, medium-size firms (51–250 workers) were the slowest growing group in the economy. Moreover, SMEs grew at a slower rate in Turkey than in several comparator countries in the Eastern Europe and Central Asia region. After determining this irregularity, they proposed how the investment climate affects firm growth and find that improved access to finance was the most important factor that significantly increases firm growth rates (Seker *et al.*, 2010).

SMEs are the future in leading emerging markets to sustainable growth. By creating jobs and income, SMEs they are crucial to the economic and social development of different countries (Kirui 2012). There was little performance evaluation in place in order to promote better-achieved staff in China's SMEs (Zheng, 2013).

Mateev and Anastasov (2010) conducted a research on determinants of small and medium sized fast growing enterprises in central and Eastern Europe. They used a panel data analysis for a set of 560 fast-growing SMEs whereby they used variables such as: SMEs growth which was independent variable, and firm characteristics (size and age) and more specific determining factors (total assets, leverage, internally generated funds, future growth opportunities, and factor productivity) as explanatory variables (Mateev and Anastasov, 2010). They found that: a firm's growth was related not only to the traditional determinant of size but also to other specific characteristics associated with its financial structure and productivity, secondly they found that, firm size as measured

by its total assets tend to increase sales revenues. thirdly, was the growth in the number of employees in those firms showed a marginal impact on their growth in assets, fourthly, in case of opportunities, they found that, the relation between future growth opportunities as proxied by the share of intangible assets in a firm's total assets and its growth was weak, fifthly, SMEs in transition economies rely predominantly on internally generated funds to support their sales growth but need access to external capital to support growth in their assets, and lastly results showed that, both capital and labour productivity were positively related to firm growth (both in sales and assets) that mean, improved factor productivity would generate larger growth in those firms (Mateev and Anastasov, 2010).

Aidis (2002) conducted an analysis to find out the gendered influence on SME development under economic transition in Lithuania. He used descriptive statistics and regression models (OLS) to test his hypotheses whereby data from the Litsme survey to look at the gendered aspects of business size, turnover, financial success, planned business growth and business success amongst small- and medium-sized enterprise owners was used. The results indicated that, there were considerably fewer female SMEs owners than male SMEs owners (Aidis, 2002). The estimation results under business size showed that, sex was strongly and significantly negatively associated with business size and also individuals who started their businesses for economic reasons had a negative effect on business size. In business turnover, the results indicated that sex was significantly associated with business turnover in which SME owners who had a sole proprietorship were significantly associated with a higher probability for lower turnovers. In business financial success, the results also, showed that, male SMEs owners have a higher probability of greater financial success than female SMEs owners. In planned business growth, sex was not a significant determinant for planned business growth (Aidis, 2002).

Under business success he found that, females seem to evaluate their businesses as less successful than male SMEs owners. He concluded that, the subjective responses

measuring business growth potential revealed no significant differences between male and female SME owners in Lithuania. In addition, perceived success did not differ between male and female SME owners with employees. These results combined seemed to indicate that though female SMEs owners had smaller businesses with lower business turnover they were as committed grow their businesses as male SME owners (Aidis, 2002).

Biggs and Shah (1998) conducted a research on SMEs networks, and manufacturing performance in Sub-Saharan Africa, and they found that, large firms were the dominant source of net job creation in the manufacturing sector and also the results suggested that firm size was not a good predictor of labor intensity, and that labor intensity varied more across industries than across firm-size groups within industries. But also they found that, many small firms were more capital intensive than large firms in the same industry. This suggested that SMEs are not necessarily more suitable to the labor abundance and capital shortage characteristics of developing countries (Biggs and Shah 1998).

Investigation on the impact of technological, infrastructure and financial supports on the performance of (SMEs) in Nigeria was set by Olugbenga and Ekiti (2012). A model of three (3) linear equations was formulated capturing the variables of performance, technology, infrastructure and finance. In all, a total of twelve (12) variables were used in the analysis; they were: output (OUT), asset (AST), employees (EMP), acquisition mode of machines (ACQ), energy expenditure (ENR), initial capital (CAP), training (TRA), water expenditure (WAT), bank credit (BNK), education (EDU), age of enterprise (AGE), and non-bank credit (NBK) (Olugbenga and Ekiti 2012). The Ordinary Least Square (OLS) regression analysis was used to estimate the model. The findings of the study revealed that technological and financial supports impact positively on the performance of SMEs while infrastructural support is negatively related to the performance of SMEs in Nigeria (Olugbenga and Ekiti, 2012). They also, found that there was a positive relationship between mode of acquisition of machine and output. In

the same way, a positive relationship existed between output and initial capital invested. However, a negative relationship existed between performance and expenditure on energy since most of the firms used alternative source of energy, the energy expenditures become very heavy on the enterprises and hence affect output. The study therefore concluded with empirical evidence that policy supports having bearing on technology, infrastructure and finance affect the performance of SMEs to a great extent in Nigeria (Olugbenga and Ekiti, 2012).

It is generally recognized that, SMEs faces unique challenges which affects their growth and profitability and hence diminish their ability to contribute effectively to sustainable development (Kirui, 2012). These challenges are: lack of managerial training and experience, inadequate educational and skills, lack of credit, national policy and regulatory environment, technological change, poor infrastructure and scanty market information (Kirui, 2012). SMEs represent a significant share of emerging economies' business fabric. Nevertheless, they continue to face multiple challenges in meeting their financing needs. Public financial institutions in have come to play an active role in addressing these financing gaps through new operational mechanisms and adapted instruments (Avendano, 2013).

According to the European Union annual report (2011/2012) European nations faced challenging economic conditions in 2011/12, with an intensifying sovereign debt crisis in the euro zone, the spectre of double-dip recession for several countries and weakening growth in even the better performing nations. Throughout the downturn, however, SMEs had retained their position as the backbone of the European economy, with some 20.7 million firms accounting for more than 98 percent of all enterprises, of which the lion's share (92.2 per cent) are firms with fewer than ten employees (EU, 2012). The report showed that: with the EU economy threatening to dip into recession again, SMEs in the EU as a whole continued to struggle to recover to pre-crisis levels of value added and employment; yet SMEs performance varied considerably among member states. SMEs

in Austria and Germany had exceeded their 2008 levels of (GVA) and employment in 2011. SMEs in Belgium, Finland, France and Luxembourg had on average (EU, 2012).

The contribution of SMEs to employment, growth and sustainable development was now widely acknowledged (URT, 2012). They have been and are still a central hub in generating income for the majority of urban dwellers with no formal paid employment. Their development can deepen the manufacturing sector and foster competitiveness. They could also help to achieve a more equitable distribution of the benefits of economic growth and thereby help to alleviate some of the problems associated with uneven income distribution (URT, 2012). The four case studies of Zambia, Nepal, Burkina Faso and Samoa showed that governments in LDCs have not succeeded in incorporating their SMEs promotion policies in their overall development strategies (Kipilyango, 2012). Small firms find it difficult to obtain commercial bank financing, especially long-term loans, for a number of reasons, including lack of collateral, difficulties in proving creditworthiness, small cash flows, inadequate credit history, high risk premiums, underdeveloped bank-borrower relationships and high transaction costs (Kipilyango, 2012).

The main message emerging from the new data is that what constitutes SMEs is quite different in different parts of the world. Nevertheless, these differences in SMEs definitions do not drive the variation in SMEs lending around the world. Income per capita, private credit to GDP, the legal and business environment, and the efficiency of the banking system are among the factors that influence SMEs lending (UNACTAD, 2001).

Moreover, small industrial policies had not received much attention of late. The focus had been on macroeconomic policies, which had, for the most part, been defined by structural adjustment programmes (SAPs) that had emphasized “getting prices right” and poverty alleviation. The assumption had been that trade liberalization would increase incentives to export and would facilitate business enterprise by encouraging private

ownership through privatization and by attracting foreign direct investment (FDI), (URT, 2002).

Roth (2012) in his report on impact assessment of business Association membership on small and medium enterprises' growth performance in Cambodia found that, perceived challenges and SMEs support activities in Cambodia was caused by the following factors that negatively affected the performance of the SMEs, hence low income, which were: constraints to growth-small size, relatively low bargaining power, difficulty in obtaining investment loans, vulnerable to idiosyncratic risks resulted from vertical and horizontal competing forces, high costs of administrative compliances and weak legal enforcement and support programmes which entailed training, advice, subsidies to SMEs-tailored policy have been availed for SMEs' owners-managers to take advantage (Roth, 2012).

According to the U.S.A agency for International Development (2008) it reported that, in 2003, with unemployment rate was high as 20 percent, job growth was a primary imperative for Croatia. The ESP project worked to create lasting private sector jobs in economic sectors where Croatia was internationally competitive-leading to higher levels of investment and sustainable economic growth. ESP's strategy was to create 20,000 new jobs by improving the business performance of (SMEs) in growth sectors by providing technical assistance through industry associations, economic development organizations, and business and financial services firms (U.S.A agency for international development, 2008). ESP sought to improve the business environment for all SMEs through technical assistance to the Croatian government, national organizations, and educational institutions (U.S.A agency for International Development, 2008).

The significance of SMEs was acknowledged worldwide. SMEs formed the vanguard of the modern enterprise sector and present the propelling force of economic modernization and growth in developing economies (Francis, and Matambalya 2002). But it was imperative to examine their efficiency levels in order to formulate appropriate policies

for the development of SMEs for; example, Francis, and Matambalya (2002) conducted a study on the level of technical efficiency of SMEs in Tanzania by the using a Cobb-Douglas stochastic frontier production function. The findings showed that, high levels of technical inefficiency, were reduced their potential output levels significantly, characterize the Tanzanian SMEs. Assisting those firms to improve their technical efficiency through adequate supply of inputs, markets, and credit facilities, and undertaking extensive infrastructural development and training was being important measures to improve the SMEs (Francis and Matambalya, 2002).

The growth of (SMEs) is major driver of the economy because they contribute to employment growth at a higher rate than larger firms. This is clearly demonstrated by the fact that, about 99.8 percent of the enterprises in the EU are SMEs, which employ 67% of the European workforce and generate 57% of the revenue (EU, 2008).

The rapid growth of global markets observed over the last decade that has stimulated competition in both developed and developing countries, forcing entrepreneurs and policy makers to adopt market-oriented policies in many countries. The share of SMEs has increased in these countries suggests that, efficient SMEs have actually been able to deploy new strategies in order to maintain, or even enhance, their competitiveness in a globalised economy (Mateev and Anastov 2010).

Through capital investments private small businesses and micro-enterprises create jobs and new opportunities that promote community-building and social activities in the rural and small towns. Hence, the economic contribution of small business to economic growth and job creation is now well recognized and established in the literature, for, example Birch (1979), conducted an analysis on SMEs growth and found that, about 80 percent of the jobs created between 1969 and 1976 in the U.S. economy were in firms employing less than 100 workers and firms employing fewer than 20 workers generated 88.1percent of net job growth and start-ups generated nearly as twice as many jobs as

expansion of existing firms between and net employment growth in existing small rural firms to be much faster than in large firms over the period 1980-1986.

Beck *et al.*, (2005) found a robust, positive relationship between the relative size of the SMEs sector and economic growth, even when controlling for other growth determinants. In high-income countries formal SMEs contribute to 50 percent of GDP on average (Ayyagari *et al.*, 2007). Furthermore, in many economies the majority of jobs are provided by SMEs. In OECD countries, for example, SMEs with less than 250 employees employ two-thirds of the formal work force (Beck *et al.*, 2005).

Ayyagari *et al.*, (2007) used country-level data and argued that, on average, SMEs account for close to 60 percent of employment in the manufacturing sector. (European Union, 2009) mentioned that, between 2002 to 2008, the number of jobs in SMEs increased at an average annual rate of 1.9 percent while the number of jobs in large enterprises increased by only 0.8 percent. In absolute numbers, 9.4 million jobs were created in the SMEs sector in EU-27 between 2002 and 2008. Also, it is often argued that SMEs are more innovative than larger firms (EU, 2011).

Small firms are not more innovative than large firms. Using a sample of European industries, Davis (2001), for example reported that, larger firms were associated with faster rates of innovation.

In the aftermath of the global financial crisis of 2008 to 2009, there has been an increased interest in the role of SMEs in job creation and economic growth. However the lack of consistent indicators at the country level restricts extensive cross-country analyses of lending to SMEs, for example, policy research working paper on SMEs: A Cross-country analysis with a new data prepared by Ardic *et al.*, (2011) indicated two main findings. First, many regulators collect data on SMEs financing; however, there was no unique definition of the SMEs; at the same time, the results indicated that

differences in definitions across countries were not statistically significant in explaining the differences in SMEs lending volumes.

Second, given this, the paper goes on to estimate the global SMEs lending volume at \$10 trillion, roughly two-thirds of the current size of the US economy. The bulk of this volume, 70 percent, was in high-income OECD countries. On average, SMEs loans constituted 13 percent of GDP in developed countries and 3 percent in developing countries (Ardic *et al.*, 2011).

According to Aw (2001) in the analysis of Productivity dynamics of small and medium enterprises (the role of SMEs in East Asia); he used firm level data from Taiwan, to examine the link between firm size, growth and productivity by using variables such as: the productivity of small and medium enterprises, their adaptability to shocks and crises, their contribution to innovation and technological advance, their link to such features of the business environment as subcontracting and agglomeration, their impact on employment and equity, and their responsiveness to public policy (Aw, 2001). The estimation results showed that firms grow because they were more productive and not because they are larger in size. Indeed, the statistical analysis showed that, while employment growth among Taiwanese firms was positively related to initial levels of total factor productivity, it was negatively related to initial size.

The results also showed that, the productivity-size relationship had a virtuous cycle built in. More productive firms get larger and, in the process, obtain access to resources and information which enables them to become more productive (Aw, 2001).

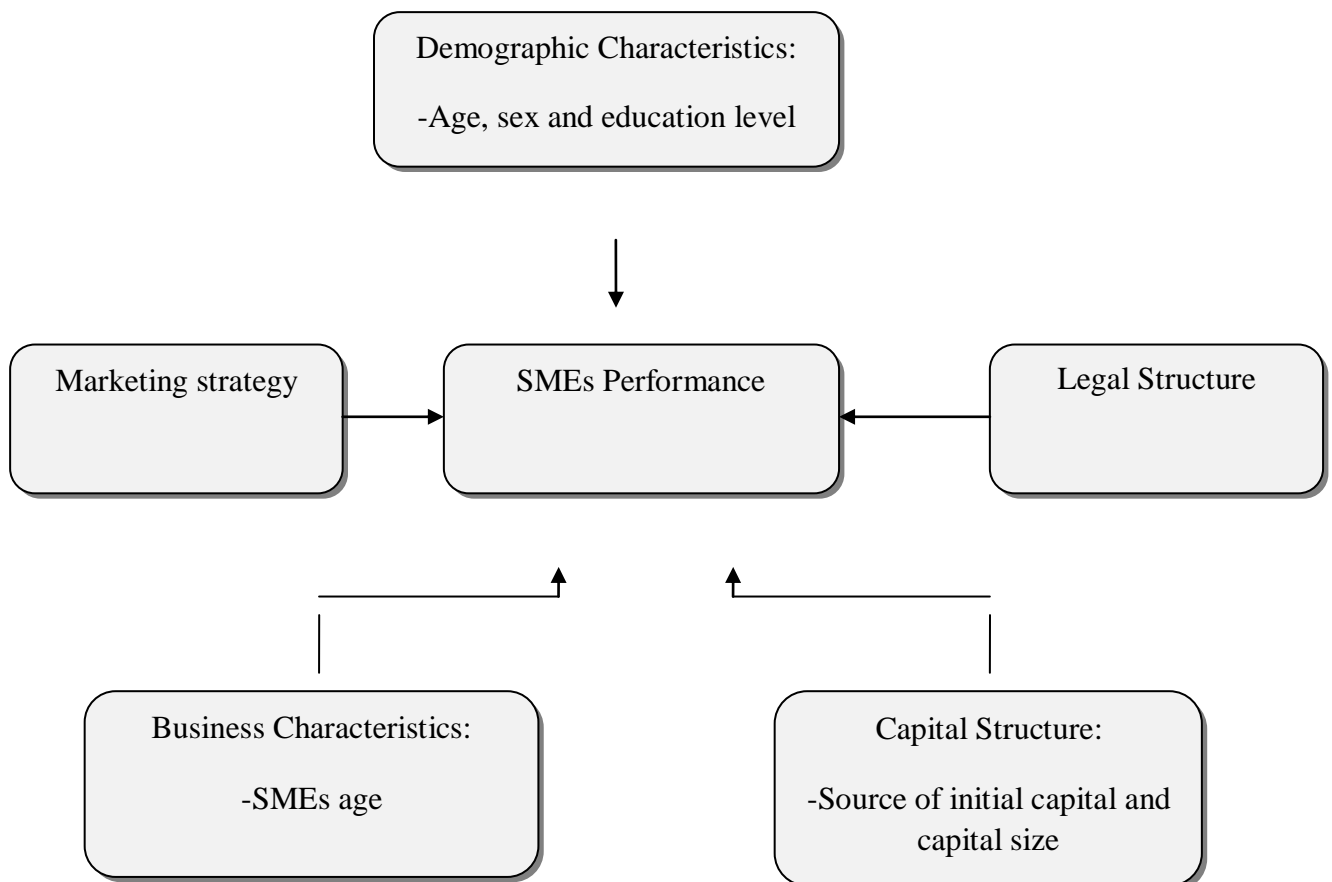
Various studies have been conducted showing theoretical and empirical evidence concerning with SMEs growth, development, and performance, their contributions to economic development, their role in employment creation and poverty reduction, and problems which are facing them which limit their growth and the solutions to those problems have been given.

2.2 Conceptual Framework

The conceptual framework Fig. 2.1 shows the relationship that exists between SMEs performance (SMEsP) which is the dependent variable and the independent variables which are: Demographic characteristics (age, sex, and education level of SMEs owners/managers) DC(ASSED), Business characteristics (age of SMEs) BC(SMEsA), Capital structure (source of initial capital, and capital size) CS(SICCS), Legal structure (means of operating SMEs) LS(MOSMEs), and Marketing strategy MS.

That, is; $SMEs\ performance = f(Demographic\ characteristics\ (age,\ sex,\ and\ education\ level\ of\ SMEs\ owners/managers),\ Business\ characteristics\ (age\ of\ SMEs),\ Capital\ structure\ (source\ of\ initial\ capital,\ and\ capital\ size),\ Legal\ structure\ (means\ of\ operating\ SMEs),\ and\ Marketing\ strategies).$

Figure 2.1: Conceptual framework



2.3 Theoretical Framework and Research models

The model in this work however with some few modifications was borrowed from Mateev and Anastasov (2010) in their work titled, *Determinants of Small and Medium Sized fast growing enterprises in central and eastern Europe*. They looked on variables that allowed them to explain the performance of fast growing SMEs in transition economies.

In this study they used three growth models to examine more accurately the effect of the explanatory variables on a firm's growth and performance growth in sales revenues, employment and total assets.

Their model was:

$$\text{Growth}_{it} = \alpha_0 + \beta_1(\text{Toi_Assets}_{it}) + \beta_2(\text{Lever}_{it}) + \beta_3(\text{Cur_Ratio}_{it}) + \beta_4(\text{Inta_Assets}_{it}) + \beta_5(\text{Cap_Prodi}_{it}) + \beta_6(\text{Lab_Prodi}_{it}) + \beta_7(\text{CF_Ratio}_{it}) + \beta_8(\text{Employee}_{it}) + \beta_9(\text{Age}_{it}) + \beta_{10}(\text{Dummy}_{it}) + \varepsilon_{it}$$

Where:

Growth_{it} was defined as the difference between the logarithms of a firm's sales revenues in periods t and $t - 1$. The other two measures of growth used in the regression model above were the percentage change in total assets and the number of employees. Variables Toi_Assets_{it} , CF_Ratio_{it} and Employee_{it} represent firm's size, cash flow (normalized by total assets) and number of employees in period t , respectively. Variables Lever_{it} , Cur_Ratio_{it} , Inta_Assets_{it} , Cap_Prodi_{it} and Lab_Prodi_{it} represented capital structure, short-term liquidity, future growth opportunities, and capital and labor productivity of firm in period t , respectively. Variable Age_{it} was the logarithm of the number of years of existence of firm in period t . Variables for ownership and sector were proxied by dummy variables that took on a value of 1 if the stated condition holds or 0 otherwise.

Another model which relate to this study was that developed by Commission Asesora en Alta Tecnologia (CAATEC) on its work known as "Information and communication

technologies and SMEs performance in Costa Rica in 2009. CAATEC researchers had conducted this study to analyze the role of information communication technology (ICT) on SMEs performance and the impact of targeted SMEs financing programmes on business growth. For instance, (Monge-González *et al* 2005) evaluate the importance of ICTs in the improvement of productivity and competitiveness of SMEs in Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua); and they concluded that internal factors that favor the adoption of ICTs in SMEs include the use of computers and the internet by most employees, the existence of a budget to purchase and maintain computers and internet services, a focus on scientific activities associated to business activities (such as increased levels of knowledge about modern software and advantages of using internet services), and the willingness to venture into e-commerce.

The CAATEC model was: $Y_i = \beta_0 + \beta_1 T_i + \mu_i$

Where:

Y_i : Outcome of the intervention

T_i : Binary variable that indicates intervention status

B_1 : Difference between the mean of Y_i in the experimental and control groups

The estimation of the causality between intervention and response variables depended on the formal setting used included the relevant control variables. The standard (basic) method was to run a regression included only the constant and an intervention dummy.

Another standard method was to run the regression with additional control variables obtained from the baseline data to include their main effects and they came with the following general model:

$$Y_i = \beta_0 + \beta_1 T_i + \sum_j \beta_j X_{ij} + \mu_i \times X T_i + \mu_i$$

Where:

X'_s : Various controls measured at baseline included in the regression (both on their main effects and as interactions with intervention status).

If the interaction between the control variables and the intervention was relevant as well, the results of the experiment could be used to run a regression of the form. Using this regression depended on the experiment chosen and the final objective of the analysis. Available evaluations results and data particularities would condition the construction of the balanced baseline. In addition, implementing partner's insights were a key input for the final experiment design.

2.3.1 Estimation model

The general model which was used in this work was the Multiple Linear Regression Model (MLRM) to estimate the factors affecting the performance of the SMEs in the study area. Therefore, I used the multiple regression model in which dependent variable depends on two or more explanatory variables (Gujarat, 2006).

The Multiple linear is regression model presented mathematically as:

$$Y_i = \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$$

Where:

Y_i = Dependent variable

x_{1i} , x_{2i} , and x_{3i} = Explanatory variables,

ε_i = Stochastic disturbance term

i = Observation or time variable

Therefore my estimation model was:

$$SMEsP_i = \beta_0 + \beta_1 DC(ASE)_i + \beta_2 BC(ASMEs)_i + \beta_3 CS(SICCS)_i + \beta_4 LS_i + \beta_5 MS_i + \varepsilon_i$$

Where:

$SMEsP$ = Small and Medium Enterprises performance indicated by average monthly income accrued
 $\beta_1 DC(ASE)_i$ = Demographic characteristics (age, sex and education level of the SMEs owners/ managers)

$\beta_2 BC(ASMEs)_i$ = Business characteristics (age of SMEs)

$\beta_3 CS(SICCS)$ = Capital structure (source of initial capital, and capital size)

β_4LS_i = Legal structure (means of operating SMEs)

β_5MS_i = Marketing strategy

ϵ = Error term

i = Time variable

2.3.2 Dependent and independent variables

The dependent and independent variables which was used in this study (assessment) are indicated in table 2.2 below:

Table 2.2: Variables used in the study

Dependent variable	Independent variables and their measurements
<p>1. SMEsP (SMEs performance) measured by average monthly income.</p>	<p>1. $\beta_1DC(ASE)_i$ = Demographic characteristics</p> <ul style="list-style-type: none"> - Age of SMEs owners/managers in years. - Sex of SMEs owners/managers (male or female). - Education level of the SMEs owners/managers. <ul style="list-style-type: none"> ❖ Not educated ❖ Primary education ❖ Secondary education ❖ College/University education <p>2. $\beta_2BC(ASMEs)_i$ = Business characteristics</p> <ul style="list-style-type: none"> - Age of SMEs in years. <p>3. $\beta_3CS(SICCS)$ = Capital structure</p> <ul style="list-style-type: none"> - Source of initial capital <ul style="list-style-type: none"> ❖ Personal savings ❖ Loan ❖ From the family - Capital size in Tanzanian shillings. <p>4. β_4LS_i = Legal structure</p> <ul style="list-style-type: none"> - Sole proprietorship - Family business - Incorporated company - Partnership <p>5. β_5MS_i = Marketing strategy</p> <ul style="list-style-type: none"> - Advertisement - Diversification - Providing new product and services to existing market

The choice of five performance variables (See table.2.2) was undertaken so that we may create a picture on how they are affecting the performance of the SMEs. The performance of the venture may reflect the higher productivity, problem-solving skills, and favorable access to networks associated with the general background of the SMEs owners, and managers (Cooper *et al.*, 1991).

Three variables were selected out of many demographic characteristics to reflect general background of the SMEs owners/managers: age, sex, and the level of education. All of these attributes are, of course, quite general and do not represent specific preparation for management responsibilities or for particular lines of business.

Education may be somewhat controllable by the individual, but minority status and sex are not. However, all of these may serve as proxies for life experiences and access to networks and other resources that bear upon the prospects for success of individual entrepreneurs (Cooper *et al.*, 1991).

In demographic characteristics there are many factors which might affect the performance of an enterprise including age, sex, marital status, ethnicity, and level of education. The importance of these three factors (age, sex and education level) why they have been chosen to be included in demographic characteristics of the SMEs owners, managers/and not the others were:

Education

Education is one of the most widely studied entrepreneurial variables. Presumably education is related to knowledge, skills, problem-solving ability, discipline, motivation, and self confidence. These may enable the SMEs owners, managers and employees but also entrepreneurs to cope with problems and thereby are more successful. However, it may be that more educated entrepreneurs and SMEs owners/managers perceive a higher opportunity cost in staying with a marginal business. This could lead to a higher threshold level of performance in order to stay with a venture (Cooper *et al.*, 1991).

Sex

In regard to the demographic characteristic again in sex, we might expect women to have fewer opportunities to develop relevant experience, to have fewer contacts that can provide assistance, and to have greater difficulty in assembling resources (Cooper *et al.*, 1991).

Tanzania in particular, in previous years women had little chance in starting and managing businesses due to various socio-cultural practices prevailed by that time. This made us to take sex in this assessment.

Age

On regard to the age we might expect the SMEs owned, and managed by old people would have to perform better than the young ones. This is due to the fact, number of years in doing business give a chance to the business owners, managers and the managers to have enough experience which will increase efficiency, hence better performance (Cooper *et al.*, 1991).

Business characteristics

We have decided to take business age in business characteristics and not business type, business location, and number of employees since we might expect the business which existed for many years would have to perform better as compared to those existed for few years. Also we expected the old SMEs to have better management environment, to diversify their business, and to be advanced in technological capabilities that would promote performance (Cooper *et al.*, 1991).

Capital structure

In accordance with capital structure we decided to take source of initial capital and capital size as our study variables. This is because we wanted to know the differences existed in performance between the SMEs which was established by capital from personal savings, loans, and from the families; and also to know the differences existing

between the SMEs established by large amount of money to those established by small amount of money.

Legal structure

Under legal structure of the business our intention was to look on the means of operating SMEs used by the owners/managers to attract more customers. The aim was to see the difference between the SMEs operated under sole proprietorship, family business, and incorporated company and in partnership respectively in relation to performance.

Marketing strategy

In accordance with market strategy we expect to know what strategy brought about the better performance between the SMEs among: product development strategy, diversification 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 market strategies, the organization is attempting to gain more sales from existing market and alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers.

2.3.3 Estimation techniques

The data collected were analyzed using descriptive statistics to get the qualitative results presented in frequency distribution tables in percentage. All quantitative analysis was performed by using STATA program using the Ordinary Least Squares (OLS). Regression model was used in estimation of parameters and hypothesis testing. Through this technique we were in a position to get the estimates of the partial regression coefficients β_1 's which were so useful in our interpretations.

2.4 Hypothesis to be tested

- (i) There is a positive relationship between demographic characteristics:
 - Age of SMEs owners/managers and SMEs performance
 - Sex of SMEs owners/managers and SMEs performance

- Education level of SMEs owners/managers and SMEs performance
- (ii) There is a positive relationship between business characteristics (age of SMEs) and SMEs performance
- (iii) There is a positive relationship between Capital structure (source of initial capital, and capital size) and SMEs performance
- (iv) There is a negative relationship between legal structure and SMEs performance
- (v) There is a positive relationship between marketing strategies and SMEs performance.

CHAPTER THREE

RESEARCH METHODOLOGY

The chapter represents a systematically the research methodology and research techniques used in this study. It includes: type of study, the study area geographical location, the study population, variables and their measurements, sample size and sampling techniques, types and source of data, and the data collection methods.

It also, justifies the methods which were applied in this study to answer the research hypotheses that: there is a positive relationship between demographic characteristics (age, sex, and education level of SMEs owners/managers) and SMEs performance, there is a positive relationship between business characteristics (age of SMEs) and SMEs performance, there is a positive relationship between capital structure (source of initial capital, and capital size) and SMEs performance, there is a negative relationship between legal structure and SMEs performance, and the last one is, there is a positive relationship between marketing strategies and SMEs performance.

3.1 Type of the study

Cross sectional study design (one-short study design) was used due to the fact that, is the only design which is best suited to studies aiming at finding out the prevalence of a problem or phenomena. According to this study our problem was the factors affecting performance of SMEs in Kilimanjaro regions that made them to generate low income, hence contribute little to economic growth in the study area whereby data will be collected only once. Also this study is useful in obtaining an overall picture as it stands at the time of the study, and since this design is cheap to undertake, and therefore due to financial and time constraints forced us to choose this kind of study design.

3.2 The study area

The study was conducted in Kilimanjaro region (case study), whereby Moshi urban, Moshi rural, Hai, Siha, Same and Mwanga towns were randomly selected as the study

areas in the region and therefore, data from all of these areas SMEs was collected randomly only once.

3.2.1 Geographical location

Kilimanjaro Region is one of the 26 regions in Tanzania. Its capital is Moshi. Kilimanjaro region is home to Mount Kilimanjaro. The Region is bordered to the North and East by Kenya, to the South by the Tanga Region, to Southwest by the Manyara Region, and to the West by the Arusha Region. Kilimanjaro Region was established in the early 1960s, until then it was part of the Northern Province (Kilimanjaro regional profile, 2010).

The region covers an area of 13,209 sq. km. or 1.4% of the area of the entire Tanzania mainland. Administratively, the Region is divided into six districts namely Moshi, Rombo, Mwanga, Same, Hai, and Siha with seven local government authorities. The region has a total of 30 divisions, 153 wards and 472 villages.

According to the 2002 Tanzania National Census the total population of Kilimanjaro region was 1,376,702 people. Population density was 104 per sq. km., population growth rate was 1.6 percent, and urban population was 21percent while the rural population was 79 percent. Total estimated population in 2010 was 1,635,870 people in which males were 797,764 and female were 838,106. Regional GDP by the year 2010 was Tanzanian shillings 1,438,637 million and per capita income was Tanzanian shillings 945,437 (Kilimanjaro regional profile, 2010).

3.3 Study Population

The population studied was SMEs owners, managers and the employees found in Moshi urban, Moshi rural, Same, Mwanga, Siha, and Hai towns. SMEs owners, managers and employees were interviewed by asking them to answer both closed and open ended questions orally.

3.4 Variables and their Measurement

Performance of the SMEs was measured by the monthly income of SMEs in Tanzanian shillings. Other variables were: demographic characteristics (age, sex, and education level of the SMEs owners/managers, that is, the highest education level attained by the SMEs owners, managers and employees); business characteristics (SMEs age, that is, time spent in doing business in years); capital structure (source of initial capital used by the SMEs owners in starting his or her business, and capital size, that is, amount invested in starting business); legal structure (means of operating SMEs including: sole proprietorship, family business, incorporated company and partnership respectively), and marketing strategy including: diversification strategy which entails developing new products and services for new markets, product development strategy which involves providing new product to existing market, advertisement strategy entails advertising products and services through mass media and leaflets and promotion programmes (Jones and Bartlett, 1991).

3.4 Sample Size and Sampling Technique

The target population in this study was the SMEs owners (male and female), in which the population size was obtained from Moshi urban, Moshi rural, Hai, Siha, Same and Mwanga towns. In this study I used a total of 200 sample size of which 50 samples came from Moshi urban, and the remaining 150 I took 30 samples from each of Moshi rural, Hai, Siha, Same and Mwanga towns.

3.5 Types and Sources of Data

The study used primary data which were both qualitative and quantitative. Qualitative data are those collected, analyzed, interpreted by observing what people do and say while quantitative data are the quantifiable data (Ngechu 2006). Open ended questions were used to gather qualitative data while closed-ended questions were used to capture quantitative information.

Primary data were collected through interview for the SMEs owners, managers and employees found in Moshi urban, Moshi rural, Hai, Siha and Mwanga towns. Information collected included: demographic characteristics (age, sex, and education level of SMEs owners/managers), business characteristics (age of the SMEs), capital structure (source of initial capital, and capital size), legal structure, marketing strategies, enterprise management, and financial constraints. The study used primary data because in most cases SMEs statistics are not shortly updated. Also the study used both qualitative and quantitative information to ensure quality of the findings and reasonable conclusion.

3.6 Data Collection Methods

The primary data was collected through the use of oral interview to the SMEs owners, managers, and employees. A semi-structured questionnaire which composed of both the open ended and closed ended questions was also used. Through the use of this questionnaire the respondents were interviewed and their responses were noted down on the questionnaire by the researcher. The questionnaire composed of nine questions which enabled the researcher to collect all the information necessary for the research (See Appendix III).

CHAPTER FOUR
PRESENTATION OF FINDINGS AND DISCUSSION

4.1 Descriptive results

4.1.1 Demographic characteristics of respondents

Table 4.1 describes the descriptive results as they were obtained from SPSS software followed by the elaboration after it.

Table, 4.1: Descriptive results

Variable	Categories		Respondents	Percent
1. Demographic characteristics	a) Education	1. Not educated	14	07
		2. Primary education	44	22
		3. Secondary education	84	42
		4. College/universities	58	29
	b) Sex	1. Males	117	58.5
		2. Females	83	41.5
c) Age				
2. Business characteristics	a) Age of SMES			
3. Business capital Structure	a) Source of initial capital	1. Personal savings	102	51
		2. Loan	64	32
		3. From families	34	17
4. Legal structure		1. Sole proprietorship	117	58.5
		2. Family business	33	16.5
		3. Incorporated company	21	10.5
		4. Partnership	29	14.5
5. Marketing strategies		1) Advertisement	161	80.5
		2) Product development strategy	23	11.5
		3) Diversification	16	08
6. Financial constraints		1. Yes	170	85
		2. No	30	15
7. Enterprise Management		1. Owners	123	61.5
		2. Managers/supervisors	77	38.5

4.1.1.1 Education of the respondents

On the education level of respondents, the descriptive results showed that: fourteen respondents which were about 07 percent were not educated; forty four respondents about 22 percent had the primary education. Furthermore the results showed that, respondents with secondary education were 84 making about 42 percent of the total respondents, and lastly fifty eight respondents about 29 percent of all respondents had college or university education (See Table.4.1). These results therefore, shows that most of the SMEs in the study area are owned, managed and operated by people with secondary education followed by those with college or university education. However there are also other people with only primary education or even those without education owning, and managing an enterprise.

4.1.1.2 Sex of respondents

Also in sex of the respondents the descriptive results showed that, out of 200 respondents interviewed, 117 respondents were male and 83 were female. This implies that in the study area male who were interviewed constituted about 58.5 percent and female constituted about 41.5 percent (See Table 4.1). These results showed that men were leading in the total number of those own and manage SMEs followed by women.

4.1.2 Capital Structure

4.1.2.1 Source of initial capital

Source of initial capital intended to know the source of amount invested by the enterprise owner to start his or her business. The descriptive results showed that, 102 respondents accounted about 51 percent of the SMEs owners got their initial capital from personal savings, 64 respondents accounted about 32 percent got their initial capital from loans, and also 34 respondents accounted about 17 percent got their initial capital from their families (See Table 4.1). This is to say that, most of the SMEs owners got their initial capital from personal savings, followed by those who got their initial

capital from loans and the last category were those who got their initial capital from their families.

4.1.3 Legal structure

In accordance with the legal structure, the descriptive results showed that, out of the 200 people interviewed it was found that 117 people used to operate their SMEs under sole proprietorship which accounted about 58.5 percent, 33 people used to operate their enterprises under family business which was equals to 16.5 percent. Also, 21 people used to operate their business under incorporated company which was equals to 10.5 percent and 29 people operated their SMEs through partnership that equals to 14.5 percent. This result showed that, most of the enterprises operated under sole proprietorship followed by family business, partnership and lastly was those people who run their SMEs under incorporated companies (See Table 4.1).

4.1.4 Marketing Strategy

This study also sought to know market strategies used by the business owner. The descriptive results have shown that out of 200 respondents interviewed, 161 respondents used advertisement strategy to promote their SMEs sales which was equals to 80.5 percent of all the respondents, 23 respondents replied that, they used to promote their business sales revenue through diversification (developing new products and services to for new markets) which was 11.5 percent and 16 respondents used product development strategy by providing new products to the existing market that, accounted about 8.0 percent. This implies that, most of the SMEs in the study area use advertisement as the strategy to attract more customers for the sake of increasing sale revenues to their business, followed by diversification, however, there are also SMEs used product development strategy to increase the customers (See Table 4.1).

4.1.5 Financial Constraints

Under the financial constraints, the question was set to investigate whether the SMEs owners are facing financial constraints in running or operating their enterprises. The descriptive results have shown that, 170 respondents replied that, they were facing

financial constraints in daily operation of their SMEs that presented 85 percent and 30 respondents out of 200 respondents were found to be with no financial constraints in operating their SMEs. Therefore, this implies that most of the SMEs in the study area were faced by the financial constraints in operating their businesses (See Table.4.1).

This may be in the study area there are few institutions which are providing loans. Also at the sometime these few loans providing institution provides loans with a lot of conditions such as high interest rates and short loans payback periods which made it difficult for entrepreneurs to access them.

This was also argued by Olugubenga and Ekiti (2012) that, financial and technological supports impact positively on the performance of SMEs. Also, Mateev and Anastasov, (2010) they found that, a firm's growth was related not only to the traditional determinant of size but also to other specific characteristics associated with its financial structure and productivity.

4.1.6 Enterprise management

Under the enterprise management, the study intended to distinguish the SMEs operated by the owners themselves against those operated by the managers/supervisors on behalf of the owners in the study area. The descriptive results have shown that, 123 respondents were the owners of the SMEs who used to run and their enterprises themselves which was equals to 61.5 percent. Also, 77 respondents were the employees (managers) to these enterprises that were equals to 38.5 percent of the total respondents. In comparison this descriptive result shows that, most the SMEs in the study area were operated by the owners, however, there are also some of the SMEs operated by the employees including managers/supervisors (See Table 4.1).

This is also supported by Schimtt *et al.*, (2002) when they found that, it was plausible that, the moment when the small business owner has to switch management practices from a highly informal and flexible “direct supervision” to a professional management of “supervised supervision” depends on a series of internal and external factors, such as:

the experiences and management capacities of the owner-manager, the general and technical educational level of employees and employer, the branch in which the SME operates and the complexity of its operations.

4.2 Estimation Results

Table 4.2 shows the estimation results as they were obtained from STATA software.

Table 4.2: Estimation results

Income	Coefficient	Std. Err.	t	P> t	[95% Conf. Interval]	
SMEs age	203361.7	97239.16	2.09	0.038	11521.44	395201.9
Age of SMEs owners, managers and employees	-23470.6	30596.64	-0.77	0.044	-83833.86	36892.52
Capital size	.8335934	.029554	28.21	0.000	.7752873	.8918995
D1Source of initial capital	-1980020	1039865	-1.90	0.058	-4031539	71497.87
D2Source of initial capital	104880.9	1098054	0.10	0.924	-2061437	2271199
D1Education level	825527.7	1619943	0.51	0.611	-2370410	4021465
D2Education level	295431.9	952351.5	0.31	0.075	1583434	2174297
D3Education level	639743.8	1010999	0.63	0.528	-1354826	2634314
D1Enterprise management	-1636648	1025003	-1.60	0.112	-3658847	385550.1
D2Enterprise management	-242290	1238155	-0.20	0.845	-2685008	2200428
D3Enterprise management	-990710.9	1123330	-0.88	0.379	-3206894	1225472
D1Marketing strategy	-1373288	1161050	-1.18	0.238	-3663888	917311.6
D2Marketing strategy	3599264	1707265	2.11	0.036	231052.3	6967476
Sex	408358.7	754520.7	0.54	0.589	-1080212	1896930
_cons 	-6621993	2385001	-2.78	0.006	-1.13e+07	-1916697

4.2.1 Education level of respondents

In regression the reference category in the highest education level attained by the enterprise owners, and managers was primary education, the coefficient for non-educated respondents that, is, those who did not get formal education was found to be 825527.7, and for college/university education was 639743.8. These coefficients were not statistically significant and therefore they will not take part in discussion. The coefficient for secondary education was found to be 295431.9, which was statistically significant implying that for a unit increase in income by the enterprise owners/managers who had primary education there was 295431.9 units increase in income by those who had secondary education (See table.4.2). This result implies that, those SMEs owners/managers with secondary education perform better compared to those with primary education and college/university education.

This might be due to the reason that, the SMEs owners, managers 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 business subjects are taught, for example, 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.

Under the normal circumstance people with secondary education cannot be compared with those with primary education and those who are not educated.

For the case of those with college/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 SMEs in the study area.

This was also argued by Ogubenga and Ekiti (2012), when they conducted a study on the investigation on the impact of technological, infrastructure and financial supports on the performance of SMEs in Nigeria. In regarding to education level of the owners and managers, they found that, there was a positive relationship between the level of education and SMEs performance.

This result supports our hypothesis number one that, there is a positive relationship between demographic characteristics (education) and SMEs performance.

4.2.2 Age of the SMEs owners/managers

The empirical results shows that, age of respondents was another factor under the business characteristics which was significant whereas it was found to have -23470.67 coefficient mean that; for a unit increase in the age of the SMEs owners/managers there was a decrease in income by -23470.67 units in income accrued from their SMEs (See Table.4.2). These results shows that, the SMEs owners/managers who are old used to get low income compared to their counterparts who are young who get more income from their enterprises.

This also support our hypothesis number one that, there is a positive relationship between demographic characteristics (age of SMEs owners, managers and employees) and SMEs performance.

The major reasons for this might be the following: the young 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 NGOs through seminars, and workshops in recent years including, the methods of starting new businesses, concepts on risk management and the ways of making their business sustainable. Also, the information communication technology (ICT) which enable 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 exist in previous years, while the old ones did not get this opportunity in which this 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 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 whose energy has started to decrease due to their old age.

Another reason might be due to the fact that, old people sometimes it is difficult for them to make on spot decisions when something bad or opportunity arises in the business.

4.2.3 Sex of SMEs owners/managers

The estimation results showed that, the coefficient for the sex of the respondents was found to be 408358.7 and it was statistically insignificant (See Table.4.2). Therefore, sex is not a determinant factor of whether an enterprise performed better or not, however in the descriptive results many SMEs were owned and managed by men.

Therefore, this shows that, demographic characteristics (education level and age of respondents) are the factors which affect the performance of the SMEs whether to get low or higher incomes as they can enable the owners/managers to manage their enterprises well due to their education level and age which leads to better results.

These results supported our hypothesis number one which was: there is a positive relationship between demographic characteristics (age, and education level of SMEs owner's/managers) and SMEs performance.

Aidis (2002) found that, there were considerably fewer female SMEs owners than male SMEs owners. The estimation results under business size showed that, sex was strongly and significantly negatively associated with business size and in business turnover; the results indicated that sex was significantly associated with business turnover.

4.2.4 Business characteristics

4.2.4.1 Age of SMEs

Under the business characteristics, the SMEs age was used to measure the performance of the SMEs. The empirical results showed that, the age of SMEs was statistically significant since its coefficient was found to be 203361.7, meaning that; for a unit increase in the age of the SMEs there was an increase in income accrued from them by 203361.7 units (See Table.4.2).

In accordance with the above results, shows that, SMEs that operated for many years, generally they are getting more income compared to their counterparts SMEs which operated for few years; this is to say, the old SMEs perform better as compared to the young SMEs.

This again supports our hypothesis number two which was: there is a positive relationship between business characteristics (age of SMEs) and SMEs performance.

We think the reasons why the SMEs which operated for many years perform better than those operated in few years are: first is experience itself, the SMEs which have operated for a long time have much experience in doing their businesses including, understanding the challenges that would face their businesses and the means to overcome them, which in turn increases sales revenue, management and organizational techniques, that means,

the good ways of managing and organizing business so as to increase their sales revenues compared to young enterprises.

Second is that, old SMEs might have a developed and efficient marketing strategies such as diversification marketing strategy, market penetration strategy, market development strategy, and product development strategy. For, example, during the oral interview most of the respondents who owned and managed old SMEs showed that they used to diversify their SMEs by opening new business branches so as to get new markets which in turn increased the income accrued from them. This was also argued by Alberto *et al* (2013) that, the potential benefits for SMEs, coming from its adoption, rely upon what entrepreneurs really do when they think they are implementing a marketing programme.

Third reason may be that, the old SMEs have more access in getting loans from different financial institutions including banks and other financial intermediaries as they are well known to those institutions, but also the loan security is of high compared to the young ones which encourage those financial institutions to trust them by giving them the amount they want. Four, is that, old SMEs might be more advanced in technology that they used in production of goods and services which may be promoted through research and development investments.

That is, to say that, the SMEs which are old perform better compared to those which are young due to the fact that, the number of age in operation give them a better chance to promote themselves.

4.2.5 Capital structure

The regression results have shown that, the coefficient for personal savings as a source of initial capital was found to be -1980020 and was statistically significant. This implies that, for a unit increase in SMEs owners who used personal savings as their source of initial capital there was a decrease in income by -1980020 units by those got their initial

capital from their families. The coefficient for loan was found to be 104880.9 and it was not statistically significant (See Table.4.2).

This result support our hypothesis number three which was: there is a positive relationship between capital structure (source of initial capital) and SMEs performance.

This might be, 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 and short periods of paying back the loans set by the banks and cooperative societies such as SACCOS in which some of the owners fails to meet them, hence forced them to use personal savings as a major source of initial capital to start new business.

But again, saving custom of the people in the area makes them to use personal savings as a source of their initial capital, due to the fact that, during the oral interview most of the respondents said they had personal accounts before they started their businesses. This is to say in the study areas most the SMEs owners started their businesses by using personal savings as their major source of capital to initiate their businesses.

4.2.5.1 Capital size

On the empirical results from the regression showed that, the coefficient for the capital size was found to be 8335934, which was highly statistically significant (See Table.4.2). This result implies that for a unit increase in the amount invested by the enterprise owner there was 8335934 units increase in income accrued from their SMEs.

This result also supports our hypothesis number three stated that: there is a positive relationship between capital structure (capital size) and SMEs performance.

This result implies that, for those SMEs in which their owners invested large amount of money they used to get higher income compared to those who invested the small amount of money. This is due to the fact that, when a large amount of money is invested in a business it gives a chance for the owners to purchase modern inputs including machines,

transportation equipments (trucks, cars), building warehouses, employ skilled labours, and investing in market research which in turn will lead to the higher outputs.

Therefore, SMEs that was 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 SMEs performance since it can determine the amount of income accrued by the owners. This is also supported by the study conducted by Olugbenga and Ekiti (2012) on investigation on the impact of technological, infrastructure and financial supports on the performance of (SMEs) in Nigeria whereby they found a positive relationship existed between output and initial capital invested.

4.2.6 Legal structure

Furthermore, the empirical results from the estimation showed that, the coefficient for family business was found to be -1636648; this coefficient was not statistically significant. The results showed further that, the coefficient for incorporated company was found to be -242290 and this coefficient was also not statistically significant and the coefficient for partnership was found to be -990710.9 which also insignificant (See Table.4.2). This is to say that, legal structure had no impact on business performance in the study area.

This also, supports our hypothesis number four which was: there is a negative relationship between the legal structure and SMEs performance.

4.2.7 Marketing strategy

On the regression process the results have shown that, the coefficient for product development strategy was found to be -1373288 and it was statistically not significant. The coefficient for advertisement was found to be 3599264 and it was statistically significant. It implies that, for a business that used advertisement as a market strategy there was an increase in income by 3599264 units accrued from the business (See Table.4.2).

This result also support our hypothesis number five which states that: there is a positive relationship between marketing strategies and SMEs performance.

This might be due to the reason that, advertisement is the only market strategy which covers the large area and reach almost all segments of the population in the study area through mass media including radios, news papers and leaflets; since we have seen that, in the study area there are several radio stations including: Kili fm. Moshi fm, Boma Hai fm and Sauti ya Injili fm. This enables products and services to be well known to many people within a short period of time.

This was also evidenced by Jones and Bartlett (2010) from literature review when they argued that, for any business with growth market strategies, the organization is attempting to gain more sales from existing market and alternatively native growth perspective might lead the firm to develop a new product or service that can generate sales from existing customers.

Moreover, the adoption of the marketing approach is conditioned by entrepreneurs' own conception of marketing which may be substantially different from that proposed in a paradigmatic way by academics under different names that, is, the transactional relationship or inductational marketing (Alberto *et al.*, 2013).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND POLICY IMPLICATIONS

5.1 Summary

This study aimed at assessing factors that affect the performance of the (SMEs) in Moshi urban, Moshi rural, Hai, Siha, and Mwangi towns in Kilimanjaro region. It explained factors by taking much attention on demographic characteristics (age, sex, and the education level of SMEs owners, managers and employees), business characteristics (age of the SMEs), capital structure (source of initial capital in starting the enterprises, and capital size), legal structure, marketing strategies, financial constraints, and enterprise management. This study incorporated the differences in income accrued from the SMEs upon the given factors affecting their performance. Regression model was used to generate the estimates that used in the assessment.

The results showed that there were differences in income which were an indicator for performance that is, SMEs that accrued more income perform better compared to those which accrued low income in regarding to the factors that affect SMEs performance.

Justification of this is supported by the evidence that, the results which were found on regard to demographic characteristics (age, sex, and education level) showed that, on age of the respondents the result showed that, the SMEs owned, and managed by the middle-aged people and employ people 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 affected the performance of these enterprise; and on regarding to education level of the enterprise owners, managers and employees the results have shown that, education contributed significantly to SMEs performance.

Furthermore, the results on business characteristics (age of enterprise) have shown that old SMEs get more income as compared to young ones that means they perform better than young ones. In capital structure (source of initial capital and capital size), the

results have shown that, SMEs owners who got their initial capital to start their business from personal savings perform better compared to those who got their initial capital from loans, and from their families, and the SMEs that started by large amount (capital) investments performed better compared to those started by small amount invested.

In legal structure the results showed that means of operating an enterprise did not affect its performance and in market strategy advertisement was used as a major marketing strategy and it contributed significantly to the performance of the SMEs in the sense that, the SMEs which used advertisement to attract more customers increased their sales revenue, hence, performed better compared to those which promoted their businesses through diversification and product development strategies.

Furthermore, on regard on issue of SMEs management, the results have shown that, most of the SMEs were owned and operated by owners themselves compared to those managed and operated by workers. Moreover, under the financial constraints, the results revealed that, nearly all SMEs were faced by the financial constraints in their daily operations that made them to get less income which in turn lowering their performance.

5.2 Conclusion

It is evidenced from the findings that, demographic characteristics (age, and education level of the SMEs owners, managers, and employees), business characteristics (age of the SMEs), capital structure of SMEs (source of initial capital, and capital size), and the marketing strategies, as were stated in the hypothesis are the factors influencing income accrued from the SMEs which is an indicator for performance that, means, the enterprises which get much income performed better compared to those which get low income.

5.3 Policy implication

The main reason for this assessment was to test the hypotheses as follows: there is a positive relationship between demographic characteristics (age, sex, and education level of SMEs owners, managers, and employees) and SMEs performance, there is a positive

relationship between business characteristics (age of SMEs) and SMEs performance, there is a positive relationship between capital structure (source of initial capital, and capital structure) and SMEs performance, there is a negative relationship between legal structure and SMEs performance, and there is a positive relationship between marketing strategy and SMEs performance.

The results have shown that, the demographic characteristics, business characteristics, capital structure and the marketing strategies factors have significance contribution to the SMEs income whether in positively or negatively manner, but legal structure did not have the contribution to the SMEs performance.

Economic Reform Programmes implemented by the Tanzanian Government have been based on the philosophy that Tanzania is committed to a market economy whereby the private sector will take the lead in creating incomes, employment and growth. On the other hand, the State will be a producer of public goods, play a regulatory role to level the playing field and create conducive environment for the private sector to take the lead in driving economic growth. This philosophy is evident in almost all policy statements made since 1986.

The private sector has started playing an ever increasing role in creating incomes and employment. SMEs account for a large share of the enterprises active in Tanzania. In fact SMEs are the emerging private sector and do form the base for private sector-led growth (URT, 2002).

SMEs in the country they have been facing a number of problems despite of the on-going reform programmes. These problems are: a persistent culture that has not recognized the value of entrepreneurial initiative in improving the lives of the people; complex bureaucratic and costly legal regulatory and administrative environment where SMEs are at a greater disadvantage than their counterparts that are larger in size; the high cost of compliance to regulations may discourage potential entrepreneurs from

formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment; insufficient competition and inadequate information on the credit markets of Tanzania, banks are discouraged and not willing to lend to SMEs; legislation and regulation on collateral exclude movable assets as mortgages, thereby putting smaller businesses that own more of these assets into a disadvantaged position compared to their larger business counterparts, SMEs have lower demand for business development services such as training, counseling, advising and consultancy due to cost considerations and lack of knowledge about the benefits of external services in improving competitiveness (URT, 2002).

Due to the above mentioned problems the government of Tanzania introduced a SMEs development policy in 2002, with the aim of addressing constraints facing SMEs operations. The SMEs policy also entailed different strategies that the government intended to pursue to benefit the SMEs sector.

In this section, some of the findings of this research are compared with the conceptual underpinnings of the SMEs policy. In addition, the usefulness of the policy will be assessed both in terms of its intended objective as well as its implementation framework.

The overall objective of SMEs policy is to foster job creation and income generation through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy (URT, 2002).

There is a need for the government to put in place specific emphasis on promotion of SMEs through the following measures: supporting existing and new SMEs, review of tax regime to ensure tax simplification, simplification of licensing procedures and registration of SMEs, implementing a programme on business environment strengthening for Tanzania (BEST) and to implement the competition policy.

In addition, the government should encourage informal sector businesses to grow and be formalized. Furthermore, the government should identify measures to enable indigenous

entrepreneurs, especially women, youth and people with disabilities to take part in SMEs business. Also, it should ensure the provision of financial services to SMEs in rural areas as well as in the urban sector that are engaged in this business.

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

Therefore in demographic characteristics on regarding to education the government or policy making bodies should make sure that SMEs owners are given training through seminars and workshops concerning business management that will enable them to manage business risks and making them sustainable.

Also the government should 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 SMEs.

When SMEs owners seeking 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 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 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 economic development.

In accordance with business characteristics (age of the SMEs), there is a need for the government to look at those 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 (source of initial capital, and capital size); under the source of initial capital, we have seen some cases in which the personal savers are perform better in business compared to the other sources. So there is a need for the government to provide education to them on how to save money in formal financial institutions, this will help them to perform better in their business.

But again in capital size, 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.

Financial constraints also have a great contribution to SMEs performance since most of the SMEs appeared to face financial difficulties in operating their business. Government should formulate an organ which will responsibly deals with loans provision to the SMEs for the sake of overcoming financial constraints which are facing them to increase their revenues. Also, the government should govern the financial institutions to reduce conditions when providing loans to the SMEs owners that could enable people to start new businesses and expand the existing ones which in turn will bring about better performance.

5.4 Recommendations

In this study we have seen that on regard to demographic characteristics (age, sex, and education level of SMEs owners, managers and employees), business characteristics (SMEs age), capital structure (source of initial capital, and capital size), and marketing strategy are the factors affecting performance of SMEs.

There is a need to make sure that the SMEs owners and managers and the community at large are educated and encouraged to organize themselves in savings and credit cooperative societies such as “Vikundi vya Biashara Ndogondogo” (VIBINDO) that will enable them to borrow some money for starting and expanding business.

Another is to make sure that before lending loans to SMEs owners, the loans providing institutions should provide them with enough and appropriate training on how to utilize these funds. This is simply because without education some of them will end up poor results due to the fact that these loans they should to be paid back and if happen they fail to pay back the loans together with the interest rates, the loans provider will sell their assets in order to get their money back and make them bankrupt.

Also, I think there is a need to formulate policies which will encourage more women to participate in SMEs businesses because through these businesses they may generate

more income and thus solve the problem of unemployment. This is due to the fact that in this study only 42 percent of women were engaged in SMEs business.

Another area that requires more attention is on the need to make sure that SMEs owners, managers and the employees are educated on the importance of involving in SMEs, together with the means of improving their business by avoiding environment that leads to business risks and entrepreneurial skills which in turn will make their business more sustainable.

Various initiatives towards improving the infrastructures and especially roads do provide an added opportunity for SME development so that, they should be improved and constructing the new ones. Furthermore, there are several ongoing schemes aimed at strengthening SMEs service providers such as Small Industries Development Organisation (SIDO), Vocational Education Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organisations which should be encouraged and assisted by the government to fulfill their intended objectives since, these interventions will provide opportunities for growth of the SMEs sector in the country.

SMEs industrial estates should also be constructed and the promotion of the existing should be undertaken at regional headquarters and the establishment of training-cum-production centers that offered simple rural based technologies should also established in the study area and in many other areas across the country.

Introduction of hire purchase programs through which more entrepreneurs will be assisted with machines and working tools should be established in the area, together with setting up of regional extension services offices that rendered advice on setting up of new SMEs, choice of technology, preparation of feasibility studies, preparation of economic surveys, installation, operation of machinery, maintenance and marketing of products. This will promote the performance of SMEs.

There is a need to put in place specific emphasis on promotion of SMEs through the following measures: supporting existing and new SMEs, review of tax regime to ensure

tax simplification, simplification of licensing procedures and registration of SMEs, implementing a programme on 'Business Environment Strengthening for Tanzania (BEST) and to implement the business competition policy.

5.5 Limitations of the Study and Areas for Further Research

This research assessed the factors affecting performance of SMEs. However, this study is not exhaustive on the role that SMEs play in job creation and economic growth.

It is believed that both the rates of gross job creations and job losses are significantly higher for SMEs than their larger counterparts, reflecting greater turnover of staff among small enterprises. Therefore, future research work could investigate net job creation to better determine the employment capacity of SMEs.

Currently, there is also no reliable and current data on the SMEs sector. Most of the recent surveys were limited in coverage and compilation of critical data that would facilitate further analysis on the role of SMEs from both socio economic and macroeconomic perspectives (Davis 1996).

In this case there is a need for a baseline survey data that will provide accurate, formative data on the characteristics and performance of the SMEs business sector.

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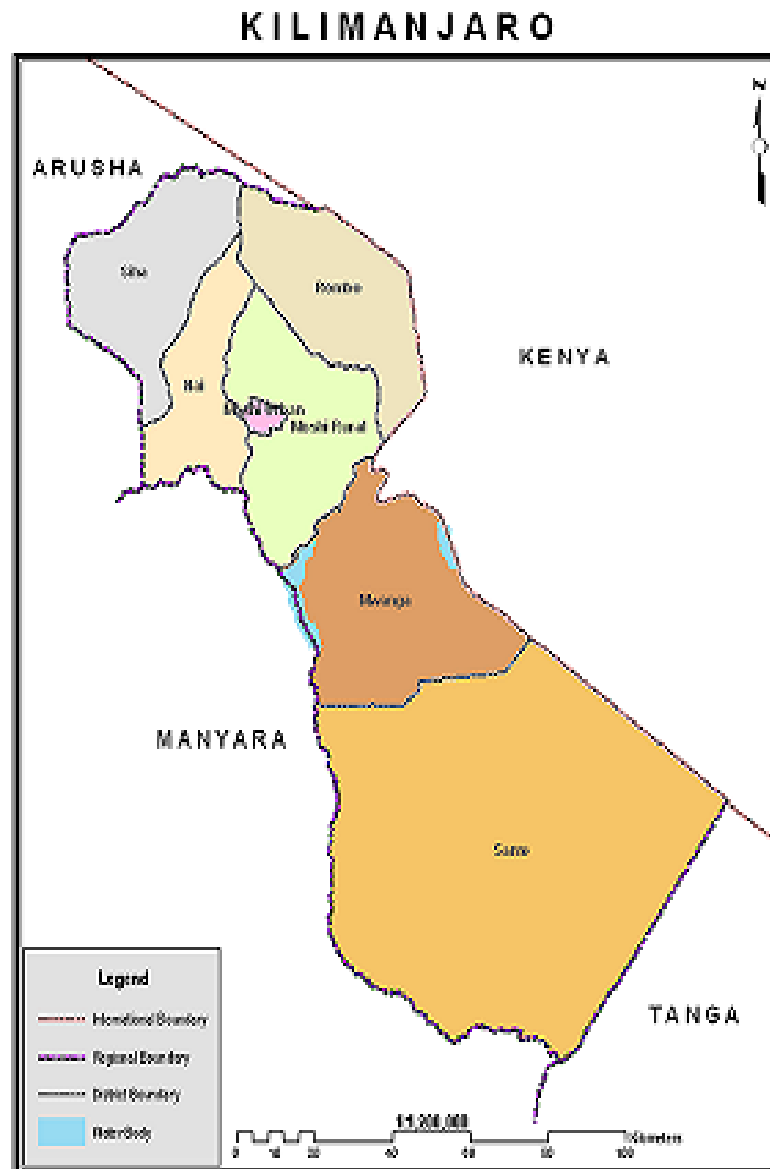
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APPENDICES

APPENDIX I

Map of Kilimanjaro region



APPENDIX II

HETEROSCEDASTICITY AND MULTICOLLINEARITY TESTS

HETEROSCEDASTICITY TEST

. hettest

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance

Variables: fitted values of income

chi2(1) = 370.64

Prob > chi2 = 0.4562

When testing the heteroscedasticity it was found that the value of Prob > χ^2 was 0.4563, since this value is not significant then this implies that there is no heteroscedasticity problem in our regression.

MULTICOLLINEARITY TEST

. vif

Variable	VIF	1/VIF
-----+-----		
Entage	1.83	0.546181
D2educ	1.72	0.580730
inicap	1.72	0.580811
D3educ	1.65	0.605592
D1educ	1.31	0.764621
D3entrun	1.21	0.826640
ageresp	1.17	0.853244
D2entrun	1.12	0.894267
D1entrun	1.08	0.925400
-----+-----		
Mean VIF	1.42	

When testing the multicollinearity problem it was found that the value of mean VIF was 1.42, since this value is less than 10 then this implies that there is no multicollinearity problem in our regression.

SURVEY STUDY QUESTIONNAIRE

INTRODUCTION

Dear Respondent;

I kindly request you to participate in this study that aims to *assess the factors affecting performance of small and medium enterprises (SMEs) in Kilimanjaro region*. This study is based at the Mzumbe University to fulfill the requirement for the award of Master of Science in Economics (MSC. Economics). I would be grateful if you would volunteer to spare the time to assist in this study by answering the questionnaire which is intended to capture your ideas and perceptions on the factors affecting performance of SMEs. The information gathered will not be used in any other way and will be kept strictly confidential.

SMEs OWNERS, MANAGERS AND EMPLOYEES QUESTIONNAIRE

Please tick [] the most appropriate alternative/s

1. Gender? Male [] Female []

2. How old are you?

3. (a) Are you the owner of the enterprise?

[] Yes

[] No

(b) What is your current position in the enterprise?

[] Manager/supervisor [] Employee

4. What is your highest level of education?.....

5. How long has your enterprise been in this business?.....

6. (a) What is the source of your initial capital?

Personal savings

Loan

From the family

If other sources, please indicate

(b) What amount of do you used in starting your business/enterprise?

7. Which of the following categories best describes enterprise management?

Sole proprietorship

Partnership

Family business

Other (Specify).....

Incorporated company

8. What is your marketing strategy?

Advertisement

Diversification

Providing new products and services to existing market

Others (Specify)

9. Do you have financial constraints in your business?

Yes

No