Factors Limitingthe Growth And Development of Small Businesses– Evidence From Mara Region, Tanzania.

Dr. Janes O. Samwel, PhD
East Africa Regional Human Resource Manager, Ausdrill East Africa, P.O Box 1917, Mara, Tanzania
Corresponding Author: Dr. Janes O. Samwel, PhD

Abstract: Small businesses play a significant role to the economy of Tanzania by creating employment, generating income and help in poverty reduction. In order to grow and prosper small businesses need conducive or supportive business environment. The purpose of the study was to identify the factors that hinder the growth and development of small businesses in Mara Region. The study was exploratory in nature which adopted cross-sectional survey design. The study used a sample size of 235 respondents selected using stratified random sampling method from the target population of 631 small businesses from five districts of Mara Region. Data was collected using structured questionnaire and interview with the business owner. Data was analysed using frequencies and percentages and the results presented using tables. The findings of the study depicts that small businesses in Mara region are surrounded by many challenges that affect their growth, development and sustainability the study recommends that the government should put in place good businesses regulations that support the growth and development of small businesses in the country also Similar study should be conducted in other regions of Tanzania.

Keywords: Small businesses, growth, Development and Mara Region.

I. Introduction

1.1 Background of the study
The contribution of small businesses to economic development is inescapable, Small businesses being one of the good contributors to economic growth; they form an integral part of the key contributors to economic development in developed and developing countries like Tanzania. In Tanzania, small businesses fall under small and medium enterprises which are defined according to employment capacity or size, capital Investment and Sector. Today many countries in the world deeply depend on small businesses to boost their economy. The leading economies in the world rely on the growth and development of small and medium enterprises for employment opportunities and national sustainable growth (Van Praag, 2003). Small and medium enterprises are the backbone of modern economy and engines of growth, though they are under-represented, stifled by perverse regulatory climates and poor access to inputs (David de Ferranti & Anthony, 2007). It is very important to develop small and medium enterprises in order to develop national economies (Zheng, O’Neill & Morrison, 2011). Small businesses and enterprises are the keys to the growth and development of any society (Abor & Adjasi, 2007). There is a positive relationship between small businesses and economic growth (Gebremarian et al, 2004). The dynamic role of small and medium enterprises in developing countries ensures them as engines through which the growth objectives of developing countries can be achieved (Mahembe 2011).

1.2 Statement of the problem
Despite the economic contribution of small businesses to Tanzania economy and several measures that have been taken by the government of Tanzania through the creation of the National policy of Small and Medium Enterprises, small businesses still face some problems that hinder their growth and development that must be given special attention, addressed and reduced to zero degrees. If the present intricate and controversial situation surrounding small and medium enterprise and is not reversed and brought to rest then the development of small and medium enterprises is on the slippery slope (Mfaume & Leonard 2003). Locally and globally, small businesses are always regarded as high-risk operations due to the presence of factors that are not easy to anticipate adequately (Thomas, 2000).

II. Literature Review

2.1 Contribution of small businesses to economic growth and development
The role played by small businesses in economic growth and development has increased tremendously in the recent years due to changes in business technology. Schumacher (1973) postulated that small and
medium-sized enterprises have become popular in the world especially since the 1960s. According to Audretsch et al., (2000) previously, small businesses were believed to contribute to economic growth by attracting scarce resources from their larger counterparts. Dean et al (1996) affirmed that it is now well accepted both among academicians and policymakers that small businesses play a vital role in contributing to the overall economic performance of the countries. Berry (2007) stated that small and medium enterprises are important to all economies in the world especially to those in developing countries. The World Bank report of 2004 pointed out that the role of small and medium enterprises has been recognized as important by every nation around the world in poverty reduction and sustainable economic growth. Small and medium enterprises are drivers of capital formation and economic growth through their employment generation potentials (Ismaila, 2012). Frimpong (2013) narrated that in developed economies, small and medium enterprises are recognized as the main engines of economic growth and development because of their significant contributions to economic growth and prosperity. Warner (2001) commented that small and medium enterprises help to reduce poverty. According to Day (2000), the small firm is too important, too dominant and too much about creating the future business generation for marketing practitioners.

It is obvious that many countries in the world need small businesses sector to support their economic growth and development, small businesses are the source of big business, majority what we now call big businesses or multinational companies started as a small business. Small businesses are estimated to account for at least 95% of registered firms in the world and account for approximately 60% of private sector employment (Ayyagari et al., 2011). Small and medium enterprises are engines of growth and development for most economies in both developed and developing countries (Asare, 2014). Berisha and Pula (2015) reported that small and medium enterprises account for 90% of firms and employ 63% of the workforce in the world. According to Vuolle (2014) small and medium enterprises in the United States accounted for 13% of the total manufactured goods exported. Wessner (2013) postulated that in Germany small and medium enterprises provide a large number of jobs and are extremely productive and they make up for what is known as the “Mittelstand”. In India, small and medium enterprises employ about 45% of the Indian workforce also contribute to contribute to 40% of all manufacturing products and 17% of the country’s Gross Domestic Product (Goyal, 2013). Similarly, Uma (2013) supported that small and medium enterprises contribute to 40% of India’s total exports. Similarly, a study by Srinivas (2013) on micro, small and medium enterprises and their contribution in India’s economic growth found that micro, small and medium enterprise play a significant role in inclusive growth in Indian economy. In Pakistan, small and medium enterprises comprise of almost 95% of all enterprises and contribute to 80% of total employment (Hussain et al., 2012) they also contribute to 25% of export of manufacturing goods and 30 % of Gross Domestic Product (Saeed, 2009).

African countries like other countries in the world enjoy the same economic sweet contributed by small businesses to economic growth and development. This contribution to economic growth has been limited and devastated by prolonged and ongoing civil strives and wars in some African countries (Nagler & Naudé, 2014). Small and medium enterprises contribution to employment in African countries is at an average of 78% (Ayyagari et al., 2011). The study conducted by Abor and Quartey (2010) contended that 91% of the formal business entities in South Africa are small and medium enterprises and that these businesses contribute between 52% to 57% to Gross Domestic Product and account for approximately 61% of employment. In Tanzania, small businesses are categorized under Small and Medium Enterprises and they have a huge contribution to the country economy through job creation and poverty alleviation; and it is estimated that more than one-third of the country’s Gross Domestic Product comes from small and medium enterprises. Mnenwa and Maliti (2005) highlighted that small businesses contribute to poverty alleviation by generating income in form of profits to entrepreneurs, salaries to workers and job creation in Tanzania.

III. Research Methodology
The study was exploratory in nature which adopted cross-sectional survey research design and used a qualitative approach. The sample size of the study was 235 respondents selected using stratified random sampling technique from the target population of 631 small business owners form five districts of Mara Region. The data was collected using structured questionnaires administered to business owners and in-depth interview guide and analysed using descriptive statistics such as frequencies and percentages and results presented using tables.
Factors Limiting the Growth and Development of Small Businesses—Evidence From Mara Region.

IV. Analysis of The Findings

Table 4.1: Problems hinder the growth and development of small businesses in Mara Region.

<table>
<thead>
<tr>
<th>Problem Statement</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of enough capital</td>
<td>27</td>
<td>11.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Inadequate support from financial institutions such as banks</td>
<td>31</td>
<td>13.2</td>
<td>24.7</td>
</tr>
<tr>
<td>Unsupportive government regulations</td>
<td>32</td>
<td>13.6</td>
<td>38.3</td>
</tr>
<tr>
<td>Unpredictable government taxes</td>
<td>46</td>
<td>19.6</td>
<td>57.9</td>
</tr>
<tr>
<td>Lack of proper knowledge of financial management</td>
<td>13</td>
<td>5.5</td>
<td>63.4</td>
</tr>
<tr>
<td>Lack of adequate business skills</td>
<td>15</td>
<td>6.4</td>
<td>69.8</td>
</tr>
<tr>
<td>Rapid changes in business technology</td>
<td>19</td>
<td>8.1</td>
<td>77.9</td>
</tr>
<tr>
<td>Inadequate business objectives and plans</td>
<td>20</td>
<td>8.5</td>
<td>86.4</td>
</tr>
<tr>
<td>Strong business competition</td>
<td>16</td>
<td>6.8</td>
<td>93.2</td>
</tr>
<tr>
<td>Lack of Commitment and mixing-up of family matters with business affairs</td>
<td>16</td>
<td>6.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>235</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

4.1 Lack of enough capital

The findings indicate that 11.5% of the respondents mentioned lack of enough capital to run the business as one of the problems that hinder the growth of small businesses in Mara Region. Curran and Blackburn (2001) supported that the major reason why the majority of newly established firms fail in the first three years of their establishment is due to their inability to raise finance needed for the completion of projects. A study by Mambula (2002) on 32 small firms in Nigeria found that small firms fail because of lack of acquired foreign capital to purchase machinery and small parts. Newberry observed that three major factors affecting small and medium enterprises development are unfavourable investment climate, harsh regulatory environment and financial constraints. Survey (2005) asserted that from global survey, constraint with respect to finance was a major obstacle to small and medium enterprises’ growth. Demirguc and Maksimovic (2006) accepted that the major problem of small and medium enterprises is finance.

4.2 Inadequate support from financial institutions such as banks

Inadequate support from financial institutions was reported by 8.5% of the respondents as a challenge affecting the growth and development of small businesses in Mara region, the respondents stressed that it is not easy to get financial support due to the high demanding procedure and the long process of accessing finance from financial institutions. Clemens (2006) supported that it is very difficult and unaffordable for the majority of small and medium enterprises to borrow money on favourable terms from financial institutions, the most identified obstacle to their sustainable growth and development is lack of access to finance. Small and medium-sized enterprises often fail due to lack of access to finance and lack of entrepreneurial skills (Ladzani & Netswera, 2009). Lack of access to easy finance is a major cause of failure in small and micro, medium enterprises in many Sub-Saharan African countries (Macpherson & Holt, 2007). The adoption of collateral-based lending approach prevents the supply of finance to small businesses (Amentie et al, 2016). Inadequate financial facilities, lack of information about the ability to repay loans and underdeveloped financial system providing few financial instruments are some reasons why small and medium enterprises are unable to access finance (Kauffman, 2005).

4.3 Unsupportive government regulations

The study results show that 13.6% of the respondents pointed out that unsupportive government regulations are the threat to the growth and development of small businesses. Rummler and Brache (2004) commented that the processes that aim to benefit small, micro and medium enterprises must be free from bureaucratic procedures and bottlenecks in order to enable them to reach their full potential and achieve goals and objectives. Jones and Tilley (2003) stated that new businesses encounter a number of barriers to success throughout the start-up period and during their first year of operation which includes government controls. A study by Kodicar (2008) found that the overloaded restrictive social and industrial legislation and paperwork have a negative effect that retards the growth of small businesses. Eniola and Entebang (2015) discovered that government regulations and their bureaucratic procedures can either hinder or facilitate entrepreneurship activities such as new business origination. The respondents further narrated that many government institutions in many African countries including Tanzania favour big businesses and forget about small businesses. This is in line with the study by Hsieh and Olk (2014) which found that there is an existence of the institutional environment in poor countries where credit lending, market institutional settings and governments' regulatory schemes favours large enterprises and discriminate against small firms. Harsh regulatory environments and poor
Factors Limiting the Growth And Development Of Small Businesses— Evidence From Mara Region.

infrastructure are some of the constraints that governments have to address if they are serious about taking the challenges that face small and medium enterprises (Carstens, 2012).

4.4 Unpredictable government taxes

The findings highlight that majority of the respondents (19.6%) mentioned unpredictable government taxes as a major factor affecting growth and development of small businesses in Mara region. Kaplan, Piedra and Seira (2011) supported that taxation costs, scarcity of marketable ideas and limited benefits of being formal are the obstacles to creating and formalizing firms. Unfavourable taxation systems, and a heavy regulatory burden and administrative bureaucracy affect the growth and development of small businesses (Keefer, 2000).

4.5 Lack of proper financial management knowledge

Lack of proper finance management is another factor affecting the growth and development; this is evidenced by the responses by some respondents who vividly admitted that they lack the proper financial knowledge to manage their businesses. Lynn (2003) observed that failure to control or manage finance according to approved business plans is a differential factor that adversely affects business processes in newly established firms globally. Mcgrath and Macmillan (2000) also supported that auditing and accounting skills are important for viability in small and medium-sized enterprises.

4.6 Lack of proper business skills

Business skills are among the factors that can either support or affects the growth and development of small businesses. The findings in table 4.1 depict that 5.5% of the respondents advocated that lack of proper business skills is among business owners is one of the factors that affect the growth and development of small businesses in Mara Region. Kaplan (2010) supported that lack of entrepreneurial skills in small, micro and medium enterprises cause a big problem to the survival of small enterprises. A study by Yukl (2002) found that shortage of entrepreneurial and technical skills is one of the reasons why newly established small and medium-sized enterprises fail to grow in a sustainable manner. The quality of entrepreneurial and leadership skills are critical factors that determine the survival of small businesses (Useem, 2001). Although access to finance is critical for the growth and development of small businesses, entrepreneurial skills are also important for the growth and development of small businesses (Ratten & Suseno, 2006).

4.7 Rapid changes in business technology

The findings of the research reveal that 8.1% of the respondents saw rapid changes in business technology as a threat to the growth and development of small businesses in Mara region. Small businesses in Mara region seems to be left behind in terms of business technological advancement in turn affect their productivity and finally limit their growth. This is conjunction with the study carried by OSMEP (2007) which found that small and medium enterprises tend to have low productivity and are weak in terms of competition which is the result of using advanced technology. Schmitz, (2004) commented that investment in modern technology is one of the ways to increase firms’ competitiveness in the global market. Technological change produces a creative destruction of incumbent firms thus allowing production factors to be reallocated to the most efficient technology embedded in the new firm (Caballero and Hammour, 1996). Majority of small businesses lack time, resources, technology or expertise to research and develop new business ideas and innovations. (Jones & Tilley, 2003). Small businesses that are contemplating purchasing new technology have great difficulties since they don’t have enough knowledge. (Keassey & Watson, 1993)

4.8 Inadequate business’ objectives and plans

The findings reveal that inadequate business objectives and plans are a factor affecting the growth and development of small businesses in Mara region. The respondents narrated that majority of their businesses fail because of ineffective business objectives and plans; this is because most of them open the businesses because they see their relatives or neighbours doing the same business. The respondents further stated that majority of businessmen and women lacks knowledge and skills on how to prepare good and sustainable business plans that can direct their businesses to the success. Since small business owners do not have management training, they end up planning poorly or have no plan at all (Burns & Dewhurst, 1996).

4.9 Strong business competition

From the findings of the study, it is observed that Strong business competition is another factor that hinders the growth of small businesses in Mara Region. Sengendo et al. (2001) supported that competitions limit the levels of sales and profits of small businesses since most of them compete for the same customers. A study by OSMEP (2007) found that small and medium enterprises face low competitiveness in terms of knowledge, innovation, prudent investment, business operations and good management which are the important factors required to elevate the quality level.
Factors Limiting the Growth and Development of Small Businesses—Evidence From Mara Region.

4.10 Lack business commitment and mixing-up of family matters with business affairs

The findings of the study depict that 6.8% of the respondents narrated that there is lack of business commitment and at the same time business owners mix business affairs with family matters. This was also identified as a threat to the growth and development of small businesses in Mara region. The findings of this study are in line with the findings of the study conducted by Grimsholm and Poblete (2010) on the external and internal factors hampering the growth of small and medium enterprises in Thailand which found that lack of access to finance, competition, barriers to trade, management competence, lack of skilled labour, low investment and new technology are among the factors hindering the growth of small businesses.

V. Conclusion and Recommendation.

It is undoubtedly that small businesses contribute largely to the economic growth of many countries in the world. The findings reveal clearly that small businesses in Mara region face several challenges that affect their growth and development which could be the same problems faced by these businesses in other regions of Tanzania. Based on the findings, the study recommends that the government should take strong and proactive measures by putting in place good business regulations that support the growth and development of small businesses in the country. As the study was carried in Mara region only, the study further recommends a similar study to be conducted in other regions of Tanzania.

References


DOI: 10.9790/487X-2002077984 www.iosrjournals.org 83 | Page
Factors Limiting the Growth and Development of Small Businesses—Evidence From Mara Region.


DOI: 10.9790/487X-2020027984 www.iosrjournals.org 84 | Page