Business Constraints and Potential Growth of Small and Medium Enterprises in Tanzania: A Review

Robert Galan Mashenene*
1. College of Business Education (CBE)-Dodoma Campus, Department of Marketing P.O Box 2077 Dodoma, Tanzania
Email: gmashenene@yahoo.com

Joel Rumanyika
2. College of Business Education (CBE)-Dodoma Campus, Department of ICT and Mathematics, P.O Box 2077 Dodoma, Tanzania
Email: rummjoe@gmail.com

Abstract
The potential growth of small and medium enterprises (SMEs) elsewhere in the world including in Tanzania depends on conducive business environment. However, SMEs in Tanzania are confronted with a number of constraints which hamper their potential growth. This paper aims at assessing business constraints that affect the potential growth of SMEs in Tanzania. Variables such as inadequate business training, insufficient capital, competition, anti-entrepreneurial culture, bureaucratic procedures in business registration, high taxes, technological barrier/backwardness, theft/cheating and lack of trust, poor infrastructure, and corruption that affect potential growth of SMEs were measured. Quantitative approach was used in this study. An intensive literature review was conducted to find out the relationship between the variables. Frequency and percentage were computed to find out the results of the study. The findings show that inadequate business training, insufficient capital and anti-entrepreneurial culture are significant constraints. The study recommends that strategic training programmes need to be designed and implemented in order to provide SMEs with adequate entrepreneurial knowledge, skills and attitude. Additionally, re-engineering of lending schemes by the government and financial institutions is needed in order to enable SMEs access credit.

Keywords: Business Constraints, Potential Growth, Small and Medium Enterprises, Tanzania

1. Introduction
In Tanzania, the SME sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation and as a base for industrial development (URT, 2003). In Tanzania, small and medium enterprises (MSMEs) is used to mean micro, small and medium enterprises engaging up to four people or employing a capital of up to TZS five million, between five and 49 employees or with a capital from TZS 5 to TZS 200 million and between 50 and 99 employees or with a capital from TZS 200 to TZS 800 million respectively (URT, 2003). In Tanzania, it is estimated that about 2.75 million MSME owners own and manage about 3.16 million MSMEs and the sector is estimated to contribute TZS 6.9 Trillion or about 27% of the country's GDP (URT, 2012; REPOA, 2008).

Tanzania like any other developing countries in the world, has taken a number of measures to promote business growth of private sectors and SMEs (Mungaya et al., 2012). For instance, development of 2003 SME policy, improvement of infrastructure, creation of conducive legal environment, provision of business training and credit services. Although the SME sector is important to the socio-economic development of Tanzania, studies have revealed that it is largely informal and very much under-performing due to a multitude of constraints facing it (Mutambala, 2011). Many previous studies have identified a number of constraints hampering the development of this sector to include: unfavorable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access of SMEs to finance, low quality of products, inadequate business training, anti-entrepreneurial culture, ineffective and poorly coordinated institutional support framework (Mashenene et al., 2014; Maziku et al., 2014; Tundui, 2012; URT, 2012; Mutambala, 2011; URT, 2003). However, such multiple business constraints identified could be difficult to address them collectively given the fact of limited available resources in Tanzania, as the result, such constraints have tended to persist. This study aims at assessing the main critical business constraints hindering SMEs potential growth and suggests solutions through prioritizing the available resources in order to be focused when addressing these constraints for healthy potential growth of SMEs in Tanzania.

2. Literature Review
2.2 Empirical Literature Review
2.2.1 Business Constraints Facing SMEs
Worldwide, business constraints have been noted to be the stumbling blocks of potential growth of SMEs.
Amegashie-Viglo and Bokor (2014) study in Ghana indicate that the major constraints confronting local artisan/entrepreneurs include financial/capital (44.1%), lack of market/poor patronage (23.7%), high cost of inputs (10.2%) and lack of tools/equipment (10.2%). Also the same study reveals that low level of education, business ownership being mostly sole proprietorship, low level of technology with the majority still using traditional rudimentary methods of production which results in low production, high cost for available raw materials and lack of business training are constraints facing entrepreneurs in Ghana. Mujuru (2014) finds that poor marketing and strategic skills due to low education tend to limit entrepreneurial competencies of the local small-holder farmers in Zimbabwe. Moreover, Felix and Ezenwakwelu (2014) on empirical analysis of entrepreneurial development and implication for Nigerian economic growth indicates that lack of strong patent law and lack of knowledge of entrepreneurial development in the basic science and technology constitute the challenges of entrepreneurial development.

Ndyali (2013) on the adaptation and barriers of e-commerce in Tanzanian SMEs shows that the majority (76.0%) of SMEs have not adopted the use of e-commerce. Also the study indicates that technical, legal and regulatory, lack of internet security and limited use of internet banking and web portals by SMEs are the critical barriers which inhibit the adoption of e-commerce in Tanzania. Majenga (2013) assessing the impact of socio-cultural factors on the performance of women SMEs in Tanzania reveals that family roles, immobility of women for business opportunities, inadequate education and business training, inadequate business information, ethnicity and poor support from husbands are socio-cultural factors which affect negatively the performance of women SMEs in Tanzania. Kessy (2009) points out that women cultural orientation, lack of business training and limited access to capital are factors hindering the performance of women SMEs in Tanzania. Fjeldstad et al. (2006) reports that constraints facing SMEs in Tanzania include competition (79.4%), cost of raw materials (69.4%), license and permit (67.5%), high tax rates (66.9%), insufficient demand (61.9%) and corruption (53.1%).

2.2.2 Selected Studies from a Tanzanian Context Addressing Business Constraints

In order to measure the relationship between business constraints and the potential growth in Tanzania, the following previous studies (Table 1.0) were reviewed and from which the variables for this study were extracted and measured.

<table>
<thead>
<tr>
<th>Author(s) and Title</th>
<th>Major Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petro Maziku, Annastazia Majenga and Robert Galan Mashenene (2014): The Effects of Socio-Cultural Factors on the Performance of Women SMEs in Tanzania</td>
<td>i) Women immobility, ii) poor support from society members and ethnicity affect negatively the performance of women SMEs, iii) family roles, level of education and business training have a weak positive effect on the performance of women SMEs</td>
</tr>
<tr>
<td>Robert Galan Mashenene, Joyce G Lyimo Macha and Leo Donge (2014): Socio-Cultural Determinants of Entrepreneurial Capabilities among the Chagga and Sukuma SMEs in Tanzania</td>
<td>i) Values, social factors, beliefs, norms and perception have positive effects on entrepreneurial capabilities, ii) attitudes have a negative effect on the entrepreneurial capabilities, iii) lack of business training</td>
</tr>
<tr>
<td>Hawa Petro Tundui (2012): Gender and Small Business Growth in Tanzania: The Role of Habitus</td>
<td>i) Financial capital has a significant influence on business growth, ii) presence of role models is significantly associated with growth aspirations, iii) ethnicity has influence of business growth, iv) male owner-managers have higher growth aspirations than female owner-managers, v) the level of education is significantly related to growth aspirations, vi) High taxes affects SMEs</td>
</tr>
<tr>
<td>Enock Nkonoki (2010): What are the factors limiting the success and/or growth of small businesses in Tanzania? –An empirical study on small business growth</td>
<td>i) Inadequate education and training, ii) lack of proper business plan, iii) capital constraint, iv) theft/cheating and lack of trust, v) corruption, vi) government policy, vii) bureaucratic processes</td>
</tr>
<tr>
<td>Mika Mungaya, Andrew H. Mbwanbo, Shiv K. Tripathi (2012): Study of Tax System Impact on the Growth of Small and Medium Enterprises: With Reference to Shinyanga Municipality, Tanzania</td>
<td>Business owner-managers perceive the adverse impact of existing tax policies on the growth of SMEs, i.e. high taxes imposed on SMEs impact their growth in terms of profits.</td>
</tr>
</tbody>
</table>
| Tundui, C. and Tundui, H. (2012): Survival, Growth | i) Use of unpaid family labour has a negative effect on...
Strategies and Performance of Women Owned Micro and Small Businesses in Tanzania


Musambya Mutamba (2011): Sources and Constraints to Technological Innovation in Tanzania: A Case of the Wood Furniture Industry in Dar Es Salaam


Edwin Paul Mhede (2012): The Growth of Micro and Small, Cluster Based Furniture Manufacturing Firms and their Implications for Poverty Reduction in Tanzania


Atsede Woldie and John Isaac Mwita (2012): Challenges of Microfinance Accessibility by SMEs in Tanzania

Source: Literature Review (2014)

2.2.2 Business Growth Potential of SMEs

According to Bains (2011), Business growth potential refers to the state of the business having the potential to progress far. This potential progress can be measured by increase in capital, increase in number of employees, sales, business survival and expansion in terms of branches and product lines (Mashenene et al., Maziku et al., Tundui, 2012; Tundui and Tundui, 2012). In order to realize business potential growth, there is a need for the government to create conducive environment for SMEs. For instance, simplifying loan conditions, provide access to finance, create markets for products, assist in the creation of business groups, ease the regulations controlling business, reform tax system, improving skills and training and provide business development services (URT, 2012). Furthermore, in order to create conducive environment for women owned enterprises in Ethiopia, microfinance institutions should revisit its policy to ease the credit access and there should be a room to provide credit without group formation if the customer has an equivalent asset for collateral (Abebe, 2014).

3. Research Methodology

3.1 Methodology

This paper uses a quantitative approach in which descriptive analysis was adopted. An intensive literature review was conducted in order to extract the most frequent identified constraints affecting growth potential of SMEs in Tanzania. Variables/constraints of the study were extracted from fifteen (15) selected literatures in a Tanzanian environment in order to justify the extent of the effects of business constraints on growth potential of SMEs. The
selection of these literatures was based on their relevance to the topic under study and up to date in which the literature was restricted within 5 current years (2010-2014). A sample size of 15 literatures was viewed adequate for statistical analysis since Mohammed et al. (2013) used a sample of 12 literatures to draw up the conclusion. From the literatures, ten (10) variables were identified and analyzed descriptively and presented in tabular form in which frequencies and percentages were computed. These variables are (i) inadequate business training, (ii) insufficient capital, (iii) competition, (iv) cultural constraints, (v) bureaucratic procedures in business registration, (vi) high taxes, (vii) technological barrier/backwardness, (viii) theft/cheating and lack of trust, (ix) poor infrastructure, (x) corruption. In this study, the decision for the constraints to be critical was limited to only variables with scores at least 50% (Mohammed et al., 2013; Fjeldstad et al., 2006).

3.2 Conceptual Framework
Based on the literature review several constraints affecting the potential growth of SMEs in Tanzania were identified. The constraints for this study are as follows: The dependent variable for this paper is the potential growth of SMEs in Tanzania. It is expected in this study that dependent variable is affected by independent variables (inadequate business training, insufficient capital, competition, anti-entrepreneurial culture, bureaucratic procedures in business registration, high taxes, technological barrier/backwardness, theft/cheating and lack of trust, poor infrastructure and corruption).

Source: Literature Review

3.3 Hypotheses
Based on the theoretical conceptual framework, the relationship between business constraints and potential growth of SMEs can be hypothesized as follows:

H1: There is a negative relationship between inadequate business training and potential growth of SMEs.
H2: There is a negative relationship between insufficient capital and potential growth of SMEs.
H3: There is a negative relationship between competition and potential growth of SMEs.
H4: There is a negative relationship between anti-entrepreneurial culture and potential growth of SMEs.
H5: There is a negative relationship between bureaucratic procedures and potential growth of SMEs.
H6: There is a negative relationship between high taxes and potential growth of SMEs.
H7: There is a negative relationship between technological backwardness and potential growth of SMEs.
H8: There is a negative relationship between theft/lack of trust and potential growth of SMEs.
H9: There is a negative relationship between corruption and potential growth of SMEs.

4. Findings and Discussion
Based on the intensive literature review carried out, the most extracted businesses constraints are presented in Table 2.0. The sign (√) shows that the variables have been found to be the critical business constraints in the articles selected and intensively reviewed in this study.
Table 2: Constraints Affecting Potential Growth of SMEs in Tanzania

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>URT (2012)</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maziku et al. (2014)</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mashenene et al. (2014)</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tundui, H.P. (2012)</td>
<td>√</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nkonoki, E. (2010)</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mungaya et al. (2012)</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tundui, H and Tundui, C (2012)</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kweka, J. and Fox, L. (2011)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mutamba, M. (2011)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selejio, O. (2011)</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boermans and Willebrands (2012)</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mhede, E.P. (2012)</td>
<td></td>
<td>√</td>
<td></td>
<td></td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shanghvi, I.S. (2014)</td>
<td></td>
<td>√</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Literature Review (2014)


Based on Table 2.0, the most extracted variables are presented in Table 3.0 to show the frequency and percent of variables studied.

Table 3.0: Business Constraints Affecting Potential Growth of SMEs in Tanzania

<table>
<thead>
<tr>
<th>Variables</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate business training</td>
<td>12</td>
<td>80.0</td>
</tr>
<tr>
<td>Insufficient capital</td>
<td>8</td>
<td>53.3</td>
</tr>
<tr>
<td>Competition</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Anti-entrepreneurial culture</td>
<td>8</td>
<td>53.3</td>
</tr>
<tr>
<td>Bureaucratic procedures in business registration</td>
<td>1</td>
<td>6.7</td>
</tr>
<tr>
<td>High taxes</td>
<td>4</td>
<td>26.7</td>
</tr>
<tr>
<td>Technological backwardness</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Theft/lack of trust</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Poor infrastructure</td>
<td>2</td>
<td>13.3</td>
</tr>
<tr>
<td>Corruption</td>
<td>2</td>
<td>13.3</td>
</tr>
</tbody>
</table>

Source: Literature Review (2014)

Findings (Table 3.0) show that critical constraints affecting potential growth of SMEs in Tanzania are inadequate business training (80.0%), insufficient capital (53.3%) and anti-entrepreneurial culture (53.3%). This means that $H_1$, $H_2$ and $H_4$ are significant and accepted. This can be explained that lack of adequate business training is the most critical constraint affecting the potential growth of SMEs in Tanzania. Additionally, high taxes paid by SMEs to the government (26.7%) were found to be marginally significant constraint affecting the potential growth of SMEs in Tanzania. On the other hand, competition, bureaucratic procedures in business registration, technological backwardness, theft/lack of trust, poor infrastructure and corruption were found to be insignificant constraints affecting potential growth of SMEs in Tanzania. The implication of these findings is that inadequate business training, capital constraint and anti-entrepreneurial culture are the critical business constraints affecting potential growth of SMEs in Tanzania. These findings are consistent with those of Bekele and Worku (2008) study in which indicate that inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%) and inability to convert their profits to investment (46%) are the key factors that affect the long-term survival of micro, small and medium enterprises in Ethiopia. Also, these findings are consistent with those of Chittithaworn et al. (2011) study which reveals that resources and finance are among the critical factors affecting business success of SMEs in Thailand. Moreover, these findings are in harmony with those of Geete and Deasai (2014) study which indicate that profitability of the
small scale industry is dependent on the owner’s qualification in Indore city since education helps in the adoption of technology, strategic thinking and development, generating profit and operating in competitive mode rather defensive mode. The study further argues that qualification gives confidence to the owner to do better by learning through knowledge and wisdom and not only this but also to know the core competencies of the company and weaknesses of competitors. In the same view, these findings are congruent with those of Majenga (2013; Tundui and Tundui; Tundui, 2012) study which support that financial support from the government especially in the start-up capital, self-fulfillment, knowledge, skills, experience and including relationship to spouse/father business, are all important factors in the development of women entrepreneurs in United Arab Emirates (UAE). Moreover, these findings are in harmony with those of URT (2012) which indicate that insufficient capital is the most critical reason for business closure in Tanzania. Furthermore, these findings are evidenced by those of URT (2012) which indicates that 72% of MSMEs in Tanzania have no business training, something tend to limit the potential growth of SMEs.

5. Conclusion and Recommendations
The purpose of this paper was to assess the relationship between business constraints and potential growth of SMEs in Tanzania. This paper concludes that inadequate business training, insufficient capital and anti-entrepreneurial culture are critical constraints hampering the potential growth of SMEs in Tanzania. The implication of these findings is that serious measures should be taken by policy makers and other business practitioners in order to address the constraints by prioritizing the available resources for the sake of alleviating these critical constraints. In the case of inadequate business training, strategic training programmes need to be designed and implemented in order to equip SMEs with adequate entrepreneurial knowledge and skills. As the matter of facts, training gives confidence and new way of thinking and doing things. Through training, some business constraints automatically can be addressed. For instance, anti-entrepreneurial culture, fear of competition, technological backwardness, corruption, poor access to credits and others exist because SMEs lack adequate business training. Felix and Ezenwakwel (2014) recommend that there is need for the Nigerian government to set up workshops where young and old entrepreneurs will acquire new skills needed for their businesses. In the case of anti-entrepreneurial culture, there is a need of re-engineering training programmes by addressing unfavourable cultures which tend to hinder the potential growth of SMEs. For instance, fear of SMEs to get loan from financial institutions, lack of trust by employees and others are associated with cultural values, norms, beliefs and attitudes which need to be addressed correctly if entrepreneurial culture is viewed as an important factor fueling potential growth of SMEs. In the case of insufficient capital, we recommend that training programmes should put emphasis to SMEs on the use of multiple sources of financing businesses as of now the majority of SMEs use personal saving as the major source of financing their businesses (Majenga, 2013; Tundui and Tundui; Tundui, 2012).

The recommendation to academicians it that another study on the same area should be conducted using primary data in order to estimate the effect of inadequate business training, anti-entrepreneurial culture and insufficient capital on the potential growth of SMEs in Tanzania. This proposition follows the facts that through intensive literature review, inadequate business training, anti-entrepreneurial culture and insufficient capital were found to be the critical constraints affecting the potential growth of SMEs in Tanzania. Additionally, a comparative study of these business constraints on the potential growth between women and men SMEs in Tanzania need to be carried out in order to estimate the intensity of the effects and finally be in a position to strategically prioritize the resources to the side adversely affected.

6. Acknowledgement
The authors would like to extend their gratitude to the College of Business Education Management under Prof. Emmanuel Mjema for the visionary leadership which always encourages academic staff to carry out research and finally disseminate research findings through publication. Indeed, we thank employees of the College of Business for their encouragement and moral support throughout the period of the research and writing of this paper. Finally, we thank very much our family members for their caring support and encouragement throughout the period of research and writing this paper. We say, we love you so much and let Almighty God bless you all.

References


Nkonoki, E. (2010). What are the factors limiting the success and/or growth of small businesses in Tanzania?—An empirical study on small business growth.


The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage: http://www.iiste.org

**CALL FOR JOURNAL PAPERS**

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

**Prospective authors of journals can find the submission instruction on the following page:** [http://www.iiste.org/journals/](http://www.iiste.org/journals/)  All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

**MORE RESOURCES**


**IISTE Knowledge Sharing Partners**

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digital Library, NewJour, Google Scholar