ASSESSMENT OF FACTORS AFFECTING SMALL BUSINESSES' PERFORMANCE IN TANZANIA

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Abstract

In developing countries small businesses are generally regarded as driving force of economic development, employment creation for poverty reduction. This study assessed internal, external factors affecting small businesses' performance in Nyamagana District, Mwanza Region in Tanzania. The study used descriptive research design and data were collected using structured questionnaire. Simple random sampling technique was used and a sample size of 99 respondents was constituted. The findings revealed that financial, human resources and managerial problems are the most characterized as internal factors (records management, managerial skills, Business control system) and external factors (taxation, capital market, physical infrastructure, inflation, and government control) highly affected small businesses' performance in Tanzania. The study recommends that small businesses should be equipped with good and relevant business financial and managerial skills to make decisions for their business sustainability.

Keywords: Small business, business performance, financial skills, managerial skills, and small businesses.

Introduction

Micro-businesses sector is one of the driving forces of job creation, economic growth and poverty reductions in developing countries are one of the means through which acceleration of economic growth and rapid industrialization has been achieved (Scarborough & Zimmerer, 2008). Small and Medium Enterprise Development Policy (SMEDP) of Tanzania, indicated that Micro-businesses began to emerge after economic reforms that were introduced in 1986 and implemented in 1996 there by changing the economy of Tanzania to free market economy (The United Republic of Tanzania SMDEP, 2002). Contributions of micro-businesses are generally acknowledged as one of the key driver forces towards economic growth.

Tushabomwe (2006) revealed that small businesses face different challenges that limit their survival and development. Majority of local entrepreneurs establishing micro businesses are susceptible to failure that is attributed to both internal factors (wrong pricing, negative cash flows, poor record keeping, management problems, lack of planning and faulty products) and external factors (government taxation, load shading, inadequate capital, poor markets and high rents).

According to Temtime and Pansiri (2004) sustainability and competitiveness and; internal managerial problems are identified as the major causes of small businesses failure. The managers of small businesses perform poorly in the areas of bookkeeping, marketing, warehousing, stock control, production scheduling and quality controls. Tushabomwe (2006), Temtime and Pansiri (2004) described that factors of small businesses failure lie on both internal and external. Whereby, Taxation and load shedding contribute to more than 50% of the failures in small businesses. The most common factors of small businesses failure are management related challenges. The ability of managers to perform has a very important bearing on performance of small businesses (lack of education and professional training).

Majority of local entrepreneurs establish micro businesses that are susceptible to failure which are attributed to both internal and external causes. Nyamagana had been facing this problem since most of the businesses being started do not strive for a long period of time. This study focuses on the assessment of causes hindering the performance of micro businesses in Tanzania.

Research Objective

The objective of the study is to assess the internal, external causes and level of small businesses' performance in Nyamagana District, Tanzania.

Literature Review

Internal Factors

In most of the studies done the commonly cited cause of small businesses failure is poor management. Although it is not easy to recognize what constitutes poor management, the majority of small businesses problems are characterized as managerial (Scarborough & Zimmerer, 2008).

Management Capacity

Entrepreneurs put their faith in common sense, overestimate their managerial skills, or believe that hard work alone can ensure success. If a small business manager does not know how to make decisions and does not understand the basic management principals, there, he is likely to face managerial challenges in the long run if not failure to progress with business activities (Griffin & Ebert, 2006). Small businesses managers need to have experience in the field they want to enter. The experience will provide practical understanding as well as knowledge about the nature of the business, which will spell out the difference between failure and success (Scarborough & Zimmerer, 2008)

Control System and Inventory

Effective control system keeps the business in track and alert managers of any potential danger. If any control does not signal any impending problems you may seriously be troubled, then such controls are ineffective (Griffin & Ebert, 2006). Scarborough and Zimmerer (2008) argue that; the largest investment a small business makes is in inventory yet inventory control is one of the most neglected managerial responsibilities. Insufficient inventory levels results in shortages and stock outs causing customers to become disillusioned and leave. More common situation is that the manager has too much inventory, but also too much of the wrong type of inventory. Many small businesses that fail due to poor inventory control, have excessive amounts of cash tied up in an accumulated useless inventory.

Planning

Many small businesses do not realize the importance of planning to their firms' success. Often managers of small businesses neglect the process of planning because they think that it is something that benefits only large companies. Failure to plan a firm's future will have a devastating effect on the firm existence. This often manifests itself in two ways; Lack of strategic plans (Strategic plan plots the overall direction of the business and identifies the ways of maximizing its strengths and overcoming its weaknesses) and unplanned expansion (Growth is natural, healthy and desirable part of any business. But, it must be planned carefully. Expansion should be financed by the retained earnings or capital contributions from owners, but most small businesses wind up borrowing at least a portion of their capital investment). As the business increases in size and complexity, problems tend to increase in proportion and the managers must learn how to deal with it. Sometimes entrepreneurs encourage that eventually the business outstrips their ability to manage. (Griffin & Ebert, 2006)

Location and Pricing

For many small businesses choosing the location is partly a science. Too often business locations are chosen without proper study and planning. Location is much too critical to be left to chance. Some beginning owners choose a particular location just because they have seen a vacant place or building (Scarborough & Zimmerer, 2008; Lambing & Kuhl, 2007). Entrepreneurs need to establish prices that will earn necessary profits by first understanding what it costs them to make, market, and deliver their products and services. Small businesses owners often underprice their goods and services resulting to losses that ultimately cause their failure (Tootelin & Gaedeke, 2002)

External Causes of Small Business Failure

Startup capital. Lack of funds could lead to excessive borrowing and consequently business becomes insolvent because their liabilities are higher than their assets. According to Dwivedi (2005), the role of financial institution is to facilitate the flow of funds from individual surplus spending units to deficit spending units. The whole of this process is called money market. And according to this author, the money market reaches its equilibrium where demand for money equals supply of money. The author adds that, to business firms or enterprises, money is the producer's good much as machinery or inventories, thus in order to attain growth of any business, especially small sized ones, the business enterprise should acquire additional capital through the capital market in order to maximize their returns. Longenecker et al.

(1997) stated that economies of scale virtually prohibit small businesses from always although frequently and sometimes using other sources of finance such as public stock issues.

Government regulations. Government regulations like taxation are regularly well intended and they benefits without question. However their costs to small businesses are relatively higher as a result small businesses normally do shift the burden of those costs to customers. Government regulations have been accused of distorting free markets by impending competition (Susman, 2007). Tanzania Government Sector Study of the Effective Tax Burden (2006) suggests that tax and incentive policies are key parameters in defining a business climate. Taxes are essential for the financing of government activities such as social and economic development programs in the country, but at the same time, they should be set and administered to be as growth enabling as possible. In Tanzania the revenue raising authorities are the Ministry of finance that set tax policies and Tanzania Revenue Authority (TRA) that administers tax collection practice. Various laws and legislations have been enacted to guide the administration and collection of different taxes within the country and country that constitute the East African Community.

Access to capital and high cost of finance. During the early stages of starting business many owners commit themselves to taking any sources of finance they have available to them. This can be disastrous as high interest rates and unfavorable payment schedules are overlooked due to pressure of financing their business. For the entrepreneurs taking high risk borrowing is simply a choice between starting a business and never starting the business. The best source of finance to small business can often be family and friends contributions but pay back in time. Small businesses are particularly vulnerable in periods of high interest rates because they rarely heavily on financial institutions for seasonal borrowing (Susman, 2007; Lambing & Kuhl, 2007).

Financial controls. Are the written 'rule' and procedures that let everyone know what should happen-who can do what, when and how. These include for example, who can sign cheques, which maintain the cashbooks, and how the petty cash is administered. Some of these rules will be laid down by the constitution or memoranda and articles of association, in the case of registered companies) and others may simply be unwritten understandings, or ways of working traditionally adopted by the management committee (MC) or staff of the organization/business. All organization should have financial controls to ensure effective financial management (Basis Project Team, 2008).)

Business cycles and inflation. This consists of recessions and depressions. Small businesses are strongly affected by these economics ups and downs. Rescissions and business low downs always cause quantum leap in the rate of small business failure. When recessions occur during a particular time, many businesses are being affected and this could end up making some to be closed since they could not cope-up with the situation. Because small businesses are more susceptible to swings in the economy, they are more likely to fail during rescissions (Susman, 2007). Tushabomwe (2006) ascertains that lack of capital was an impediment in the early stages of small businesses. Small businesses failed because they were started with limited amounts of capital. Also micro businesses lacked collaterals that could be deposited to get loans provided by microfinance institutions.

Research Methodology

The main purpose of this study is to assess the internal and external causes and find out the level of micro business performance in Nyamagana District.

Research Design

The descriptive research design was employed in this study. Data was collected through and the use of a structured questionnaire and descriptive statistic was used in analyzing the data. The questionnaire focused on collecting data about individual variables within the internal and external factors and micro businesses performance

Participants, Sampling and Questionnaire

The simple random sampling technique was used to determine the respondents. There were 79 respondents that participated in this study. 5 categories of vendors were identified

and were: Cereal vendors 26 (32%), Retail clothing vendors 23 (29%), Stationary shops vendors 9 (11%), Electric appliances shop vendors 17 (22%) and Mobile phones shop vendors 5 (7%). Findings show that 22.8% of respondents do not have any background of education, 21.5% have primary and secondary level of education respectively, 19% of respondents have attained vocational training, and only 15.2% had university level of education. 24.1% of respondents have more than three years of experience in doing small business, 22.8% are in the business for two and three years respectively, and only 5.1% have one-year experience in doing small business. More than half (54.4%) of the respondents had ever deal with small businesses before and only 45.6% have been in small businesses even before.

Most of the respondents had no specific level of education. According to the responses, it indicates that those who are running business, majority of them are Primary and Secondary scholars. Other educated, both vocational and university graduates seem to be less interested compared to Primary and Secondary scholars who embark in the small businesses as a way of earning their life, and have been doing businesses for more than two years (three and more).

The questionnaire was administered to seek responses on internal and external factors of their failure, business performance and their experience in business. Respondents provided their opinions on a Likert scale with options Always (5), Frequently (4), Sometimes (3), Seldom (2), and Never (1), with the determined mean significance with measurement as follows: 1=1-1.5 is Never, 2=1.6-2.1 is Seldom, 3= 2.2-2.7 is Sometimes, 4= 2.8- 3.3 is frequently and 5=3.4 and above is always

Data Analysis

Descriptive statistics was used in this study to determine frequency, percentage and means were used to analyze and describe variables within the external, internal and business performance variables. SPSS was used to code, compute, and analyze the data.

Results

Internal Factors

Table 1
Internal Factors

	N	Mean
Lack of financial management and controls system	79	3.0127
Record keeping problems	79	2.8354
Lack of stock control	79	2.71
Lack of experience	79	2.7089
Lack of Planning and pricing	79	2.5949
Lack of skilled personnel	79	2.4430

Mean interpretation: 1=1-1.5 is Never, 2=1.6-2.1 is Seldom, 3= 2.2-2.7 is Sometimes, 4= 2.8- 3.3 is frequently and 5=3.4 and above is always

Results in table 1 indicate that most influential internal factor for failure of small businesses entrepreneurship were lack of financial management and control system (mean=3.0127), record keeping problems (mean =2.8354), lack of stock control (mean=2.71), lack of experience (mean=2.7089), lack of planning and pricing (mean=2.5949), and finally lack of skilled personnel with (mean=2.4430). From the findings obtained, it is indicated that among the factors assessed, financial management and control system was the first factor that hinders the performance of the small businesses for entrepreneurs in Nyamagana District. This means that the weight each factors have varies from one to another. These findings for internal factors are supported by Griffin and Ebert (2006) study showing that small businesses managers, who do not have decision-making skills and do not understand the basic

management principles; are likely to fail and face managerial challenges in the long run of their businesses.

External Factors

Table 2
External Factors

	N	Mean
Business Cycle	79	3.7722
Government control	79	3.7342
Physical infrastructure	79	3.6329
Capital market	79	3.4810
Inflation	79	3.3544
High Taxation rate	79	3.3544
Load shedding	79	3.0127

Mean interpretation: 1=1-1.5 is Never, 2=1.6-2 is Seldom, 3= 2.1-2.5 is Sometimes, 4= 2.6- 3 is frequently and 5=3.1 and above is always.

As shown in table 2 above, most influential problems as indicated by the respondents were business cycle (mean =3.7722), government controls (mean=3.7342), Physical infrastructure (mean=3.6329), taxation rate and inflation (mean =3.3544), capital market (mean=3.4810) and load shedding was listed the lowest with a mean of 3.0127. Inline of the results for external factors, Susman (2007) supported that entrepreneurs of small businesses are more susceptible to swings in the economy and are more likely to fail during rescissions.

Establishment of Financial Statements

Results in table 3 show that 32.9% of the respondents established their financial statements on a monthly basis, 25.3% on annually basis, 17.7% on quarterly and bi-annual respectively and a few (6.3%) on weekly basis.

Table 3
Establishment of Financial Statements

		Frequency	Percentage
Establishment of financial statements			
	Weekly	5	6.3
	Monthly	26	32.9
	Quarterly	14	17.7
	Bi-annually	14	17.7
	Annually	20	25.3

Preparing Books of Accounts

Table 4
Preparing Books of Accounts

Challenges in preparing books of Accounts	N	Mean
Changes in accounting standards and principles	79	3.5190
Item misleading	79	3.1646
Accounting knowledge	79	3.1013
Improper cash summary	79	3.0633
Omission of figures	79	3.0506

Mean interpretation: 1=1-1.5 is Never, 2=1.6-2.1 is Seldom, 3= 2.2-2.7 is Sometimes, 4= 2.8- 3.3 is frequently and 5=3.4 and above is always

Findings from respondents in table 4 revealed that challenges faced by entrepreneurs for their businesses performance have always been accounting standards and principles (mean=3.51899), always Item misleading (mean=3.16456), Accounting knowledge (mean =3.10127), improper cash summary (mean=3.06329) and sometimes Omission of figures (mean=3.05063).

Sources of Finance

According to the result in table 5, respondents always (mean=3.5316) used their personal incomes and Loans (mean=3.40506) as sources of financing their businesses, frequently used Grants (mean=3.16456), Partnership (mean=3.15190) and donation (mean= 3.01266) as their sources of financing their businesses. Positively these findings are supported by the study of Longenecker et al. (1997) stating that economies of scale virtually prohibit small businesses from always although frequently and sometimes using other sources of finance such as public stock issues. This implies that the best source of financing small businesses in Nyamagana District is individual contributions from their pockets. That means, most of businesses that exist in the District are sole proprietorships. No assets needed for registration and everything depend on one individual, as he/she manages this/her family.

Table 5
Sources of Finance

Sources of Finance	**N**	**Mean**
Personal Income	79	3.5316
Loans	79	3.4051
Grants	79	3.1646
Partnership	79	3.1519
Donation	79	3.0127

Mean interpretation: 1=1-1.5 is Never, 2=1.6-2.1 is Seldom, 3= 2.2-2.7 is Sometimes, 4= 2.8- 3.3 is frequently and 5=3.4 and above is always

Meeting the Demand of Customers

Findings from table 6 indicate that more than half (55.7%) of respondents reported to have been meeting the demands of their customers and acknowledged to have been running their businesses on satisfaction of the demand of the customers while 44.30% of respondents made it hardly and always in the position of not meeting the demand required by their customers.

Table 6
Meeting the Demand of Customers

		Frequency	Percent
Meet the demand of Customers			
	Yes	44	55.7
	No	35	44.3

Conclusion and Recommendations

In the light of this study, findings on entrepreneurs' small businesses and performance in Nyamagana District show that small businesses failures are based on internal and external factors. Based on internal factors, results of the study show that most of the respondents had no high level of education; 22.8% of respondents did not have any education background and most of them were having primary and secondary level of education, without many years of experience in running businesses, more than half (54.4%) of the respondents had ever deal with small businesses before, and only 45.6% had more than three years running small businesses. It was also observed that most influential internal factor for failure of small businesses entrepreneurship were lack of financial management and control system (mean=3.0127), record keeping problems (mean =2.8354), lack of stock control (mean=2.71), lack of experience (mean=2.7089), lack of planning and pricing (mean=2.5949), and finally lack of skilled personnel with (mean=2.4430). Based on external factors, findings show that most influential problems as indicated by the respondents were business cycle (mean =3.7722), government controls (mean=3.7342), physical infrastructure (mean=3.6329), taxation rate and inflation (mean =3.3544), capital market (mean=3.4810) and load shedding (mean=3.0127).

Findings from respondents revealed that challenges faced by entrepreneurs for their businesses performance have always been accounting standards and principles (mean=3.51899), always Item misleading (mean=3.16456), Accounting knowledge (mean =3.10127), improper cash summary (mean=3.06329) and sometimes Omission of figures (mean=3.05063). Always entrepreneurs rely on personal incomes as source of financing businesses, which is not safe in case of unemployment or income from other activities. Access to loan was identified as second mean of financing businesses, but accessed to few not all. Although recording Findings show that almost half (44.3%) of respondents made it hardly and always in the position of not meeting the demand required by their customers. The findings revealed that financial, human resources and managerial problems are the most characterized as internal factors (records management, managerial skills, Business control system) and external factors (taxation, capital market, physical infrastructure, inflation, and government control) highly affected entrepreneurs' businesses performance in Tanzania.

From findings, the study recommends that entrepreneurs should be equipped with good and relevant business financial and managerial skills to make decisions for their business sustainability.

- The owner of small business should make efforts to equip themselves with good and relevant business skills by devoting some time for levering from various sources of information and business education; business training, workshop and seminar on entrepreneurs and businesses establishment.
- Small businesses entrepreneurs should recognized the presence and the services of business lawyers, accountants and other professions should be widely used to enhance

efficiency in the business.

- Other studies should be done to find out the impact of small businesses on socio-economic development Nyamagana District.

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