

# Factors Affecting Growth of Women-led Small and Medium Enterprises in Arusha Municipality, Tanzania

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**Abstract:** The potential growth of women led small and medium enterprises (SMEs) elsewhere in the world including in Tanzania depends on conducive business environment. However, women owned SMEs in Tanzania are confronted with a number of constraints that hinder their growth. This study aimed at assessing the factors that affect the potential growth of women led SMEs in Arusha Municipality, Tanzania. The study adopted across sectional research design. Data was collected from a random sample of 95 women SME owners selected from a target population of 250 SMEs. Data was collected using a structured questionnaire. Whereas frequencies, and percentages were used to determine and describe the status of the variables, correlation, chi-square tests and T-test were used to establish association and relationships between and among variables. The findings show that majority Women-led SME's have not received any support from the government and the existing rules and regulations governing SMEs do not provide favorable ground for effective growth of women SMEs. Moreover, growth of women SME's is affected by the unevenly distributed gender roles which affect the performance of the businesses. Women-led SMEs are faced with insufficient capital which can boost their growth and most of the women own business with little or no entrepreneurship skills. It is recommended that Government and other development partners to liaise with financial service providers in designing special financial product to meet the demands and characteristic of women SMEs. Stakeholders should increase awareness on gender-related issues which affect women's participation in business and reduce their working efficiency. Further, financial institutions should provide a favorable ground for women to access loans. Women-led SMEs need to be trained in specialized tailor-made areas to enable them effectively improve performance of their businesses.

**Key Words:** Growth, small and medium enterprises, government policy, gender, finance, entrepreneurship.

## Introduction

Small and Medium Enterprises (SMEs) are known to play a major role in social economy development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas (SME Policy, 2003). In the light of the above context, SMEs generally contribute to the creation of economic and social value (Crawford, 2003; Lin & Chen 2007). However, their readiness and capacity to develop innovative products and services can be impeded by a common lack of financial strength as well as technical and managerial skills (Gray 2006, Shiu & Walker, 2007).

In the Tanzanian informal sector, women have played a great role in its growth, at least one-third of SME operators are thought to be women (URT, 2005).

The government plays an important role in SME growth; however in Tanzania the legal and regulatory framework is bureaucratic, costly and centralized. These characteristics of the legal and regulatory environment affect all sizes of businesses adversely. However, SMEs are further constrained in this environment in comparison to larger businesses due to the disproportionately heavy costs of compliance arising from their size. As a result most of informal enterprises have failed to formalize and micro enterprises have been unable to grow and graduate into Small and Medium Enterprises (URT, 2003).

World Bank (2000), contends that in many African societies' laws and customs impede women to a greater extent than men in obtaining credit, productive inputs, education, training, and information needed to start and operate a business. Although in some cases there may be gender-specific legal and administrative barriers, for the most part the regulatory environment will be "gender-neutral" in principle, but with possibly gender-differentiated outcomes in practice; for example; women may be less able than men to afford long and expensive registration procedures. For these reasons, women may be more disadvantaged than men in starting-up and managing enterprises.

However, SMEs contribute to the creation of economic and social value (Crawford, 2003; Lin & Chen, 2007), SMEs are viewed to be a fertile ground in regards to innovation. They have flexible and less rigid organizational structures. However, women's readiness and capacity to develop innovative products and services can be impeded by a common lack of financial strength as well as technical and managerial skills (Gray, 2006; Shiu & Walker, 2007). Women are predominantly found in informal, micro level, and low-growth sectors, and encounter high competition while earning subsistence incomes. Seriously encumbered by their low levels of education, women are unable to find employment in the formal, private sector, and are the first to lose their jobs in retrenchment exercises (Stevenson and St-Onge, 2005). Despite government efforts and initiative to support small-scale

businesses, mostly targeting women entrepreneurs, majority of small scale businesses operated by women fail to grow to medium scale (Armendáriz, 1999). Starting and operating a small business includes a possibility of success as well as failure. Because of their small size, a simple management mistake is likely to lead to sure death of a small enterprise hence no opportunity to learn from its past mistakes. Lack of planning, improper financing and poor management has been posited as the main causes of failure of small enterprises (Longenecker *et al.*, 2006).

### Purpose of the Study

The purpose of the study was to assess the factors affecting the growth of women-led SME's in Arusha Municipality, Tanzania. Specifically the study sought to evaluate how Government policies, Gender, Access to finance and the entrepreneurship skills affect the growth of women-led SME's in Arusha Municipality.

### Research Methodology

The study adopted the cross-sectional research design with a sample size of 95 respondents comprising of owners of business directly or indirectly running SME's in Arusha municipality. Data was collected from both primary and secondary sources. Primary data was collected using structured questionnaires from women involved in small scale enterprises. Data was analyzed using both qualitative and quantitative techniques namely frequencies and percentages, all of which were cross-tabulated for interpretation. Correlations and Chi-square tests were conducted to establish association and relationships between and among variables. T-test was used to determine significant difference in performance between SMEs that accessed credit and those that did not.

### Results and Analysis

#### Government Policy on the growth of Women-led SMEs in Arusha Municipality

The first specific objective sought to assess the Government Policies in the growth of women led SMEs in Arusha Municipality, Tanzania. The respondents were given a set of questions to measure the support from government to enhance their growth including the Access to Business Development Services and Institutional factors affecting Women-led SME's. The study revealed that none (100%) of the women covered had received any kind of support from the Government related to support improve performance of their businesses (Table 1).

**Table 1: Government support for Women SMEs**

Variable		n	%
Have you ever received any assistance from the government to improve your business?	No	92	100.0
Total		92	100.0

#### Women Access to Other Business Development Services

The results show that majority of women entrepreneurs (89.8%) had never received any assistance and/or support to help you mitigate challenges faced in their business. Of the few (10.2%) who had accessed business development service received from NGO's (66.7%) and women groups (33.3%). The only support provided was trainings (100%). These results suggest that both the government (public) and provide sectors do not provide effective support to improve performance of women SMEs despite many initiatives to by both sectors to advocate women empowerment programs. The finding confirms the SME Policy (2003) that, Business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are underdeveloped and not readily available (Table 2).

**Table 2: Women access to other business development services**

		n	%
Have you received any assistance to help you mitigate these challenges?	No	79	89.8
	Yes	9	10.2
Total		88	100.0
If YES above, where did you get the help?	NGO's	6	66.7
	Women group	3	33.3
Total		9	100.0
What type of help did you receive?	Training Services	9	100.0
Total		9	100.0

**Institutional Factors affecting Women-led SMEs in Arusha municipality**

The critical factors effecting growth and performance of women SMEs were reported to be Complex tax policies and compliance procedures (69.9%), finding good business location (52.6%), bad tradition against women entrepreneurship (48.4%) and Lack of business guidance and counsel (47.3%). Others were found to be balancing business and family activities (36.6%), Lack of business experience and management skills (23.7%) and complex business registration and licensing procedures (22.6%), (Figure 1). These results indicated women SME growth in highly hampered by institutional arrangements under which women undertake business. This further suggests that rule and regulations governing SMEs do not provide favorable ground for effective growth of women SMEs.



**Figure 1: Institutional factors affecting women SMEs in Arusha municipality**

These results are consistent with a contention by URT (2003) which recognizes that the legal and regulatory framework is bureaucratic, costly and centralized which ultimately all sizes of businesses adversely even though the government plays an important role in SME growth; its impact had not been realized by women SMEs. Likewise, to the UDEC Report (2002) stresses that most existing business policies and regulations were set up with large businesses in mind and are inappropriate for smaller enterprises. This finding is in line with the SME Policy (2003) which elaborated that, the institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector.

**Effects of Gender roles in the growth of Women-led SMEs in Arusha Municipality**

The second specific objective of this study sought to assess the influence of Gender roles in the Growth of women-led SME's in Arusha Municipality. The respondents were given a set of questions regarding their family responsibilities and capital growth of their Enterprises. The results show that 97.5% of women entrepreneurs with family responsibilities at home own business with capital less than 5 million Tanzania Shillings, compared to only 2.5% of those who do not have family responsibilities at home. On the other hand, 73.3% of women who have family responsibilities run business with capital growth of 5-50 million Tanzania Shillings whereas close to a quarter (26.7%) have business capital ranging from of 5-50 million Tanzania Shillings.

**Table 3: Effects of women family responsibilities on business growth**

		How much has your capital grown for now?				Total	
		Less than 5 million		5-50 million Tshs		n	%
		n	%	n	%		
Do you have any family responsibilities at your home?	Yes	78	97.5	11	73.3	89	93.7
	No	2	2.5	4	26.7	6	6.3
Total		80	100.0	15	100.0	95	100.0

$\chi^2 = 12.468; df = 1; p = 0.000; r = 0.362; p = 0.000$  Correlation is significant at the 0.01 level (2-tailed).

Chi-square test for the association between family responsibilities at home and business capital growth was found to be statistically significant ( $\chi^2 = 12.468$ ;  $df = 1$ ;  $p = 0.000$ ), and the correlation test revealed a positive statistically significant relationship between family responsibilities at home and business capital growth ( $r = 0.362$ ;  $p = 0.000$ ). This implies that women involvement in family responsibilities affects the growth of women SMEs. More women with no family responsibilities run business with high business capital as compared to their counterparts with family responsibilities. This can be explained by the fact that women with no family responsibilities devote much time in managing their business while family responsibilities are taken care of by other people. This is in line with World Bank (2012) report that in relation to gender roles and entrepreneurial activities, women face many more constraint to their productive time than men, as they bear most of the burden for household activities even when they are engaged in the labor market.

#### ***Effects of access to finance on the growth of women led SMEs in Arusha Municipality***

The third specific objective sought to evaluate how access to Finance affects the growth of Women-led SMEs. The respondents were provided with a set of questions to measure their access to financial support and how the provision of finance has affects their performance and growth. Regarding women access to financial support, the results shows that majority (80%) of women entrepreneurs had not accessed loan to improving business capital. It was further noted that 50.0% of those who had received loan from financial institutions secures 2,000,000 and above while a third (33.3%) received less than Tanzania Shillings 100,000. The loan received help women entrepreneurs to improve the performance of their business (61.1%). The major use of the loan was to increase capital size (40.0%), Increase profit (33.3%) and paying school fees (26.7%). Kessy and Temu (2009) also reported similar findings that that MSEs have very limited access to finance.

**Table 4: Women access to financial support**

Variable		n	%
Have you ever applied for a loan?	No	76	80.0
	Yes	19	20.0
<b>Total</b>		<b>95</b>	<b>100.0</b>
How much have you taken in you last installment (loan cycle)?	2,000,000 and above	9	50.0
	Less than Tshs 100,000	6	33.3
	Tsh 500,000 - 999,999	3	16.7
<b>Total</b>		<b>18</b>	<b>100.0</b>
Did the loan help you in improving the performance of your business?	Yes	11	61.1
	No	7	38.9
<b>Total</b>		<b>18</b>	<b>100.0</b>
What did you use loan for?	Increase capital size	6	40.0
	Increase profit	5	33.3
	Paying school fees	4	26.7
<b>Total</b>		<b>15</b>	<b>100.0</b>

#### ***Effects of Loan on SME Performance and Growth***

The results revealed that the average daily sales before accessing loan were Tanzania Shillings 65,000 with a monthly profit of Tanzania Shillings 367,706. The business capital for women SMEs was estimated to be Tanzania Shillings 2,674,658. On the other hand, the average daily sales after loan was reported to be Tanzania Shillings 80,000 and the business capital estimated to be Tanzania Shillings 3,266,667.

**Table 5: Effects of loan on women SMEs performance and growth**

Variable	Minimum	Maximum	Mean	Std Deviation
Daily sales (Tshs) (No loan)	5,000	300,000	65,000	63,832.94
Monthly profit (Tshs) (No laon)	20,000	3,000,000	367,706	718,199.03
Business capital Estimate (Tshs) (No loan)	50,000	13,000,000	2,674,658	2,624,135.35
Daily sales (Tshs) (After loan)	10,000	250,000	80,000	102,867.96
Monthly profit (Tshs) (After laon)	50,000	150,000	369,167	38,009.17
Current business capital Estimate (Tshs) (After loan)	200,000	10,800,000	3,266,667	3,672,337.21

An independent-samples t-test was conducted to compare the mean monthly profit before and after women SMEs access to loan facility. The results show that there is a statistically significant difference in the monthly profit of women SMEs with loans ( $M=146,153.8$ ,  $SD=203,614.8$ ) and those who had not accessed loan ( $M=407,708.3$ ,  $SD=769,828.9$ );  $t(72) = -2.448$ ,  $p = 0.017$  (Table 4.14). These results suggest that access to loan negatively affects women SMEs profits. Specifically, the results suggest that loan facility given to women entrepreneurs does not improve performance of women SMEs, rather negatively affect them.

This can be explained by the fact that loan received is not used for the intended use of investing in business. Women therefore use profit generated from the business to pay back the loan that was not invested in business. These results are contrary to Kuzilwa and Mushi (1997) examined the role of credit in generating entrepreneurial activities and reported that business that gained access to credit from a Tanzanian government financial source increased enterprise output following the access to the credit.

#### ***Influence of Entrepreneurial Skills to the Growth of Women-Led SMEs***

The fourth specific objective sought to assess the influence of Entrepreneurial skills on the growth of Women-led SMEs. The respondents were presented with a question to establish how business trainings have affected their growth and performance. The results shows that 93.3% of women entrepreneurs who have undergone some specialized training to assist in running their business have business capital ranging from 5-50 million Tanzania Shillings as opposed of only 6.7% of those who have never undergone some specialized training in running their business.

**Table 6: Effects of business trainings on business growth and performance**

	How much has your capital grown for now?				Total		
	Less than 5 million		5-50 million Tshs		n	%	
	n	%	n	%			
Have you undergone any specialized training to assist in your business?	No	66	82.5	1	6.7	67	70.5
	Yes	14	17.5	14	93.3	28	29.5
Total		80	100.0	15	100.0	95	100.0

$\chi^2 = 34.946$ ;  $df = 1$ ;  $p = 0.000$ ;  $r = 0.607$ ;  $p = 0.000$  Correlation is significant at the 0.01 level (2-tailed).

Chi-square test for the association between attending specialized business trainings and capital growth shows a statistically significant association  $\chi^2 = 34.946$ ;  $df = 1$ ;  $p = 0.000$ . Likewise, correlation test shows that a training of women SMEs on specialized training significantly improve business performance. This further signifies that business trainings had a positive effect on capital growth. Therefore women SMEs need to be trained in specialized tailor-made course to effectively improve performance of their businesses. Different studies (Nchimbi, 2002; Coleman, 2002 and Fielden *et al.*, 2003) have also reported that women are constrained by education/training, business experience, discriminations, socialization/networking and unwillingness to take risk.

#### **Conclusions**

Majority of women SMEs are operating at micro level and only very few had moved to small, medium and large scale enterprises. Women SMEs provides a major source of living to low income women. The study established that the existing Government policies, laws and regulations are not favorable to women entrepreneurs. Complex regulations on taxation, registration and loan accessing have been a hindrance to the formalization and growth of these enterprises. Though gender roles have always been existent in the community despite the changing trends into entrepreneurship world, women as the major players have greatly been affected by these societal defined duties.

From the study findings, it is clear that financial access has been a limiting factor in the growth of women-led SME's. Many women entrepreneurs have little or no access to financial assistance to boost their business capital. The major bottleneck is that women have no rights to own property; hence they cannot access loans and eventually grow their business. Despite their efforts to run and grow their businesses they still lack proper financial and entrepreneurial skills which is essential boost their performance.

#### **Recommendations**

Taking into consideration the importance of policies and abiding to the existing laws, the government bodies should take into account the demands of these entrepreneurship ventures and establish favorable grounds for their growth. The government through TRA should introduce specific tax package to cater for the SMEs for effective improvement of their operation. The government and other development partners should revise their women empowerment programs to reach out vulnerable women SMEs both in rural and urban settings. They should also liaise with financial service providers in designing special financial product to meet the demands and characteristic of women SMEs. In supporting the SME's through the above initiatives, there will be more registration of SME's, increased access to financial support, proper management of business, and as a result there will be growth. Whenever the business grows, the government will collect more revenues and improve the welfare of the citizens.

Stakeholders should also increase awareness on gender-related issues which affect women participation in business and reduce their working efficiency. This initiative will address the distribution of gender roles in the family which affect women's engagement in business, and finally affecting their growth. Creation of awareness on the importance of women engaging in

business and proper support from their family can be a viable solution to reduce their burden. In relation to financial support, lending institutions should provide a favorable ground for women to access loans, taking into consideration the cultural barriers limiting women to own assets which can be used as collaterals. Further, they should provide basic entrepreneurship and financial management skills to the potential loan beneficiaries so as to equip them with relevant knowledge on handling a business profitably while complying with the loan agreement.

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