# COMPETITIVE ADVANTAGE OF SIDO SUPPORTED SMALL SCALE FURNITURE INDUSTRIES AGAINST IMPORTED FURNITURE IN DAR ES SALAAM AND ARUSHA REGIONS, TANZANIA

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# ABSTRACT

In Tanzania, furniture industries play a significant role in fostering socio-economic development and poverty alleviation. Previous research has not fully addressed factors affecting competitive advantage of small scale furniture manufacturing industries in Tanzania while there is influx of furniture import. This study analyzed factors affecting competitive advantage of SIDO supported small scale furniture industries in Dar es Salaam and Arusha regions. Specifically, the study characterized SIDO supported small scale furniture industries, compared the profitability, analyzed the determinants of consumers' willingness to pay as well as factors affecting competitiveness of SIDO supported small scale furniture manufactures using a sample of 337 respondents who were purposively sampled, whereby 127 were drawn from SIDO supported manufacturers, 76 from furniture importers and 134 furniture consumers in Dar es Salaam and Arusha cities. Quantitative and qualitative techniques were used to analyze data. The study found that furniture industry was mainly dominated by males. Level of education and initial capital were found to be low for small scale furniture industries owners compared to imported ones. Small scale furniture industries were found to generate low profit compared to imported furniture. Consumers' preferences on locally made and imported furniture were 82% and 83% respectively influenced by education, price, design, quality, age, income and household size. On the aspect of willingness to pay for furniture, the study revealed that consumers were willing to pay more for imported furniture than for locally made furniture. The factors that significantly affected willingness to pay for furniture products were age, household size, quality, income, design, brand and knowledge. The results of the regression analysis tested at $p<0.05$ showed that age of

the firm (β = 0.471, p = 0.034), initial capital (β = 0.260, p=0.000), number of employees (β = 0.099, p=0.000), price (β = -0.244, p = 0.000), location (β = -0.189, p = 0.000), diversification (β = -0.112, p = 0.015) and networking (β = 0.053, p = 0.008) significantly affected competitiveness of the SIDO supported small scale furniture industries. The recommendations emanating from the study are to allocate sufficient start-up capital, hire adequate number of employees and ensure effective utilization of employees for successful operational performance of the enterprises as well as ensure effective utilization of networking potentials for resource sharing and market access. It is expected that these findings will provide insight to the small scale furniture manufacturers on approaches to use when producing furniture items basing on market needs.

# DECLARATION

I, **Neema Kumburu**, do hereby declare to the Senate of Sokoine University of Agriculture that this thesis is the result of my own original work and has not been submitted nor is it concurrently being submitted for higher degree award in any other institution.

_____                                    _____

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**(PhD Candidate)**

The declaration is confirmed by

_____                                    _____

Prof. John Francis Kessy                                              Date
**(Supervisor)**

_____                                 _____

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## DEDICATION

This work is dedicated to my beloved mother, Ms Mary Maurice Ngahyoma, who laid the foundation for my education. I love you so much and God bless you.

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## LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ANOVA | Analysis of Variance |
| ATC | Arusha Technical College |
| CA | Competitive Advantage |
| CIF | Cost Insurance and Freight |
| CT | Change in Tax |
| CTI | Confederation of Tanzania Industries |
| CVM | Contingent Valuation Method |
| DC | Ditochomous Choice |
| DIT | Dar es salaam Institute of Technology |
| DSMP | Development Strategy and Master Plan |
| FC | Fixed Cost |
| FOB | Free On Board |
| GDP | Gross Domestic Products |
| GFC | Ghana Forestry Commission |
| GLS | General Least Squares |
| GP | Gross Profit |
| GR | Gross Revenue |
| MPIC | Ministry of Plantation Industries and Commodities |
| NBS | National Bureau of Standards |
| NI | Net Income |
| NPD | New Product Development |
| NSGRP | National Strategy for Growth and Reduction of Poverty |
| OSL | Ordinary Least Squares |
| RBT | Resource Based Theory |

| | |
|---|---|
| ROI | Return on Investment |
| RORI | Rate of Return on Investment |
| SAP | Structural Adjustment Program |
| SCA | Sustained Competitive Advantage |
| SEM | Structure Equation Modelling |
| SIDO | Small Industries Development Organization |
| SIDP | Sustainable Industrial Development Policy |
| SMEs | Small and Medium Enterprises |
| SPSS | Statistical Package for Social Sciences |
| SSICS | Small Scale Industries Credit Scheme |
| TC | Total Costs |
| TIN | Tax Identification Numbers |
| TR | Total Revenue |
| TRA | Tanzania Revenue Authority |
| TZS | Tanzanian Shilling |
| UK | United Kingdom |
| UNIDO | United Nations Industrial Development Organization |
| USAID | United States Agency for International Development |
| VIF | Variance Inflation Factor |
| VTSS | Vocational Training and Service Centre |
| WB | World Bank |
| WEO | Ward Executive Officer |
| WITC | World Industrial Training Centre |
| WITC | World Industries Training Centre |
| WTP | Willingness to Pay |

# CHAPTER ONE

# INTRODUCTION

## 1.0    Background Information

Small and Medium Enterprises (SMEs) are recognized as engines of economic growth worldwide (Mutambala, 2011). In developing countries, including Tanzania, the SME sector plays a significant role in fostering the development of the country due to its contribution to economic growth and poverty alleviation (Musonda *et al*., 2008; Mungaya *et al.,* 2012). The share of the SMEs to the gross domestic products (GDP) is estimated at 27%, and employs about 5 206 168 people (URT, 2012).  The sector is labour-intensive in nature, and it covers a wide range of enterprises dealing with a variety of businesses that provide multiple jobs, a fact that makes it more geographically dispersed than large enterprises.

The structure of SMEs in Tanzania is composed of several sub-sectors as noted by Mhede (2012) that Woodwork is the largest sub-sector constituting about 30% of SME's activities, followed by metalwork (23%), food processing (18%) and textile (14%).   It is important to note that all of the remaining sub-sectors such as construction, shoe-making, pottery, handcrafts, fishing and fishing boat making consitute 15% of the SMEs activities (Mwamila and Temu, 2006; Msoka, 2013).

The dominance of the woodwork industry has been attributed to continued urbanization that demands higher supply of construction materials as well as furniture (Mutambala, 2011). SMEs provide basic goods and services such as furniture, which are less costly compared to goods and services provided by large

scale producers and hence responding to the needs of the local population (Muhammad *et al.,* 2010).

Despite the socio-economic importance of the SMEs to the Tanzanian economy, it is largely informal and very much under-performing due to various constraints, leading to massive import flow of consumer goods, furniture inclusive (Moshi and Mtui, 2008; Mashenene and Rumanyika, 2014). In recognizing the importance of the SMEs, the Government designed and implemented policies and programmes supportive to the development of the sector. To that effect, the National Development Vision 2025 was put in place. The vision among other things emphasizes on transforming the nation from a low productivity agricultural economy to a semi-industrialised one. These will be facilitated by modernised and highly productive agricultural activities which are reinforced by supportive industrial activities through active mobilisation of people and other resources (Mhede, 2012; Wangwe *et al.,* 2014).

Cognizant of the critical role of the industrial sector, the Sustainable Industrial Development Policy - SIDP (1996 - 2020) was developed. Specifically, it places emphasis on promotion of small and medium industries. These will be done through supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs. It also emphasizes on improved access to financial services and encourages informal sector businesses to grow and be formalized (SIDP, 1996-2020). Other measures include the Small and Medium Enterprise Development Policy 2003; the National Strategy for Growth and Reduction of Poverty (NSGRP II); and the Five-Year National Development Plan

2011/12-2015/16, which clearly indicated the importance of industrial development in Tanzania (URT, 2010a).

Moreover, the Government established institutions such as Small Industries Development Organisation (SIDO) to support SME sector. Mutambala (2011) noted that establishment of such institutions has facilitated development of programmes like extension services, financial and physical support that aimed at promoting the SMEs sector to raise productivity and competitiveness. Despite these efforts, ability of small scale furniture manufacturing firms to compete with imported furniture has remained low (Isaga, 2012).

Trade statistics show that Tanzania imports more than it exports. For example, in years 2005 to 2014 the country's imports were worth US$ 64 861 519 979 while exports in the same period were worth US$ 37 472 298 145 (Fig. 1). A similar situation is seen for importation of furniture whereby between 2005 to 2014 the country's furniture import were worth US$ 1 440 744 804, whereas exports were worth just US$ 411 365 676. About 46% of imported furniture came from the United Arab Emirates and 39% were from China. The remaining 15% were from countries like United Kingdom, United States of America, Malaysia, India, South Africa and other countries (TRA, 2014).
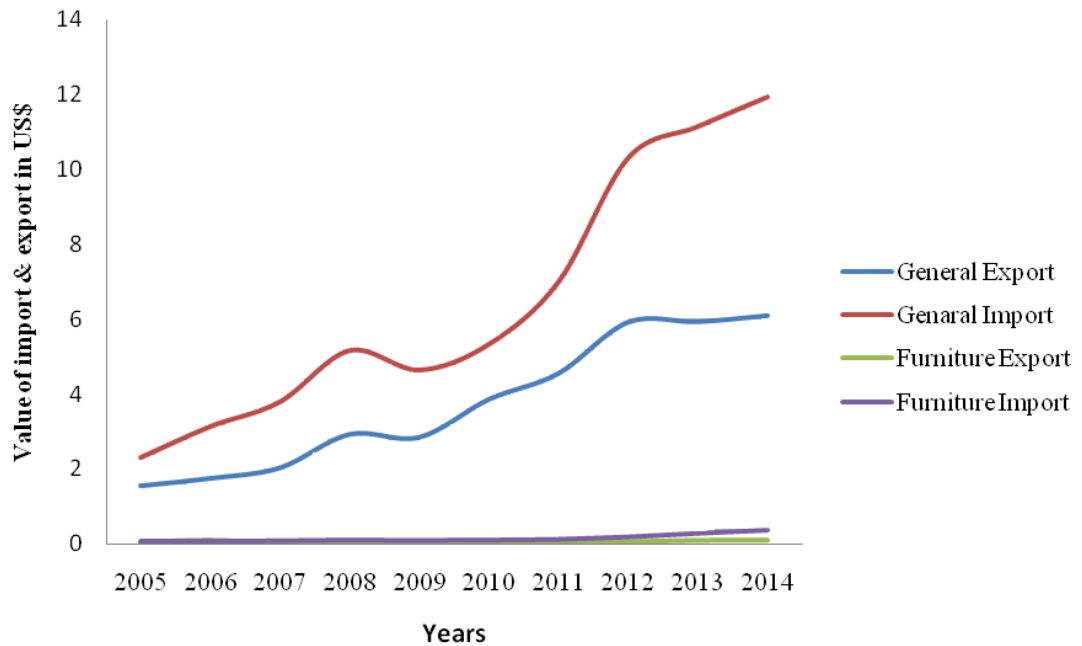
**Figure 1:** **Tanzania Import and Export Statistics**

**Source: TRA (2014)**

The massive import of furniture had adverse effect on furniture that are locally produced (Kizito, 2009). According to Tanzania Industrial Competitiveness Report (2012), Tanzania's small scale sector faced international competition (mainly from Asian products), which caused several industries including furniture industries to close down.

Najafi (2010) noted that firms achieve competitiveness through innovation in the quest for differentiation from competitors. The term competitive advantage is generally used in literature to describe the ability that a firm has to create more economic value than its competitors in a given market environment (Barney, 1997; Peteraf and Barney, 2003). This is to say a firm's competitive advantage is the outcome of a chosen strategy that generates higher returns for the firm compared to its competitors. The competitiveness of a firm is affected by both external and

internal factors of the firm. Internal factors are those that affect the SMEs owner's ability to operate efficiently, despite any inmate potential in the owner (Baloyi, 2010). According to Stokes and Wilson (2006) internal factors are the personal attributes, skills and competencies of the individual owner which are crucial to how well the business faces up  inevitable crises that arise.

Resource-based view considers that an organization develops its competitive advantage when it is able to develop a collection of resources that are rare, valuable, small substitution capability and inimitable or difficulty to copy. In other words, organizational resources are used as competitive advantage resources.  If the resources have the above four features, the competitive advantage will be stable (Churchil & Supernunt, 1982; Barney and Clark, 2007).

In a dynamic capability perspective, the main argument is the organization's ability to develop high level capacities throughout their path, in order to sustain a better development (Helfat and Peteraf, 2003; Marcus and Anderson, 2006). It emphasizes on which market to enter, how to position, in which markets to exploit existing resource position, how to deter entry, pricing, and other "traditional" strategic variables (Teece and Pisano, 1994; Pisano, 2015). Decisions about product market entry and position, and decisions about capability creation are intimately linked. Investments in capabilities create strategic options for competition in product markets. The job of a capabilities-based theory of strategy should be to provide conceptual and practical insights about these links. More specifically, a capability-based theory of strategy should identify the choices available to firms and the consequences of those choices under different competitive circumstances (Teece *et*

*al.,* 1997; Giudici, 2012). With this perspective the theory focuses on two questions; how to make an enterprise more adaptable and what capabilities should be taken on board in order to gain a competitive advantage.

Porter (1980) argues that industry structure has a strong influence in determining a competitive strategy. Thus the goal of competitive strategy for a firm in a certain industry is to find its position where a firm can best defend itself against five competitive forces: entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors. In coping with these five competitive forces, he recommends three strategic approaches that a firm may adopt to outperform others within an industry (Porter, 1985). The first strategy is overall cost leadership, which suggests that having a low overall cost position by having a high relative market share or other advantages, such as favourable access to raw materials. Secondly, a firm can take advantage of differentiation by offering products or services that are perceived to be unique in the industry. Approaches to differentiation can take various forms, such as design or brand image, technology, customer service, or other dimensions. Finally, a firm can outperform its rivals by focusing on a particular buyer group, a product line, or a geographic market. By narrowing its strategic target, a firm is then able to be more effective or efficient.

According to Porter's viewpoint, the firm depends on industrial attractiveness and relative situation of a firm within the industry. This is to say, if an organization adopts differentiated activities, pivotal competencies will facilitate diversity and differentiation, and this brings competitive advantage for the firm (Najafi, 2010).

Within any organization, the customer is the main factor in survival of the organization. If an organization is not successful in attracting customers' satisfaction and loyalty, it will not reach long-term survival (Vazifehdoost *et al.,* 2014). In terms of the furniture industry, the products must satisfy consumers and meet demands for high standards related to comfort, design innovation and technology.

The furniture industry can have competitive advantage over their competitors in technology, management and marketing. An industry with a competitive advantage is more profitable than its rivals and this is a *prima facie* evidence of a competitive advantage (Adner and Zemsky, 2007). On this basis, there is a need to study why domestic small scale furniture manufacturing industries have remained non-competitive despite the various government efforts to promote the subsector. Hence the study on which this thesis is based analyzed factors affecting the competitive advantage of SIDO supported small scale industries in Dar es Salaam and Arusha regions in Tanzania. The two regions were purposely selected because they are among the regions with the largest manufacturers as well as consumers of furniture in the country (Ishengoma, 2005; Isaga, 2012).

## 1.1    Problem Statement

Due to the impact of trade liberalization, businesses are becoming globalized and more competitive. Competition is at the core of the success or failure of firms (Olakunori, 2002). Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture and good implementation. Competitive strategy helps to search for a favourable

competitive position in an industry, establish a profitable and sustainable position against the forces that determine industry competition (Netemeyer *et al*., 1991).

Statistically, the world production of furniture in 2013 was estimated to be worth US$ 450 billion, while annual trade in furniture in 2012 surpassed US$130 billion (Ngui *et al.,* 2010; CSIL, 2014).  Tanzania has experienced an influx of consumer goods, furniture inclusive from outside the country due to trade liberalization, despite the fact that imported furniture are similar to those  produced locally by small scale industries (TICR, 2012). The importation of furniture from abroad is an indication of globalization that allows participation of Tanzania in the world market. However, this global competition is intensifying; foreign firms are expanding into new international markets and home markets are no longer appealing as an opportunity (Adam, 2011). Local companies that never thought about foreign competitors suddenly found this competition in their own back yards (Kotler *et al.,* 2005).

Inability to compete is a hindering factor to the development and sustainability of small scale furniture enterprises (TICR, 2012). Studies by Aubert and Wanga (2007) have revealed that the furniture sub-sector is underperforming, and there is lack of significant changes in the quality of products, production processes, work organization and marketing of the products. As a result, there is low productivity in the sector; hence it fails to respond positively to intense competition in the market. Kotler *et al.* (2005) noted that firms that are slow to adjust to market changes are likely to lose their chances to enter other markets and lose their market shares in the local markets.

Empirically, it was found that, for the most part, studies on specific factors hindering furniture industry's competitive advantage were rarely done. Various studies focused on challenges facing the furniture firms, possible obstacles to the growth of the firms and importance of furniture firms to the economy, but specific factors that lead or hinder furniture industry competitiveness were not spelled out.  Murphy (2007) observed that inadequate government support and ways in which Mwanza's markets, institutions, and spatial characteristics influence clustering activities limited the upgrading of the furniture industries in Mwanza. On the other hand, Murphy (2005) found that liberalization has affected development of the firm in terms of creativity innovation and firm's formalization. Isaga (2012) noted that demographic characteristics, personality traits and cognitive characteristics do have an influence on the growth of SMEs in Tanzania. In supporting this argument Mutambala (2011) noted that small entrepreneurs in furniture making have some capability of adopting innovation from outside their firms and make changes in the firm.

In view of the above, the conceptual gap observed from these studies is the degree to which small scale furniture industries could do or fail to do to create more economic value than its competitors in a given market environment. In other words, to what extent are small scale furniture industries are internally and externally organized as well as prepared to compete with imported furniture firms for the existing market share of customers. On the global aspect, much of the studies on furniture industry paid attention on general issues relating to the sources of sustainable competitiveness in both emerging and established markets, importance of furniture industry to country economy and possible impediments to the growth of the furniture industry (Ngui *et al*., 2011; Purnomo *et al*., 2013; Wan, 2014;). Yet,

specific factors hindering small scale furniture industries' competitive advantage were not found.

In particular, there is little or no knowledge about the socio-economic characteristics of SIDO supported small scale furniture industries and what determine their profitability. If these are known yet factors which lead to/hinder consumers' willingness to pay/ not to pay for imported or locally made furniture need to be established. Thus, this study analyzed factors affecting competitive advantage of SIDO supported small scale furniture industries in Dar es Salaam and Arusha regions, Tanzania.

## 1.2    Objectives

### 1.2.1   Main objective

The main objective of the study was to analyze factors affecting competitive advantage of SIDO supported small scale furniture industries against imported furniture in Dar-es-salaam and Arusha regions, Tanzania.

### 1.2.2   Specific objectives

The specific objectives of this study were:

(i)    To characterize SIDO supported small scale furniture industries in the study areas

(ii)   To compare  profitability of imported furniture firm and SIDO supported small scale furniture industries

(iii) To analyze factors underlying consumers' willingness to pay for imported versus locally manufactured furniture

(iv) To examine factors affecting competitiveness of SIDO supported small scale furniture industries

## 1.3    Research Questions

To achieve the research objectives above, this study set out to answer the following research questions:

(i)    What socio-economic characteristics typically describe SIDO supported smallholder furniture enterprise against their imported furniture trade counterpart?

(ii)   How does profitability of SIDO supported small scale furniture industries differ from that of imported ones

(iii)  What factors and mannerism influencing consumers' willingness to pay for imported or local furniture and lead him/her to pay premium prices for these products?

(iv)   What are the major parameters affecting competitiveness of SIDO supported small scale furniture industries.

## 1.4    Research Hypothesis

It was seen necessary to formulate a hypothesis for objective two in order to quantify whether there is difference in the profitability of the SIDO supported small scale furniture industries and furniture importing firms. The null and alternative forms of the hypothesis are stated as follows:

$H_0$: There is no difference in the profitability of SIDO supported small scale furniture industries and that of furniture importing firms

$H_i$: There is difference in the profitability of the SIDO supported small scale furniture industries and that of furniture importing firms

## 1.5    Significance of the Study

Furniture industry is among the important sectors in the economy of Tanzania; however the sector has not been fully exploited to the extent that it gives full potential to the economy. In this view this study is important as it determines competitive advantage of small scale furniture industries.   In determining the competitive advantage it helps to understand how the sector is growing and how it positions itself in industry against the forces that determines competition.

The findings are intended to inform policy makers and other stakeholders of industrial development like SIDO to develop adequate measures that promote and accelerate quality and performance of small scale furniture industries and thus be able to compete effectively in the globalized market.  The findings will also help them to formulate and develop a framework for critical finance, marketing, work premises, technology and other factors that affect the competitive advantage of small scale furniture manufacturers. Moreover, the findings of this study will help the policy makers and financial institutions to facilitate establishment of expansion financial services to small scale furniture manufacturers.  This is very important in achieving Tanzania Development Vision (TDV) 2025 goal number five in which it is envisaged to build a strong and competitive economy and thus helps to improve income of small scale furniture manufacturers.

This study is expected to serve as a theoretical base for future studies of the same nature. Academicians and researchers are expected to benefit from this study because it provides them with facts needed to broaden their understanding with respect to critical factors that affect the competitive advantage of small scale furniture manufacturing firms. This is important as it helps in developing methodologies on business development services, skills training and monitoring and evaluation mechanism to ensure that small scale furniture industries become more potential to the global market.

Furthermore, this study aims to help furniture manufacturers as well as marketers to understand better factors influencing consumers' willingness to pay for furniture. This study also expected to informs them about factors determining the amount consumers are willing to pay. This information is vital in the formulation of their design as well as production and marketing strategies. This will be achieved by disseminating the findings of this study through stakeholders workshops and various fora and symposia.

The study was conducted in Dar es Salaam and Arusha cities as the major recipient of imported furniture and are among the regions with highest number of manufacturing firms in Tanzania hence findings obtained in this two cities can be generalized to other regions and best practices can be learned from there.

## 1.6    Organization of the Thesis

The thesis is organized in five chapters, each addressing a specific aspect of the study. Chapter one introduces the furniture sub-sector. It presents the background

information and statement of the problem. It also outlines research objectives, research questions and significance of the study. A review of literature is presented in chapter two where concepts, theories, and phenomena relating to the study are presented. It provides the theoretical underpinning and empirical information from previous studies, conceptual framework as well as research gap. Chapter three describes the methodology used in the study which covers the study area, research design, sampling procedure, data collection procedures, processing and analysis. Chapter four presents and discusses the findings. The chapter presents characteristics of SIDO supported small scale furniture industry in comparison with furniture importers, compares profitability, factors which affect consumers' willingness to pay for imported and locally made furniture and the factors that affect performance of SIDO supported firms.

Concluding remarks, contribution to knowledge, recommendations and area for further research are provided in chapter five. It outlines the factors affecting competitive advantage where age of the firm, availability of credits and number of employees are presented.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Theoretical Review

### 2.1.1 Theories

This study is built on the foundation of competitive advantage theories and the consumer behaviour theories. Competitive advantage theories are explained by the Porter's five forces perspective, the Porter's generic strategies perspective, the resource based theory and the dynamic capability theory. In general, these theories explain the sources and how a firm can achieve its competitive advantage. On the other hand, consumer behaviour theories are explained by consumer utility theory and the reasoned action theory. These theories of consumers' behaviour elaborate how, what, when, and why people buy products or services. These are reviewed briefly in section 2.1.1.1. to 2.1.1.7.

### 2.1.1.1 The porter's five forces perspective

Five forces perspective views of competitive advantage (CA) as originally described by Porter (1981) highlighted the position of superior performance that a firm achieves through offering cost advantages or benefit advantages (Rothaermel, 2012). The effect of these factors on each other defines the intensity of competition in one industry (Lado *et al.,* 2006; Wan, 2014). Porter's proposition on an analytical framework to assess the attractiveness of an industry identifies five basic competitive forces seen as threats to the firm profits (Fig.2) : threat of entry, threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among current competitors (Smit, 2010). The collective impact of these five

forces and the underlying structure of an industry determine the intensity of industry competition and the ability of firms in the industry to make profits (Kim and Oh, 2004). It is from these perspectives that the collective strength of these five competitive forces play an important role in influencing the competitive position of furniture industry as they determine firms' profitability.

In addition, Barney and Clark (2007) argue that profitability and growth of performance of small scale firms were influenced significantly by the environment. Besides that, only environmental variables were related with firm growth of firm performance. Schumacher (2014) showed that environmental characteristics have significant impact on overall export marketing performance. To this effect, Porter's model, is therefore, extended in this research.
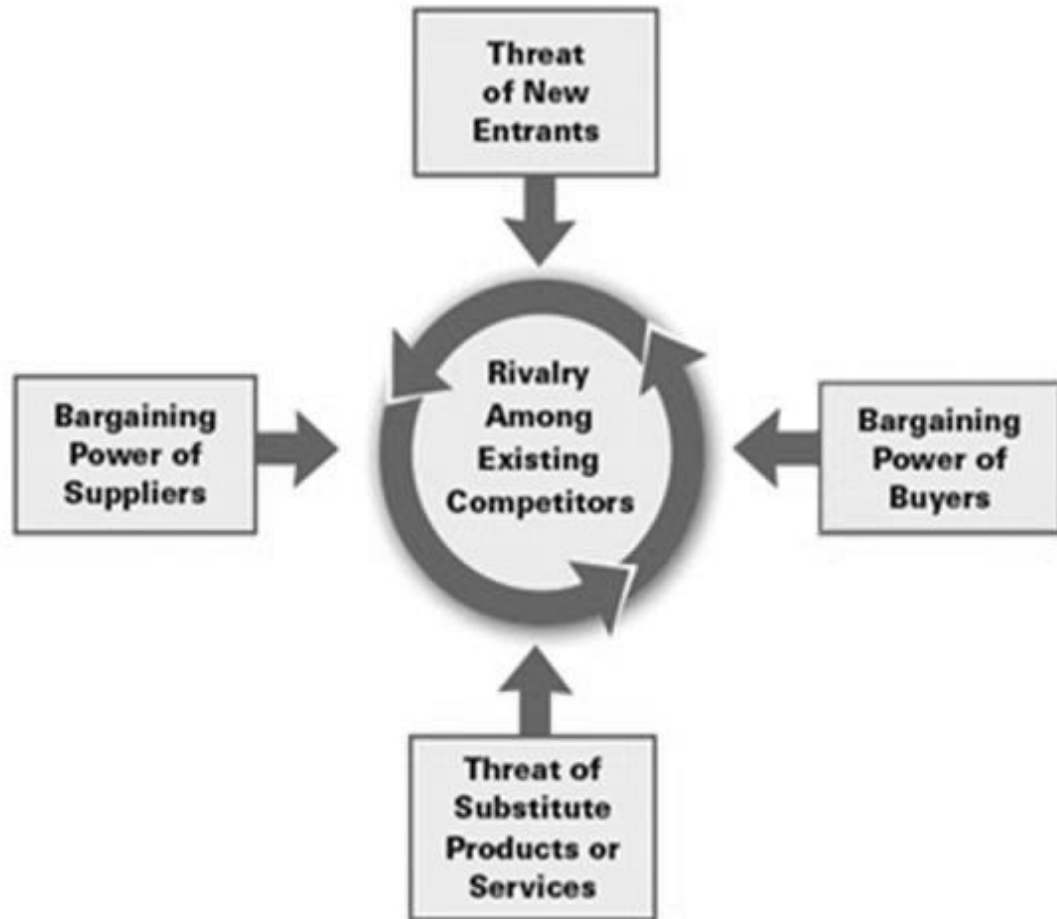
**Figure 2:   Michael Porter's Competitive Forces and Furniture Industries**

**Source: Modified from Porter 1981**

**(a) Threat of new entrants**

The competitive threat to a company's business may not only be from existing players in the market, but also from potential new entrants into the market place. If an industry is profitable, or attractive in a long term strategic manner, then it will be attractive to new companies. Unless there are barriers to entry in place, new firms may easily enter the market and change the dynamics of the industry (Smit, 2010). The most attractive scenario for a new company is when a potential market has low

barriers to exit but high barriers to entry. The economics of any industry will determine the level of difficulty faced when trying to enter this market.

From Porter's view it can be analyzed that new entrants are individuals or new firms planning to enter the furniture industry (Smit, 2010). They may have no experience at all in running a business or experienced entrepreneurs who plan to expand or diversify their present business. But in this industry, if an entrant has no experience in furniture manufacturing it would be a costly exercise. In case of consumers, it can be said that they may not have brand preferences or customer loyalty when it comes to purchasing furniture (Li, 2010). Wan (2014) noted that compared to shopping for clothes, shoes, cosmetics, food and so forth, buyers do not stick to just one brand or stock when they buy furniture. People differ in not just taste but the look of their houses; some firms' designs might not be compatible with the design of the household.

Li (2010) found that new entrants in the furniture manufacturing not only bring new technology and resources, but also reduce the profitability of all companies in this industry as customers may prefer furniture made by competitors or furniture imported from abroad because they are of superior quality or they are sold at lower price (Porter, 2008).

Isaga (2012) reported that, in creating furniture, no special skill or equipment/tool/machine is needed. Rather, furniture requires creativity in creating one that uses good quality materials, attractive design and practical functions. Because of this, the industry is described to be highly domestic, intensive in labour

requirements but with low capital requirement, especially if the furniture is created out of non-scarce materials easily found in the country. From the above discussion, it can be concluded that since the furniture industry is very flexible, it poses very low barriers to entry and this becomes a threat rather than an opportunity thus it weakens small scale furniture industry competitive advantage.

**(b) Threat of substitute products**

Substitute products are considered to be things that have similar functions or purposes as those products in the industry (Smit, 2010). The more substitutes that exist for a product, the larger the company's competitive environment and the lower the potential for profit. The profitability could be reduced by the substitute products and because of the substitute products, companies have to improve the quality, reduce the cost and price, or make product more features (Porter, 2008).

Since this study analyses furniture, the substitutes are those used when the desired product is not available, expensive, unattractive and of low quality. There are several substitutes for designer furniture such as plastic and fiberglass furniture. This type of furniture is far simpler, inferior in quality and unilaterally designed, and a lot less cheap to produce than designer furniture. With the current state of the Tanzania economy today, customers are now more practical. Customers can just go directly to a small manufacture furniture industry or an ordinary carpenter and hire them to make hand-made and home-made furniture instead of ordering through a large furniture firm. Likewise, there are a lot of small scale furniture industries, some of which already produce almost identical products with similar prices. Based on the above explanation, the threat of substitutes in terms of cheaper

alternative furniture seems to be high and may be considered to be a threat and therefore lower furniture industries competitiveness.

**(c) Bargaining power of buyers**

Buyers are individuals or group of people that purchase a product at the best possible price (Li, 2010). Buyers may be grouped according to their sex, age, education, class, marital status, etc. to form a market. Sellers usually do this to determine their target market, a set or group of people that will most likely want to buy the product.

Boon-kwe and Thiruchelvam (2012) noted that most of the time, buyers purchase only one set of furniture on a staggered basis depending on budget availability. Unless these buyers are well-off and have a new house, acquiring a new set every year is an unlikely event. They can opt not to purchase for a long time too and just keep the old set in place (Hansen and Juslin, 2005). In addition, there are many small businesses that sell numerous types and kinds of furniture, and come in a variety of designs, uses, sizes and prices. Therefore, buyers have unlimited options and can choose furniture that would fit their taste, lifestyle, purpose and budget. Likewise, they can switch to low cost furniture. Based on this, it can be concluded that the customers may influence profitability intensity of the furniture industry by asking for low price, good quality and service.

**(d) Bargaining power of suppliers**

Suppliers provide the raw material needed to provide a good or service. This means that there is usually a need to maintain strong steady relationships with suppliers. Depending on the industry dynamics, suppliers may be in a position to dictate terms, set prices and determine availability timelines (Wan, 2014). Powerful suppliers may be able to increase costs without affecting their own sales volume or reduce quantities that they sell.

The lack of readily available supply of the raw materials drives prices up as firms have to import to produce the finish product (Li, 2010). Especially with the implementation of the total log ban, only large firms that have the importing and financial capacity would be able to supply sufficient raw materials just-in- time (Porter, 2008; Wan, 2014).

The switching costs from one supplier to another can either be high or low depending on the scarcity of a particular material. This will depend solely on the kind of furniture a particular firm produces. If the firm produces a product made of scarce raw materials, then the buyer has a high switching cost, but for those firms that rely on easily available kinds of raw materials their switching costs are relatively low. Therefore, this can be considered as an opportunity for furniture manufacturers with financial capacity rather than a threat because of the numerous suppliers of imported raw materials and equipment.

**(e) Rivalry among current competitors**

Rivalry-Competitive rivalry is likely to be based on dimensions such as price, quality, and innovation. Technological advances protect companies from competition. This applies to products and services. Companies that are successful with introducing new technology are able to charge higher prices and achieve higher profits, until competitors imitate them (Porter, 2008).

If there are more companies competing with each other, the resulting competitive pressure will mean that prices, profits and strategy will be driven by it. One company may end up having little or no power in its own industry if there is a variety of quality products which are offered in the market in direct competition with it. Because there are other furniture from other manufacturers as well as importers, customers have the option of simply moving on to a different type of furniture easily. Conversely, in the absence of this rivalry, the company may be able to freely set prices and profit margins without being dictated by what the customer finds attractive.

For the furniture industry, there are lots of firms equal in size and capability, many of whom are small and medium enterprises with less than 30 regular workers (Stonehouse and Snowdon, 2007). Because of this, there is fierce competition in this industry. Since there are numerous firms which sell and manufacture furniture, the cost of carrying inventory forces firms to sell cheaply excess furniture not sold in regular season. In case of Tanzania local and imported furniture are abundant. Likewise, small, medium and large sale businesses are able to manufacture and sell furniture. Because of such differences, firms often carry different strategies and

priorities. In that aspect, the rivalry among competitors in furniture industry is strong and this is considered to be a threat rather than an opportunity.

To sum up, Porter (1980), Five Competitive Theory suggests that if a firm has a low overall cost position can yield above average returns in its industry. This entails that furniture manufacturing firms may achieve a low cost position by having a high relative market share or other advantages, such as favourable access to raw materials. Likewise, a furniture manufacturing firm can take advantage of differentiation by offering products or services that are perceived to be unique in the industry. Approaches to differentiating can take various forms, such as design or brand image, technology, customer service, or other dimensions. Furthermore, a firm can do better than its rivals by focusing on a particular buyer group, a product line, or a geographic market (Porter, 1980). This means that if a furniture manufacturing firm narrows its strategic target, it will be able to be more effective or efficient.

Even though the Five Competitive Forces Theory has a strong influence in determining firms' competitive advantages, it has its criticisms. One among many criticisms is that, the model is based on the idea of competition. It assumes that firms try to achieve competitive advantages over other players in the markets as well as over suppliers or customers. With this focus, it does not really take into consideration strategies and provide an explanation on how internal environment of the firms can be processed to achieve competitive advantage. In order to overcome this criticism, the researcher found it necessary to combine Porter's five forces theory, Porter's generic strategies and the resource based theory which emphasizes on internal environment to explore furniture competitive advantages.

**2.1.1.2 The porter's generic strategies perspective**

Porter (1980) described three generic strategies which a firm of any size (small, medium or big) can choose to pursue its competitive advantage. The competitive strategy view states that a firm's competitiveness and so its performance is determined by the characteristics of the competition environment and firm's ability to achieve a powerful strategic position through planned effective competitive strategies. The three generic strategies are lower cost, differentiated or focus (Leitner and Stepan, 2007). A firm can choose one of two types of competitive advantage; either lower costs than its competitors or differentiating itself along dimensions valued by customers to command a higher price. A firm can also choose one of two types of scope, either focus by offering its products to selected segments of the market or mass market, offering its product across many market segments. The generic strategy reflects the organization's strategic power.

**(a) Cost Leadership Strategy**

In cost leadership strategy, firms charge a lower price but their volumes are larger. Therefore, volume of business allows a firm to maintain its profits and expand its market share (Linder and Seidenstricker, 2010). Some consumers shop only at stores that offer the lowest price. In most of the local furniture industries, furniture are offered at amazing low price. It is the best example of innovativeness. Furniture manufacturing firms are able to keep their prices low because they source their raw materials from nearby places and labour largely from firms' owners' families. These enable them to save on labour cost and cost of production.

**(b) Product Differentiation strategy**

Porter (1980) says that an industry has multiple segments that can be targeted by a firm. The breadth of its targeting refers to the aggressive capacity of the business. If a firm targets customers in most or all segments based on characteristic or trait (size, shape, uniqueness, service, etc.) other than price, it is opting for product differentiation strategy.

Differentiation is a marketing term used to describe the process of developing promotional messages that distinguish products from those offered by competitors. The differentiation plank is created in the minds of target customers (Leitner and Stepan, 2007). Effective differentiation is critical to building a strong business model. Differentiation strategy involves making the products or services diverse yet attractive than competitors. How a firm does this depends on the nature of the industry. Differentiation involves product features, functionality, durability, support, service quality, time and also brand image which the customers value. To make a success of a differentiation strategy, firms need good research and development, innovation and the ability to deliver high-quality product or service. It also requires effective sales and marketing team, so that the market understands the benefits offered by the differentiated offerings.

**(c) The Customer Focus Strategy (Niche marketing)**

Firms that use focus strategies concentrate on particular niche markets and, by understanding the dynamics of that market and the unique needs of customers within it, by developing uniquely low-cost or well-specified products for the market (Porter, 1980). By doing so, the firm also enjoys deep economies of scale. The firm

enjoys effective insights because of the smaller size of market (Leitner and Stepan, 2007). Thus, automatically, the company enjoys market power within the niche. The only challenge in using customer focus strategy or niche market strategy is choosing markets where the customers are lesser prices sensitive. Because of choosing the right markets and serving customers uniquely well, firms enjoy strong brand loyalty amongst their customers. This makes their particular market segment less attractive to competitors.

In the focus strategy, it is still essential to decide whether a firm would like to pursue cost leadership or product differentiation. Focus is not normally enough on its own. But whether the firm uses cost focus or differentiation focus, the key to making a success of a generic focus strategy is to ensure that it offers its customers something extra as a result of serving only that market niche. The something extra that the firm adds can contribute to reducing costs or to increasing differentiation.

**2.1.1.3 The resource based theory**

The resource-based theory (RBT) by Wernerfelt (1984) holds that the internal resources that a firm controls have the potential to be a source of sustained competitive advantage (SCA) if the resources are valuable, rare, inimitable, and non substitutable. This means a resource to be a source of competitive advantage must meet three conditions. Firstly, the output from these valuable resources is willingly purchased by buyers at a price far higher than the costs incurred in bringing it to the saleable state. Secondly, it is scarce because it is subject to limited supply. Thirdly, it is difficult for competitors to either imitate or purchase the resources (Porter, 1980; Barney,1991; Cardeal and Antonio, 2012 ).

The model assumes that the desired outcome of managerial effort within the firm is SCA that allows the firm to earn returns that are above industry average (Mugera, 2012). This model views SCA as emanating from the distinctive resources of a firm that gives it an edge over its rivals. An organization is viewed as a bundle of specialized resources that are deployed to create a privileged market position (Day and Wensley, 1988; Schiuma, 2010). Therefore, the RBT emphasizes strategic choices where managers of a firm have the important task of identifying, developing, and deploying key resources to maximize returns (Ghemawat, 1986; Schiuma, 2010). A small scale industry must choose the range of products they will produce, the distribution channels they will employ, the types of buyers they will serve, the geographic areas in which they will sell, and the array of related industries in which they will compete (Grant, 2008).

With regard to furniture firms, a firm's competitive advantage is driven by both internal and external factors. The internal factors are collectively captured under the resource-based theory (RBT) which places emphasis on decisions and competencies emanating from a firm rather than its environment (Stoke and Wilson, 2006; Rose *et al.,* 2010). Internal factors are those that affect the firm owner/manager's ability to operate efficiently, despite any inmate potential in the owner/manager (Wright *et al.,* 1994; Amoah and Fordjour, 2012). According to Stokes and Wilson (2006), internal factors are the personal attributes, skills and competencies of the individual owner/manager which are crucial to how well the business faces up to the inevitable crises that arise. These factors include lack of capital, personal characteristics, marketing, financial management, human resource, access and use of information technology and the availability of sound business plan.

The external factors, on the other hand, are factors beyond the control of the entrepreneur (Rogoff *et al.,* 2004; Schumacher, 2014). Thus, a firm's ability to excel in its new product development efforts rests on only with the core competencies it possesses, but its ability to integrate the environment issues in their production processes is key. For small medium furniture enterprises, because firm owners are at the centre of all activities, we followed the interpretation of firms' internal factors advanced by Rogoff *et al.* (2004) as 'the characteristics of the owner or entrepreneur and the firm'. Thus, issues such as the education qualifications of firm owners, their ages, and firm owners' ability to solicit ideas from employees and customers and integrate them into the production processes become crucial to a successful new product development.

Marx (2012) added that factors of production are the inputs necessary to compete in any industry, which were classified into human resource, physical resources (including natural resources but also location and time zone), knowledge resources, capital resources, and infrastructure. Nevertheless, small and medium sized furniture manufacturers may face difficulties in securing financial loans from local and foreign financial institutions due to a host of issues such as the lack of securities (due to fear of non-performing loan, banks assign greater importance to the value of collaterals in making a loan decision), lack of resources, and the preference of financial institutions to grant loans to bigger firms (Rogoff *et al.,* 2004). Rogoff *et al.* (2004) also added that many innovative small scale furniture industries, particularly those at the start-up phase, are not able to get loans because financial institutions lack the capability of evaluating their business potential appropriately.

To sum up, compared with other theories that explain firm competitive advantage by focusing on external factors (e.g., Porter's five forces theory), RBT holds the point that competitive advantage derives from firm-specific resources and capabilities. Even though the RBT is a generally accepted approach to study firm resources and capabilities, the approach has its drawbacks. Firstly, RBT suffer from tautology problem that resources are defined in terms of the performance outcome associated with them (Porter, 1991; Lockett *et al.,* 2009). RBT also does value the synergy component among resource combinations in achieving competitive advantage (Kraaijenbrink *et al.* 2010) and that it does not consider assets, which do not create competitive advantage by themselves (Nevo and Wade, 2010).

Like Porter's five forces framework, resource-based theories had little to say about the dynamics of capability-creation. It could not predict whether a firm would maintain its lead in technology over a rival even though such a capability advantage may be critical to the market. Likewise, resource-based theory provides little guidance to firms about the kind of capabilities they might attempt to develop in order to secure or sustain a competitive advantage (beyond general properties like inimitability and uniqueness). Such dynamics of capability accumulation were completely outside the realm of either Porter or resource-based frameworks. To overcome these criticisms, the dynamic capability theory was used.

**2.1.1.4 The dynamic capability theory**

Despite the significance of RBV, researchers agree that RBV does not adequately explain how and why certain firms have competitive advantage in situations of rapid

and unpredictable change (Chen *et al.,* 2009; Eisenhardt and Martin, 2000; Pavlou, 2011). In these situations, sustained competitive advantage has been seen as unlikely from just selecting the right combination of resources. To address this issue, recent studies RBV extended to address dynamic resources (Wade and Hulland, 2004) or dynamic capabilities (Pavlou, 2011).

Dynamic capabilities theory is derived from RBV. It is different from RBV in that it focuses on resource reconfiguration and renewal, while RBV stresses selection of resources. The dynamic capabilities view helps to explain how firms attain differential performance in dynamic environment (Bengesi, 2013). Teece (2007) posits that in a fast paced environment where customer needs, technological opportunities, and competitors' activities are constantly changing, it requires unique and difficult to replicate dynamic capabilities. This view argues that superior performance of a firm comes from the ability of the firm to change its resource base in the face of environmental change (Helfat *et al.,* 2007; Katkalo *et al*., 2010). As an extension of the RBV, dynamic capabilities are defined as the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments (Teece *et al.,* 1997). The concept of dynamic capabilities offers promising hope in explaining sustainable competitive advantage and long term superior firm performance. Firms with superior competitive positions in market are those who can respond to technology change and market change rapidly and coordinate and redeploy internal and external resources effectively (Teece *et al.,* 1997*).*

Eisenhard and Martin (2000) define dynamic capabilities as the firm's processes that use resources, specifically the processes to integrate, reconfigure, gain and release resources to match and even create market change. Dynamic capabilities thus are organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die. Dynamic capabilities that integrate resources include product development routine and strategic decision making. Eisenhardt and Martin (2000) quoted example of dynamic capabilities that reconfigure resources. They include transfer processes (used my managers to replicate, transfer and recombine resources in the firm) and patching (strategic processes that realign match up of business to changing market conditions and opportunities).

Dynamic capability could be used to help explain furniture firm-level differences. But, it also aspires to inform furniture firms' managers/owners about how to make better capability decisions. The dynamic capabilities framework argued that these kinds of choice were important to a firm's competitive advantage, and thus should be a focal point for strategic analysis. Dynamics capability theory could explain why, for instance, there is difference in capabilities between domestic and foreign furniture industries in terms of product development and manufacturing. Managers in these firms are the ones who perform internal and external co-ordination of activities. It is important to understand how effectively they perform internal coordination, and it is becoming increasingly important for competitive advantage how they perform integration of external activities and technologies. Garvin (1988) found that quality performance was by special organizational routine. Additionally, Clark and Fujimoto (1991) found the difference in coordination routine and

capabilities which seemed to have significant impact on performance. In addition, Managers can deploy dynamic capabilities to alter resource base to generate new value creating strategies, since dynamic capabilities are organizational processes that guide investment decisions and as such instrumental to strategic competitive advantage. Organizational processes have three roles: co-ordination/integration, learning and configuration (Teece *et al.,* 1997).

Furniture industries in particular have a long history in manufacturing and selling of products in the markets. In addition, they have different experiences in market strategies and growth in the competitive environment. This can be witnessed largely by differences in product development capabilities that influence development, engineering productivity, design quality (Clark and Fujimoto 1991, Fujimoto 1999), and manufacturing capabilities that shape product costs and quality (Womack *et al.,* 1990).

The above theories do not explain the behavioural aspect of a consumer in determining their alternative choices they make as a function of consuming different goods and services. Consumers' behavioural aspects may determine better pricing and sales of products and therefore competitive advantage for the firm. Basing on this matter, the consumer behavioural theories were used.

**2.1.1.5 The consumer utility theory**

This study also situates itself in the domain of the consumer utility theory which tries to provide for alternative choices made by individuals. The consumer utility theory is much more appropriate in predicting and understanding consumers' choice

in various products or service. The same case is in imported or locally made furniture. If one perceives particular furniture to be of poor quality, he/she may reject it or pay low price. At the end is the performance of imported or local dealer which is affected and hence its competitive advantage. Aleskerov and Monjardet (2002) define utility as the satisfaction that each choice provides to the decision maker, who in this respect is the furniture consumer. The theory states that the consumers maximize their utility as a function of consuming different goods, given relative prices, income and preference. It assumes that consumers make a well informed decision implying that information in the market is perfect. Changes in income and prices influence how much of different goods a rational consumer will buy (Begg *et al.,* 2000). Further, Towo (2012) noted that the utility theory assumes that any decision is made on the basis of utility maximization principle, in which the best choice is the one that provides the highest utility.

The furniture consumers' decision, on which type of furniture to buy, is subjected to the available income and the prices of the furniture. The utility that consumer gets from selecting locally made or imported furniture is measured by a utility function U, which denotes furniture consumer preference such that: $U(x) > U(y)$, where choice x is preferred over choice y or $U(x) = U(y)$, where choice x is indifferent from choice y (Towo, 2012).

Regardless of the type of utility function, utility theory assumes that preferences are complete, reflexive and transitive (Belton and Stewart, 2002). The preferences are complete if for any pair of choices x and y, one and only one of the following conditions is fulfilled: x is preferred to y, y is preferred to x, or x and y are equally

preferred. Mandley (2001) noted that the preferences are said to be reflexive if for any pair of choices x and y are identical, then y is also equally preferred to x. Finally, the preferences are said to be transitive if for any three choices x, y, z such that x is preferred over y, and y is preferred over z, than it is concluded that x is preferred over z. The hypotheses on reflexivity and transitivity imply that the furniture consumer is a rational decision maker.

Furniture consumers are assumed to act rationally, because they will choose between imported and locally made furniture so as to maximize total utility. Hence, consumers have to make choices by combining budget constraints and preferences. Consumers are therefore faced with tradeoffs in their purchasing and investment decisions, since their income is limited and choices are numerous. This also will determine the amount an individual is willing to pay for imported and locally made furniture. The amount an individual is willing to pay is primarily a measure of the indirect utility attained through the consumption of given furniture. The implication is that the consumer will maximize utility, through buying imported or locally made furniture subject to the factors that constrain them. These factors include socio-economic characteristics, income, occupation, household size, price, style, and quality as well as product knowledge.

### 2.1.1.6 The theory of reasoned action

The theory of reasoned action represents the specific processes that person uses to make a choice which links to individual beliefs, attitudes, intentions and behaviour in order to lead to both better explanation and better prediction of behaviour

(Denison, 1996). The theory of reasoned action has been successfully applied to consumer behaviour in a wide variety of behaviours including the consumption of life insurances, automobiles, banking and services, computer software, coupons, detergents, soft drinks, condoms, grocery, fast food restaurant and so on. With the basic theory behaviour is influenced by behavioural intentions, whereas behavioural intention is affected by attitude toward the behaviour and subjective norms (Chaipornmelta, 2012). As people are always rational and make systematic use of the information available to them, they may consider the implications of their actions before they decide to whether engage or not in a given behaviour (Ajzen and Fishbein, 1980).

Figure 3 shows how behaviour can be explained through the relation of consumers' beliefs, and attitudes to their behavioural intention among the variables specified in the theory of reasoned action (Peter and Olson, 2002).
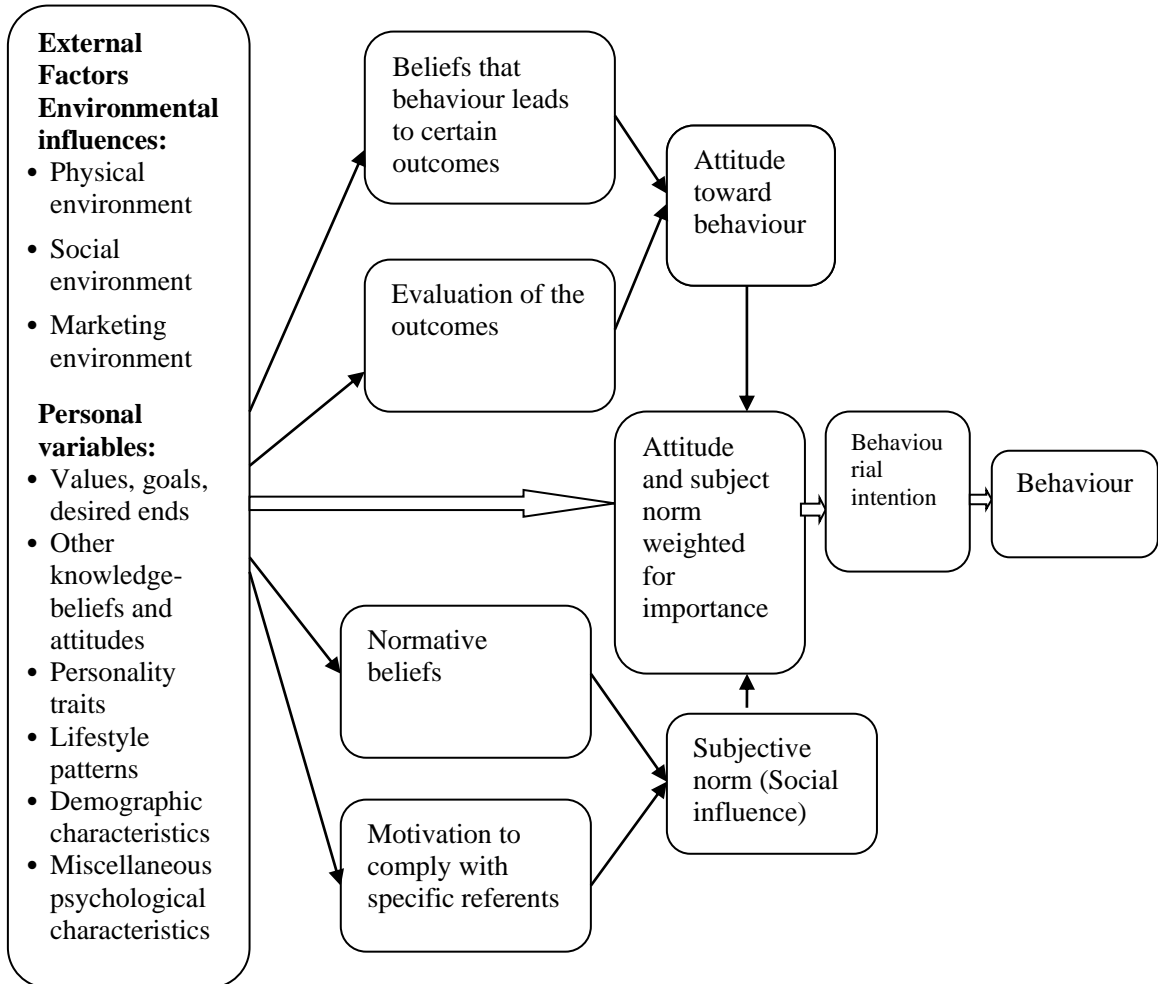
**Figure 3:    Theory of Reasoned Action Model**

Source: Adapted from Peter and Olson (2002) and Chaipornmelta (2012)

Behaviour can be defined by the intention to engage in the behaviour of interest with a combination of four components including action, target, context, and time. In turn, intention is determined by the agent's attitude toward engaging in the behaviour and the measurement of the subjective norms that are influenced by the effect of social environment (e.g. family member, friends, co-worker etc.) on individual's intention to act. The third level of the theory links attitude and

subjective norm to specific beliefs. Attitude toward behaviour is influenced by behavioural beliefs that link behaviour to outcome (Chaipornmelta, 2012). Subjective norm is determined by normative beliefs and the agent's desire to comply with the perceived wishes of specific social referents.

Furthermore, external factors include environmental influences (e.g. physical environment, social environment, and marketing environment) and personal variables (e.g. values, goals, desired ends; other knowledge-beliefs and attitude; personal trait; lifestyle patterns; demographic characteristics; and miscellaneous psychological characteristics). Those external variables may sometimes indirectly influence the beliefs a person holds or the relative importance person attaches to attitudinal and normative considerations (Ajzen and Fishbein, 1980; Denison, 1996; Peter and Olson, 2002; Schiffman and Kanuk, 2010). This theory provides three key elements that can influence a behaviour which consists of attitude toward the behaviour, subjective norm, and intention to engage in behaviour.

**(a) Attitudes toward the Behaviour**

A person's attitude towards behaviour consists of a belief about feelings that particular behaviour leads to certain outcomes and an evaluation of the outcomes of that behaviour. If performing a given behaviour leads to mostly positive outcomes, a person will hold a favourable attitude toward performing the behaviour. Conversely, if performing a given behaviour leads to mostly negative outcomes, a person will hold an unfavourable attitude toward performing the behaviour (Schirone, 2012). An attitude toward any concept, therefore, is generally a person's feeling of favourableness or un-favourableness for that concept. Since a person's attitude

toward behaviour can lead to an intention to act, this intention may or may not lead to a particular behaviour. Clearly speaking, the more favourable a person's attitude is toward behaviour, the more one should intend to perform that behaviour; the more unfavourable one attitude is, the more one should intent to not perform the behaviour (Ajzen and Fishbein, 1980).

**Table 1:    Factor analysis of attitude toward the behaviour**

| | | |
|---|---|---|
| Attitude toward the behaviour | Shop service image | Merchandise brand |
| | | Merchandise image |
| | | Store service attitude |
| | | Offer of personal care for customer |
| | | Rapid arrangement care for customer |
| | Shopping reliability and facility | Variety of category |
| | | Versatility of payment tool |
| | | Facility shopping |
| | | Integrated merchandise information |
| | Basic merchandise | Merchandise discount |
| | | Necessity of merchandise |
| | | Product design |
| | | Product quality |

Source: Yu and Wu (2007)

In this study, attitude towards the behaviour is the individual preferable status by shopping of the furniture which is a measure of the behavioural belief and evaluation of the outcome. Attitude toward furniture behaviour, therefore, is composed of shop service image (e.g. merchandise brand, merchandise image, store service attitude, offer of personal care for customer, rapid arrangement care for customer etc.), shopping reliable facility (e.g. variety of category, versatility of payment tool, integrated merchandise information etc.) and basic merchandise nature (e.g.

merchandise discount, necessity of merchandise, product design, product quality etc.).Table 1 present the details.

## (b) Subjective Norm

Subjective norm is a person's perception of what others around them believe that the individual should do. In its purest essence, subjective norm is a type of social pressure, whether or not a person participating or intending to participate in any behaviour is influenced strongly by the people around them (Chaipornmelta, 2012). These people may include friends or a peer group, family, co-workers, church congregation members, community leaders and even celebrities (Ajzen and Fishbein, 1980). In this study, as subjective norms is the measure acquired from the normative beliefs and motivation to comply, it is composed of major reference group (e.g. family and relatives, friends) and minor reference group (e.g. media and commercial, admired person's opinion, salesperson) as shown in Table 2.

**Table 2:    Factor analysis of subjective norms**

| | | |
|---|---|---|
| Subjective Norms | Major reference group | Family/Relatives |
| | | Friends |
| | Minor reference group | Media/Commercial |
| | | Admired person's opinion |
| | | Salesperson |

Source: Yu and Wu (2007)

## (c) Behaviour Intention

A person's intention is the subjective probability identified by a function of two basic determinants of intention to perform a given behaviour. One is personal in

nature which has overall evaluation of the performing the behaviour (individual influence or attitude toward behaviour) and another is the person's perceived expectations of important others with reflecting social influence and with regard to his or her performing the behaviour in question (normative influence or subjective norm) (Ajzen and Fishbein, 1980; Hale *et al.,* 2002). Additionally, in order to predict intention, attitudes and intentions must measure exactly the same four elements of action, target, context and time (Denison, 1996).

In this study, behavioural intention is constituted by a number of factors from attitude toward behaviour, subjective norms and external variables including gender, age, education degree, employment status, marital status, number of family members, monthly family income, type of living, and residential area as shown in Figure 4.
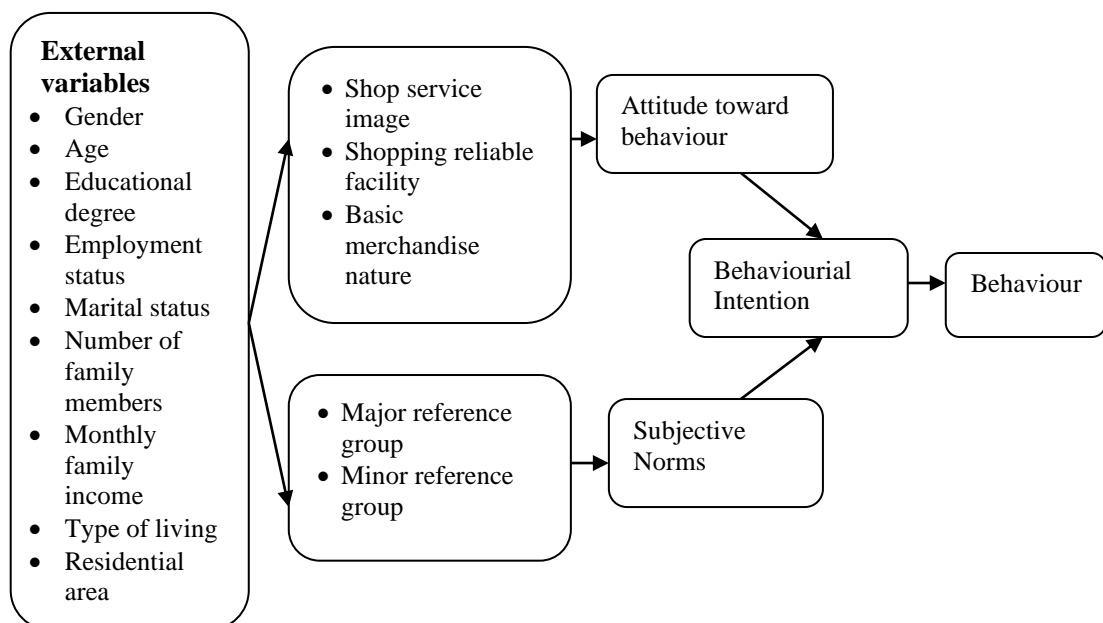


**Figure 4:  Theoretical Model Predicting on Furniture   buying intention**

Nevertheless, there are some limitations of using the theory of reasoned action behaviour including the inability of the theory in terms of its individualistic approach to consider the role of environmental and structural issues and the linearity of the theory component. This theory does not apply to habitual actions that are presumably not under continual conscious processing. Sometimes, individuals may first change their behaviour and then their beliefs or attitudes about it especially in impulsive acts (Denison, 1996; Solomon, 2004). Knowing these criticisms it was considered necessary to use both theories of consumer utility and reasoned action in order to complement each other.

### 2.1.1.7 Reasons for the use of competitive advantage and consumers behavioural theories

In order to cope with critics of the above competitive theories, this study combined Porter's five forces and generic competitive strategies on one side and, Resource Based and Dynamic capability theories on the other side in explaining factors affecting competitive advantage of SIDO supported small scale industries against imported furniture. Porters five forces model was used because it explains how external environmental forces can affect competitive advantage and is useful for structuring an analysis of the firm. However, it is not a useful model in understanding discrete firm strategies. To overcome this weakness, generic competitive strategy was employed.

On the other hand, resource based theory was used to complement generic competitive strategies over Porter's five forces theory, which is quiet about the firm internal resource and capabilities, in explaining and analysing firm's competitive

advantage. RBT is useful in providing analysis on decisions and competencies emanating from a firm rather than its environment. This is because, while the main objective of the Porter's approach to strategy is to obtain and maintain favourable positions in product markets to earn revenues, the resource-based view sees strategy as both constrained by and dependent upon the firm's collection of resources (Barney and Clark, 2007). RBT holds the point that competitive advantage derives from firm-specific resources and capabilities. RBV does not adequately explain how and why certain firms have competitive advantage in situations of rapid and unpredictable change. As a result, dynamic capability theory was used in order to provide analysis on how firms work in a turbulent environment and with constantly technological changes and at the same time obtain a competitive advantage (Teece, 2007).

Based on these reasons, it is interesting to integrate four complementary perspectives, the Porters five forces model, generic competitive strategies, the resource-based view, and the dynamic capabilities. These theories are critical in this study because they explain the reasons for firm performance differentials as well as how a firm competes in a particular business and gains a competitive advantage through a distinctive way of competing. In addition, this study will test the applicability of these theories to SIDO supported small scale industries because there are few studies in SMEs that have been able to provide evidence of a substantial relationship between firm competitive advantage and competitive theories in Tanzania.

Nevertheless the consumer behavioural theories were used to analyze the purchase decisions of any consumer (Chaipornmelta, 2012). The analysis requires multidisciplinary approach which goes from the economics to the psychology, from the sociology to the marketing (Schirone, 2012). To cover aspects that go from economics to psychology, this study used consumer utility theory. The theory explain that the consumers are rational individuals aimed at the maximization of their total utility and, therefore, considering the budget constraint, that is to say the limit of the expenses that can be borne, knowing the income and the goods prices, they make choices to achieve this target (Aleskerov and Monjardet, 2002). The demand of a product, in a specific moment and on a specific market, is, therefore, in function of the price, likes, income, prices of other goods which replaced it or which are complementary to it (Begg *et al.,* 2000).

It is evident that, considering the Decreasing Marginal Utilities Law, when the product price varies, the required quantity of it varies in an indirect way. It is, however, true that being each consumer different from another, in the demand collective function, the demanders' reactivity must be measured to the change of each of the considered variables. It is evident that the limit of the consumer utility theory which analyzes the consumers' behaviour always considers their likes unchanging while they are, on the contrary, changeable. In general, the consumer utility theory focuses on customers' decision on choice of product based on customers' income and price of the product, but ignores other factors such as socio classes.

To cover the aspects that go from sociology to the marketing, this study used the reasoned action theory. The theory addresses that the consumer's choice is

considered as a silent choice when one of the variables modifies itself, even if the others do not change. The reasons which entice consumers to make a choice instead of another are many: conscious and unconscious, exogenous and endogenous reasons. As a consequence, consumers do not always carry out their purchase on the basis of the pure utilitarian calculation, but they are influenced, for example, by an emulative spirit (Schirone, 2012), which, allows subjects, by means of a given product purchase to show those they consider inferiors their own superiority, because, not being pleased by their own social class, they aim at being accepted by an upper one. The purchased product becomes, in such a way, a status symbol. In other words, the consumers' behaviour is interdependent from that of the others forming their social group and they tends to show (Schirone, 2012).

## 2.2    Empirical Review

### 2.2.1    Overview of core concepts

#### 2.2.1.1 Small and medium enterprises (SMEs)

There is no single, uniformly accepted definition of SMEs (Storey, 1994). Different countries define SMEs differently depending on their level of development. A study by USAID (1993) found more than 50 different definitions. Although there are several definitions, a distinction can be made between quantitative and qualitative definitions (Isanga, 2012). The former define SMEs based on quantitative characteristics, whereas the latter define SMEs based on qualitative characteristics. Within these two types, the quantitative definition is commonly used for defining SMEs, and often the definition is based on the number of employees, sales revenues/turnover, total assets and capital invested in machinery. The first three criteria are most widely used in defining SMEs. In support of this argument, USAID

(1993) shows that many countries use the number of employees or total assets to define SMEs. In Tanzania SME is a term used to refer to micro, small and medium-sized enterprises in non-farming activities, which include manufacturing, mining, commerce and services (URT, 2003).

**2.2.1.2 Furniture**

Furniture is used to hold objects at a convenient height for work (as horizontal surfaces above the ground, such as tables and desks), or to store things (e.g., cupboards and shelves) (Amoah and Fordjour, 2012). Furniture can be a product of design and is considered a form of decorative art. In addition to furniture's functional role, it can serve a symbolic or religious purpose. It can be made from many materials, including metal, plastic, and wood. Furniture can be made using a variety of woodworking joints which often reflect the local culture (Purnomo *et al.,* 2013*).* Business dictionary.com (2013) defines furniture as the movable articles, as tables, chairs, desks or cabinets, required for use or ornament in a house, office, or the like. This study refers to furniture as the movable articles, as tables, chairs, desks or cabinets, required for use or ornament in a house, office or the like and which is made up of wood and related material.

**2.2.1.3 Organizational performance**

Organizational performance is one of the most important variables in the management research and arguably the most important indicator of the organizational performance. Although the concept of organizational performance is very common in the academic literature, its definition is difficult because of its

many meanings. For this reason, there isn't a universally accepted definition of this concept.

In the 1950s organizational performance was defined as the extent to which organizations, viewed as a social system fulfilled their objectives (Sarimah *et al.,* 2015). Performance evaluation during this time was focused on work, people and organizational structure. Later in the 1960s and 1970s, organizations have begun to explore new ways to evaluate their performance so performance was defined as an organization's ability to exploit its environment for accessing and using the limited resources (Goga and Wario, 2014).

The years 1980s and 1990s were marked by the realization that the identification of organizational objectives is more complex than initially considered. Managers began to understand that an organization is successful if it accomplishes its goals (effectiveness) using a minimum of resources (efficiency). Thus, organizational theories that followed supported the idea of an organization that achieves its performance objectives based on the constraints imposed by the limited resources (Daft, 2012). In this context, profit became one of the many indicators of performance. Organizational performance encompasses three specific areas of firm outcomes: (1) financial performance (profits, return on assets, return on investment, etc.); (2) market performance (sales, market share, etc.); and (3) shareholder return (total shareholder return, economic value added, etc.).

**2.2.1.4 Competitive advantage**

A competitive advantage is an advantage gained over competitors by offering customers greater value, either through lower prices or by providing additional benefits and service that justify similar, or possibly higher, prices (Attiany, 2014). Within a macroeconomic perspective, a competitive firm develops and sustains a level of performance that contributes to the Gross Domestic Product (GDP), employment opportunities, and the wealth of the people. From an entrepreneurial perspective, a competitive firm needs to survive in the market and to achieve market share and profitability. The success of a competitive firm can be measured by both objective and subjective criteria. Objective criteria include return on investment, market share, profit and sales revenue, while subjective criteria include enhanced reputation with customers, suppliers, and competitors, and improve quality of delivered services (Barney 2002; Cole 2005; Awino, 2015). Essentially a competitive advantage answers the question, "Why should the customer purchase your furniture rather than from the competitor?" For some ventures, particularly those in markets where the products are less differentiated, answering this question can be difficult. Competitive advantage has be used for describing positions of superiority based upon the provision of superior customers value or the achievement of lower relative costs and the resulting market share and profitability performance (Attianny, 2014; Cheruon and Richard, 2015). Based on various definitions, this study considers the competitiveness of a small scale furniture manufacturing firm as its ability to sustain its long-term performance better than its competitors in the market, as indicated by profitability.

**2.2.1.5 Consumer buying behaviour**

Consumer buying behaviour refers to the buying behaviour of the final consumer. Buying behaviour is the decision process and act of people involved in buying and using products. Since the consumer decision making varies by the different types of buying decision (Solomon, 2004). Every firm, therefore, needs to identify its target consumers and their decision processes before planning its marketing. By identifying the different types of consumer buying behaviour, the firm can understand the various influences on buyers and the influence a number of behaviour outcomes including search behaviour and information processing, how consumers actually build their attitude toward a product so that it can develop offers which are meaningful and attractive to target consumers, and create solution that delivers satisfaction and profits to the consumers (Kotler, 2003; Solomon, 2004).

Researchers have identified four typical types of consumer buying behaviour (as shown in Table 3) based on the level of involvement for product that consumer intends to purchase and the level of perceived brand differentiation (Adcock *et al.,* 2001; Kotler, 2003; Kotler *et al.,* 2005; Solomon, 2004; Warrington and Shim, 2000).

**(a) Complex buying behaviour**

Consumers undertake complex buying behaviour or extensive decision making (Howard and Sheth, 1969) when they encountered in situations where there is high involvement and perceived significant differences among brands. This behaviour can be associated with purchasing in expensive, risky, and infrequently bought

products such as cars, homes, computers, education (Kotler and Armstrong, 2005). Since those products have long lifetime to repeat the purchase, consumers in this group are not fully acknowledgeable about the product category and what attributes to be considered at the time of purchase. This influences the probability side of perceived risk that will motivate them to actively learn the product or brand information (Kapferer and Laurent, 1993). The buyers will search relevant volumes of information source types such as public, personal, or commercial and formats such as print, audio, video, interpersonal in order to meet their needs and to manage perceived risk associated with high involvement purchase (Grant *et al.,* 2010). After that, the buyers will pass through a learning process. First they form beliefs about a product by accumulating knowledge from multiple relevant attributes. Next, they evaluate these beliefs and develop attitude toward the product by weighting the careful alternatives. Finally, they take brand preference as the ideal choice in the product category (Solomon, 2004). This process often results in the type of brand loyalists; the buyers felt strongly about choosing the best brands and showed very little interest in changing brands (Warrington and Shim, 2000).

**(b) Dissonance-reducing buying behaviour**

Dissonance-Reducing Buying Behaviour occurs when consumers are expected to be highly involved in purchase but show a little interest in the brands. Howard and Sheth (1969) determined this type of buying behaviour as limited decision making that the consumers occasionally buy product. They need to obtain information about unfamiliar brand in a familiar product category and perhaps they require a moderate amount of time for information searching. This is likely to be the case with the

purchase of expensive, infrequent or risky products such as furniture (Kotler and Armstrong, 2005). Since the perceived brand difference is not significant, the buyers may shop around to learn what brands are available, but they buy relatively quickly on the basis of a few obvious, often new features rather than on the basic of the features actually required (Adcock *et al.,* 2001;  Kotler, 2003). Quality performance seems to be more considerable for this group than for others (Warrington and Shim, 2000). However, the consumers might respond simply to a good price or to purchase convenience when they find no difference in the quality or they might select for the higher price when they find quality performance (Kotler, 2003; Kotler and Armstrong, 2005).

### (c) Habitual buying behaviour

Habitual buying behaviour occurs under the conditions of low consumer involvement and few significant perceived brand differences (Mitchell, 1992). Warrington and Shim (2000) called this group as routine brand buyers with representing the repeat purchase based on the consumer's habit or routine. Likewise, Howard and Sheth (1969) determined this group as routine response with buying low involvement frequently purchased low cost items. The examples of products that are every often purchased almost automatically on the basic of habitual buying behaviour are newspaper, magazine, food products, frequently purchased products, and most low-cost products (Adcock *et al*., 2001). Unlike other groups, habitual buying behaviour does not pass through the usual three-step hierarchy of beliefs, attitudes, and behaviour (Kotler and Armstrong, 2005). Since consumers are little interested in either the product or brand alternatives, they do not actively seek out

information or need very little search and decision effort related to the product or interest in experimenting with a variety of brands. They usually do not form a strong attitude toward a brand but they select it because of familiarity. The buying process of this group starts with brand beliefs formed by passive learning and is followed by purchase decision or behaviour which may or may not be followed by evaluation (Warrington and Shim, 2000; Kotler, 2003).

**(d) Variety-seeking buying behaviour**

Variety-seeking buying behaviour or impulsive buying behaviour occurs when the consumers are not involved with purchase and no conscious planning but there are significant perceived brand differences. Bayley and Nancarrow (1998) defined that impulsive buying behaviour is often forms of unplanned purchases which the consumers make a decision when they are in store. Since the cost of switching brands is low and a large number of choice alternatives, consumers generally will change their brand frequently because of boredom or dissatisfaction (Mitchell, 1992). In contrast, Kotler (2003) suggested that the consumers change brands because of the sake of variety rather than dissatisfaction. Similarly, Hoyer and Ridgway (1984) stated that switching brands is driven by desiring for new products as a purchase exploration.

A typical example of a product is very often selected on the basis of buying an alternative to what was purchased on the pervious occasion. However, there is no clear preference either by the individual making the purchase or more particularly by the users of the products such as different users in family (Adcock *et al.,* 2001).

Givon (1984) demonstrated that household products are one of the examples of this product category.

With regard to furniture industry, furniture refers to dissonance-reducing buying behaviour since furniture is a high product involvement for which the consumers are prepared to spend considerable time and effort in searching information because of the perceived risk associated with the expensive product and perhaps some are less interested in brands than performance, or some are less interested in performance than price when it has a little bit different in quality etc.

**Table 3:    Types of consumer buying behaviour**

| | | Level of Involvement | |
|---|---|---|---|
| | | **High** | **Low** |
| **Level of Perceived Brand Differentiation** | **High** | **Complex Buying Behavior** Beliefs ⬇ Attitudes ⬇ Purchase Decision (Behavior) | **Variety-Seeking Buying Behavior** Beliefs ⬇ Purchase Decision/Behavior ⬇ Evaluation ⬇ Behavioral learning ⬇ Attitude |
| | **Low** | **Dissonance-Reducing Buying Behavior** Purchase Decision/Behavior ⬇ Dissonance ⬇ New Beliefs ⬇ Attitudes | **Habitual Buying Behavior** Beliefs ⬇ Passive Learning ⬇ Purchase Decision/Behavior ⬇ Evaluation (Sometimes) |

Source: Modified from Kotler (2003), and Solomon (2004)

**2.2.1.6 Furniture buying decision making process**

Furniture is one of household durable goods which have long repeat purchase (Stone and Rowe, 1960), perhaps once every four or so year for some families (Roy, 2002). As most of household durable goods are purchased for family use, family members may make a joint decision (Wilkie *et al.,* 1992). However, since this process moves toward more joint decision making with the family members involved at one or more steps in the process, the process lies within the recognition that family members involved in a joint decision may well not share similar purchase motives, choice criteria, information, or product preference. The consumer's furniture purchasing decision can be classified into five stages; planning, research, shopping, item selection, and store experience (Chaipornmelta, 2012), as shown in Fig. 5.
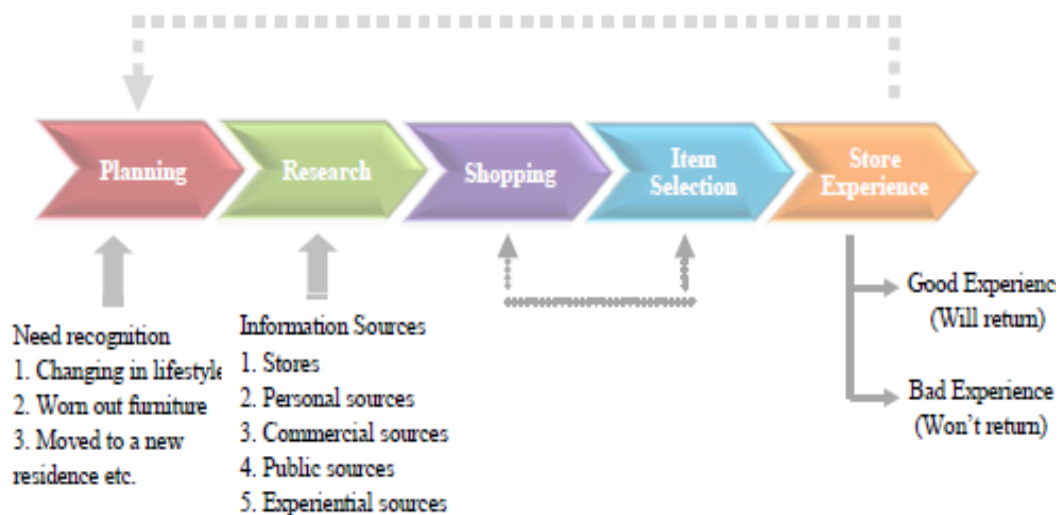
**Figure 5:** **Household furniture buying Decision Making Process**

Source: Adapted from Roy (2002)

**(a) Planning**

At the initial stage of purchasing process, it begins when a consumer identifies the needs and wants to make a purchase. Need recognition may result from either receiving information on furniture through advertising, word of mouth, other communication channels, or changing in lifestyle such as purchase a new home, birth of children, job change (Lihra and Graf, 2007). Similarly, Roy (2002) found that worn out furniture is the main reason to activate the furniture buying process, followed by moved to a new residence and changing a new model or style. Furthermore, the need recognition can respond to a marketing stimulus even the consumers did not recognize the need. For example, the consumers pass furniture showroom/workshop and are attracted by the design of its showroom/ workshop display.

**(b) Research**

After consumers made the decision to buy furniture, purchasers will gather the information from the different information sources to decide where to shop and what to buy. The information sources can be classified into four categories. First, personal sources come from family, friends, neighbours, acquaintances. Second, commercial sources come from advertising, salesperson, dealers, packaging, and displays. Third, public sources come from mass media, consumer organizations, and specialist magazines. Lastly, experiential sources come from handing, examining, using the product (Kotler and Armstrong, 2005). However, Roy (2002) found further information source for furniture purchaser that is stores.

**(c)  Shopping**

The third stage in the furniture buying process is deciding where to shop. After searching information, consumers may want to see and touch the real product which perhaps the colour is a little bit different from the catalogue as well as obtain more detailed information about options, product quality, and other issues perceived as important before making a final selection (Lihra and Graf, 2007). A number of consumers may rely on the information at store to help them make a variety of decisions prior to the commitment of external information seeking (Punj, 1987). Salesperson, thus, should clearly communicate overall style and quality of products offered, new products, new promotions and available price range in their advertising (Roy, 2002).

When shopping for furniture, most consumers visit more than one store/showroom/workshop. In addition, as the store/showroom/workshop design and efficiency are particular important in making decision (Lihra and Graf, 2007), it is essential to make store/showroom/worksho different from other competitors to create awareness among consumers who have never visited it and encourage them to buy more products (Wyman, 2006).

**(d)  Item Selection**

The fourth stage in the furniture purchasing process is selecting the product to buy. When consumers decide to buy furniture, most of them only have a general idea of what they want to buy. Most consumers, therefore, are made the final decision at store/showroom/workshop. Likewise, Lihra and Graf (2007) suggested that the relationship between consumer and salesperson developed at the pervious stage of

shopping may push consumers to select the furniture in the store/ showroom/ workshop.

As furniture purchase decisions are made jointly with family members such as wife, husband, children, grandparents, consumers might bring them along when furniture shopping to make sure they also like the item and to get a second option (Belch and Willis, 2002; Roy, 2002).

**(e)   Store/ Workshop/showroom Experience**

The final stage in the furniture purchase process is the in-store experience. In-store experience that is satisfying to consumers drives repeat visits and brings them back for more. In contrast, falling short on the desired experience will leave consumers open to try the other competitor stores (Wyman, 2006). Similarly, Roy (2002) found that the high levels of satisfaction from both the store and salesperson will intend consumers to return to the store. However, the consumers who have a bad experience at a store will share this experience with others.

**2.2.2   An Overview of SMEs in Tanzania**

The SME sector in Tanzania is an outcome of structural adjustment policy rather than design (Isaga, 2012). It is a product of the failure of socialism, which led to the economic crisis of the 1970s and the early 1980s. Within this political influence, the private business sector was actively discouraged in favour of government owned, community based, or cooperative owned ventures (Rugumamu and Mutagwaba 1999; Kibassa, 2012). Moreover, there were regulations to restrict civil servants and leaders of the ruling party from engaging in business activities. Since almost all

educated people were members of the civil service at that time, it is obvious that business activities mainly were left to people who had no education at all.

Furthermore, this African socialism policy was based on a top-down approach to decision making and the government was the only organ which made all the decisions for its citizens, including matters such as who should go to which school or college, who should work and live where, and how much one should earn in terms of wages (Olomi, 2009). The government's discretionary power in decision-making resulted in a culture of dependency on governments among many Tanzanians (Rugumamu and Mutagwaba 1999; Kibassa, 2012). In fact, this approach contributed to the stifling of the development of entrepreneurial values such as the need for achievement, personal initiatives, creativity, willingness to take risks and related behaviours (Olomi, 2009). The socialism approach recorded marked achievement in social development in the 1970s and early 1980s, particularly in primary education, health service delivery as well as in water supply and sanitation (Temu and Due, 2000; Kibassa, 2012).

However, the nationalisation of the private sector led to a poor economy marked by a number of macro-economic imbalances, and consequently, an economic crisis that lasted for over a decade (Kanaan, 2000; Mmasi and Mwenisongole, 2012). This crisis also led to the erosion of purchasing power among salaried people (Olomi, 2009). Thus, Tanzanian's were forced to establish small businesses to supplement their meagre incomes. Some of the people engaged themselves in dubious activities such as smuggling goods from neighbouring countries and selling them at premium

prices in Tanzania. These kinds of businesses were against the government's policies (Maliyamkono and Bagachwa, 1990; Mmasi and Mwenisongole, 2012).

Succumbing to pressure from the World Bank, the Tanzanian government changed its policy from a state-led economy to a market-driven economy leading to privatisation of most public enterprises (Rutashobya and Olomi, 1999; Kibassa, 2012). The privatisation of state enterprises and the disengagement of the government from some activities resulted in the retrenchment of workers from the public sector and, as a result, most of these workers turned to micro enterprises for survival (Olomi, 2009).

In the context of Tanzania (Table 4), micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to TZS 5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from TZS 5 million to TZS 200 million. Medium enterprises employ between 50 and 99 people or use capital investment from TZS 200 million to TZS 800 million (URT 2003). In the case where an enterprise falls under more than one category, the level of investment would be the deciding factor (Isanga, 2012). However this study focused on small scale industries only.

**Table 4:    Categories of SMEs in Tanzania**

| Category | Number of Employees | Capital Investment in Machinery (TZS) |
| --- | --- | --- |
| Micro enterprise | 1 – 4 | Up to 5 mil. |
| Small enterprise | 5 – 49 | Above 5 mil. to 200 mil. |
| Medium enterprise | 50 – 99 | Above 200mil.to 800 mil. |
| Large enterprise | 100 + | Above 800 mil. |

**Source: (URT, 2003)**

In light of the above experience, the SME sector has recently become a very significant agenda in the Tanzanian economy. Indeed, it is accepted that the SME sector is important in terms of income and employment generation.

### 2.2.3    Current status of SMEs in Tanzania

Despite the importance of the SMEs in economic development, it is difficult to get recent and reliable data regarding the current status of the sector in Tanzania (Isaga, 2012). Even the total number of SMEs is unknown. Thus, most SME reports rely on data from the National Informal Sector Survey (NISS) (Bagachwa *et al.*, 1993; Kibassa, 2012). The NISS (1991) survey reported a total of 1 801 543 SMEs, employing 2 369 380 people.  About 75% of the people employed in the sector are sole proprietors (Isaga, 2012). Subsequently, the SMEs as a sector, has the following main characteristics: SMEs are concentrated in certain trades such as restaurants and hotels (51.8%), manufacturing (24.0%), street food vending (11.0%), and urban agriculture (10.0%); Most of SMEs (70.0%) are not registered; The majority of enterprises are relatively new and are managed by entrepreneurs who are 25 and 39 years; Most of the owner-managers have limited access to formal education and training.

Based on the above characteristics it is estimated that there are approximately 2.7 million enterprises in the country, of which about 60.0% are located in the urban areas (Mlingi, 2000; Mmasi and Mwenisongole, 2012). The majority (98.0%) of these firms are micro enterprises. Therefore, medium-sized and large enterprises in the economy are extremely low. Most (66.0%) of the micro and small enterprises have an annual turnover of less than US$ 2 000 and were established as a survival strategy (Wangwe, 1999; Isaga, 2012).

Moreover, the economically active population in Tanzania was estimated to be 25 750 116 in 2014 (URT, 2014). This represents a decrease of 26 530 people which is equivalent to 0.1% compared to 2006 where the economically active population was 25 776 646 (URT, 2014). Out of 25 750 116 economically active population 20 030 139 are employed in public and private sectors and remaining of about 5 719 977 are unemployed. Of the employed population, 32 487 people are in central and local governments, 72 657 in parastatal organizations, 12 158 132 in agriculture, 3 720 302 in private informal sector, 1 906 664 in private other sector and 1 539 895 in household duties (URT, 2014).

Most of unemployed economically active people end up in the SME sector, and particularly in the informal sector (Isaga, 2012). The informal sector comprises small businesses which are operating without licenses that lack permanent business premises and do not comply with tax and other government regulations (Olomi, 2009). Kristiansen *et al.* (2005) and Oseh (2013) said that survival rate of these emerging SMEs is also low as less than 40% survives the first five years of operation. Although SMEs are found in all sectors of the economy, they are

dominant in trade (54.0%), followed by services (34.0%). This is because SMEs require minimum capital and minimum legal requirements (Bagachwa *et al.,* 1993; Isaga, 2012). Furthermore, the World Bank (2004) reveals that the SME sector grew faster after 1990's.

### 2.2.3.1 Furniture Industries in Tanzania

### 2.2.3.1.1   An overview

The furniture sector is part of the manufacturing industry, mainly processing and partially-processing forest products. The forest, therefore, primarily acts as a source of raw materials used in the furniture sector all over the country. This sector is one of the significant contributors to national GDP and employs about 17.0 percent of the total workforce in the manufacturing industry (URT, 2008).

The wood and furniture sub-sector recorded the highest growth, with a real output of 29.8%. Real value added in the selected manufacturing industries grew by 22.6 percent, with the wood and furniture industry having the highest value-added growth of 38 percent followed by the textile and garment industries with 34% growth (Musonda, *et al.,* 2008). The furniture sector has been cited as an important tool in promoting industrial growth.

The furniture sector in Tanzania has also changed hands several times in the last century. For instance, during the socialist era most of the furniture sector business was under public ownership and was owned by the state (Isaga, 2012). Again, due to the failure of the African socialism era, most of the nationalized industries collapsed or privatized. In Tanzania they were four large furniture companies which played a

dominant role in the furniture sector from the 1960s to the 1980s. In the mid 1980s, following trade liberalization, employment in the furniture industry fell sharply. Liberalization led to the entry into the sector of a large number of furniture importers (Sutton and Olomi, 2012). In recent years, the division between local manufacturers and importers has become blurred, as some former importers are now manufacturing locally, while some local manufacturers are importing furniture to complement what they are making in Tanzania. The sector employs a large number of youths but most of them are disappointed due to unaddressed hurdles which make them fail to recognize the sector's significance to their livelihood (Semwaiko, 2011).

### 2.2.3.1.2  Small scale furniture industries in Tanzania

Mayers (2006) provides a working definition of Small Scale Furniture Industries (SSFIs) as business operations employing 10–100 full-time employees, or with an annual turnover of US$10,000 - US$30 million, or with an annual round wood consumption of 3,000 - 20,000 m$^3$. Macqueen (2004) defines Small Scale Furniture (SSFIs) as enterprises employing 10 - 99 full time employees or with a fixed capital investment of US$1,000–500,000. In the Tanzania context, a small industry is defined as any unit whose control is within the capability of its people individually or collectively in terms of capital required and know-how (Mmasi and Mwenisongole, 2012).

The question is how then small scale can be defined to suit the real Tanzanian context? The closest answer to this question is provided by a study by Auren and Krassowska (2004). Auren and Krassowska (2004) define small to medium scale

forest based enterprises (SMFIs) in Tanzania as those enterprises that employ 5 - 48 persons on both permanent and casual basis, within capital investment of 5 - 200 million TZS shillings. The majority of these small furniture manufacturing firms have few permanent employees and little working capital, beyond working tools and small premises (Kristiansen *et al.* 2005). For instance, it is estimated that only 3.0% of all permanent employees are employed in this sector. Isaga (2012) noted that majority of these small furniture manufacturing firms have few permanent employees and small working capital, beyond working tools and small premises. Average firm size varies from 130 employees to as few as 2 in microenterprises (Kristiansen *et al.*, 2005).

Additionally, most of these firms are run by entrepreneurs who have low levels of education and relatively low skill levels compared with internationally competitive enterprises (Musonda *et al.*, 2008). Concerning Sources of knowledge, handicraft and furniture firms rely largely on apprenticeship skills acquired through learning by doing. Most of these firms do not possess machines to cut the timber into components. They bring the timber to a neighbouring machinery shop for processing (Isanga, 2012). Lack of capital does not allow the workshops to purchase a machine, but the instability of the electricity supply, which would reduce its frequency of use, could be one of the main reasons why the workshops do not possess one. Despite these limitations, small manufacturers in Tanzania are very creative and they manufacture furniture of various designs that have been regarded as premium commodities in foreign catalogues (Murphy, 2005).

To date, the furniture sector in Tanzania mostly consists of SMEs, maintaining low levels of production aimed at serving local markets (Nchimbi 2002; Mmasi and Mwenisongole, 2012) and are located in clusters. They operate in the informal sector i.e. with no formal registration of business activities (Isaga, 2012). Therefore, small scale furniture industries are enterprises whose economic activities are undertaken mainly at the individual or household level, usually employing members of the family or close relatives and neighbours, and in most cases they do not get any form of formal payment because anything they do is for the family or neighbourhood.

Furniture clusters are neither formally protected and nor occupy space provided by the government (Mhede, 2012). As well as the main clusters of firms, there are many small woodworking units throughout the country. This is evidenced by the furniture workshops in Arusha and Dar es Salaam. Furniture workshops in Arusha are mainly located in five sub-clusters within the municipal area. They are Nairobi-Moshi, Sokoine Road - Arusha Tech, City Center, Dodoma-Oljoro Road, and the Industrial Area (Muto *et al*., 2011). Furniture workshops in Dar es Salaam are also located in three main clusters within different municipal areas in the city. They are Keko, Buguruni-Malapa, and Mbezi Beach kwa Komba (Mhede, 2012). Furthermore, most of these small furniture manufacturing firms are located in urban areas and only few can be found in a rural setting.

Ruan and Zhang (2009) argue that industrial clusters reduce transaction costs and increase collective efficiency. Owing to their geographical proximity, information about the technological capacities of individual enterprises in a cluster, their marketing behaviour, and the conduct and personality of individual enterprise

owners is public knowledge within the cluster. On the other hand, if an owner's reputation is questionable, the enterprise will lose customers and may eventually face bankruptcy.

Small furniture manufacturing firms follow a similar process for producing a piece of furniture compared to other large furniture industries. Firstly, they take an order from a customer. A few of them use certain marketing methods such as radio advertisements, but the majorities wait for someone to stop by at the workshop. After taking the order, the workshops purchase the timber from a timber shop in the area, using the advanced payment from the customer (Muto *et al.,* 2011). According to Musonda *et al.* (2008) input suppliers are mostly sawmills and timber and logging companies. Some have developed long-term ties with cluster enterprises, but the market is always in flux and there are always new entrants that offer competitive prices. All the components are brought back to the workshops and the carpenters assemble the furniture and sand the edges. Once the furniture is made, it is usually the customer who picks it up and transports it.

### 2.2.3.1.3 Furniture market competition in Tanzania

About 70 of the furniture firms in Tanzania had a formal marketing outlet or workshop stores for furniture and the rest market their products by displaying their finished work in open areas along thoroughfares adjacent to their workshops (Mhede, 2012). Most of these firms use two market strategies which represent a low-cost high-volume versus a high-price low-volume to furniture sales, each of which entails somewhat different types of social, spatial, and material investments. Most of

the furniture products produced are mainly sold in domestic market to serve for the purposes of household, office, kitchen, upholstered, non-upholstered seats, bedroom, seats parts and parts of furniture etc (URT, 2010; Mhede, 2012). The local market furniture growth depends on real estate sector (hotel, residence or office construction), the loan interest rate, fuel price that has a direct impact on transportation and decision on the furniture consumption expenditure. For instance, the increase of new homes will generate domestic demand for furniture (Murphy 2005). The increase in the domestic demand of furniture in Tanzania market is mainly driven by an increased purchasing power of people and the growth in the construction sector. On the other hand, there is limited exportation of furniture products of about 1.99% (URT, 2010; Mhede, 2012) in which the main markets are Comoro, Rwanda, Burundi and DRC.

Despite the fact that furniture manufacturing firms are targeting local markets still there is increased competition within the domestic furniture market due to a growth in the number of domestic producers as well as an increase in the number of imports. The former is largely due to the rising number of new, competent, and efficient domestic furniture producers, while the latter is due to foreign suppliers selling furniture with the same or even better quality. Competition from furniture imports was also reported to be partly attributed to increased counterfeiting, illicit trade, and contraband activities (Semboja, 2007).

**2.2.3.1.4   Consumer behaviour in furniture market in Tanzania**

One of the major factors that help a firm to formulate effective marketing strategies is the knowledge of their customers and market by concentrating on their customers, learning more about the market and building a good relationship between brands and customers (Solomon, 2004). Mzalendo and Jani (2014) noted that domestic customers' buying decision are affected by price, delivery time, quality, design and service while, foreign customers' are affected by design, price, production potentials, quality, punctuality and service (Apibunyopas and Songmuang, 2007) at the same time the trend of consumer buying decision in furniture is affected by the living standards, durability and worthiness (Chaipornmelta, 2012).

Florent *et al.* (2014) classify the level of furniture buyer in Tanzania into 4 segments: high class buyers, the real estate developers or investors, upper middle buyers and general buyers. High class buyers would not be interested in the general furniture that is available in any furniture shop but they prefer more specific furniture that is designed by decorators which use the high quality of materials to make the unique furniture or import from overseas. The real estate developers and investors require the high quantity and value, therefore; the producers should have a high manufacturing capacity. The samples of this segment are department stores, hotels, apartment, resident property market etc. Upper middle buyers are high profilers who take top positions in companies, have a good sense of fashion, and are familiar with foreign cultures. General buyers consider the utilization of products. The harmony with general decoration and harmony with other furniture are both rated as unimportant for this group. Most of these buyers are lower-lower income or upper-lower income or living in temporary accommodation.

### 2.2.4    Small Industries Development Organization

### 2.2.4.1 Background of SIDO

Small Industries Development Organization (SIDO) is a parastatal organization which was established under the Act of Parliament No. 28 of 1973. It is regarded as a main government arm for promoting SMEs in Tanzania aimed at facilitating entrepreneurship development and offering extension services, promoting technology development and transferring and provision of technical services, dissemination of business information and marketing, provision of work places and financial services (Mutambala, 2011).    In performing its functions SIDO collaborates with local government authorities, private sector and other stakeholders to enhance SME development thereby contributing to economic development as well as reducing poverty in the country.   The services are offered throughout the country by regional offices which are in every region of Tanzania.

### 2.2.4.2 The Mandate of SIDO

In carrying out its mandate, SIDO has a number of functions that are core to its existence and are geared towards ensuring the fulfilment of its mission and the achievement as per its establishing Act (SIDO, 2014). The core functions of the organization include promote development of small and medium industries, plan and co-ordinate activities of small industries, carry out market research in goods manufactured by small industries, advise the Government on all matters relating to development of small and medium industries, carry out research in development of small industries and marketing of products standard and quality, facilitate orderly and balanced development of small industries in regions, provide technical assistance to persons engaged in small industries, provide and promote training

facilities for persons engaged in or employed or to be employed in small industries and to assist and co-ordinate the activities of other institutions engaged in such training  as well as providing management and consultancy services to small industries.

**2.2.4.3 SIDO facilitation of SMEs' growth and competitiveness**

During the period ranging 2005 to 2010 SIDO has been supporting SMEs in a number of ways including enhancement of technology development, transfer and provision of technical services, provision of training, consultancy and extension services, provision of market and information services as well as improving access to financial services. The details are presented hereunder.

 **(a)    Enhancement of technology development, transfer and technical services**

This support focused on enterprise productive capacity, productivity, products quality, and infrastructure and technology development.  In absolute term, total number of 33 831 enterprises were given technical support services including 2 150 furniture manufacturing firms. SMEs technical capability was enhanced by 30 717 technical consultations made and 346 skills upgrading training conducted, which was aimed facilitating increase in productivity and improvement of quality their products. Likewise, 147 SMEs were given plots for business operation out of which 15 were furniture manufacturing firms (SIDO, 2014; Olomi & Gichohi, 2009).

 **(b)    Training, consultancy and extension services**

SIDO (2014) report showed that a total of 61 630 entrepreneurs were trained on entrepreneurial skills and other aspects of enterprise planning and management. Out

of whom 2 500 were furniture manufacturers. 118 Training need assessment (TNA) were carried out and 97 courses in different fields were conducted to address capacity development gaps that were identified by the TNAs involving 2 119 entrepreneurs and out of that 150 were furniture manufacturers. Furthermore, management advisory services were provided through 59 374 consultations of which 10 000 were for furniture manufacturers and 1 167 enterprises benefitted from couching services and out of that 100 were for furniture manufacturers. In terms of production process skills development, SIDO trained 117 artisans that included carpenters, blacksmiths, tinsmiths, potters, and weavers and strengthened their capacity for provision of services, and technical advisory services were extended to 133 SMEs during the period between 2002 and 2005 (SIDO, 2014).

### (c)   Market and information services

With regard to market and information services, SIDO  collected information from different markets and guided SMEs to tap  market opportunities  that were identified, sensitized and mobilized SMEs to participate in the regional and global markets and facilitated SMEs to participate in 421 exports promotional activities. Likewise, SIDO facilitated SMEs to do their businesses through tendering system and business linkages between SMEs and large enterprises, which enabled both parties to team up and produce quality products. Through such arrangements, 390 SMES succeeded in using tendering system and 708 business linkages were made (SIDO, 2014). The performance trend shows that the number of SMEs that are effectively participating in these activities is going up (Mutambala, 2011).

With respect to information services, SIDO trained 33 010 SMEs on business information access out of that 1 200 were furniture manufacturers. In general, such services facilitated SMEs to increase their sales of products and services and at the sametime income to reach TZS 29 billion.

**(d)    Enhancement of financial services delivery**

SIDO provided information, advice and facilitated SMEs to source out financial support from banks and other financial institutions. Such assistance was provided to 47 770 SMEs out of that 948 were furniture manufacturers. A total of 35 914 applications requesting capital fund amounting TZS 38.892 billion were received, some of it processed and 22 045 loans valued at TZS 18.576 billion were disbursed to SMEs.

In general provision of these supports facilitated increased participation and involvement of SMEs in the industrialization process and ultimately enabled them to grow and be able to compete with other firms which import their products. It is based in this fact that this research targeted those firms which received support from SIDO because they are able to compete with global products in the same market.

**2.2.5   Firm Profitability and Competitive advantage Factors**

**2.2.5.1 Factors affecting profitability**

Profit means as an absolute measure of earning capacity, while profitability is relative measure of earning capacity. Profit is defined by Iyer (1995) as "excess of return over outlay" Nimalathasan (2009) define profitability as "the ability of given

investment to earn a return from its use'. Mazzarol *et al.* (1999) states that demographic factors such as age, gender, education and work experience has a considerable impact on entrepreneurial intention and venture success as well as profitability. Kristiansen *et al.* (2003) in their study found a significant relationship between age of an entrepreneur and business success. Furoholt and Wahid (2003) indicated that older entrepreneurs were more successful than younger one whereas, Van Aardt *et al.* (2008) posit that age is not barrier to entrepreneurship success.

The characteristics of the enterprise such as business experience and size of the enterprise is of paramount importance to the survival, success of small business and profitability. In a study conducted by Kristiansen *et al.* (2003) the outcome indicated that the length of time an enterprise has been in operation was significantly related to the business success. The profitability of a business as an indicator of business performance Profitability is essential for continued business operations. Financial capabilities are critical in supporting functional strategies and making required infrastructure investments. For example, a firm with adequate funding can expand or invest, or can provide customer financing (Siropolis, 1997). Return on investment (ROI) is a traditional approach of evaluating return relative to the expenditure required to obtain that return. It is calculated as the discounted return (net of the discounted expenditure) expressed as a percentage of the discounted expenditure (Correira *et al.,* 2003). Further, notes that the objective of financial management is the maximisation of wealth and a structured analysis should aim towards measuring how effectively this objective is achieved. Siropolis (1997) argues that the best yardstick for estimating the financial return is called return on investment, and is computed by dividing net profit by investment.

**2.2.5.2 Factors affecting competitive advantage**

Li (2010) reported that in order to be effective a competitive advantage firm must create strategy that other firms cannot duplicate. Barney (2008) asserts that if a resource is valuable and rare and immitable, then it can be a source of competitive advantage. Value is created as good move along the vertical chain and this is referred to as the value chain (Porter, 1998). Tang and Liou (2010) believed that the search for competitive advantage involves scrutinizing the value chain and identifying the key resources that drive capabilities within and outside the firm and create more value when compared to competitors. Hemmafter *et al.* (2010) found that there are two basic types of competitive advantages: lower cost and differentiation. Lower cost is the ability of a firm to design, produce and market a comparable product more efficiently than its competitor's at prices or at near competitors, lower cost translates into superior returns. Differentiation is the ability to provide unique and superior value to the buyer in terms of product quality, special features, or after-sale service. According to Lin and Huang (2010) differentiation allows a firm to command a premium price, which leads to superior profit ability provided costs are comparable to competitors. Competitive advantage of either type translates into higher productivity than that of competitors. The low-cost firm produces a given out put using fewer inputs than competitors require. The differentiated firm achieves higher revenues per unit than competitors (Hemmafter *et al.,* 2010).

The ultimate value a firm creates is measured by the amount of buyers that are willing to pay for its product or service. A firm is profitable if this value exceeds the

collective cost of performing all the required activities. To gain competitive advantage over its rivals, a firm must either provide comparable buyer value but perform activities more efficiently than its competitors (lower cost), or provide activities in a unique way that creates greater buyer value and commands a premium price (differentiation) (Porter, 1985; Lin and Huang, 2010).

### 2.2.5.3 Factors affecting consumers' willingness to pay

Palumbo *et al.* (2011) assert that willingness to pay (WTP) for a commodity is the amount of money a person would be willing to pay for higher level of quality. According to Samdin (2008) willingness to pay is a measure of the resources individuals are willing and able to give up for a product. According to Ashutosh (2007) five major factors that influence WTP are identified. These are customer perceptions, customer characteristics, customer circumstances, customer situational factors, and market environment.

Customer perceptions of value which according to Nagle and Holden (2002) refers to the benefits customers seek from a product or service. It's the potential level, to which WTP can be raised, and revenue captured, with an effective strategy for managing value perceptions and the prices charged. It is well known that customers assign different values to products based on tangible differentiating attributes that influence their utility for the products (Anderson and Narus, 2003; Smith and Nagle 2002). For example, for certain products e.g., Furniture, automobiles, computers etc. presence of certain additional features provides a large price to cost differential.

The second major stream of research related to WTP is on customer perceptions of price, customer perceptions of price relate to reference prices (Mazumdar *et al.,* 2005), and price satisfaction and fairness (Xia and Monroe, 2004). Understanding perceptions of price fairness are important as companies may lose customers if prices are perceived to be unfair.

Customer characteristics influence WTP differentially for various product categories. These differences in WTP may depend on demographic, psychographic, or behavioural characteristics. Xia and Monroe (2004) noted that conventional market segmentation techniques include demographic variables such as age, sex, race, income, marital status, education, and geographical location as well as psychographic variables such as activities, interests, opinions and life-style. Segmentation based on psychographic characteristics uncovers tremendous differences in WTP. Just as different segments of customers have different needs and benefits perceptions, they also differ in how sensitive they are to price moves. Firms therefore need to consider different customer segments when changing prices or offering discounts as different segments may respond differently to price changes buying behaviour uncovers a tremendous differential in WTP for intangible product attributes such as brand loyalty and need (Cross and Dixit 2005).

Customer's specific circumstance of time and place (Nagle and Holden 2002) also determine willingness to pay. Aligning the price charged with the value created for the specific customer segment at the relevant time and place reduces consumer surplus and significantly enhances profits as the incremental revenue from pricing

precision becomes incremental profit. To extract value from the marketplace firms must answer the question: "What is this customer willing to pay at this point in time?" Unlike demographics and psychographics that attempt to define who the customers are, segmentation by circumstances of time and place focuses on predicting how they will respond at the time and place of purchase. Furthermore the environment consists of macro, micro and trends. Macro environmental factors such as overall state of the economy could influence customer willingness to pay. For example in a down turn in the economy the customer willingness to pay may be lower as compared to a period when the economy is booming (Dixit, 2007). Micro economic level factors could be understood supply and demand as store level factors.

## 2.3    Empirical Review

Several studies in the furniture industry as well as competitive advantage have been conducted. Although these studies have been conducted in other fields and other countries, they make an important contribution on the factors that affect competitive advantage of SIDO supported small scale furniture industries in Tanzania. Berdine *et al.* (2008) examined the key components that are driving the competitiveness of the top textile and apparel exporting regions in order to provide insight into how the US textile and apparel industry can adapt and compete. The research methodology used a concurrent triangulation strategy, which involves collecting quantitative and qualitative data simultaneously. Overall, field-based interviews were conducted with 20 executives from 13 companies. The interview questions were categorized based on competitive advantage variables, specifically focusing on innovation, marketing,

and sourcing criteria variables. Key findings of this research include evidence that US textile companies drive the majority of the innovation in the supply chain to both suppliers and customers. Also, the three competitive strategies that differentiate the products of US firms from other regions of the world are research and development, marketing, and customer service.

Amoah and Fordjour (2008) used discriminant analysis to study New Product Development (NDP) activities among small and medium-scale furniture enterprises in Ghana. The results showed that NPD activities were found to be very low among the firms studied. Imitation was the overarching NPD tactics with firms with low technological capabilities more likely to adopting this strategy. Firm owners' educational qualifications and years in business appear to be the discriminant factors that can be used to differentiate firms that are engaged in NPD activities from those that do not, an indication that for SMEs, NPD activities depend largely on the competencies and capabilities of the owners. The synergy between educational level and years in business appear to increase firms' propensity to use more environmentally-friendly materials for furniture production.

Alam (2011) examined the effect of characteristics of entrepreneur and characteristics of the firm on the business success and competitive advantage of Small and Medium Enterprises in Bangladesh. The study is based on survey methodology through a questionnaire administered on the owners and employees of small firms. Data are analyzed using statistical package for social sciences (SPSS). Two hypotheses are proposed and tested. The characteristic of entrepreneur is found to be a significant factor for business success of SMEs in Bangladesh. However, the

firm characteristics are found not to be significant factor on the business success of SMEs in Bangladesh. The results of the analysis show that only one of the demographic factors which is duration of organization operated has significant effect toward business success of SMEs. SMEs that are operated longer period have been more successful in comparison to those who have been in operation for a shorter period. In addition to this, independent sample t-test shows that gender plays a significant role on business success of SMEs in Bangladesh. This study has implications for entrepreneurs and policy makers.

Ngui *et al.* (2010*)* examined the challenges impeding competitiveness of the wooden furniture manufacturing industry: the Case of Furniture Industry in Sarawak, Malaysia Qualitative data was collected from different stakeholders of the furniture manufacturing industry via unstructured in-depth interviews. Using Porter's Diamond of National Advantage framework, different problems and challenges posed by factor conditions, related and supporting industries, demand conditions, firm strategy and government were analyzed. Factor conditions concern the supply and productivity of factors of production. Sarawak furniture manufacturers face a shortage of timber supplies, higher transportation and utility costs, shortage of skilled manpower and difficulty in securing financing for business expansion. These have undermined the competitiveness of the manufacturers, relative to their counterparts in Peninsular Malaysia.

Canagasuriam (2002) analysed competitive advantage in UK retailing: impact of the extended RBV on the marketing channel for white goods. The empirical analysis for testing competitive advantages included a main survey analysis that consisted of all

retailers and another for the small retailers. A model was constructed to diffuse simultaneously the critical resources, capabilities and competitive behaviour to competitive advantages pertaining to this retail channel in the UK. The results indicate that in this retail channel competitive advantages were associated to key resources and key capabilities. In this study the linking of strategic adaptive capabilities to key resources highlight retailer branding enhancements from non product activities. These non-product activities were a basis for setting ex ante limits to future competition in this retail channel.

Hajar *et al.* (2013) analyze the effect of managerial capacity and industry environment to performance of companies in the small industrial of teak wood furniture in Southeast Sulawesi Indonesia. The research used census sampling of 143 managers or owners of the company as respondents. The analysis was both descriptive and qualitative. The result of the analysis showed that high managerial skills in specialized skills and moral values of trust can anticipate industrial environmental uncertainty by implementing alliances strategies to improve company performance. Specialized expertise and high moral values are essential to managerial skills in order to improve company's responsiveness to enhance company's capacity resource and cost production efficiency. Firstly, it can be more responsive to customer need, create quality in product or service, imitating product, and accelerate system to speed-up production process. Then, secondly, being efficient in cost production to formulate and implement proper competitive strategic to improve sales volume, profit and asset.

Alao and Kuje (2012) assess the economics of small- scale furniture production in Lafia metropolis of Nasarawa State Nigeria. Primary data for the study were

collected from furniture producers in the study area. A total of thirty (30) furniture producers were interviewed using structured questionnaire. Descriptive statistics and budgeting analysis were used in the analysis of the data. The result of the study revealed that the rate of return (ROR) was 103% while the rate of return on investment (RORI) was 3% which is positive thus depicting the profitability of furniture production in the study area.

Isaga (2012) tested the influence of the characteristics of entrepreneurs on the growth of small and medium-sized furniture enterprises (SMEs) in the Tanzanian setting. The research design was quantitative in nature, testing various hypotheses regarding associations between entrepreneurs" personal characteristics and firm growth. Data was collected from 300 entrepreneurs (representing SMEs) within the furniture industry in four different regions in Tanzania. Various techniques such as descriptive statistics, Analysis of Variances (ANOVA), factor analysis, regression analysis and Structural Equation Modelling (SEM) were used to analyse the data. Based on the survey responses, it was revealed that the growth of SMEs is explained by demographic characteristics such as age, education and income. The study further revealed that, entrepreneurs who had studied vocational carpentry education,  who had had attended  workshops, who have had previous experience in management and the industry in which the current firm is involved and who have come from an entrepreneurial family, were more likely to see their business grow than entrepreneurs who lacked the aforementioned attributes.

## 2.4    Research Gap

The empirical studies reviewed above show that most of scholars have concentrated on researching  other factors such as demand conditions, firm strategy, critical resources, capabilities, competitive behaviour, managerial capacity, industry environment, innovation need for achievement, family background and characteristics of entrepreneurs in determining competitive advantage and performance. However, little research have been conducted on competitive advantage of domestic furniture manufacturing small scale industries over imported furniture. There is still a puzzle with regard to factors which lead to / hinder profitability and/or performance of small scale furniture industries. Thus, this study analyzed factors affecting competitive advantage of SIDO supported small scale furniture industries in Dar es Salaam and Arusha regions, Tanzania.  It also seeks to reduce this knowledge gap by analyzing factors affecting competitive advantage of SIDO supported small scale furniture industries in  Tanzania.

## 2.5    Conceptual Framework

The conceptual framework outlines the approach that was used to connect all aspects that were included in the study. It provides a road map that lead throughout the research.

Competitive advantage of SIDO supported small scale furniture industries are driven by both internal and external factors. The internal factors are collectively captured under the Resource Based and Dynamic Capability Theories which also focus on external factors. Apart from dynamic capability theory, external factors are also explained by Porter's Five Forces. From the empirical studies, most of the scholars

described the relationship either between firm characteristics and competitive advantage or owners characteristics and competitive advantage or consumer characteristics and competitive advantage. These studies have not examined the integration of either of the above dimensions as well as theories in determining competitive advantage of furniture firms. Thus this study combined these variables in order to determine competitive advantage of firm.

In this study, competitive advantage (dependent) variable is affected by age of the firm, capital, number of brands, and education level of owner, availability of professional skills and location of the firm (independent variables). For example, the owner of furniture firm may possess education level which may enable him to have knowledge and be aware of the markets, management, and the trends in the particular type of business hence be in position to compete effectively or owner of the firm firms may have capability to manage resources strategically through applying creativity and innovation which in turn develop competitive advantage that leads to performance. As far as the dynamic capability theory is concern small scale furniture industries need to have owner-manager who respond and act accordingly to events such as consumer needs, technological opportunities, and competitor activities as they are constantly changing and less predictable. It is also assumed that owners differ in their firms and physical characteristics; such characteristics are expected to bring impact on the firm productivity, and volume of sales through their impact on price received per unit product and the cost structure of the firm.

The study further assumes that intervening variables such as country's business policies, taxes, bylaws and international business agreements impacts the dependent variable in the sense that, existing business policy may put conditions that may or may not restrict imports which in turn favour or disfavour the locally manufactured furniture. Conditions that might favour locally manufacturing firms may include increase in import taxes which leads to increase in the price of imports. Other things being equal, buyers will prefer relatively cheaper locally manufactured furniture than imported. The opposite is also true. It is also the intention of this study to assess factors influencing consumer willingness to pay because an understanding of customer willingness to pay may lead to better pricing decisions and competitive advantage for a firm (Simonson, 2005). In this objective consumer utility theory is used. The theory assumes that the consumers maximize their utility as a function of consuming different goods given price, income and preference. For example, a consumer derives a benefit from comfortable furniture. If one perceives particular furniture to be of poor quality, he/she may reject it or pay low price. At the end is the performance of imported or local dealer which is affected and hence its competitive advantage. This information is summarized in Fig. 6.

**Independent**

**Intervening Variables**

**Dependent**

**Owner and firm characteristics**
- Age of the firm owner
- Sex of the firm owner
- Education level of the firm owner
- Age of the firm
- Capital
- Diversification
- Number of employees
- Location of the business
- Credit
- Networking
- Credit
- Technology

**Policy factors**
- Taxes
- Bylaws
- Inflation

**Firm Productivity and sale**
- Price
- Cost
- Volume of sales

**Competitive Advantage**

**Willingness to pay**
- **Preference**
- **Amount to pay**
  - Age of a consumer
  - Sex of consumer
  - Education of consumer
  - Household size
  - Marital status
  - Income
  - Quality
  - Brand
  - Product knowledge
  - Design/ style
  - Distance
  - Time
  - Residential location

**Figure 6:    The conceptual framework of the study**

**CHAPTER THREE**

**RESEARCH METHODOLOGY**

**3.1 The Study Areas and Justification for their Selection**

The study was carried out in two cities of Tanzania namely Dar es Salaam and Arusha. Dar es Salaam city is bounded by the Indian Ocean to the East and by the Coast region to the other sides (Fig.7). The total surface area of Dar es Salaam city is 1800 square kilometres equivalent to 0.19% of the entire Tanzania Mainland's area The population of the Dar es Salaam city as per National Population and Housing Census (URT 2013) was 4 364 541. The city also has three Municipal Councils namely, Ilala, Kinondoni and Temeke. The city is favoured for having much of the Tanzania economic infrastructure and almost all ministry headquarters are located in this city. Some of the major economic activities in the city include: internal and external trade, industries, banking and financial institutions, furniture manufacturing, tourism, transport and communication, urban agriculture and fishing. It is estimated that about 95% of city residents are working in the informal sector, while the remaining 5% are employed in the formal sector including the government and public cooperations (URT, 2013). Furthermore, skilled workers are likely to locate themselves in Dar es Salaam, where it is relatively easy for them to secure jobs (Ishengoma 2005). Accordingly, compared to other regions, there is a large market for consumer goods in Dar es Salaam. These qualities have led the city to attract many manufacturing industries, including the furniture sector.
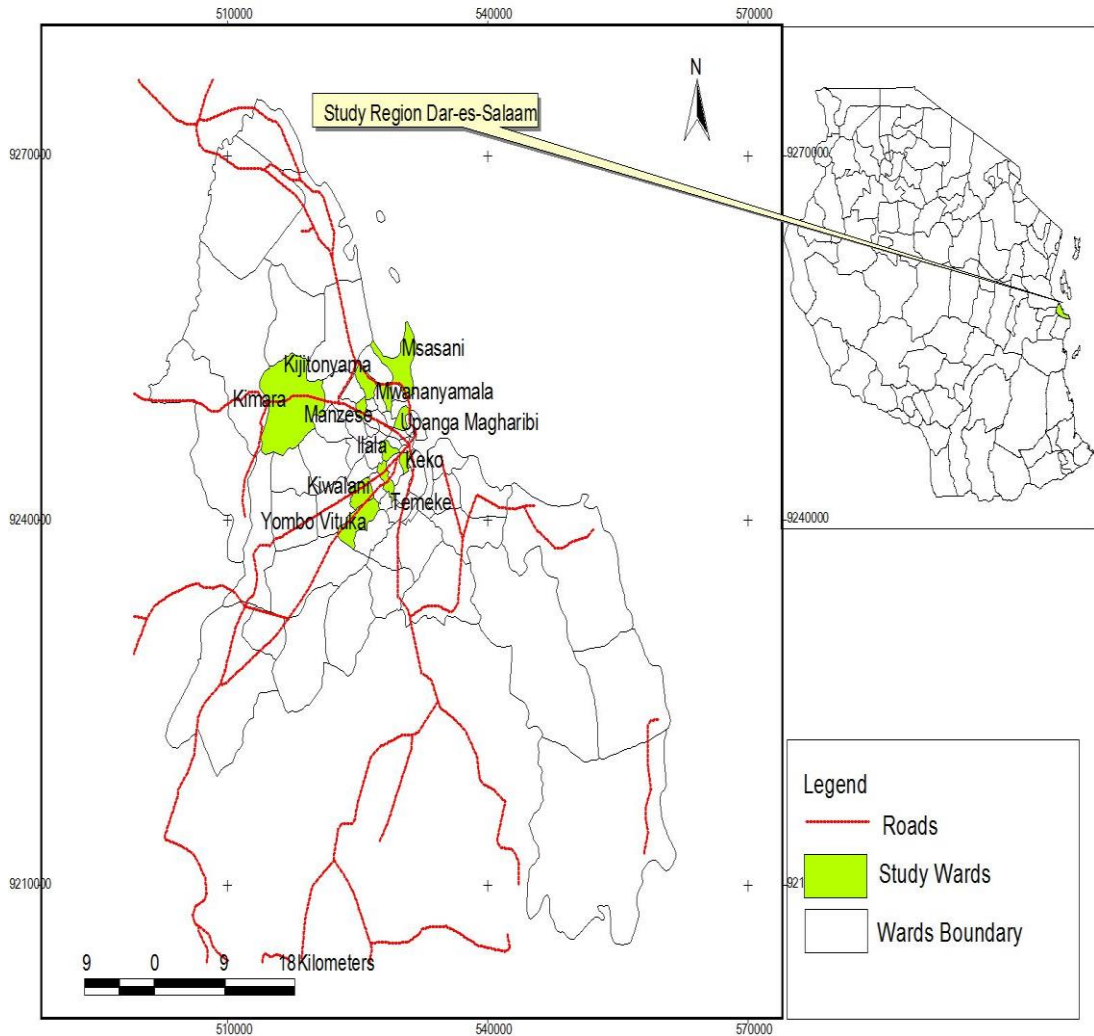
**Figure 7: Map showing study areas in Dar es Salaam**

Arusha city (Fig.8) is found in Arusha region, which is in northern Tanzania. The city of Arusha is bordered to the South by Monduli district and to the North, East, and West by Arumeru district. According to the 2012 National Population and Housing Census (URT, 2013) the population in Arusha city was 416 442. The city hosts numerous small and large businesses, banking, retail and commercial enterprises thus making it the financial and cultural capital of the Arusha region. The city of Arusha is home to the largest manufacturing sector in the region with

breweries, agro-forest processing, and a large pharmaceuticals maker being among them.
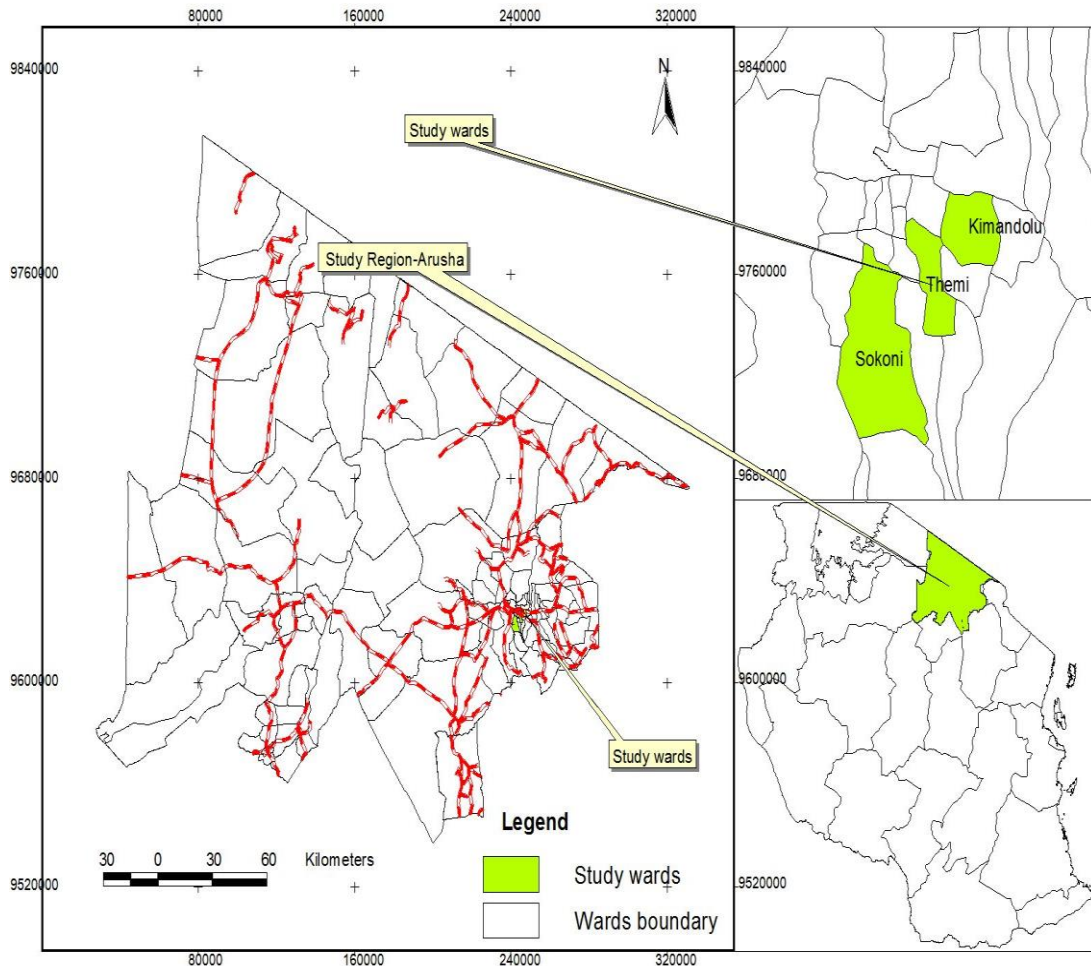


**Figure 8:     Map showing study areas in Arusha**

The two cities were chosen because they are among the largest cities in Tanzania. Arusha is the fourth largest city of Tanzania, after Dar es Salaam, Mwanza and Mbeya. Furthermore, the cities are the major recipient of imported furniture and are among regions with highest number of manufacturing firms in Tanzania. According to Ishengoma (2005) and Mhede (2012), Dar es salaam is the leading location in terms of small scale industries (41.13%) followed by Arusha and Kilimanjaro (20.57%), Mwanza 8.2% and Tanga 6%. Other regions such as Mbeya, Morogoro

and Tabora, have lower number of manufacturing activities than these regions. The two cities also provide a customer base for both locally and imported furniture because they are highly populated and fashion driven with a relative higher income per capita. For example in 2013, on average, Dar es Salaam had a per capita income of TZS 1 740 947 ranking the first while Arusha had a per capita income of TZS1 300 000 ranking the third after Iringa. Other regions had lower per capita income than these regions (URT, 2015). In addition to that, institutions that provide support to small scale manufacturers such as Arusha Technical College (ATC), Vocational Training and Service Centre (VTSC), Dar es Salaam Institute of Technology (DIT) as well as Small Industrial Development Organization (SIDO) are located in the study areas. Fig 8 shows the study areas.

## 3.2    Research Design

This study applied a cross sectional design by administering a questionnaire so as to collect primary information from respondents. This design allows the data to be collected at a single point in time and is useful for description purposes as well as for determination of relationship between variables (Bailey, 1998; Babbie, 1990). It is considered to be favourable when resources are limited in terms of finance, human and time (Phillip and Dipeolu, 2010). Furthermore, the design enables to collect both qualitative and quantitative data   for two or more variables which are then examined to detect patterns of associations (Bryman, 2004; Rwegoshora, 2006; Kitala, 2014). Furthermore, the use of the design was justifiable on the basis that it is the common design used in survey research to compare extents to which at least two categories of people or organizations differ (Kitala, 2014). The two types of organization in this

research are SIDO supported small scale furniture manufacturers and furniture importers firms.

## 3.3 Sampling Procedures

The two cities (Dar es Salaam and Arusha) were purposively selected. These cities have the largest number of small scale firms. Small scale furniture industries were selected because they have been supported by SIDO in terms of finance, equipment as well as technical assistance. SIDO supported small scale furniture industries were chosen in order to determine the extent to which they are internally organized and prepared to compete with imported furniture firms for the existing market share of customers. In this aspect, SIDO supported small furniture industries were classified as traded as they compete primarily with imported furniture firms in the local markets. In addition, SIDO supported small scale furniture industries were selected as they are predominantly, if not exclusively, within the formal sector.

In Dar es salaam, SIDO supported small scale manufacturers were selected from Keko (Temeke district), Buguruni-Malapa (Ilala), and Mbezi Beach kwa Komba (Kinondoni), while in Arusha they were selected from Namanga-Moshi Road, Sokoine road and industrial area. The study sites were selected because they have been in business long enough to provide information on competitive advantage (profitability) as well as the factors that affect competitive advantage. For a firm to be selected it must be in operation for a minimum of three years because this time is enough when one can judge if the firm is making profit or not. Other criteria considered were type of furniture, and number of employees at the time of establishment and size of firm.

Multistage sampling method was used to sample the consumers. At the first stage, study ward were selected. Ten out of 90 wards of Dar es Salaam and 3 out of 17 wards in Arusha were selected to participate in the study.   In Kinondoni, out of 27 wards 4 wards were sampled and included Msasani, Kijitonyama, Manzese and Kimara. For Temeke district 3 wards (Keko, Temeke and Yombo Vituka) were selected out of 24 wards. In Ilala district, out of 22 wards, 3 were selected from Upanga West, Ilala, and  Kiwalani. Fig 7 presents the details. In Arusha, the selected wards were Themi, Sokoni 1 and Kimandolu. Figure 8 presents the details.

At the second stage, in each ward, hamlets were randomly selected from the Ward Executive Offices (WEO) list using random numbers. In the third stage, target households within hamlets were systematically selected based on WEOs household lists. The start (first) household was randomly chosen within the sampling area. The subsequent households were obtained by choosing every $10^{th}$ household (Varela *et al*., 2001; Hoffmeyer-Zlotnik, 2003). In the fourth stage, individual respondents within each household were selected purposively, targeting members who had the responsibility of purchasing furniture and at least purchased locally or imported furniture in the last 5 years.

The proposed sample size was 384 based on the Cochran (1977) formula. Since the study involved three target groups' calculations for sample size of each group, for each category, the calculation was done using the formula by Fisher *et al*. (1991). Therefore the sample size for SIDO supported small scale furniture manufacturers was 127.  Out of that, 79 and 48 were for Dar es Salaam and Arusha respectively. To

allow fair comparison the same sample size was drawn for furniture importers. The sample size for consumer was 130 out of which 87 was from Dar es Salaam and 43 from Arusha.

## 3.4    Sample Size Determination

Sample size determination was done basing on the Cochran's formula which states that:

$$n = \frac{z^2 pq}{e^2}$$

Where,

$n$ = Estimated sample size

$z$ = Confidence level at 95% (standard value of 1.96)

$p$ = Estimated target population of SIDO supported firm, furniture importers firm and consumers (Using standard value of 0.5% since it is unknown)

$q = 1 - p$ (1-0.5)

$e$ = Margin of error at 5% (standard value of 0.05)

Estimated sample size will be calculated as follows:

$$n = \frac{1.96^2 \, x0.5 x0.5}{0.05^2}$$

$$= \frac{3.8416 x0.25}{0.0025}$$

$$= 384.16$$

Therefore, the sample size of the target population was 384

Since the study involved three target groups, calculations for sample size of each group was as follows

1. Calculation for sample size of SIDO supported small scale industries using the sample size formula by Fisher *et al*. (1991)

$$nf = \frac{n}{1 + (\frac{n}{N})}$$

Where:

$nf$ = the estimated sample size of SIDO supported small scale industries

$n$ = the estimated number of SIDO supported small scale furniture industries

$N$ = the estimated total number of SIDO supported small scale furniture industries in Tanzania

BUT

$$n = \frac{t^2 p(1-p)}{m^2}$$

Where:

$t =$ Confidence level at 95% (standard value of 1.96

$p =$ Estimated population of SIDO supported small scale industries in two cities

$m =$ Margin of error at 5% (standard value of 0.05)

According to SIDO (2012) database, the number of SIDO supported manufacturers in Tanzania is 2650 out of that 150 are in Dar es Salaam and 90 are in Arusha

$$p = \frac{150 + 90}{2650} = 0.091$$

Thus,

$$n = \frac{1.96^2 \, x0.091(1 - 0.091)}{0.05^2}$$
$$= 127$$

$$nf = \frac{n}{1+(\frac{n}{N})}, n = 127, N = 2650$$

Since

$$\frac{127}{1+\frac{127}{2650}}$$

$= 127$ Sample size of SIDO supported small scale industries in two cities

If 127 SIDO supported small scale industries were selected proportionately from each city then the sub-sample ($n_i$) for Dar es Salaam would be given by:

$$n_i = \frac{p_1}{p_2} xN$$

and the sub sample ($n_{ii}$) for Arusha would be given by $n_{ii} = \frac{p_1}{p_2} xN$

Where:

$N$ = Total sample required for the two cities (in this case, 127)

$n_i$ = Expected sub-sample in Dar es Salaam city

$n_{ii}$ = Expected sub-sample in Arusha city

$P_1$ = Number of SIDO supported small scale firm in Dar es Salaam (in this case, 150)

$P_2$ = Total SIDO supported firms in the two cities (in this case 240)

$P_3$ = Number of SIDO supported small scale firms in Arusha (in this case 90)

$P_4$ = Total SIDO supported firms in the two cities (in this case 240)

Hence $n_i = \frac{150}{240} x127 = 79.4$

$n_{ii} = \frac{90}{240} x127 = 47.6$

Therefore, the sample size for SIDO supported small scale industries in Dar es salaam and Arusha were 79 and 48 respectively.

By using the estimated sample size of SIDO supported furniture small scale industries in Dar es Salaam and Arusha the estimated number of furniture importers would also be 127 whereby 79 and 48 importers will be taken from Dar es Salaam and Arusha respectively. The basis for taking the same number is to allow fair comparison.

Sample size for consumers were given by

$$CP = N - (S + I)$$

Where:

$CP =$ Estimated population of consumers in the two cities

$N =$ Estimated population of target groups (in this case 384)

$S =$ Estimated population of SIDO supported furniture small scale industries (in this case 127)

$I =$ Estimated population of furniture importers (in this case 127)

Therefore, $CP = 384 - (127 + 127) = 130$

Estimated sample size for consumers in the two cities was 130

If 130 consumers were selected proportionately from each city then the sub-sample

($n_i$) for Dar es Salaam would be given by: $n_i = \dfrac{p_1}{p_2} xN$

$$CP_0 = \dfrac{P_0}{P_2} xCP(130)$$

$$CP_i = \dfrac{p_1}{P_2} xCP$$

Where:

$P_0$ = Estimated population of Household in Dar es Salaam (Ilala district) according to census (2012)

$P_i$ = Estimated population of households in Arusha according to census (2012)

$P_{ii}$ = Total population of households in Dar es Salaam and Arusha according to census (2012) is 220830

$CP_0$ = Estimated sample size of consumers in Dar es Salaam city (148,386)

$CP_i$ = Estimated sample size of consumers in Arusha city (72,444)

Hence:

$$CP_0 = \frac{148,386}{220830} x130 = 87$$

$$CP_i = \frac{72,444}{220,830} x130 = 43$$

87 was the sample size for consumers in Dar es Salaam and 43 for Arusha region

## 3.5     Study Access Sample Size

The sample size for the study was 384. However, the researcher interviewed 337 respondents (which are 88% of the expected respondents) consisting of 127 SIDO supported SMEs, 76 importers of furniture and 134 consumers as described in table 5. The number was less than expected due to the fact that some respondents were reluctant to provide information concerning either the business they operate or consumption patterns of the furniture items.

**Table 5:    Description of accessed sample size for the study**

| Type of Business | Arusha | Dar | Total | Percent |
|---|---|---|---|---|
| SIDO Supported | 48 | 79 | 127 | 38 |
| Importers | 21 | 55 | 76 | 22 |
| Consumers | 45 | 89 | 134 | 40 |
| **Total** | **114** | **223** | **337** | **100** |

Overall this sample size was representative of the target population. Uma and Bougie (2010) noted that sample sizes larger than 30 and less than 500 are appropriate for most research. According to Mugenda and Mugenda (2003), a response rate of above 70% is an excellent response rate, 60% response rate is good while 30% is low.

## 3.6    Methods of Data Collection

The study emphasizes the need to understand factors affecting competitive advantage of SIDO supported small scale furniture in Tanzania. According to Harris (in Creswell, 2007), it is important to investigate the phenomenon systematically so that the results will portray the holistic picture of nature of the business operated by people under investigation. For this particular study, adopting an appropriate method in order to conduct the study was of great importance. So the researcher used triangulation method of data collection. This method involves the use of two or more research instruments to collect the necessary data (John & James, 2006). This enabled the researcher to observe, interview and communicate with the respondents closely.

For the purpose of this study, both primary and secondary data were collected. The primary data were collected from SIDO supported furniture manufacturers, furniture importers as well as furniture consumers. Primary data were preferred because they are current and original and can better give a realistic view to the researcher about the topic under consideration. Secondary data were collected from records of the Tanzania Revenue Authority (TRA) and furniture importers. Secondary data were preferred because they save time, efforts and money and add to the value of the research. The primary and secondary data were collected to cover every aspect of the study. It was necessary to use a combination of data in order to complement each other and to obtain sufficient and insightful information for the study. These are explained below.

### 3.6.1   Primary data collection

Primary data were collected using focus group discussion and questionnaire tools.

### 3.6.1.1 Focus group discussions

Focus group discussion is considered appropriate for soliciting in-depth qualitative data (Adamchalk *et al.,* 2005). As noted by Onwuegbuzie *et al*. (2009) a focus group discussion involves a group discussion of a topic that is in focus of the conversation. In this study, a group of furniture consumers were involved in the study. In addition, as emphasized by Onwuegbuzie *et al*. (2009), focus group discussion approach is useful when little is known about the phenomenon under the study. Therefore, there was a need to get in-depth information about the price comparison in purchasing furniture locally against imported so as to complement information collected through questionnaire.

Ten (10) focus groups discussions (FGD) were conducted; six (6) were for furniture consumers and four (4) were for SIDO supported small scale manufacturers. Out of the six (6) focus group discussion for furniture consumers, four (4) were conducted in Dar es Salaam region and the other two (2) were conducted in Arusha region. In Dar es salaam, the focus group discussions were done in Upanga West, Keko, Kimara and Kiwalani wards while in Arusha the focus group discussion were done in Themi and Kimandolu wards. Each group consisted of 10 members who had been purchasing furniture either locally or imported furniture in the previous 5 years. Through FGDs, information on whether price charged for imported or locally made furniture was fair or not was collected.

In case of SIDO supported manufacturers, three (3) were conducted in Dar es Salaam and one (1) in Arusha. Each group consisted of eight (8) members who had been operating such business for at least three years. The discussion was conducted in these groups in order to gain an insight on whether tax charged was fair or not, their perception on imported furniture and availability of customers in the previous five years. The focus group discussions were conducted using an FGD guide complemented by a notebook and a tape recorder. In addition, the discussions in all the groups were guided by a facilitator. Multi-stage sampling as well as simple random sampling was used to select wards and respondents respectively.

### 3.6.1.2 Questionnaire

The questionnaire was applied with the use of structured pre-tested questions. Strategy to develop such kind of questions aimed at providing ease to the

respondents to give answers with full detail. Three sets of questionnaires were developed and administered to importers, manufacturers and consumers.

For consumers, the questionnaire was divided into three sections. The first gathered information on the demographic profile such as age, gender, educational background, marital status, annual income and household size. The second section captured information on attributes of furniture consumers aspired for like design, style, branding and pricing. The third section gathered information on the willingness of consumers to pay a premium price for furniture and the factors that influence their decision. The fourth section was on consumers' perceptions towards locally made furniture and imported ones.

For SIDO supported manufacturers and furniture importers, the questionnaire was divided into three sections; the first part was on social economic profile variables such as age of the firm, capital employed, number of employees, knowledge of manager, sex of the owner, form of ownership, types of equipment used, and registration status. The second part of the questionnaire was on performance (profitability) on variable cost (VC), labour wages and salaries, value of planks, varnish, nails, electricity and transportation, fixed Cost (FC): Depreciation of structures, shed, knives, hammer, rent, profit and capital. The third part of the questionnaire gathered information on factors that can have impact on competitive advantage of their firm. Variables such as firm *characteristics* such as age of the firm, capital, number of products, education level of owner, availability of professional skills and location, *policy factors* such as registration, taxes and bylaws and factors that have an impact on consumers' willingness to pay. The questionnaire

was the main tool for data collection and involved a large sample as compared to FGD and documentary review.

### 3.6.2 Secondary data collection

Secondary data were collected using documentary review approach. Secondary data sources have keen important to find information that is already proved and researched. These sources are used to formulate effective research questions, develop theoretical framework, and source for empirical data.

This study collected secondary data from various sources such as importing firm, SIDO supported manufacturers, SIDO, TRA as well as ministry of trade. Documents that were available at offices such as sales books, financial statements, sales receipts, import and export data as well as policies were reviewed. These documents were reviewed so as to validate information collected through questionnaires. The sources of secondary data obtained were as detailed in table below.

**Table 6:    Type of information gathered from secondary source**

| N | Source | Information gathered |
|---|--------|----------------------|
| 1 | SIDO Main Office | Number of small scale furniture industries supported by SIDO in Tanzania |
| 2 | SIDO region offices | Number of small scale furniture industries supported by SIDO in Dar es Salaam and Arusha as well as types of support provided |
| 3 | TRA | General import and export statistics as well as furniture import and export statistics |
| 4 | Importing& SIDO supported manufacturers | Cost of furniture manufacturing, importing, selling as well as   revenue per month |

## 3.7    Measurement

Measurement in research is a process of assigning numerals to objects to represent quantities of characteristics according to certain rules. In this study, data collection tools were pre-tested in order to establish validity of the content. In other words, this was done in order to ensure that a set of variables were consistent with what they were intended to measure.

### 3.7.1   Measures of competitive advantage

Competitiveness can be considered as "multi-faceted" in nature as a number of variables should be jointly adopted to measure it (Suklev and Debarliev, 2012). Ezeala-Harrison (2005) believed that competitiveness can be measured through several indexes including nature of competitive advantage, capacity for innovation, the brand extension, restriction of the regulations of the environment, quality in the education of mathematics and science, quality in the education system, and ease of access to credit. Another study of the measurement of business competitiveness presented by Fendel and Frenkel (2005) noted that business competitiveness can be measured through physical infrastructure, human capital, efficiency of goods market and work, efficiency of financial market, technological development, opening and market size, sophistication of business, and innovation.

Similarly, another study developed by Gorynia (2005), proposes a model for the measurement of business competitiveness developed in the following way: EC = {DCCP-DFCC-DCCP' – DCS}, where DCCP = differences in current competitive position, DFCC = differences on the future competitive position, DCCP' = differences in the current competitive potential, DCS = difference in the competitive

strategy. Yet, another study presented by Singh *et al*. (2006), developed a structural index of competitiveness which quantifies the level of competitiveness of companies, but did not specify clearly how to measure this level. Thus, in terms of measuring business competitiveness it is clear that performance measurement must be across the organization and not just in any functional area (Buckley *et al.,* 1988).

Trying to measure competitiveness immediately raises two problems: what competitiveness level should be tested? Should the measurement of competitiveness be at enterprise, industry, national or international level? Economic literature examines competitiveness along two different levels: competitiveness of national economies (macroeconomic level) and competitiveness of firms/ industries (microeconomic level) (Becker-Blease *et al.,* 2005). For the purpose of this study competitiveness of the firm was examined.

Since competitiveness is considered multi-fated a wide variety of techniques, approaches and measures can be used to determine firm's competitive advantage. However, none of these are without limitation (Richard, *et al*., 2015). These include accounting, survival, financial market, mixed market and profitability measures (Barney and Clark, 2007). Accounting measures are the most common and readily available means of measuring firm's competitiveness. The validity of their use is found in the extensive evidence showing that accounting and economic returns are related (Hassan and Marshton, 2010). For instance, it was found that there was a significant correlation between accounting and economic rates of return. By using these measures it was found easier to distinguish firms' competitiveness over time. However, accounting measures can be distorted by accounting policies, human error

and deception. Another measure of firm competitive advantage is financial market measures. These provide information on the firm's discounted present value of future cash flows. They also incorporate firm's intangible assets more effectively than accounting data

However, the connection between market measures to the actual performance of the firm depends on how much of the rent generated from its activities flows to shareholders and the informational efficiency of the market. The usual justification of these measures is that firms are instruments of shareholders. But, the stakeholder dimension may not be as applicable in all areas and market values do not simply reflect an efficient appraisal of future cash flows (Richard *et al*., 2015). Likewise, competitiveness of the firm can be measured by survival measures. Survival is generally measured by a categorical variable capturing the ongoing presence of the firm. Survival measures provide insight of high and low performing firms (Fugazza and Mclaren, 2013). A positive feature of this measure is that it is easier to obtain historical data on the existence of a firm than its disaggregated financial performance. However, for studies that focus on short-term phenomena, survival is unlikely to provide sufficient variance to discriminate between high and low performing firms (Richard *et al*., 2015).

Mixed market measures are the ratio of the market value of firm assets to their replacement cost and are theoretically based measure of economic return. An advantage of mixed market measures is that they are better able to balance risk (largely ignored by accounting measures) against operational performance issues

that are sometimes lost in market measures. One problem with the adoption of mixed market measures is that the replacement value of the firm's assets is almost always measured through its closely-related proxy, the book value of assets (Sharma and Kumar, 2010). This means that this is the historical rather than current replacement cost. Despite empirical similarity, the adoption of book value introduces scope for a number of accounting distortions. Moreover, competitiveness of the firm can be measured through profitability. This is a performance measure that reflects the number of units, the prices received per unit and total expenses involved in producing these units (Sinha, 2012). Profits are the costs of attracting capital for investment in the growth and efficiency of the firm's marketing systems. Most marketing costs are influenced by general economic forces outside of the firm's economy. This technique serves as a tool for assessing the financial soundness of the business (Sinha, 2012).

### 3.7.2    Measurement of firm's competitiveness

This study employed profitability approach to measure firm's competitiveness using budgetary analysis tool. Budgetary analysis is one of the powerful techniques widely used for assessing firm performance (Barney and Clark, 2007). When profitable opportunities exist, firms increase their production and sales. Thus, the existence of a good financial performance suggests a firm or industry with increasing competitiveness just as a bad financial performance suggests a firm or industry with falling competitiveness. In determining the above situation, various financial performance measures are used for measuring the competitiveness of firms. For example, *return on sales* reveals how much a company earns in relation to its sales.

*Return on assets* determines an organization's ability to make use of its assets and *return on equity* reveals what return investors take for their investments. In this aspect, it is advisable to employ profitability as the measures for assessing the financial soundness of the business (Sinha, 2012) and are the easiness of calculation and definitions are agreed upon worldwide. In addition, profitability measures consider other factors such as market share of a firm, the market share growth and the overall customer satisfaction.

Saikia (2012) measure financial performance of small scale industries in India and gross profit ratio and net profit ratio were the variables analyzed. The importance of ratio analysis lies in the fact that it presents facts on a comparative basis and enables the drawing inferences regarding the performance of a firm (Sinha, 2012). Ratio analysis is relevant in assessing the performance of a firm in respect of the overall profitability. The management of the firm, the owner and other stakeholders are naturally eager to measure the operating efficiency of a firm and its ability to ensure adequate return to its shareholders which ultimately depend on the profits earned by it.

The profitability of a firm can be measured by its profitability ratios (Jang and Yu, 2002). In other words, the profitability ratios are designed to provide answers to questions such as: (1) Is the profit earned by the firm adequate? (2) What rate of return does it represent? (3) What is the rate of profit for various divisions and segments of the firm? 4) What is the rate of return to equity holders? Poor operational performance may indicate poor sales and hence poor profits (Sinha,

2012). Hence, indicators to measure the competitiveness of a firm can be the development of the firm's sales volume or the industry's profitability relative to competing industries. In this view, profitability ratios were used to compare financial performance of SIDO supported small scale industry in Tanzania and imported furniture firm using the following equations:

(i)   (GR) = Total units x price per unit of product sold   .......... .........  (1)

**Where;** GR = Gross revenue

(ii)  $GP = GR - VC$   .....   .....   .....   .......... .....   .......... .....  (2)

**Where;** GP = Gross Profit, GR = Gross revenue and VC = Variable costs (Labour wages and salaries, value of planks, varnish, nails, electricity and transportation)

(iii) $(NP = GP - FC$   .....   .....   .....   .....   .....   .......... .....  (3)

**Where;** NP =Net Profit, GP = Gross Profit and FC = Fixed costs (Depreciation of structures, shed, knives, hammer and rent)

(iv)  $ROR = TR/TC * 100$ ..... .....   .....   .....   .....   .....   .....  (4)

**Where;** ROR = Rate of return, GR = Gross Revenue and CI = Capital invested

(v)   $$RORI = \frac{(GR - CI) * 100}{CI}$$   .....   .....   .....   .....   .......... .....  (5)

**Where;** RORI = Rate of Return on Investment, TR = Total Revenue, TC = Total Cost

(vi)  $NI = TR - TC(TC = TFC + TVC)$ .....   .....   .....   .......... .....  (6)

**Where,** NI = Net Income, TR=Total Revenue, TC=Total Cost

In the context of the above, this study measured competitive advantage of furniture firms by looking at internal and external environments of the firm, customers'

behaviour towards furniture products and capabilities of owners of the firm. To achieve this, a number of variables were adopted to measure firms' and owners' characteristics, firms' profitability, factors underlying consumers' willingness to pay and factors affecting competitiveness. Collectively, these variables are conceptualized as the factors that may or may not affect competitive advantage (Figure 9).

| Owner characteristics | Firm characteristics | Willingness to pay |
|---|---|---|
| **Measurement Element**<br><br>• Age of firm owner<br>• Sex<br>• Education level of the firm owner<br>• Net working<br>• Income of owner<br>• Experience of owner | **Measurement Element**<br><br>• Age of the firm<br>• Capital<br>• Diversification<br>• Number of employees<br>• Location<br>• Credit<br>• Regulations<br>• Technology | **Measurement Element**<br>• Age of consumer<br>• Sex of consumer<br>• Education level of consumer<br>• Household size of consumer<br>• Marital status of consumer<br>• Income of consumer<br>• Quality<br>• Brand<br>• Product knowledge<br>• Design/style<br>• Distance<br>• Time<br>• Residential location |

**Competitive Advantage**

**Figure 9:   Measurement elements**

### 3.7.3   Firm owner characteristics

These are the traits of a firm owner and have been found to explain the observed differences in competitive advantage of a firm. Owner's

characteristics such as experience, education, income and networking have been found to have impact on competitive advantage in terms of firm productivity and market accessibility. There are a number of ways in which owners characteristics can be measured, including among others a series of questions connected to the owner characteristics. In view of the above, all concepts in this study were measured using a series of measurement questions that were administered to the respondents.

From this context, the respondents were asked about their sex, age, education level, marital status, and income to get an insight on owners' domination position, capabilities and attitude in the industry. Owner's characteristics were measured using a number of questions. Sex of the owner was dummy and was measured by 1 if male and 0 if female; age was measured by number of years since birth; marital status was a dummy 1 if married and 0 if not; education level was measured by number of years of schooling; household size was measured by total number of people that belong to the household and income was measured by amount of money earned in TZS per month.

### 3.7.4 Firm characteristics

A firm is competitive if it is able to design, produce, and/or market products that are superior to those offered by competitors. Products or services are superior if they provide a higher value to customers, either in the form of lower prices for equivalent benefits, or by providing unique benefits that more than offset a higher price. In order to determine which firms have a competitive

advantage, it is necessary to define clear indicators that can be measured across the firms.

Firms are influenced by their internal characteristics and capabilities in determining their productivity. The number of years in business may have a positive impact on business profitability, because skills are acquired as the business acquires greater experience. The longer a business is in operation the greater the chances that it has acquired valuable tacit knowledge. At the same time, firm size, access to credit, capital, number of employees, as well as the location of the firm may influence volume of sales. This is based on the assumption that these attributes can provide the firm with superior access to resources and customers. Further, firm networking may have impact on firm's profitability since customers place a higher value on a product if other consumers also use it.

To determine furniture firm characteristics, respondents were asked about the year which a firm was established and then the age of each firm was calculated so as to get the exact age. Respondents were also asked about number of individuals employed by the firm, location as well as initial capital of the firm at the time of survey. Likewise, respondents were asked to state the extent to which the firm was able to access credit and diversify its products. Further, respondents were asked about firm's networking in order to measure the magnitude at which the firm was able to partner with others in terms of knowledge, skills, technical as well as financial resources. To determine the external environment of the firm, this study examined how national regulations

have impact on firm competitiveness. In this aspect, the respondents were asked to score the extent of firms' compliance to national regulations.

In the context of the above, age was measured by number of years since establishment; and capital was measured by amount of money in TZS and was used to establish a firm. Diversification was measured by number of furniture items produced in a month; number of employees was measured by number of people hired on casual and permanent basis. Location was measured using a five-point Likert scale ranging from 1= strongly disagree to 5 = strongly agree. Likewise, the scale for credit measure employed five point Likert scale of 1 = Strongly disagree, 2 = Disagree, 3 = Undecided, 4 = Agree and 5 = Strongly agree. Networking was measured by number of furniture manufacturing firms a firm collaborates with, and finally regulations measures employed a five point Likert scale ranging from 1 = Strongly disagree to 5 = Strongly agree.

### 3.7.5 Willingness to pay

Nunes and Boatwrite (2004) assert that willingness to pay (WTP) for a commodity is the amount of money a person would be willing to pay for higher level of quality. According to Samdin (2008) willingness to pay is a measure of the resources individuals are willing and able to give up for a product. Thus, the more the consumer purchases a certain product or brand and is satisfied, the more his WTP increases. The most commonly used methods/Models for measuring willingness to pay include the contingent valuation, travel cost method and hedonic pricing). These

methods can be used to answer questions such as how much consumers are willing to pay for a product (Phillip and Dipeolu, 2010).

To determine consumers' willingness to pay for a given furniture product, this study employed contingent valuation method (CVM). CVM is used to directly elicit people's preference and economic value for non-market goods or services. It asks people what they are willing to pay for the benefit of particular social project. The CVM was employed in this study because it affords an accurate analysis of behaviour and motives since their use facilitate changing the information level by applying sub samples (Samdin, 2008). CVM takes different form; the open-ended question, bidding game, payment card, single bound dichotomous choice and double bound dichotomous choice. This study made use of bidding game form to assess the determinants of willing to pay for a given furniture products. In this form, the respondents were asked if they were willing to pay for a particular amount for the a given furniture product, if said yes, the interviewer kept on increasing bid amount until the respondent answered no and those said no the interviewer kept on decreasing the bid amount until the respondent answer yes.

## 3.8    Data Analysis

The data were coded and analysed by using Statistical Package for Social Sciences (SPSS) version 20. Descriptive statistics were computed, particularly, percentages, frequencies, distribution tables, charts and graphs. Moreover, quantitative and qualitative data were analysed using profitability analysis, contingent valuation or logit and ordinary least square regression models.

### 3.8.1    Descriptive statistical analysis

Descriptive statistics were used to analyze objective one, particularly to obtain means, percentages, frequencies, distribution tables, and charts for analyzing social economic characteristics of furniture industry owners as well as social economic characteristics of the firms. Descriptive statistics were used to summarize the survey results and provide preliminary information on socio-economic characteristics of imported and locally made furniture manufacturers and the firm.

### 3.8.2    Analytical model

Modelling refers to the development of mathematical expressions that describe in some sense the behaviour of a random variable of interest (Prakash, 2007). Most commonly, modelling is aimed at describing how the mean of the dependent variable E[Y] changes with changing conditions. A model by itself is not the real world but simply a human construct which helps us to understand better the systems of the real world and predict the future outcome (Charles, 2013). With regard to this study, budgetary analysis was employed to measure objective two which aimed at determining the profitability of imported and SIDO supported furniture trade. Objective three, which aimed at finding factors influencing consumers' willingness to pay for imported versus locally manufactured furniture, was analyzed using Contingent Valuation Model (CVM) and Ordinary Least Squares (OLS) regression models. Objective four which aimed at examining factors affecting competitiveness of SIDO supported small scale furniture industries was measured by OLS regression model. Furthermore, T-test was employed to examine if there were significant differences on studied variables as described in section 3.8.2.1 to 3.8.2.4.

**3.8.2.1 Profitability of imported and SIDO supported furniture trade**

To compare the profitability of imported and local furniture dealers (objective two), budgetary analysis, which involved the calculation of firms' profitability was employed. Profitability refers to earnings returned to resources invested (Sinha, 2012). It is a performance measure that reflects the number of units, the prices received per unit and total expenses involved in producing these units. Profits are the costs of attracting capital for investment in the growth and efficiency of the firm's marketing systems. Most marketing costs are influenced by general economic forces outside of the firms' economy. This technique serves as a tool for assessing the financial soundness of the business (Pande, 2004; Sinha, 2012).

From an entrepreneurial perspective, a competitive firm needs to survive in the market and to achieve market share and profitability. The success of a competitive firm can be measured by both objective and subjective criteria. Objective criteria include return on investment, market share, profit and sales revenue, while subjective criteria include enhanced reputation with customers, suppliers, and competitors, and improve quality of delivered services (Barney and Clark, 2007). Again, in the entrepreneurial context, competitiveness is synonymous with a firm's long-run profit performance and its ability to compensate its employees and provide superior returns to its owners. In the context of the above, this study employed profitability approach to measure firm's competitiveness using budgetary analysis tool. Budgetary analysis is one of the powerful techniques which are widely used for assessing firm performance (Barney 2007). The profitability of a firm can be

measured by its profitability ratios (Jang and Yu, 2002). In other words, the profitability ratios are designed to provide answers to questions such as: (1) Is the profit earned by the firm adequate? (2) What rate of return does it represent? (3) What is the rate of profit for various divisions and segments of the firm? and (4) What is the rate of return to equity holders? Poor operational performance may indicate poor sales and hence poor profits (Sinha, 2012).

Where profitability ratios have been used to assess firm performance, none of these ratios has been used to assess performance of furniture industry and especially in Tanzania hence; this study used profitability ratios to compare profitability of SIDO supported small scale industry in Tanzania and furniture importers dealers Profitability was established after collecting data on sales value variables and fixed costs of the firms involved in furniture imports and those involved in furniture manufacturing and sales. The profitability ratios are preferred in this study because they show how profitable the business is. When profitable opportunities exist, firms increase their production and sales. Thus, the existence of a good financial performance suggests a firm or industry with increasing competitiveness just as a bad financial performance suggests a firm or industry with falling competitiveness. In this aspect independent sample t-test was employed to determine if there is a significant difference in profits between importing furniture firms and SIDO supported small scale furniture industries.

**3.8.2.2 Consumers' willingness to pay for locally and imported furniture**

To determine consumers' willingness to pay for imported or locally manufactured furniture (Objective three) Contingent Valuation Model (CVM) and OLS regression model were used. The study used contingent valuation method which is based on consumer demand theory. CVM is used to directly elicit people's preference and economic value for non-market goods or services expressed in terms of willingness to pay for a hypothetical scenario that is presented to the respondent for valuing (Phiri, 2009). CVM asks people what they are willing to pay for the benefit of a particular social project. Thus the role of CVM is to elicit money value for the benefits of the programme as if the market for such a programme already exists; therefore, it captures the consumer's value and not the public sector value (Asgary *et al.,* 2004).

CVM takes different forms. The first is an open-ended question whereby the respondent is asked to state the maximum amount they would be willing to pay for the programme in question. The problem with this form concerns the situation in which the respondents have no prior experience of purchasing a good similar to the one in question. Therefore, it is likely that the response is going to have a large number of zero responses and few positive answers. The second form is known as the bidding game. In this, respondents are asked if they are willing to pay a particular amount for the service; if "yes" the interviewer keeps on increasing the bid amount until the respondent answers no. If "no", the interviewer keeps on decreasing the bid amount until the respondent answer "yes". Then the maximum amount is recorded (Phiri, 2009). The problem with this form is that the final

estimates may have a starting point bias. The third form is the payment card where the respondent is asked which of the amount listed on the card best describes his willingness to pay. The problem with this form is that there is a weak dependence of estimates on the amounts used in the card. The fourth one is the single bound dichotomous choice whereby the interviewer asks the respondent if he is willing to pay a particular amount for the service, but the price is varied randomly across the sample. Its main problem is that the estimates typically are higher than other formats. The last one is the double bound dichotomous choice which is similar to the single bound dichotomous choice except for the increase in the amount if the respondent answers positively and decrease in the amount if he answers no and its problems are that two responses do not correspond to the same underlying WTP distribution (Jeanty *et al.,* 2007).

Based on the above situation, the study used the bidding game form to assess the determinants of willingness to pay for locally made and imported furniture in Dar es Salaam and Arusha regions Tanzania. The identified specification model for this study is as follows:

$$WTP = f(\chi) \dots \quad \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots \dots 1$$

Where WTP is willingness to pay for imported or locally made furniture and it is a function of x which is a vector of determinants of willingness to pay. These determinants include: age, sex, education, occupation, annual income, price, quality, brand name, knowledge, design, distance and household size.

There are different models of estimating determinants of willingness to pay. These models include logit or probit, multinomial and ordinary least square models. In Logit model, the dependent variable, which is willingness to pay, looks at the decision by the consumer to pay or not and is categorised into 'yes' or 'no' whereby in a multinomial model the dependent variable is in various categories depending on the degree of willingness to pay, while in Ordinary Least Square (OLS) model the dependent variable is continuous (Okello and Feeley, 2004). This study used logit and OLS regression models.

### (a)　Logit model

The logit model was used to estimate determinants of decision on willingness to pay. This decision can take two values, not willing to pay (WTP = 0) or willing to pay (WTP =1). Let Pi represent the probability that the consumer is willing to pay, then the probability that the consumer is not willing to pay is given as 1- Pi. Since we do not observe Pi, but the outcome WTP=1, if the household is willing to pay and WTP = 0, if it is not willing, then we have the following:

$$\Pr(WTP_i = 1) = P_i \quad\quad 2$$

$$\Pr(WTP_i = 0) = 1 - P_i \quad\quad 3$$

The probability that the consumer is willing to pay is given as:

$$P_i = E(WTP = 1|X) = \frac{I}{1 + e^{-(\beta 0 + \beta' x)}} \quad\quad 4$$

The probability that the customer is not willing to pay was estimated as;

$$(1 - P_i) = E(WTP = 0|X) = \frac{1}{1 + e^{(\beta 0 + \beta' x)}} \quad\quad 5$$

Formulating these equations in terms of odd ratio of probability that the consumer is willing to accept to the probability that the consumer is not willing to accept and taking the natural logarithm gives us the logit model whereby the log of odds ratio is linear in x and also in parameters. The logit model is as follows:

$$In\left[\frac{p_i}{1-p_i}\right] = L_i = \beta_0 + \beta_i' \chi_i$$

..... ..... ..... ..... ..... ..... ..... 6

Where:

X is a vector of independent variables

$\beta'$ is a vector of their respective coefficients.

Y = Dependent variable (dummy: 1= if a consumer prefers locally made furniture and 0 = if otherwise)

$\chi_i$ = Education (years spent on schooling

$\chi_2$ = Distance (number of km to the selling point)

$\chi_3$ = Price (Amount of money charged for furniture)

$\chi_4$ = Design (dummy, 1 = of good design, 0 = If not)

$\chi_5$ = Quality (dummy, 1 = of good quality, 0 = If not)

$\chi_6$ = Age (Age of a respondent in years)

$\chi_7$ = Occupation (dummy, 1 = employed, 0 = If not)

$\chi_8$ = Annual income (Amount of money earned in a year)

$\chi_9$ = House hold size (number of people in the household)

**(b)    OLS model**

The OLS model was used to estimate the determinants of the amounts that consumers are willing to pay for locally made furniture and imported furniture. Since the respondents were also asked to specify the maximum amount he/she was willing to pay for, the model is based on the studies by Mycoo (2005) and Asgary *et al.* (2004). According to Mycoo (2005) data from willingness to pay using bid game is continuous and linear. Therefore, the specification model for this study was as follows:

$$WTP = \beta_0 + \beta_1 AGE + \beta_2 SEX \beta_3 EDC + \beta_4 HHS + \beta_5 MAS + \beta_6 INC + \beta_7 BRD$$
$$+ \beta_8 KNW + \beta_9 DISG + \beta_{10} DIS + \beta TM_{11} + \beta QUA + \varepsilon_i + \ldots\ldots\ldots\ldots\ldots\ldots\ldots 7$$

*WTP* = Dependent variable (price**)** measured as amount of money a person would be willing to pay for imported or locally made furniture (dining table, sofa set, cabinet, coffee table and bed)

$\beta_i$ = Vector of respective parameters

$\chi_i$ = Vector of explanatory variable

$\varepsilon_i$ = Independent distributed error term

The explanatory variables are:

*AGE =*    Age o f head of household in (years)

*SEX =*    Sex of furniture firm owner (dummy, 1 for male and 0 if female)

*EDC =*    Education level of furniture firm owner (Measured by number of years spent schooling)

*HHS =*    Total number of household members of the household)

*MAS =*    Marital status (Dummy, 1if married, 0 if single)

*INC =*       Amount of money earned in a year)

*BRD =*       Brand (Dummy 1 if product is locally made 0 if other wise)

*KNW =*       Knowledge (Dummy, 1 if consumers are knowledgeable on the

             product and 0 if not)

*DESN =*      Design (Dummy, 1 if furniture is bought because of superior design,

             0 if not)

*DIS =*       Distance (Number of kilometres to the buying point)

*TM =*        Time (Measured by number of says taken to receive ordered

furniture)

*QL =*        Quality (Dummy, 1 if furniture is of good quality, 0 if other wise)


**3.8.2.3 Modelling factors affecting competitiveness**

To examine factors affecting competitiveness of SIDO supported small scale furniture industries (Objective four) OLS regression model was used. This model allows estimating the relation between a dependent variable and a set of independent variables (Kavitha *et al*., 2013). The purpose of OLS analysis is to identify changes in independent variables that are significant predictors of changes in a dependent variable, and, in so doing, build a linear model that describes these relationships (Huang, 2012). Competitiveness is a dependent variable and was measured using RORI. Regression analysis was specifically used to determine the effects of age of the firm, education level of owner, capital, diversification, availability of professional skills, registration, taxes, networking, operating rules and regulations, credit and technology on RORI of SIDO supported small scale furniture industries. The OLS equation of the following form was estimated

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + .\beta_p x_P + \varepsilon................................................1$$

Where;

Y =    Dependent variable (in this case Profit) measured as RORI

$x_1 - x_p$ = Independent variables which includes, age of the firm, education level of owner, capital, number of brands, availability of professional skills, registration, taxes, networking, bylaws, and credit.

$\beta_1 - \beta_P$ = Regression coefficients;

$\alpha =$ Intercept.

$\varepsilon_i =$ Error term.

When X and Y variables mentioned above are substituted into equation1 above the following model was obtained:

$$Y = \alpha + \beta_1 AGE + \beta_2 CAP + \beta_3 LOC + \beta_4 EDC + \beta_5 PRI + \beta_6 EPY + \beta_7 DIVE + \beta_8 NET + \beta_9 ORP + \beta_{10} CRD + \beta_{11} TECH + \varepsilon................................................2$$

Where;

*Y*      =      Profit of SIDO supported small scale industries measured by RORI

AGE  =      Years since its establishment;

CAP  =      Initial capital in TZS used to start a furniture manufacturing firm;

LOC  =      Number of kilometre from city centre;

EDC  =      Education of the furniture industry owner measured as years spent schooling

PRI    =      Amount of money in TZS;

EPY   =      Number of employees in the firm;

ORP = Operating rules and procedures (Dummy, 1 if available, 0 if not);

NET = Number of other furniture manufacturing firms a particular firm

    collaborate with;

DIVE = Diversification (Number of furniture items produced);

CRD = Credit (Dummy, 1 for access to credit and 0 Otherwise);

TECH = Technology (Dummy, 1 if technology affects profit and 0 if not).

### 3.8.3 Development of indices

Several indices were developed through Principal Component Analysis (PCA). PCA was used to transform qualitative data into quantitative data. The indices that were developed include brand, product knowledge, design, policies, quality, rules, credit access, location and technology. For example, design detail was operationalized by shape, size, style, dimensional accuracy, and craftsmanship whereas quality was measured by resistance to deterioration, comfort, durability, convenience and warrant. On the index, respondents were asked to evaluate the above factors based on a set of statements that determined the respective variable through Likert-scaled items from one to five. Therefore, the developed indices were measured by the index formula shown below

$$A_j = f_1 \; x \; (a_{ji} - a_1)/(S_1) + \ldots\ldots f_N \; x \; (fa_{jN} - a_N)/(s_N) \quad \text{(Mwageni } et \; al., \; 2005\text{)}.$$

Where:

  $A_j$ = Index developed

  x = the variable

  $a_1$ = mean

  $f_1$ = scoring factor

$a_j$ = the value for the variable measured

$S_1$ = standard deviation

**Table 7:** **Explanatory Variables and the Hypotheses Included in Regression Analysis**

| Variables | Definition of variable | Unit | Hypotheses |
|---|---|---|---|
| Age | Age of head of consumer | Number of years | Positive (+) |
| Sex | Sex of the consumer | Male 1 female 0 | Positive (+) |
| Education | Years of schooling of the consumer | Number of years of Schooling | Positive (+) |
| Household size | Total number of household members of the household | Number of adults and number of children that belong to the household | Positive (+) |
| Occupation | Employment situation of respondent | 1 if yes and 0 if not | Positive (+) |
| Income | Amount of money in a year | TZS | Negative (-) |
| Brand name | 1 if product is locally made 0 if other wise | Index | Negative (-) |
| Product knowledge | 1 if consumer are knowledgeable on the product and 0 if not | Index | Positive (+) |
| Design/style | 1 if furniture is bought because of superior design ,0 if not | Index | Negative (-) |
| Location | Distance in Kilometres to the buying point | Number of Km | Positive (+) |
| TM | (Number of says taken to receive ordered furniture) | Number of days | Positive (+) |
| Age | Years since its establishment | Number of years | Positive (+) |
| Capital | Amount of money in TZS used to start a furniture manufacturing firm | Amount of money in TZS | Positive (+) |
| Diversification | Diversification (Number of furniture item produced; | Number of products | Positive (+) |
| Education | Years spent schooling for owner of the firm | Number of years | Positive (+) |
| Location | Number of kilometre to the city centre | Number of Km | Positive (+) |
| Price | Amount of money charged in TZS | Amount of money in TZS | Positive (+) |
| Number of employees | Number of employees in the firm | Number of employees | Negative (-) |
| Networking | Number of other furniture manufacturing firms a particular firm          collaborate with | Number of networking | Positive (+) |
| Operating Rules and procedures | I if available, 0 if not | Index | Positive (+) |
| Credit | 1 for access to credit and 0 Otherwise; finance a manufacturing firm | Index | Positive (+) |
| Technology | 1 if technology affect profit and 0 if not | Index | Negative (+) |

The details for priori expectations of the explanatory variables are presented in Appendix III

**3.8.3.1 T-test**

Two different types of t-test techniques are used to compare the difference between 1) two independent samples and 2) the same group of sample in two different contexts (Bajongpraset, 2013). The first t-test technique, independent-sample t-test, was employed to examine if there are significant differences in profit between SIDO supported small scale furniture industries and importing furniture firms. The normality of data was tested to ensure that the variable has a symmetric bell-shaped distribution (Malhotra *et al* 2002). By checking the results of Levene's test for equality of variance, this tests whether the variation of scores of two samples is the same (Pallant, 2010). The results with regard to profitability were analyzed by the independent t-test.

Another t-test technique used in this research was the paired-sample t-test. This test helps researcher analyze the resulting differences by the appropriate one-sample procedure (Bajongpraset, 2013; Pallant, 2010). In this aspect the paired t-test was employed in order to determine whether there are significant differences in price that consumers are willing to pay for locally and imported furniture. In addition, paired t-test was used to examine if there is significant difference in preference for local and imported furniture among consumers in Dar es Salaam and Arusha.

**3.8.4   Qualitative data analysis**

Qualitative analysis involves obtaining detailed information about phenomenon being studied and establishing patterns and trends from the information gathered (Saunders *et al.,* 2007). This also involves giving meaning to the mass information

collected by organizing the data and creating categories and themes. In this study excerpts were used to give representative information required. Further, open–ended questions in the FGDs were organized into themes pertinent to the study. In analyzing the data, the researcher evaluated the usefulness of the information given by the respondents. Specifically, key themes, concepts or phrases related to barriers to business start up were identified. Abbreviated codes such as few letters, words, or symbols were assigned to key themes such as furniture preference, capital, quality, and price fairness. This helped to organize the data into common themes that emerged in response to dealing with specific items. These themes were later organized into coherent categories which summarized factors affecting competitive advantage of SIDO supported small scale industries. Qualitative information was then integrated with the quantitative information to provide a meaningful conclusion.

## 3.9    Assumptions in Multiple Regression Analysis

Regression analysis is a technique used to analyse the relationship between a single dependent variable and two or several independent variables. The regression analysis is one of the demanding statistical techniques that make a number of assumptions about the data, and has severe impact on the end results if they are violated (Bengesi, 2013).  In this study three regression analyses were performed, one on the determinants of the amount consumers are willing to pay for locally made furniture, second on the determinants of the amount consumers are willing to pay for imported furniture (Objective three) and third on the determinants of competitiveness of SIDO supported small scale furniture industries (Objective four).

From this understanding, prior to multiple regression analysis, a test of assumptions was performed to ensure credibility of results and the conclusions that will be drawn. In this case the following assumptions were tested.

### 3.9.1 Normality

Normality of data was tested using the Shapiro-Wilk Test of Normality which was performed using the SPSS's explore command. At first some of the data (age, income, education level, start-up capital, years since establishment) were not normally distributed as the test produced p-values > 0.05. However, after transforming those data using the Lg10 function under the SPSS's transform variables command; the data produced a p-value < 0.05 which implied that the data in question were normally distributed. Examples of studies which applied independent-samples t-test to compare means are those of Sarjou *et al*. (2012), Winke *et al*. (2010), Ahmetasavic and Ilgan (2014) and Katundu (2014).

### 3.9.2 Multicollinearity

Before conducting regression analysis, multi-collinearity needs to be checked. Multicollinearity is a term that refers to correlation among the independent variables in a multiple regression model (Wooldridge, 2000). Mendenhall *et al.* (2005) noted that when two or more of the independent variables are so correlated that it is difficult to assess their respective individual contributions to the reduction in error sum of square (SSE), the sum of square of deviations between the observed and the predicted values of y (Baharuddin *et al.,* 2011).

There are two major methods that were used in this study, in order to determine the presence of multi-collinearity among independent variables. These methods involved calculation of both a tolerance test and Variance Inflation Factors (VIF) (Kleinbaum *et al.,* 1988; Sivathaasan, 2013). Velnampy *et al.* (2014) and Menard (1995) suggested that a tolerance value less than 0.1 almost certainly indicates a serious collinearity problem. Furthermore, Myers (1990) also suggested that a VIF value greater than 10 calls for concern. In this study none of the Tolerance level is less than 0.01 and VIF value is well below 10. Therefore, independent variables used in this study do not suggest multi-collinearity problem.

### 3.9.3   Heteroskedasticity

Furthermore, relevant tests were performed to ascertain that the basic assumptions governing linear regression procedure were not seriously violated. It is important to note that changing the functional form of the model can take care of the heteroscedasticity problem. In this study cross-sectional data were found to have problems of heteroskedasticity. This occurred when the ordinary least squares estimators while still linear and unbiased, can no longer provide minimum variance. This makes the ordinary least squares estimators unreliable, leading to small t-values. The small t-values associated with the large variance leads to a situation whereby the explanatory variables' parameters are rejected more frequently than necessary (Gujarati, 2008). To contend with this situation in this study, a natural logarithm transformation of the data was adopted. That is why the transformation of the data was employed in this study to take care of the problem of heteroscedasticity.

### 3.9.4   Autocorrelation

The Durbin-Watson test statistic was then designed for detecting errors that follow a first-order autoregressive process. The Durbin-Watson statistic provides the standard test for autocorrelation (Durbin & Watson, 1950). Autocorrelation occurs when the error between the fitted and actual value is not independent from one observation to the next.

### 3.9.5   Outliers

Data sets normally have one or more unusual observations that do not belong to the pattern of variability produced by the other observations. Outliers were identified from univariate detection using SPSS (Johnson and Wichern, 2007). In this study there was no unique or extreme scores that could influence variables.

### 3.10   Ethical Consideration

This study involved human beings hence; it considered ethical issues as advocated by Driscoll and Brizee (2012). Therefore, permission of the people who were involved in the study was obtained. In social science research, a code of ethical principles requires researchers to obtain an informed consent from all respondents, protect respondents from harm and discomfort, treat all information confidentially, and explain the experiment and the results to the respondents afterward (Katundu *et al.,* 2014).   In order to obtain an informed consent from all respondents, the researcher explained, among other things, the purpose of the study and assured them confidentially of their responses as well as asking their permission to fill in the questionnaire or respond to FGDs questions. These enabled the respondents to

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cooperate and helped the researcher to get the best data on taxation, incomes and profits.

**3.11   Limitations of the Study**

The following were some of limitations to this study:

Some small scale furniture manufacturers as well as furniture importers found the study to be sensitive and were doubtful of the findings. The researcher assured them that the findings of the study would not be reported on the basis of individual firm but rather on the overall reports of respondents in different firms.

There were some respondents who expressed only the socially acceptable views. During the collection of the qualitative data, some of the respondents interviewed were defensive when asked questions relating to their business operations such as their monthly income, tax payment, support received from donors and profit. To overcome this, the researcher assured them that the data were to be treated with confidentiality.

Some institutions took too long to respond to the letters written to them seeking permission to collect data for the study. The researcher made every possible effort to visit the selected institutions to familiarize with them and explain clearly the purpose of the study.

In some cases, respondents were reluctant to provide information because they thought the study had no benefit to them. To overcome this issue, the researcher

made every possible effort to familiarize with them and explain clearly the purpose and importance of the study to their business and for the policy makers.

## 3.12    Reliability and Validity of the Measurement Instrument

It is necessary to determine the degree to which data are valid and reliable. Validity can be defined as the extent to which a measure correctly represents the concept of a study (Hair *et al*., 2006). Reliability, on the other hand, is the degree of consistency between multiple measurements of a variable. In other words, are the variables or a set of variables consistent with what they are intended to measure (Isaga, 2012).   Reliability differs from validity in that the former does not relate to what should be measured, but instead to how it is measured.

### 3.12.1  Reliability

Reliability analysis was used to measure both consistency and internal stability of data. The Cronbach's Alpha measuring the inter-item consistency and reliability measure the coefficient that reflects how well items in a set are positively correlated to one another (Chittithaworn *et al.,* 2011).  Cronbach's Alpha that are less than 0.6 are generally considered to be poor; those which are 0.7 acceptable, and those over 0.8 are good; the closer the reliability coefficient gets to 1.0, the better.  Cronbach's Alpha was above 0.70 (Alkhattabi *et al.,* 2011). Therefore the data that were collected for this research were considered to be internally stable and consistent.

### 3.12.2  Validity

Validity refers to the extent to which differences in observed scale scores reflect true differences among objects on the characteristic being measured, rather than

systematic or random error" (Huang, 2012). There are three main types of validity: content validity, criterion validity, and construct validity. Content validity can be assured by agreement among experts that the scale is measuring what it is supposed to measure. In this study, the questionnaire was pre-tested on 20 respondents before data collection. The pre-test helped in establishing content validity. Criterion validity examines whether measures perform as expected in regard to other constructs selected as meaningful criteria, and can be categorized into concurrent and predictive validity. Furthermore, the questionnaire was sent to a number of respondents to ensure validity and content validity. The questionnaire was modified on the basis of the suggestions offered by the respondents.

During data collection, triangulation was used to ensure validity of data. This was done using multiple sources where information or facts obtained from each source were corroborated in order to minimize subjectivity during data collection and analysis.

# CHAPTER FOUR

# RESULTS AND DISCUSSION

## 4.1  Socio-economic Characteristics

## 4.1.1  Furniture industry owners

The socio-economic characteristics of the owner were done in the context of sex, age, marital status, household size, education and income as presented Sections 4.1.1.1 to 4.1.1.5.

### 4.1.1.1 Sex

With respect to sex of the furniture firm owner, there were 61 (84%) furniture male importers and 12 (16%) female. Likewise, for SIDO supported small scale furniture manufacturers, 109 (88%) were males and 15 (12 %) were females. Table 8 presents the results. It is of interest to note that the number of female in each category is lower than that of male. The lower number of female owners in the industry may be due to a number of reasons including cultural background about a woman's role in society in Tanzania.  It may also be due to the fact that the business environment is less accommodative to female-owned businesses, or it may be due to the lower entrepreneurial tendencies among women taking into consideration that the furniture industry may be labour intensive. This reflects findings from other studies such as Isaga (2010) and Rutashobya (1995) who observed that males participate more in the manufacturing sector than in sectors such as food-vending or garment-making which women dominate.

**Table 8:    Sex of the firm owner (furniture importers and SIDO supported firms)**

| Type of Business | Sex | Frequency | Percent |
|---|---|---|---|
| Furniture Importers | Female | 12 | 16 |
| | Male | 61 | 84 |
| | **Total** | **76** | **100** |
| SIDO Supported | Female | 15 | 12 |
| | Male | 109 | 88 |
| | **Total** | **127** | **100** |

**4.1.1.2 Age of the firm owner**

With respect to age, the study found that the mean age was 41 and 37 years for furniture importers and SIDO supported small scale furniture manufacturers respectively. Details are given in Table 9. This shows that furniture importers were older compared to SIDO supported small scale furniture manufacturers. This might be attributed to the fact that furniture manufacturing industry requires labour intensive compared to furniture import industry. Thus, it entails engagement of more youths in small scale furniture manufacturing industries. This reflects findings from other studies which show that the entrepreneurs who engaged in small scale business activities were aged between 25 and 40 years of age ages (Mlingi 2000; Isaga, 2012).

**Table 9:** **Age of the firm owner (furniture importers and SIDO supported firms)**

| Type of Business | n | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Furniture Importers | 76 | 29.00 | 55.00 | 40.85 | 8.81 |
| SIDO Supported | 127 | 24.00 | 53.00 | 37.17 | 6.45 |

**4.1.1.3 Household size**

With regard to household size, results in Table 10 show that the mean household size for furniture importers was 4.0 while for SIDO supported small scale furniture manufacturers was 5.0. This means that household size for furniture importers was slightly smaller than that of their counterparts. This implies that the dependence ratio is high to SIDO supported furniture manufacturing compared to furniture imported industries. This may be attributed to the fact that the source of labour was mainly drawn from relatives or from hired persons living under the same roof with the firm owner. This is similar to other studies which observed that, traditionally, African' families prefer having extended families to create a pool of household labour for household income generating activities (Kumburu *et al.,* 2013) as the use of family labour ensures cost effective.

**Table 10:** **Description of respondents by household size**

| Type of Business | n | Minimum | Maximum | Mean | Std. Dev |
|---|---|---|---|---|---|
| Furniture Importers | 76 | 1.00 | 5.00 | 4.0 | 0.97585 |
| SIDO Supported | 127 | 2.00 | 9.00 | 5.0 | 1.38795 |

**4.1.1.4 Education level of the firm owner in terms of years schooling**

With regard to education level, the results showed that, on average the years spent in school were 14 and 9 for furniture importers and SIDO supported small scale furniture manufacturers, respectively. Table 11 presents the results; the results show that, on average, furniture importers completed secondary education level whereas SIDO supported small scale manufacturers had completed primary education plus vocation training. This means small scale furniture manufacturers need basic education to perform their work. In other words, it does not need special skills or high education to create furniture; it rather requires creativity in creating one that uses good quality materials, attractive design and practical functions. This may be due to the fact that most of small scale furniture industries are highly domestic and intensive in labour requirements. High education is not the only determinant of firm success, but rather creativity and innovation can bring positive changes in the industry (Isaga, 2012). In contrary, a study done by Xiaowei & Zhang (2010) found that owner educational level had a positive effect on firm operation and market performance.

**Table 11:     Education level of owner in years schooling**

| Type of Business | n | Minimum | Maximum | Mean | Std. Dev |
|---|---|---|---|---|---|
| Furniture Importers | 76 | 11.00 | 17.00 | 14.0 | 1.79070 |
| SIDO Supported | 127 | 7.00 | 16.00 | 9.0 | 2.77342 |

**4.1.1.5 Income level**

On the aspect of income, the study found that, on average, monthly income was TZS 30 109 589 and TZS 1 755 200 for furniture importers and SIDO supported small

scale furniture manufacturers, respectively. This indicates that the volume of sales for furniture importers was higher than that of SIDO supported furniture manufacturers. That is furniture importers earn more compared to SIDO supported small scale furniture manufacturers. This might be attributed to the fact that the cost of importing and selling furniture is low compared to the furniture manufacturing within the country. It may also be due to the fact that consumers prefer more imported furniture and thus pay premium price compared to locally made furniture. For details see Table 12.

**Table 12: Description of respondents by monthly income level and source in TZS**

|  | Furniture Importers | SIDO Supported | Dar es Salaam | | Arusha | |
|---|---|---|---|---|---|---|
|  |  |  | Importers | SIDO Manufacturers | Importers | SIDO Manufacturers |
| Minimum | 1,000,000 | 150,000 | 1,000,000 | 150,000 | 1,000,000 | 250,000 |
| Maximum | 250,000,000 | 9,000,000 | 250,000,000 | 9,000,000 | 250,000,000 | 7,000,000 |
| Mean | 30,109,589 | 1,755,200 | 29,547,169 | 1,729,487 | 31,600,000 | 1,797,872 |
| **Std. Deviation** | 47,123,526 | 1,879,493 | 45,518,198 | 1,958,505 | 52,357,475 | 1,760,309 |

Furthermore, on the aspect of location, the analysis (Table 12) indicates that though the volume of sales was low in Arusha as compared to Dar es Salaam which had a large number of furniture industries, the average income for importers and SIDO supported furniture manufacturers was slightly high. This might be attributed to difference in selling price for furniture (both imported and domestic made) between Arusha and Dar es Salaam. In Dar es Salaam, selling price might be lowered because of stiff competition among furniture manufacturers as well as furniture importers. Rijkers *et al*. (2009) confirmed that location may affect firm performance through its impact on efficiency of production costs, and through its impact on the

firm's operative decisions (involving input choices, technology adoption and enterprise size, for example).

### 4.1.2 Characteristics of SIDO supported small scale furniture industries

The socio-economic characteristics of the furniture firms were recorded in the context of management of the firm, position, age, start-up capital, number of employees, form of ownership, legal status and marketing model as presented in Section 4.1.2.1 to 4.1.2.8.

### 4.1.2.1 Management of the furniture enterprises

Concerning management in furniture enterprises, it was found that, for furniture importers only 4% were manager employees and 96% were manager owner. For SIDO supported small scale furniture manufacturers, only 2% were manager employees and 98% were manager owners. This indicates that the majority of the firm owners in the study areas took the managerial responsibilities. This implies that the manager position in this context was being personalized rather than being institutionalized, which could affect the competitive advantage of the firm. For details, see Table 13.

**Table 13:    Description of Respondents by position in the firm**

| Type of Business | Position in the firm | Frequency | Percent |
|---|---|---|---|
| Furniture Importers | Manager employee | 3 | 3.9 |
| | Manager owner | 73 | 96.1 |
| | **Total** | **76** | **100.0** |
| SIDO Supported | Manager employee | 3 | 2.4 |
| | Manager owner | 124 | 97.6 |
| | **Total** | **127** | **100.0** |

This finding is consistent with the RBV theory that argues that a firm's management plays an important role in the process of developing a match between the firm's resources and the success factors in the industry (Fahy, 2000)

### 4.1.2.2 Age of firm

On average, furniture importing firms had been operating for seven years whereas SIDO supported small scale manufacturing firms had been operating for nine years. This indicates that SIDO supported furniture industries had been operating for a longer period compared to their furniture counter-parts. This reveals that locally made furniture are still demanded by the domestic market. Length of time in operation may be associated with availability of the market for selling furniture products. Kristiansen *et al*. (2003) found that length of time in operation was significantly linked to business success. For details see Table 14.

**Table 14:   Age of firm**

| Type of Business | n | Minimum | Maximum | Mean | Std. Dev |
|---|---|---|---|---|---|
| Furniture Importers | **76** | 3.00 | 12.00 | 7.1447 | 2.66685 |
| SIDO Supported | **127** | 4.00 | 21.00 | 8.7087 | 3.25896 |

### 4.1.2.3 Sources of firm start-up capital

With regard to sources of capital, the researcher thought it would be important to establish sources of start-up capital. The results show that, for furniture importers, the main source of capital was bank loan (36.6%), followed by family contribution (19.6%). Others sources were personal savings (16.3%) inherited business (11.8%), SACCOS (9.2%) and inherited cash from parents (5.2%). For SIDO supported small

scale furniture manufacturers the main source of capital was from personal savings (54.5%), followed by SACCOS (16%). Others were minor sources which contributed to 29.5%. This implies that unlike importers of furniture where the majority of whom had secured their start-up capital from bank, the majority of SIDO supported small scale manufacturers depended on their proprietors' or personal savings for their initial capital, and only 3.8% percent had obtained loans from banks loan. The conclusion drawn from this was that SIDO supported small scale furniture manufacturers obtained their initial capital mainly from informal sources, which could account for the small size and earnings of these enterprises as compared to furniture importers.

**Table 15:    Sources of capital**

| Sources of Capital | Percent of Respondents | |
| --- | --- | --- |
| | **Furniture Importers** | **SIDO Supported** |
| Family contribution | 19.6 | 5.6 |
| Personal savings | 16.3 | 54.5 |
| Borrowed from SACCOS | 9.2 | 16.0 |
| Upatu | 1.3 | 0.9 |
| Bank loan | 36.6 | 3.8 |
| Inherited business | 11.8 | 7.5 |
| Inherited cash from parents | 5.2 | 6.1 |
| FINCA, PRIDE & CEDA | | 5.6 |
| Total | **100** | **100** |

A study by Paul and Wasihun (2010) found that the main source of finance for small and medium scale enterprises in Arada and Lideta was personal saving, followed by other traditional sources like, family and friends/relatives. In addition, informal sources played a greater role in establishment of small and medium scale enterprises than the formal sources like microfinance and banks. Similarly, FAO (2005)

observed that furniture production is largely done by small and medium size enterprises using simple technology and technical know-how, coupled with low capital input. For the details see Table 15.

### 4.1.2.4 Start-up and current capital of the firm in TZS

The results showed that the average start-up capital for furniture importers was TZS 91 428 000 whereas the mean start-up capital for SIDO supported small scale furniture manufacturers was TZS 29 240 000. This implies that SIDO supported manufacturers' started their business with low capital compared to their importers counterparts. The lower start-up capital is fairly plausible as the source of capital for the majority was mainly from personal savings. This is in line with Alao and Kuje (2012) who observed that furniture production is largely done by small and medium size enterprises using simple technology and technical know-how coupled with low capital input.

**Table 16:  Start-up and current capital (in '000')**

| | Furniture Importers | | SIDO Supported | | Dar es Salaam Importers | | SIDO Manufacturers | | Arusha Importers | | SIDO Manufacturers | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Start-up | Current | Start-up | Current | Start-up | Current | Start-up | Current | Start-up | Current | Start-up | Current |
| Min | 10000 | 15000 | 5000 | 15000 | 10000 | 15000 | 7000 | 15000 | 10000 | 15000 | 5000 | 15000 |
| Max | 100000 | 200000 | 50000 | 90000 | 100000 | 200000 | 50000 | 90000 | 100000 | 200000 | 50000 | 80000 |
| Mean | 91428 | 172132 | 29240 | 70110 | 88846 | 161192 | 17295 | 75455 | 98889 | 187500 | 17980 | 66365 |
| St..d | 42975 | 80614 | 3282 | 9888 | 44759 | 84281 | 1958 | 11803 | 42928 | 78745 | 1760 | 4655 |

Location-wise, the findings indicate that the start up capital for furniture importers in Dar es Salaam was 88 846 000 and TZS 98 889 000 in Arusha. Further, the study indicated that start up capital for SIDO supported small scale industries  in Dar es

salaam was TZS 17 295 000 and TZS 17 980 000 in Arusha. The start up capital for Arusha was a bit higher than that in Dar es Salaam in both aspects; this might be attributed to the fact that Arusha is located in remote areas and therefore there is high cost of furniture manufacturing materials compared to Dar es Salaam which is the entry point of most of the imports.

**4.1.2.5 Number of employees**

The number of employees was measured by the total number of full-time as well as part-time employees. The results show that the mean number of employees for furniture importers was six whereas the mean number of employees for SIDO supported manufacturers was three. This means furniture importers had a larger number of employees compared to SIDO supported counterparts. As the size of the micro-enterprises became bigger (i.e. in terms of the number of employees), more profits were expected to be realized. This may be attributed to the fact that bigger enterprises can produce and sell more thus they may be able to enjoy the economies of scale from bulk purchasing. Akande *et al.* (2011) noted that increase in the quality and quantity of factors of production such as capital, equipment, and machinery; and employing more workers will invariably increase profitability through expansion. Although Chandy and Tellis (2000) argued that bigger firms are less adaptive and flexible and less able to change their resource base, a positive result may not be unexpected. Table 17 presents the results.

**Table 17:    Number of employees**

| Type of Business | n | Minimum | Maximum | Mean | Std. Dev |
|---|---|---|---|---|---|
| Furniture Importers | 76 | 3.00 | 12.00 | 6.3553 | 2.62147 |
| SIDO Supported | 127 | .00 | 6.00 | 3.0079 | 1.24897 |

### 4.1.2.6 Form of ownership

It was also important to assess forms of ownership of the firm. The results showed that all of furniture importers firm were sole proprietor while for SIDO supported 89% were sole proprietor and 11% were partners. This implies that sole proprietorship was the main form of ownership for the three categories of respondents. This might be attributed by the fact that most of these firms were introduced to the entrepreneurs themselves and that ownership of the firms was mainly proprietorship. Furthermore, as noted by Atsede *et al.* (2008), sole proprietorship firms have a greater incentive to pursue risky projects and therefore expect higher profits and growth rates than other firms. For details see figure 10.



| | Sole proprietorship | Partnership |
|---|---|---|
| Furniture importers | 100% | |
| SIDO supported | 89% | 11% |
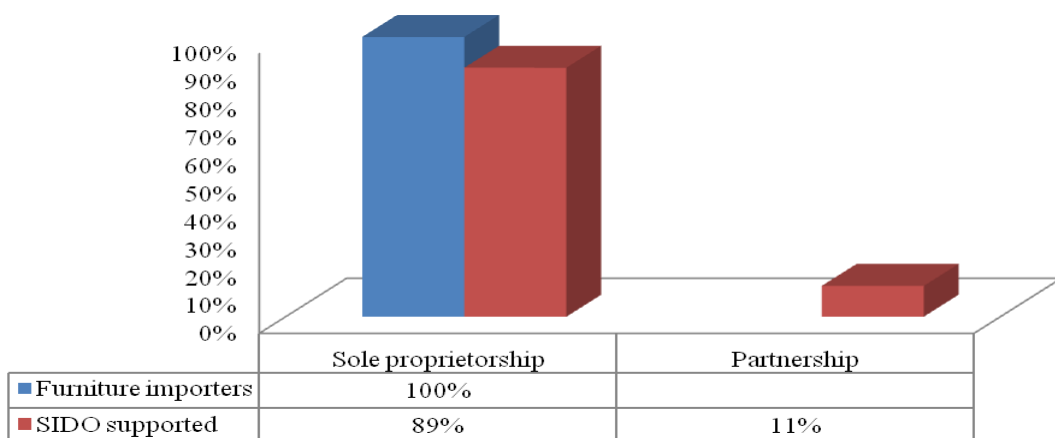
**Figure 10:    Forms of firm ownership**

**4.1.2.7 Legal status of the firm**

With respect of legal status, the results showed that all of furniture importers were registered and had tax identification numbers (TIN) whereas for SIDO supported small scale furniture manufacturing firms 98.4% were registered and had TIN numbers. This indicates that most of SIDO supported firms and the furniture importers firms were formally registered. This implies that the furniture industries surveyed were all subjected to government tax, and therefore they contributed to GDP. For details see Table 18.

**Table 18:        Legal status of the firm**

| Type of Business | Registration Status | | Total |
| --- | --- | --- | --- |
| | Not Registered | Registered | |
| Furniture Importers | 0 | 76 | 76 |
| | 0.0% | 100.0% | 100.0% |
| SIDO Supported | 2 | 125 | 127 |
| | 2.6% | 98.4% | 100.0% |
| **Total** | 2 | 201 | 203 |
| | 1% | 99% | 100.0% |

**4.1.2.8 Furniture marketing**

The study went further to establish marketing models used for furniture produced by SIDO supported small scale furniture manufacturers. The findings indicated that the majority, 70%, of the respondents produce furniture mainly for sale followed by 18% who produced for contract. This implies that those who produced for sale normally sold to individual customers who were the majority, while those who sold on contract normally got money from the contractee who owned furniture importing firms to produce furniture in the design determined by them and in most cases by imitating the designs of imported furniture (Fig. 11).
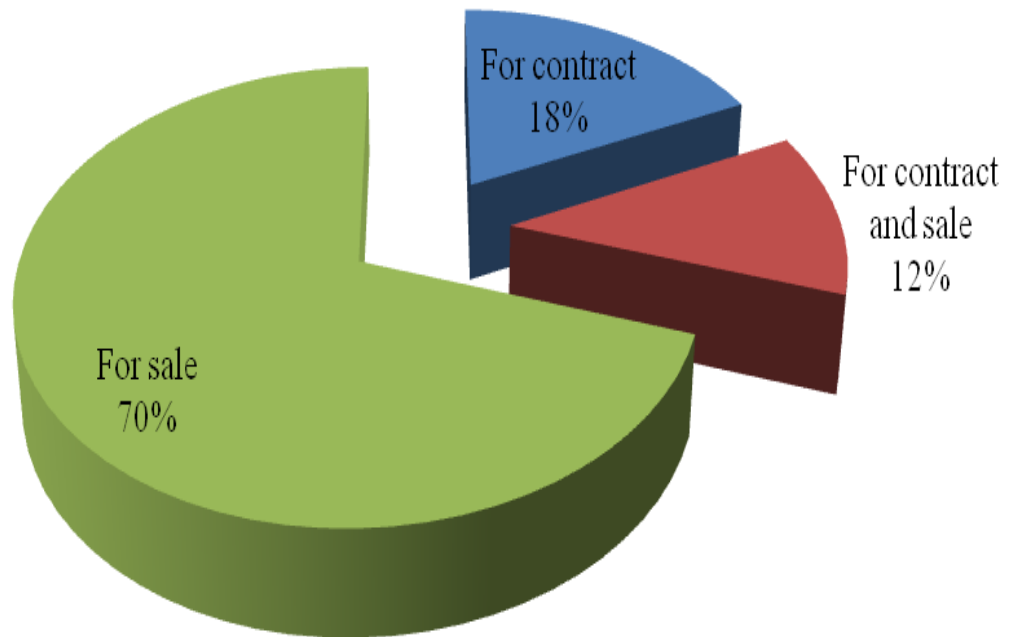
**Figure 11:   Furniture Marketing**

It was also thought important to establish forms of selling used by SIDO supported small scale furniture manufacturers and it was found that 87% sold the furniture produced on a cash basis and only 13% sold their furniture on credit. This implies that, since the majority sold on cash, they were assured of cash income throughout the year and that income was normally used to reinvest on business as their main source of capital was from personal savings (Fig. 12).
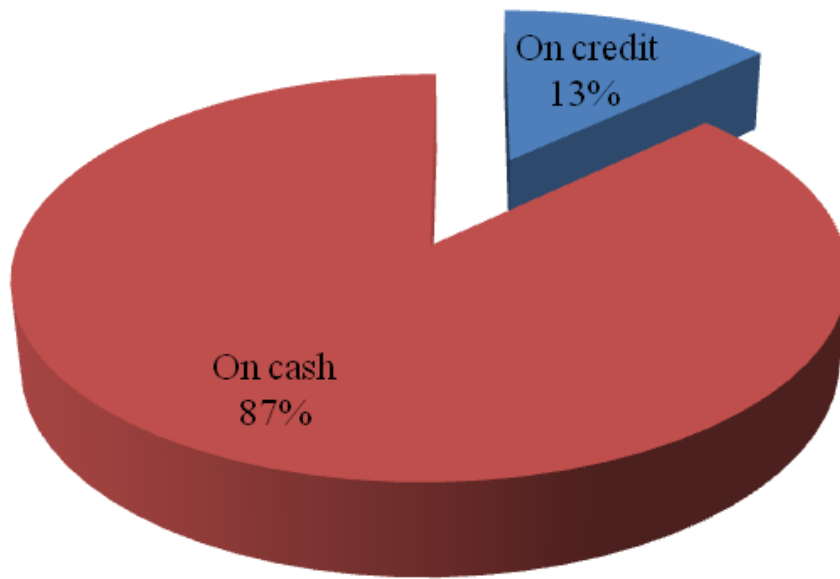
**Figure 12:** **Form of selling**

## 4.2 Profitability Analysis of the Furniture Industry in Tanzania

### 4.2.1 Type of furniture sold and gross revenue per month

The results (Table 19) indicate that the mean gross revenues were TZS 12,712,258.02 and 51,181,780.02 for SIDO supported small scale furniture and imported furniture industries, respectively. This means that gross revenue for SIDO supported small scale industries was lower than that of imported furniture. They might be so because of low volume of sales as well as low prices for furniture items produced by SIDO supported small scale industries.

**Table 19:    Furniture sold and gross revenue per month**

| Type of Furniture | Locally Made Furniture | | | Imported Furniture | | |
|---|---|---|---|---|---|---|
| | Unit Price | Number of Items Sold per Month | Gross Revenue | Unit Price | Number of Items Sold per Month | Gross Revenue |
| Sofa | 1,582,020.3 | 2 | 3,164,040.66 | 2,925,553.00 | 4 | 11,702,212 |
| Cabinet | 1,298,589.8 | 3 | 3,895,769.37 | 2,472,336.86 | 5 | 12,361,684.3 |
| Dining Table | 789,957.56 | 2 | 1,579,915.12 | 2,359,533.24 | 4 | 9,438,132.96 |
| Coffee table | 494,928.71 | 5 | 2,474,643.55 | 1,539,413.73 | 4 | 6,157,654.92 |
| Bed | 798,944.66 | 2 | 1,597,889.32 | 2,880,523.96 | 4 | 11,522,095.84 |
| **Total** | | **14** | **12,712,258.02** | | **21** | **51,181,780.02** |

## 4.2.2    Cost of furniture production per month

The findings (Table 20) show that mean total variable costs were TZS 7 056 579 and TZS 29 043 742 for SIDO supported small scale furniture manufacturers and furniture importers correspondingly. Likewise, the mean fixed cost for SIDO supported furniture manufacturers were TZS 2 044 869, and the mean fixed cost for furniture importers were TZS 4 986 667 as well. This reveals that SIDO supported furniture manufacturers had lower cost of production compared to furniture importers, *ceteris paribus*. This is due to the fact the volume of business handled by SIDO supported furniture manufacturers is lower compared to their counterparts.

**Table 20:** **Cost of furniture production per month**

| Item | SIDO Supported | Furniture Importers | Dar es Salaam | | Arusha | |
|---|---|---|---|---|---|---|
| | | | SIDO Supported | Furniture Importers | SIDO Supported | Furniture Importers |
| **VC** | | | | | | |
| Timber | 2,599,786 | 0 | 2,697,436 | 0 | 2,641,104 | 0 |
| Nail | 40,397 | 0 | 70,910 | 0 | 142,813 | 0 |
| Adhesive | 54,048 | 0 | 80,462 | 0 | 146,875 | 0 |
| Clothing | 1,675,794 | 0 | 2,000,000 | 0 | 1,500,000 | 0 |
| Electricity | 269,291 | 351,333 | 375,513 | 337,037 | 262,444 | 388,095 |
| Polish | 46,556 | 0 | 50,051 | 0 | 95,000 | 0 |
| Labour | 1,794,278 | 4,012,000 | 1,785,897 | 7,498,148 | 1,882,896 | 3,033,334 |
| Transport 1 | 576,429 | 0 | 614,759.9 | 0 | 613,834.6 | 0 |
| Transport 2 | 0 | 2,434,000 | 0 | 6,070,370 | 0 | 2,904,762 |
| Furniture buying | 0 | 15,253,333 | 0 | 33,129,629 | 0 | 12,571,428 |
| Import tax | 0 | 6,993,076 | 0 | 11,214,615 | 0 | 8,423,402 |
| **TVC** | 7,056,579 | 29,043,742 | 7,675,028.9 | 58249799 | 7,284,966.6 | 27,321,021 |
| **FC (Depreciation at 20% salvage value)** | | | | | | |
| Knives | 25,310 | 0 | 34,310 | 0 | 42,979 | 0 |
| Hammer | 33,139 | 0 | 36,739 | 0 | 45,333 | 0 |
| Rent | 199,979 | 4,447,667 | 250,000 | 4,581,340 | 280,333 | 4,434,381 |
| Spraying machine | 543,016 | 0 | 867,200 | 0 | 634,708 | 0 |
| License | 0 | 539,000 | 0 | 619,000 | 0 | 544,000 |
| Toolkit | 1,054,600 | 0 | 1,267,250 | 0 | 1,308,001 | 0 |
| Saw | 57,095 | 0 | 69,895 | 0 | 75,792 | 0 |
| Jack plane | 60,746 | 0 | 108,746 | 0 | 144,063 | 0 |
| Chisel | 70,984 | 0 | 137,968.9 | 0 | 146,666 | 0 |
| **TFC** | 2,044,869 | 4,986,667 | 2,772,108.9 | 5,200,340 | 2,677,875 | 4,978,381 |
| **VC+FC** | **9,101,448** | **34,030,409** | **10,447,137.80** | **34,703,578** | **9,962,841.6** | **32,299,402** |

### 4.2.3 Budgetary analysis

Profits of furniture industries were determined using budgetary analysis in order to identify cash flows and costs associated with furniture production as well as the profit realized from sales of furniture items. The results showed that a mean net income of TZS 3 610 810 was generated for SIDO supported small scale industries and TZS 17 151 371 for furniture importers (Table 21). This suggests that furniture importers net income per month is higher than SIDO supported small scale furniture industries. This is due to the fact that the number of furniture items sold by SIDO supported small scale furniture industries was small compared to their counterparts. This may be so because sales mechanisms were probably determined to favour only customers available in respective area. This confirmed the statement by Scherer (1980) that profitability is not solely a function of costs. Profitability reflects the overall suitability of firm's size in relation to its market environment and not just production and cost.

On the aspect of geographical location, the findings indicate that the mean gross revenues for SIDO supported small scale industries were TZS 14 586 474.6 in Dar es Salaam and TZS 13 101 629 in Arusha. The mean total costs were TZS 10 447 137.80 and TZS 9 962 841.6 in Dar es Salaam and Arusha respectively whereas the net income was TZS 4 139 336.80 in Dar es Salaam and 3 138 787 in Arusha. On the other hand, the findings indicated that the mean gross revenues for imported furniture were TZS 55 256 854.02 in Dar es Salaam and TZS 42 145 875.52 in Arusha. The mean total costs were TZS 34 703 578 and TZS 32 299 402 in Dar es Salaam and Arusha respectively whereas the net income was TZS 20 553 276 in Dar

es Salaam and TZS 9 846 473.52 in Arusha (Table 21). This suggests that imported furniture industries were making more profit compared to domestic furniture industries across the cities, but a bit high profit was obtained in Dar es Salaam. The possible reason might be higher preference for imported furniture compared to domestic furniture. Furthermore, the profit realized by SIDO supported the finding that small scale industry in Dar es Salaam was slightly higher compared to Arusha. This may be associated with the fact that Dar es Salaam is a much more prosperous city compared to Arusha; therefore, it is likely that people in Dar es Salaam have more income compared to their counterparts of Arusha.

**Table 21:  Budgetary analysis of furniture industries**

| Item | | SIDO Supported | Furniture Importers | Dar es Salaam | | Arusha | |
|---|---|---|---|---|---|---|---|
| | | | | SIDO Supported | Furniture Importers | SIDO Supported | Furniture Importers |
| Gross Revenue | | 12,712,258 | 51,181,780 | 14,586,474.6 | 55,256,854.02 | 13,101,629 | 4,214,587,5.52 |
| Operational costs | | | | | | | |
| | TVC | 7,056,579 | 29,043,742 | 7,675,028.9 | 29,503,238 | 7,284,966.6 | 27,321,021 |
| | TFC | 2,044,869 | 4,986,667 | 2,772,108.9 | 5,200,340 | 2,677,875 | 4,978,381 |
| | VC+FC | 9,101,448 | 34,030,409 | 10,447,137.80 | 34,703,578 | 9,962,841.6 | 32,299,402 |
| **Net income** | | **3,610,810** | **17,151,371** | **4,139,336.80** | **20,553,276** | **3,138,787** | **9,846,473.52** |

### 4.2.4   Rate of return on investment analysis

Table 22 shows the performance analysis of the SIDO supported and imported furniture industries. The results show that imported furniture had higher return on investment than SIDO supported small scale furniture. The SIDO supported small-scale furniture industries obtained 37% return on a shilling invested while the

imported furniture industries obtained 52% return on a shilling invested. This is an indication of the fact that imported furniture industries were able to minimize operating expenses better than SIDO supported small scale furniture industries, probably due to economies of size.

**Table 22: RORI analysis of SIDO supported small scale furniture and imported furniture industries**

| Item | SIDO Supported | Furniture importers | Dar es Salaam | | Arusha | |
|---|---|---|---|---|---|---|
| | | | SIDO Supported | Furniture importers | SIDO Supported | Furniture importers |
| Gross revenue | 12,712,258 | 51,181,780 | 14,586,474.6 | 55,256,854.02 | 13,101,629 | 42,145,875.52 |
| Gross profit (GR-VC) | 5,655,679 | 22,138,038 | 15,527,115 | 27,454,829 | 14,039,962 | 15,450,408 |
| TC | 9,101,448 | 34,030,409 | 10,447,137.80 | 34,703,578 | 9,962,841.6 | 32,299,402 |
| Net profit (GR-FC | 3,610,810 | 17,151,371 | 4,139,336.80 | 20,553,276 | 3,138,787 | 9,846,473.52 |
| Rate of Return on Investment TR-TC/TC x 100 | 37% | 52% | 40% | 59% | 31% | 30% |
| Profitability Index PI=NI/TC | 0.3701 | 0.5159 | 0.3962 | 0.5922 | 0.3150 | 0.3048 |

The results (Table 22) further show that the profitability indices for SIDO supported small scale and imported furniture industries were 0.3701 and 0.5159, respectively. This implies that for every shilling earned as revenue from each of the different categories of furniture industries, 37 cents and 52 cents returned to the two categories of furniture industries as net income, respectively. This reveals that although SIDO supported small scale industries were making profit, but it was lower than imported furniture industries. This is an indication that the profit made by these

categories of furniture industries may be as a result of many factors, such as operational costs, marketing strategies and volume of sales among others. This might be so because of size of an industry.

With regard to the cities, results indicated that SIDO supported small scale industries in Dar es Salaam and Arusha earned 40% and 31% profit from every shilling invested correspondingly. Likewise, imported furniture industries in Dar es Salaam and Arusha earned 59% and 30%, respectively. This is an indication that furniture industries in Dar es Salaam city, regardless of their categories, generate more profit compared to their counterparts in Arusha city. It is of interest also to note that for every shilling invested in furniture business, SIDO supported small scale in Arusha earning 0.31 cent as net income, a figure which is slightly higher than that of imported furniture in Arusha (0.30 cent). This implies that some domestic furniture items are preferred compared to imported items. This might be so because of pricing methodology which favours customers in terms of their affordability. From the above analysis and discussion, it is clearly shown that competitive advantage of SIDO supported small scale furniture manufacturers is low compared to furniture importers counterparts. From Porter's view, a firm has competitive advantage when it is able to create more economic value than its rivals (Porter, 1998). In this regard, imported furniture firms have more competitive advantage than locally made furniture because of having lower unit cost of production and a considerable return on investment.

**4.2.5   T-test**

**4.2.5.1 Test of assumption of normality**

Normality of data was tested using Shapiro-Wilk (S-W) test in order to ensure sampling distribution is normally distributed (or at least approximately) in both groups (SIDO supported small scale manufactures and importing furniture firms). S-W is reckoned appropriate for samples ranging from 50 to 2000. The sample size of 203, S-W test was appropriate for this study. Table 23 presents a summary of the results.

**4.2.5.2 Assumption of Homogeneity of Variances**

In order to check this assumption, Levene's test of Homogeneity of Variances was applied, Levene's test of Equality of Variances revealed that the variances of two groups under consideration i.e. SIDO supported small scale industries and imported furniture firms was not violating the assumption of homogeneity of variances as the probability of error for these firms under study was found to be > 0.05 (Table 20). Therefore, difference in the mean RORI values of two firms can be checked through application of independent sample t test.

**4.2.5.3   Test for difference in Profitability of SIDO supported small scale and imported furniture industries**

Results of t-test further (Table 23) show that there was a statistical significant difference in terms of RORI between SIDO supported small scale and imported furniture industries (t = 3.23  at p < 0.05). The implication of these findings suggests that profitability of SIDO supported small scale manufacturers and importing

furniture firms differed significantly. In light of these results, the null hypothesis is rejected and the alternative hypothesis is confirmed. From these results, it can be concluded that SIDO supported small scale manufacturing industries are viable by business, although their Rate of return is small compared to that of importing furniture firms. This is probably because of difference in level of scale in the market operation. This is supported by Alao and Kuje (2012), and Alao and Popoola (2002) who observed that a positive RORI indicates that a venture is viable.

**Table 23:    T-test for Independent Samples**

| Variable | Variances | Levene's Test for Equality of Variances | | t-test for equality of means | |
|---|---|---|---|---|---|
| | | F | Sig. | t | sig. 2-tailed |
| RORI | Equal variances assumed | 0.608 | 0.304 | 3.234 | 0.000 |
| | Equal variances not assumed | | | | |
| | **Shapiro-Wilk** | | | | |
| | **Statistic** | **df** | **Sig.** | | |
| | 0.917 | 203 | 0.000 | | |

*P < 0.05\**

## 4.3    Determinants of Consumers' Willingness to Pay

### 4.3.1   Local and imported furniture preference

Table 24 gives a summary of descriptive statistics on percent of furniture preferred by customers. The statistics show that 58.2% preferred to buy imported furniture whereas 41.8% preferred locally made furniture. This implies that imported furniture was more preferred to locally made furniture. Further, when tested using chi-square, the results showed that there was a difference in furniture preference between locally

made and imported furniture ($\chi^2 = 3.61$). The reasons might be that foreign products were much more in the minds of the customers compared to locally made products. This may be associated with the design appearance, quality as well as wider choice. This is in line with findings of a study conducted by Domie (2013) who observed that the majority of consumers prefer foreign brands. From Porter's point of view, product brand name plays a crucial role in determining firm's competitive advantage. Likewise, as depicted in Consumers' Utility Theory, consumers opt to choose products which give them maximum utility because of its quality, design and price.

**Table 24:    Local and imported furniture preference**

| Type of Furniture | Frequency | Percent | Chi-Square |
|---|---|---|---|
| Imported furniture | 78 | 58.2 | 3.61 |
| Locally made furniture | 56 | 41.8 | |
| **Total** | **134** | **100** | |

$p < 0.05$

With regard to location, a comparative analysis was done between the two cities of the study area. The results as shown in Table 25 indicate that 61% and 53% reported to buy imported furniture in Dar es Salaam and Arusha respectively. Correspondingly, 39% and 47% preferred to buy locally made furniture. The results suggest that the preference of imported furniture across the cities is high, Dar es Salaam being the leading city. This implies that the frequency of buying furniture products from abroad is higher in Dar es Salaam compared to Arusha, as may be associated to style conscious, appearance and prestige.

**Table 25: Consumers preference across the cities**

| Preference | Dar es salaam | | Arusha | |
|---|---|---|---|---|
| | **Frequency** | **%** | **Frequency** | **%** |
| Imported furniture | 53 | 61 | 25 | 53 |
| Locally Made | 34 | 39 | 22 | 47 |
| **Total** | **87** | | **47** | |

This is in line with findings of a study done by Khattak and Shah (2011) who found that consumers in big cities consider the imported products as of high value and they feel pride when consuming those products.

### 4.3.2 Binary logistic regression analysis

The binary logistic regression models were estimated to identify determinants of consumer's preference of locally made and imported furniture. In these models, preference was specified as 1 if prefers to buy locally made and 0 if doesn't prefer to buy locally made furniture and 1 if prefers to buy imported furniture and 0 if doesn't prefer to buy imported furniture. The overall significance of the model was assessed using Omnibus Tests of Model Coefficients which produced a Chi-square of 126.633; a p-value of 0.000 for locally made and 50.478; Sig. = 0.000 for imported furniture. Furthermore, the Hosmer and Lemeshow Test with Chi-square equals to 5.402, significant at 0.714 for locally made and of 3.587, significant at 0.802 for imported furniture were established. The two measures together indicated that the models of the consumer preference were more suitable to the data. Results also indicated that -2log likelihood of 55.502, Cox & Snell R Square of 0.611 and Nagelkerke $R^2$ of 0.823 indicated a strong relationship between prediction and grouping for locally made furniture (Table 26). Again, data indicated a-2log

likelihood of 257.888, a Cox & Snell R Square of 0.556, and a Nagelkerke $R^2$ of 0.831, showed a strong relationship between prediction and grouping for imported furniture (Table 23).

Generally, the results of the binary regression indicated that seven variables (education, price, design, quality, age, income and household size) had significant influence on furniture preference for locally made and imported furniture. Overall, the models significantly predicted 82% for locally made and 83% for imported furniture of the variations in response to furniture preference at p = 0.000. From Customers' Utility Theory point of view, consumers are willingness to pay more for the type of furniture that maximizes utility, in which the best choice is the one that provides the highest utility, given relative price, income design, quality and thus its competitive advantage. The details of the findings are discussed in sub-sections 4.4.2.1 to 4.4.2.9.

**Table 26: Determinants of consumer preferences**

| Variable | For Locally Made furniture | | | | | | For imported Furniture | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | B | S.E. | Wald | Df | Sig. | Exp(B) | B | S.E. | Wald | Df | Sig. | Exp(B) |
| Education | -8.832 | 6.243 | 2.001 | 1 | 0.057 | 0.196 | 0.246 | 0.157 | 16.781 | 1 | 0.001 | 1.279 |
| Residential location | 1.365 | 1.176 | 1.349 | 1 | 0.245 | 3.918 | 0.558 | 0.343 | 9.562 | 1 | 0.012 | 1.823 |
| Price | -5.125 | 1.196 | 18.356 | 1 | 0.000 | 0.006 | 0.601 | 0.319 | 5.321 | 1 | 0.013 | 1.824 |
| Design | -4.725 | 1.118 | 17.875 | 1 | 0.000 | 0.069 | 0.247 | 0.190 | 4.776 | 1 | 0.016 | 1.280 |
| Quality | -1.630 | 0.418 | 15.213 | 1 | 0.000 | 0.196 | 0.211 | 0.002 | 6.582 | 1 | 0.012 | 1.235 |
| Age | -1.761 | 0.356 | 4.579 | 1 | 0.032 | 0.032 | 0.458 | 0.259 | 11.234 | 1 | 0.002 | 1.580 |
| Occupation | 0.091 | 0.085 | 1.169 | 1 | 0.280 | 1.096 | 0.389 | 0.283 | 6.287 | 1 | 0.011 | 1.475 |
| Annual income | 0.345 | 0.085 | 16.652 | 1 | 0.000 | 1.412 | 3.310 | 1.027 | 10.394 | 1 | 0.001 | 27.394 |
| Household size | 0.986 | 0.278 | 12.541 | 1 | 0.000 | 0.373 | -1.761 | 0.356 | 4.579 | 1 | 0.032 | 0.467 |
| Constant | 66.151 | 14.252 | 21.543 | 1 | 0.000 | 5375+28 | -16.42 | 1.193 | 22.085 | 1 | 0.000 | 0.000 |

- Omnibus Tests of Model Coefficients (Chisquare= 126.633; Sig.= 0.000);

- Log likelihood = 55.502[a]; Cox & Snell R Square = .611; Nagelkerke R Square = 0.823

- Hosmer and Lemeshow test (Chisquare = 5.402; Sig.= 0 .714);

- Dependent variable : Furniture preference = Binary: Y = 1 if prefer to buy locally made furniture, Y = 0 if prefer not to buy local furniture

- Omnibus Tests of Model Coefficients (Chisquare = 50.478; Sig. = 0.000);

- Log likelihood = 257.888; Cox & Snell R Square =
- .556 ; Nagelkerke R Square = 0.831
- Hosmer and Lemeshow test (Chisquare = 3.587; Sig.= 0.802);

- Dependent variable : Furniture preference = Binary: Y = 1 if prefer to buy Imported furniture, Y = 0 if prefer not to buy imported furniture

**4.3.2.1   The influence of education on furniture preferences**

The Wald criterion demonstrated that education which was tested at p < 0.05 is a significant contributor in determining furniture preferences. The results were statistically significant at Wald 2.001; Exp (B) = 0.196 and B = -8.832 (p < 0.047) for locally made and Wald 16.781; Exp (B) = 1.279 and B = 0.246 (p < 0.001) for imported furniture. The negative sign (B = -8.832) indicates that locally made furniture preference was best predicted with consumers whose education levels of education were lower than those with higher education. On the other hand, an increase in the level of education increases the chances for consumers to prefer imported furniture. The possible explanation may be due to the reason that educated respondents may have higher income because they higher chances to get job opportunities and thus may opt for fashionable imported furniture. This is in line with a study done by Domie (2013) who found that highly educated consumers showed high preference for modern design and paid much attention to finish detail. The findings reject the findings of Birch *et al*. (2004) and Fletcher *et al*. (1990*)* who indicated that socio-demographic factors were weakly linked to explaining consumer preferences while product characteristics were much more important in preference considerations.

**4.3.2.2   The influence of price on furniture preferences**

Logistic regression analysis was also conducted to predict how price of furniture impacted the preference. The results were statistically significant at Wald criterion of 18.356 and 5.321, Exp (B) = 0.006 and 1.824; B = -5.125 (p < 0.000) and 0.601(p < 0.013) for locally made and imported furniture respectively. The results show that with decrease in price, consumers' preference to locally made furniture was 0.006

times more, which means that consumers' preference with imported furniture increased with increase with price. This might be due to the fact that individual's satisfaction is related to the amount of income earned. Thus, less or middle income earners would prefer furniture with low price. This is so probably because they need to save money for other expenditures. This is supported by findings of a study conducted by Kizito (2009) who observed that consumer satisfaction decreased with increase in price, especially among less educated people who earned lower income. Thus, it can be said that furniture consumers' decision on which type to buy is subjected to the available income and the prices of the furniture.

### 4.3.2.3 The influence of design on furniture preferences

Furniture design was another factor with a significant contribution in determining consumer preference, which was tested at $p < 0.05$. The results were statistically significant at Wald of 17.875; Exp (B) of .069 and B = - 4.725 ($p < 0.000$) for locally made furniture and Wald of 4.776; Exp (B) of 1.280 and B = 0.247($p < 0.016$) for imported furniture. The negative value (B= -4.725) indicates that locally made furniture were best preferred with traditional and casual design. This is to say that consumers who are sensitive to modern style prefer more imported furniture. The possible explanation for this is that simple/traditional/casual design may be associated with low price which favours most low income earners. On the other hand, modern furniture design requires high technology; as a result, it can command high price which may not be affordable to larger number of low income earners. This is supported by results of a study conducted by   Kizito (2009) and Zziwa *et al*., (2006) who noted that 40% of the consumers preferred high priced modern furniture design. These results confirm the tenets of consumer utility theory which implies

that consumers' willingness to pay for product is a function of the proposed change, preference, product design inclusive.

### 4.3.2.4 The influence of quality on furniture preferences

The Wald criterion demonstrated that furniture quality made a significant contribution in predicting consumer preference. The findings were tested at $p < 0.05$ and produced statistical significant results of Wald $=15.213$ and $6.582$; Exp (B) $=0.196$ and $1.235$; B $= -1.630$ ($p < 0.000$) and $0.211$ ($p < 0.012$) for locally made and imported furniture respectively. The negative sign (B $= -1.630$) reveals that consumers satisfaction with quality for locally made furniture was not convinced. This is to say that consumers show high satisfaction with imported furniture in terms of quality. This implies that customers' expectations on furniture items are associated with finishing of such items. These results confirm the relationship between the perception of consumers on the quality of product and their willingness to pay low or high price for such a product. Therefore, a rational decision maker consumer will choose furniture that maximizes the utility.

### 4.3.2.5 The influence of income on furniture preference

It was also important to establish how income predicts furniture preference at $p < 0.05$. The results indicated that income was a strong predictor of furniture preference. The results were statistically significant with Wald criterion of $16.652$, Exp (B) $= 1.412$ and B $= 0.345$ ($p < 0.000$) for locally made and Wald criterion of $10.394$, and Exp (B) $= 27.394$ and B $= 3.310$ ($p < 0.001$) for imported furniture. The findings reveal that, as income increased, consumers' preference increased by $1.412$ and $27.394$ times for locally made and imported furniture respectively. This implies

that those who had high income were more likely to prefer imported furniture compared to those who had low income. This might be due to the fact that higher income earners are more style preference and would rather buy items with high price. This supports findings of a study done by Kassali *et al.* (2012) who noted that income of household head significantly influences consumer's preference. Similarly, these findings corroborate findings established by Arowosoge *et al.* (2008) that modern furniture is comparatively preferred by individuals  with high purchasing power as an indication of their worth, taste and lifestyle. These are consistent with Consumer Utility Theory that argues that consumers' maximum utility on goods depends much on consumer level of income and preference.

### 4.3.2.6   The influence of household size on furniture preference

It was shown in this study that household size significantly contributes in predicting furniture preference. This findings was tested at $p < 0.05$ and produced results at Wald = 12.541, 4.467; Exp (B) = 0.373, 0.467; and B = 0.986 ($p < 0.000$), -1.761 ($p < 0.032$) for locally made and imported furniture respectively. The negative Exp (B) value indicates that large family size reduces the likelihood of purchasing imported furniture by 37%. The possible explanation here may be that as a family increases, the costs of maintaining the family also increase; thus consumer preferred locally made furniture which are relatively cheap compared to imported furniture. Consumers would like to save some money so that they can provide for their big families. These results support the findings by Abbeam *et al*. (2014) who found that Household size had a positive relationship with preference.

**4.3.2.7 The influence of age on furniture preferences**

Another strong predictor of furniture preference was age. Logistic regression analysis for this variable was tested at $p < 0.05$ and showed a statistically significant influence at Wald of 4.579, an Exp (B) value of 0.467 and a value of B = -1.761 ($p < 0.032$) for locally made and Wald of 11.234 and Exp (B) of 1.580; B = 0.458 ($p < 0.002$) for imported furniture. The negative coefficient (B = -1.761) indicates that furniture preference is to a large extent predicted with younger age. On the other hand, preference on imported furniture increases with increase in age. The reasons may be that respondents with lower age might have insufficient income to purchase high priced furniture because of few opportunities to enable them earn adequate income. Additionally, lower aged respondents might have opted for cheap items in order to save their income for future obligations. Similarly, Yoon and Cho (2014) noted that younger consumers are more sensitive to price and rarely pay attention to brand at the point of purchase. To the contrary, a study done by Bednarik (2010) confirmed that young consumers were more sensitive to modern design with pronounced finish compared to their older counterparts.

**4.3.2.8 The influence of residential location**

The results indicated that residential location significantly influenced furniture preference on imported furniture but not locally made furniture. The findings were tested at $p < 0.05$ and produced a statistically significant influence, with a Wald statistic = 9.562; an Exp (B) value = 1.823 and a B value = 0.558 ($p < 0.012$) This shows that locally made furniture being sold close to residential houses does not determine customers' choices; customers would rather prefer imported furniture

which is sold somehow far from residential houses. These results support the findings of Rajagopal (2011) who observed that distance covered by the customers to visit the malls significantly influence their preferences.

### 4.3.2.9  The influence of occupation on furniture preferences

The Wald statistic demonstrated that occupation significantly influenced consumers' preference on imported furniture (Wald = 6.287, Exp (B) = 1.475, B = 0.389 and (p < 0.011) but not locally made furniture. The possible explanation here may be due to the fact that occupation shows social class status and thus is likely to influence customers' preference on imported furniture. This is in line with findings of a study conducted by Troian (2011) who indicated that occupation was linked to explaining consumer preferences on furniture.

### 4.3.3  Influence of furniture preference on geographical location

Overall preference on furniture given by both Dar es Salaam and Arusha consumers to the locally made against imported furniture has been summarized in Table 27. The data show that locally made furniture in comparison to imported furniture has more positive image in the minds of Arusha consumers than Dar es Salaam consumers. The differences between Arusha and Dar es Salaam consumers, as regards preference of locally made furniture against imported furniture, were found significant in all the factors studied except consumers' occupation. Arusha consumers had given the highest rating to price whereas Dar es Salaam consumers gave the highest rating to design. Sensitivity to price is probably because of little amount of money they earn. This may be true because locally made furniture has

relative less price compared to imported furniture. Dar es Salaam consumers, being style conscious, probably are relatively less concerned about durability and price. This is so because style keeps on changing with time.

**Table 27:** **Furniture preference by geographical location**

| Factors | Arusha Mean | Std Dev | Dar es Salaam Mean | Std Dev | Difference in mean value | t-value |
|---|---|---|---|---|---|---|
| Education | 4.12 | 0.718 | 3.40 | 0.639 | 0.72 | 5.33* |
| Household size | 4.32 | 0.471 | 3.60 | 0.699 | 0.72 | 6.10* |
| Price | 4.48 | 0.646 | 4.08 | 0.488 | 0.40 | 3.51* |
| Occupation | 4.44 | 0.577 | 4.20 | 0.699 | 0.24 | 1.84 |
| Design | 4.00 | 0.495 | 4.56 | 0.501 | 0.56 | 5.60* |
| Age | 3.92 | 0.565 | 3.28 | 0.453 | 0.64 | 6.40* |
| Quality | 4.32 | 0.532 | 3.96 | 0.471 | 3.36 | 3.60* |
| Income | 3.84 | 0.618 | 3.56 | 0.577 | 0.28 | 2.30* |

* Significant at 0.05 significance level

## 4.3.4   Amount consumers are willing to pay

With regard to amount of money consumers were willing to pay for locally and imported furniture, the results showed that the mean amount for locally made furniture was TZS 858 475 whereas for imported furniture the amount was TZS 1 174 517. Data showed that the consumers were willing to pay more for imported furniture than for locally made furniture.  The reason for this might be that imported furniture had positive image on furniture consumers probably because of design and quality. This is supported by results of a study done by Quartey and Abor (2011) and Solomon (2004) who noted that consumers in less developed countries favour products and brands from developed countries.

On the aspect of geographic location, the findings showed that the average amount of money that the consumers were willing to pay for imported furniture was TZS 1 198 452 and 1 130 213 in Dar es Salaam and Arusha respectively, whereas for locally made furniture the amounts were TZS 865 811 and 844 894 in Dar es Salaam and Arusha correspondingly. The findings reveal that there was slight difference in terms of the amount the customers were willing to pay for imported and locally made furniture across the cities. However, the amount that consumers were willing to pay for imported furniture was a little bit high in Dar es Salaam. This implies that consumers in Dar es Salaam are more attracted to imported products than consumers in Arusha.

**Table 28: Amount consumers are willing to pay for imported and locally made furniture**

| Statistics | WTP* imported | WTP locally made | Dar es Salaam | | Arusha | |
| | | | WTP imported | WTP locally made | WTP imported | WTP locally made |
| --- | --- | --- | --- | --- | --- | --- |
| n | 134 | 134 | 87 | 87 | 47 | 47 |
| Minimum | 623333 | 530000 | 623333 | 530000 | 623333 | 530000 |
| Maximum | 2010000 | 1036667 | 2010000 | 1036666 | 2010000 | 1036666 |
| Mean | 1174517 | 858475 | 1198452 | 865811 | 1130213 | 844894 |
| Std. Dev | 441970 | 138434 | 420030.7 | 127633 | 481509.5 | 157043 |

*WTP means Willing to Pay

### 4.3.5 Test for difference in amount consumers are willing to pay

Results of the paired t-test (Table 29) further show that there was a statistically significant difference in amounts that consumers were willing to pay for locally made and imported furniture (t = -10.76; at $p<0.05$). The implication of these findings suggests that the amounts consumers are willing to pay for locally and

imported furniture differ significantly. In the light of these results it can be argued that perception of consumers on the quality of foreign products is still high compared to the domestic products.

**Table 29: Amount consumers are willing for imported and locally made furniture pared t-test comparison**

| Mean Amount | | Mean Difference | Std. Dev | Std. Error Mean | t-value | df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|
| Imported | Local | | | | | | |
| 1174517 | 858475 | -316042 | 339865 | 29359 | -10.764 | 134 | .000 |

**p<0.05**

## 4.3.6 Determinants of consumers' willingness to pay for locally made and imported furniture

In this study, regression analysis was performed to predict amount of money consumers were willing to pay (WTP) based on twelve (12) independent variables. The independent variables were age, education level, sex, marital status, household size, quality, design, brand, knowledge, price, income and distance. The results of the regression analysis model summary shows that R square was 0.488 for locally made and 0.702 for imported furniture. This means that 48.8% and 70.2% of the variance in willingness to pay could be predicted by the variables included in the models for locally and imported furniture respectively. The fact that R-square was 48.8% might be attributed to the fact that there might be other variables which affected the dependent variable but were not covered in this study. Furthermore, the overall fit of the models (F-test = 5.7 for locally and F-test = 22 for imported at p = 0.000) was statistically significant, which means the model had enough explanatory power to predict variation in willingness to pay (Table 30).

**Table 30: Results of regression analysis (Coefficients)**

| Variable | Locally made furniture | | | | | Imported furniture | | | | |
| | Unstandardized Coefficients | | Std Coefficients | t | Sig | Unstandardized Coefficients | | Std Coefficients | t | Sig |
| | $\beta$ | Std. Error | $\beta$ | | | $\beta$ | Std. Error | $\beta$ | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Constant | 12.913 | 0.365 | | 35.360 | 0.000 | 12.397 | 0.563 | | 22.023 | 0.000 |
| Age | 0.292 | 0.147 | 0.163 | 1.985 | 0.049* | -0.669 | 0.314 | -0.139 | -2.127 | 0.035* |
| Education level | -0.354 | 0.024 | -0.165 | -1.737 | 0.085 | 0.615 | 0.227 | 0.153 | 2.714 | 0.008* |
| Residential location | -0.049 | 0.028 | -0.142 | -1.736 | 0.085 | -0.036 | 0.039 | -0.075 | -0.922 | 0.359 |
| Sex | 0.186 | 0.034 | 0.350 | 5.421 | 0.000* | -0.092 | 0.043 | -0.118 | -2.111 | 0.037* |
| Household size | 0.134 | 0.038 | 0.343 | 3.569 | 0.001* | -0.235 | 0.044 | -0.408 | -5.305 | 0.000* |
| Quality | -0.077 | 0.028 | -0.431 | -2.767 | 0.007* | 0.100 | 0.019 | 0.426 | 5.312 | 0.000* |
| Design | -0.053 | 0.026 | -0.244 | -2.060 | 0.042* | 0.186 | 0.034 | 0.350 | 5.312 | 0.000* |
| Brand | 0.087 | 0.030 | 0.386 | 2.901 | 0.004* | 0.061 | 0.020 | 0.242 | 3.083 | 0.003* |
| Time | 0.045 | 0.029 | 0.177 | 1.581 | 0.116 | 0.026 | 0.043 | 0.066 | 0.618 | 0.538 |
| knowledge | 0.055 | 0.012 | 0.528 | 4.524 | 0.000* | 0.239 | 0.058 | 0.273 | 4.134 | 0.000* |
| Income | -0.131 | 0.030 | -0.503 | -4.407 | 0.000* | 0.131 | 0.046 | 0.225 | 2.873 | 0.005* |
| Marital status | 0.026 | 0.013 | 0.235 | 2.052 | 0.042* | 0.051 | 0.046 | 0.101 | 1.110 | 0.269 |
| **Model** | | | | 1 | | | | | 1 | |
| R | | | | 0.699[a] | | | | | 0.838[a] | |
| R Square | | | | 0.488 | | | | | 0.702 | |
| Adjusted R Square | | | | 0.439 | | | | | 0.672 | |
| Std. Error of the estimate | | | | .0318967 | | | | | .22131 | |

| Model | Sum of Squares | df | Mean Square | F | Sig | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 Regression | 1.431 | 12 | 0.119 | 5.786 | 0.000[b] | 13.743 | 12 | 1.145 | 22.383 | 0.000[b] |
| Residual | 2.453 | 119 | 0.021 | | | 5.828 | 119 | 0.049 | | |
| Total | 3.884 | 131 | | | | 19.571 | 131 | | | |

**Dependent Variable: WTP (Measured by amount consumers are willing to pay)   *Significant at P < 0.05**

**4.3.6.1   The influence of age on willingness to pay**

The influence of age on willingness to pay was tested at $p < 0.05$) and produced statistically significant results with t-value = 1.985, p-value = 0.049 and $\beta = 0.292$ for locally made and t-value = -2.127, p-value= .035 and $\beta = -.669$) for imported furniture.  The findings reveal that, with every additional year of age, a consumer is willing to pay 0.292 cents more for locally made furniture.  This means that, with decrease in age, consumers are willing to pay 0.669 cent more for imported furniture. This implies that older consumers have a higher inclination towards paying more for locally made furniture. This may be attributed to the fact that such consumers are not interested in fashioned products compared to young people who prefer more contemporary styled or fashioned furniture; that is, family responsibilities increase with age and thus reduce the tendency of aged customers to buy things for fashion. This finding is similar to findings of a study done by Tang *et al*. (2012) who found that there is a positive significant relationship between WTP and age. However, it is contrary to results of a study done by Haghjou *et al.* (2013) who noted that the variable age had no relevant effect on consumers' potential WTP. Porter (1980) said: "Where the buyer has full information about demand, actual market prices, and even supplier costs, this usually yields the buyer greater bargaining leverage."

**4.3.6.2   The influence of sex on willingness to pay**

The analysis also tested (at $p < 0.05$) whether sex had an impact on willingness to pay for locally made and imported furniture. The results showed a highly statistical significant influence with $\beta = 0.186$, $\beta = -0.092$, t-value = 5.421 and = -2.111 at   p =0.000 and 0.037 for locally made and imported furniture, respectively.  The results

show that male consumers were willing to pay 0.186 cent more for locally made and 0.092 cent less for imported furniture than female male consumers. The possible explanation here might be that male consumers value furniture based on durability; hence they buy new items which last longer while, on the other hand, female consumers are interested in fashion or style. In addition, male consumers usually opt for cheap items to save money for other obligations. These findings are supported by findings of a study done by Shen (2012) who noted that men are more willing to pay for quality goods than fashionable ones compared to women.  Akareem *et al.* (2012) also noted that willingness to pay for local products over imported ones is associated with sex difference. This is consistent with Consumer Utility Theory which emphasizes that alternative choices made by individuals have an impact on competitive advantage.

### 4.3.6.3   The influence of household size on willingness to pay

Household size was another strong predictor of willingness to pay. The findings were statistically significant at $\beta = 0.134$, t-value = 3.569 at p = 0.001 for locally made and $\beta = -0.235$, t-value = -5.305 at p = 0.000 for imported furniture. The negative sign ($\beta = -0.235$) indicates that, for one additional household member, the consumer was willing to pay 0.235 less for imported furniture. This means that for every additional person in the family a consumer was willing to pay 0.134 cent more for locally made furniture.  This implies that the more the number of household members, the higher the inclination towards domestic items. This is so probably because large family is associated with high cost of running the family, hence willingness to pay, relative less to save money for other family obligations. This is

supported by findings of a study done by Moffat *et al.* (2007) who observed that the bigger the family size, the more difficulties are encountered in terms of budgetary constraints, hence the decreased WTP. In addition, Coster and Otufale (2014) found that household size correlates with willingness to pay for quality goods. From Porter's perspectives, consumers' influence shapes the competitive structure of an industry. That is, if the consumer is price sensitive regarding the product, he/she can influence the price of such a product to be low. This is to say, consumers with large household size have high bargaining power on local furniture because they are sensitive to price. The Consumer Utility Theory also proposes that consumers maximize their utility within a given budget constraints.

### 4.3.6.4 The influence of quality on willingness to pay

Another strong predictor of consumers' willingness to pay for locally made furniture and imported furniture was the quality of furniture. The findings were tested at $p < 0.05$ and produced statistically significant results $\beta = -0.077$ and $0.100$, t-value = -2.767 and 5.312 and $p = 0.007$ and 0.000) for locally made and imported furniture, respectively. The results indicate that quality influences consumers' willingness to pay more for imported furniture. This implies that consumers were willing to pay a premium of 0.100 cent more for imported furniture compared to local furniture. The reason may be that consumers perceive imported furniture has high quality compared to local furniture. This finding is similar to a finding by a study done by Zziwa *et al.* (2006) who confirmed that foreign products are far ahead than domestic products in the minds of the consumers in terms quality. Kizito (2009) observed that there is high and positive correlation between level of consumers' quality

expectations and their level of satisfaction with furniture. Porter (1985) indicated that the environmental attributes of products are a critical factor in the buying behaviours of consumers). Further he argued that perceived product quality is positively related to consumer satisfaction (1985).

### 6.3.6.4 The influence of design on willingness to pay

Furniture design was another strong predictor of willingness to pay, the findings were statistically significant at β= -0.053, t-value = -2.060 and p = 0.042 for locally made and β = 0.186, t-value = 5.312 and p = 0.000 for imported furniture. The negative coefficient indicates that consumers design expectation for locally made furniture was not met. That is, as the level of consumer's fashion consciousness increases, the willingness to pay for locally made furniture is reduced by 0.053 cent. This means that consumers show a high satisfaction with imported furniture design because of the use of advanced technology in manufacturing imported furniture. This is true probably because locally made furniture is slightly fashioned compared to imported furniture. This supports results of a study done by Arowosoge and Tee (2010) who highlighted that the demand drive for furniture depends significantly on the distinct product features such as its design. Porter (1998) argues that if customers perceive a product or service as of superior design, they become more willing to pay a premium price relative to the price they would pay for a low quality design product.

### 4.3.6.5 The influence of brand on willingness to pay

The effects of brand on willingness to pay for locally made furniture was tested at p < 0.05) and produced statistical significant result with t-value = 2.901 and 3.083, p =

0.004 and 0.003 and β = 0.087 and β = 0.061 for locally made and imported furniture, respectively. The results show that consumers who admitted to be familiar with product brand were willing to pay 0.061 cent more for imported furniture and 0.087 cent for locally made furniture. That is, awareness of the wood species used in making a furniture item influences an individual's willingness to pay for such an item. The possible explanation for this is that consumers are willing to pay more for furniture made up of tree species known to be suitable for furniture production. Domie (2013) confirmed that people were willing to pay for domestic products as a means to realize their traditional natural resources. To the contrary, Ismail *et al.* (2012) claimed that customers were found to be extremely prone to the global brands. From RBV perspective, consumers are more likely to purchase a product if they have previously focused their attention on it, but are less likely to purchase a product they have previously ignored.

**4.3.6.6  The influence of knowledge on willingness to pay**

Knowledge on furniture products was another strong predictor of willingness to pay for locally made and imported furniture. The findings were tested at p < 0.05 and were statistically significant at β = 0.055, t-value = 4.524 and p-value of .000 for locally made and β = 0.239, t-value = 4.134 and p-value 0.000 for imported furniture. This means that increase in prior knowledge on furniture items increases consumers' willing to pay by 0.055 cent and 0.239 cent more for locally made and imported furniture. This is assumed logical because consumers' knowledge on items may be an important driver towards willingness to pay for such items. This is related to the findings of Oni *et al*. (2005) and Ehmke *et al.* (2008) who indicated that respondents' knowledge has a significant effect on their WTP. This is also consistent

with Porter's views that consumers who have full information about a product will have high bargaining power into such products.

### 4.3.6.8  The influence of income on willingness to pay

Another strong predictor of consumers' willingness to pay for locally made furniture and imported furniture was income. The findings were tested at $p < 0.05$ and produced statistical significant results ($\beta$= -0.131, t-value = -4.407 and p-value 0.000 for locally made and $\beta$ = 0.131, t-value = 2.873 and p-value 0.005 for imported furniture. The results indicate that with every additional TZS 1 of income an individual was willing to pay 0.131 cent more for imported furniture. The possible explanation could be that higher income consumers are more inclined on stylish and quality items. This supports results of a study done by Haghjou *et al.* (2013) who observed that people with higher income were willing to pay for luxurious goods. Coster and Otufale (2014), on the other hand, observed that low-income consumers are willing to pay more for domestic services. This is consistent with the Consumer Utility Theory which dictates that an increase in income will increase the prospective utility that the consumer can acquire in the market.

### 4.3.6.9  The influence of marital status on willingness to pay

Marital status was found to be statistically significant at $\beta$ = 0.026, t-value = 2.052 and p-value of 0.042 for locally made furniture, but not for imported furniture.  This implies that married people were willing to pay 0.026 cent more for locally made furniture. This is an indication that married respondents were more price sensitive compared to single respondents who might be style conscious.  This is different

from findings of a study by Zakaria *et al.* (2014) and Tang *et al.* (2012) who observed that marital status and position within household were found not significantly influencing willingness to pay.

**4.3.6.10   The influence of education on willingness to pay**

Findings further show that education level significantly affects willingness to pay for imported furniture and not for locally made furniture. These results were tested at $p < 0.05$, and produced statistical significant results of $\beta = .615$, t-value = 2.714 and p-value = 0.008. This shows that, as the level of education increases, consumer's willingness to pay for imported furniture rises by 0.615 cent. The reason could be that more educated customers are more acquainted to modern items. In addition, it is logical to believe that education may favour positive attitude towards change.  Tang *et al.* (2012) confirmed that education level does not have significant effect on WTP to domestic products.

**4.3.6.11        The Influence of residential location on willingness to pay**

Consumers' residential location was also used to test willingness to pay for locally made and imported furniture. The results showed that residential location was not statistically significant in determining willingness to pay for locally made and imported furniture. This reveals that residential location does not influence consumers willing to pay for furniture. To the contrary, Coster and Otufale (2014) recognized a positive relationship between households' willingness to pay and distance to selling point. In addition, Agbemolege and Odubanjo (2001) noted that consumers' willing to pay decreases with increase of distance to the buying point.

**4.3.6.12 The influence of Time on willingness to pay**

On the aspect of time, the findings showed that time did not impact willingness to pay for locally made and imported furniture. The implication of the findings is that willing to pay for furniture is not associated with time from furniture order to time of receiving the furniture; customers are not time sensitive and thus there could be other factors that influence their willingness to pay for furniture. To the contrary, Heikamp (2013) noted that time taken to deliver commodities has influence on consumers' willingness to pay for such commodities.

**4.5 Competitiveness of Small Scale Furniture Industries**

**4.5.1 Availability of customers in the past five years**

When assessing the availability of customers for locally made furniture for the previous five years, 51% of the respondents reported that the number of customers had been increasing; 37% of respondents said that the number of customers had been decreasing whilst 12% reported that there was no change at all (Fig. 13). The findings validate that locally made furniture items are still needed, although the number of customers increases in a decreasing rate. This may be so because of emergence of other firms which offer almost similar products. Porter (1980) also advocated that persistently high market shares may be indicative of the existence of barriers to entry and expansion and power of consumers. This corroborates findings by Owekuse (2008) who noted that competition had led to reduction in profit margin of some firms.

| | Increasing | Decreasing | No change |
|---|---|---|---|
| ■ Series1 | 51% | 37% | 12% |
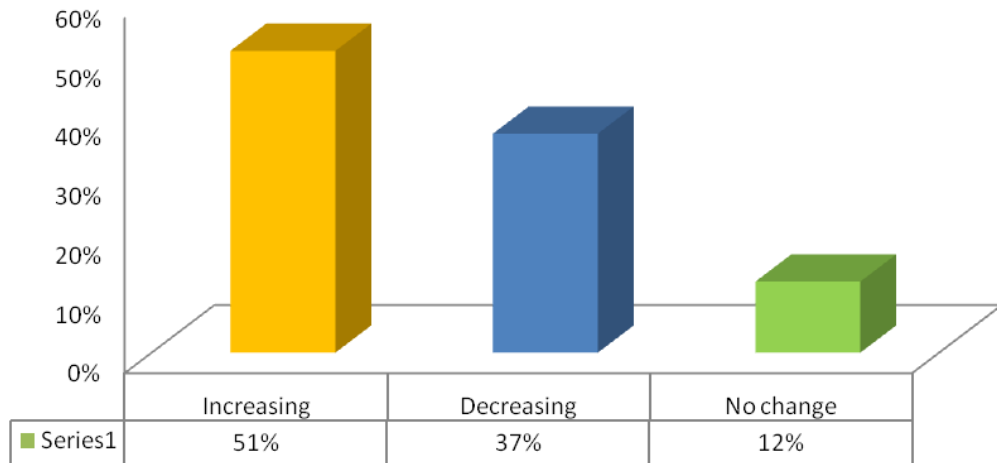
**Figure 13:   Availability of customers in the past five years**

Participants in focus group discussions both in Dar es Salaam and Arusha cities also admitted that for the previous five years the number of customers had been up and down. Some reported that they had been able to retain potential customers; other reported to attract few new customers while others said the number of customers was decreasing. One participant from a focus group discussion (Arusha City) said: "*In our firm we have been experiencing a different story; the number of customers has been fluctuating yearly. There is a time when the number of customers increases and again there is a time when we experience few customers*".

Another participant from a focus group discussion (Dar es Salaam City) said: "*For the past two years we have been able to increase the number of customers, although the pace is very small compared to the effort we exerted.*" However, one participant said: *"For the first years of operations the firm was experiencing high influx of customers, but later on the number started decreasing to the extent that we cannot predict their availability."*

**4.5.2   Reasons for the change in customers**

It was found that there were multiple reasons for change in the availability of customers in the previous five years for locally made furniture. The results in Table 31 show that 79.4% of the cases reported that emergence of new modern furniture ventures was the main factor for change in customers. Others reported that availability of substitute products (67%), poor marketing strategy (45.8%), failure to cope with customers' demands (44.9%) and inadequate innovation (36.4%) were the reasons for change in customers for locally made furniture. This implies that for SIDO supported small scale manufacturers to compete effectively they have to address some or all of the reasons mentioned which have led to the decrease of customers. This is in line with results of a study done by Nag (2000) who found that liberalization has resulted into more competition, increased quality consciousness, difficulty in marketing, reduction in profit margin and high level of customer satisfaction.

**Table 31:   Reasons for the change in customers**

| Reasons | Responses | | % of Case |
|---|---|---|---|
| | n | % | |
| Failure to cope with customers demand | 48 | 16.4 | 44.9 |
| Emergence of many furniture venture | 85 | 29.0 | 79.4 |
| Availability of substitute products | 72 | 24.6 | 67.3 |
| Inadequate innovation | 39 | 13.3 | 36.4 |
| Poor marketing strategy | 49 | 16.7 | 45.8 |

Similarly, the results of focus group discussions both in Arusha and Dar es Salaam cities showed that there had been a diversity of reasons for the change in number of customers. Some noted that the support they got from SIDO helped them to

manufacture many attractive furniture items and be able to attract and retain customers. Others said that mushrooming of furniture firms in recent years which sell furniture from abroad has resulted into shift of customers from their shops to other new shops while others admitted inadequate facility and poor marketing strategies as the cause for decreasing number of customers. One participant from (Dar es Salaam) said: "*Before the support from SIDO, our business was targeting only few customers from our locality, but after the support we have been able to broaden the scope of operations, which resulted in increasing number of customers from different areas in Dar es Salaam*". Another participant (from Dar es Salaam) said the following: "*Many firms go down in terms of profit and customers simply because there is high influx of furniture items made from other materials which are now taken as modern fashion*". In addition another participant (from Arusha City) said that: "*Our firms lack creativity and facilities to cope with the increasing demand of customers. Customers nowadays prefer very sophisticated items with good finishing which are expensive to make bearing in mind that we only possess simple equipment*."

### 4.5.3 Factors affecting competitiveness of small scale furniture industries

With regard to factors affecting competitiveness of small scale furniture industries, regression analysis was performed. The analysis (Table 32) used Rate of Return on Investment (RORI) as the dependent variable against eleven (11) independent variables. The results of the regression analysis model summary show that R was 0.831, R square was 0.691 and adjusted R square is 0.663, meaning that 69% of the variance in performance could be predicted by the variables included in the model.

Furthermore, the overall fit of the model (F-test = 24.401 and the p-value = 0.000), which was highly statistically significant. This means the model had enough explanatory power to predict variation in competitiveness.

The results further showed that age of the firm, credit, initial capital, and number of employees, price, location, diversification and networking significantly affected competitiveness of small scale furniture industries. However, education, technology and regulations were found to be positively correlated but not significant. From the RBV point of view, a firm's resources have the potential and promise to generate competitive advantage, which eventually leads to superior firm performance. Financial resources such as cash in hand, bank deposits or savings, financial capital, human capital and other assets explain the level of firm competitive advantage. The theory further suggests that when key resources in a firm are combined or integrated together, they are more likely to create competitive advantage for the firm (Barney, 1991). Porter (1980) argues that not all factors that have influence on firm competitiveness will have the same degree of effect on the intensity of competition and profitability in an industry; rather they will have varying levels of influence in shaping industry competition and profitability. On the other hand, dynamic capability theory asserts that firm resources, when integrated, allow creation of new products and processes, and thus respond to changing market environments. The details of the findings are discussed in sub-section 4.5.3.1 to 4.5.3.11.

**Table 32:**     **Results of regression analysis (Coefficients)**

| Variable | Unstandardized Coefficients | | Standardized Coefficients | t | Sig | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | $\beta$ | Std. Error | $\beta$ | | | Tolerance | VIF |
| Constant | 12.562 | 5.65 | | 22.217 | 0.000 | | |
| Age of the firm | 0.471 | 0.219 | 0.117 | 2.148 | 0.034 | 0.866 | 1.154 |
| Credit | -0.633 | 0.318 | -0.131 | -1.988 | 0.049 | 0.589 | 1.699 |
| Initial Capital | 0.260 | 0.043 | -0.451 | -5.988 | 0.000 | 0.454 | 2.202 |
| Education of owner | 0.046 | 0.042 | 0.115 | 1.089 | 0.278 | 0.229 | 4.358 |
| Number of employees | 0.099 | 0.019 | 0.422 | 5.199 | 0.000 | 0.390 | 2.565 |
| Technology | 0.028 | 0.046 | 0.054 | 0.604 | 0.547 | 0.318 | 3.142 |
| Price | -0.244 | 0.059 | 0.278 | -4.163 | 0.000 | 0.577 | 1.734 |
| Location | -0.189 | 0.035 | 0.356 | -5.434 | 0.000 | 0.601 | 1.663 |
| Regulations | 0.043 | 0.040 | 0.088 | 1.070 | 0.287 | 0.379 | 2.638 |
| Diversification | -0.112 | 0.045 | -0.193 | -2.473 | 0.015 | 0.423 | 2.364 |
| Networking | 0.053 | 0.020 | 0.209 | 2.679 | 0.008 | 0.422 | 2.368 |

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.831[a] | 0.691 | 0.663 | .22447 |

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 13.525 | 11 | 1.230 | 24.401 | 0.000[b] |
| | Residual | 6.047 | 120 | 0.060 | | |
| | Total | 19.571 | 131 | | | |

**Dependent Variable: CA (Measured by RORI)    *Significant at P < 0.05**

### 4.5.3.1    Age of the firm

The results show that age of the firm positively influenced competitiveness of small scale furniture industries and was statistically significant at $\beta = 0.471$, t-value = 2.148 and p-value = 0.034. This implies that any additional year of operation will increase performance of small scale furniture industry by 47%. This might be because of expansion or diversification of the furniture industry business which could lead to creation of customer loyalty or brand preferences to the industry. In addition, as number of years increases, small scale furniture industries accumulate experience in terms of material selection, technological and customer relations which could increase its propensity to actively make higher profit. This supports results of a study done by Aworemi *et al*. (2010) in which it was found age of the firm influences competitiveness because of being able to take better production decisions. From Porter's viewm, it can be argued that the number of years or experience of the firm in running business determines its competitiveness as it can lead to customer loyalty or brand preference. On the other hand, as far as the dynamic capability theory is concerned, the number of years a firm is in operation determines its capability in production and marketing strategies that may lead to firm's competitiveness (Fan, 2009; Terjesen *et al.,* 2011).

### 4.5.3.2  Credit

The findings showed that access to credit influenced the competitiveness of the small scale furniture industries and was statistically significant at $\beta= -0.633$, t-value = -1.988 and p-value = 0.049. This implies that a unit decrease in access to credit improves the financial performance of small scale furniture industry by 63%. This

is to say that limited access to credit has challenged small scale industries to utilize other opportunities when they arise. The possible reasons may be because of the financial support they get from SIDO which capacitated the small scale furniture industry to operate with full potential and hence facilitated good performing environment for them to survive and continue in the business. To the contrary, Kinyua (2013) found that access to finance was significantly associated with profits, and access to finances was found to significantly affect performance of SMEs. From Dynamic capabilities point of view, a firm which is capable to combine and coordinate internal and external resources, gain and internalize new knowledge from other organizations, can transform and reconfigure the resource base into new processes or routines (Yu and Wu, 2007).

### 4.5.3.3  Initial capital

The findings indicated that initial capital of the small scale furniture industries was statistically significant at $p < 0.05$ with $\beta = .260$, t-value 5.988 and p-value =0.000. The coefficient of variable indicated that a unit increase in the amount of initial capital of the small scale furniture industries increased the performance of the industries by 26%. This shows that small scale furniture industries had some sources of securing funds which allow furniture industries to operate and survive in the market.  This is in line with findings of a study done by Asinski (2006) who found that initial capital investment is a very strong predictor of competitiveness. Likewise, a study by Koop *et al.* (2000) found that the amount of starting capital was positively related to business success. This is consistent with the RBV theory which argues that a firm that is better able to raise internal funds enjoys competitive

advantage by reducing financing costs and self-financing highly profitable investments. The RBV theory further suggests that financial capital, cash in hand and savings explain the level of firm competitiveness (Morgan *et al*., 2004; Ainuddin *et al.,* 2007). From the dynamic capability perspective, competitive advantage of a firm in dynamic market rests on firm specific asset position (Eisenhardt and Martin, 2000), and is in turn shaped by start-up capital as well as financial and physical capital, namely money, land, buildings and equipment (Teece *et al*., 1997).

### 4.5.3.4  Number of employees

Findings further showed that number of employees significantly affects competitiveness of small scale furniture industries. These results were tested at $p < 0.05$ and the results showed $\beta = 0.099$, t-value = 5.199 and p-value =0 .000. This is an indication that an increase in the number of employees will result in 9.9% increase in financial performance of small scale furniture industry if other factors remain constant. The implication may be because most small scale furniture factories are highly domestic and labour intensive which facilitate efficient use of working capacity and the workload and thus improve the performance of the factory. This is so probably because most of the furniture factories do not make use of modern equipment, machines and special skills. This is in line with findings of a study done Amouh and Fordjour (2012) who found that number of employees reflects assembly of a large body of knowledge, skills, ideas and healthy competition among the employees that could positively affects its competitive advantage. Similarly, Kwame *et al.* (2013) observed that the number of employees in the

business influence performance positively. The findings reflect RBV theory which argues that human capital pool (a highly skilled and highly motivated workforce) had greater potential to constitute a source of sustainable competitive advantage, i.e. to constitute a source of competitive advantage, the human capital pool must have both high levels of skill and a willingness (i.e., motivation) to exhibit productive behaviour. Porter (1998) argues that the higher the skills, the higher the rate of innovation, specialization and differentiation and thus leading to firm superior performance. On the other hand, DCT (2007) asserts that capability of managers and employees allows the introduction of varied new services, products, systems or processes that could lead to firm competitiveness.

### 4.5.3.5  Price

Price was also tested at $p < 0.05$ on whether it has effect on performance. The results showed a highly statistically significant effect with $\beta$ = -0.244, t-value = -4.163 and p-value = 0.000. The results revealed that a unit decrease in price will lead to increase of about 24.4% of financial competitiveness of small scale furniture manufacturing firm.  This is an indication that locally made furniture factories set prices that reflect really income of many customers, including low income earners, and this facilitates them to succeed in the market. This in line with results of Ayozie (2008) who noted that in developing countries SMEs are able to compete in the market because they offer their products at prices the customers can bear. Porter (1980) argues that firm's pricing approach is a very important decision criterion that customers use to compare alternatives and thus leads to firm's position in the industry. i.e. a firm can price itself to match its competition.

### 4.5.3.6 Firm's location

Location of the firm was a strong predictor of competitiveness; the findings were statistically significant at $\beta$ = -0.189, t-value = -5.434 and p-value = 0.000. This implies that a unit decrease in distance to the furniture industries leads to an increase in performance by 18.9 %, other factors being held constant. This reveals that, since small furniture manufacturing industries are closer to customers, they clearly understand customer requirements, and this can help them create a competitive advantage from the loyalty of their customers. In addition, strategic location may enable them to access supplies. This is so probably because they do not have enough capital to promote their business through various media and transport supplies from a distance.  This is in line with results of a study done by Lucky (2011) who noted that strategic location is very important for firms, policy makers and entrepreneurs or business owners due to the key role it plays in strengthening the effectiveness of the firms. The results tend to confirm Porter's (1998) arguments that competitive advantage is highly location specific that a firm differentiates itself from its competitors irrespective of its local market conditions in order to gain competitive advantage.

### 4.5.3.7 Product's diversification

Diversification was a strong predictor of competitiveness; the findings were statistically significant at $\beta$ = -0.112, t-value = -2.4783 and p-value = 0.015. The coefficient variable indicates that the less a firm diversifies the higher the performance it attains. This implies that the more the industries are specialized the better they are able to compete in the market. This may be so because of being able to maintain the brand of the product.  To the contrary, studies done by Patric (2012)

and Osolio and Colino (2015) noted that diversifying firms have higher level of return on assets compared to non diversified firms. The RBV of the firms predicts that firm's levels of diversification may exploit economies of scope and thus becomes more competitive than its rivals (Barney, 1997; Palich *et al*., 2000; Wan *et al.,* 2007).

### 4.5.3.8  Networking

Networking has impact on competitiveness. The findings were statistically significant at $p < 0.05$ with $\beta = 0.053$, t-value 2.473 and p-value $= 0.008$. This implies a unit increase in level of networking will lead to about 5.3 % increase in performance. This is an indication that small scale furniture industries network with other industries of the same nature. As a result, it enhances the chances for improved customer's services, improved products as well as sharing of resource and market access that could lead to financial performance. This supports results of a study done by Surin and Wahab (2013) who found that networking is positively and significantly related to business performance in SMEs in Malaysia. This is consistent with RBV as interpreted by (D'Cruz and Rugman, 1994; Ahuja, 2000) that firms form network relationships to obtain access to technical or commercial resources. From dynamic capabilities perspective, firm networking is a source of competitive advantage. Networking, personal or relation-base or strategic alliance, enables acquiring the requisite complementary resources and capabilities and thus lead to competitiveness of the firm (Coh, 2005).

### 4.5.3.9 Education

Education was found to be non-significantly related to furniture industry competitiveness (p < 0.05 with β = 0.046, t-value = 1.089 and p-value = 0.278). This suggests that increase in level of education will not lead to increase in performance. The reason may be level of education alone may not influence the performance of furniture industries rather skills and experience. This supports results of studies done by Aworemi *et al.* (2010) and Kwame *et al.* (2013) who observed that the number of years of formal education attained by an entrepreneur is not associated with the performance of small scale enterprise. With regard to RBV, personal creativity or intuition, and not number of years of schooling, is the one that leads to creation of quality material, service or product and thus makes it difficult for competitors to imitate (Barney, 1991). From the dynamic capability, perspective managers integrate their business, functional and personal expertise to make choices that shape strategic direction of the firm (Eisenhardt and Martin, 2000).

### 4.5.3.10 Technology

Findings show that technology used did affect competitiveness of locally made furniture. These results were tested at p < 0.05, β = 0.028, t-value = 0.604 and p-value = 0.547. This is an indication that small scale furniture manufacturers use low level of technology and rudimentary machines. The possible reason may be that they could not afford hiring advanced technology; they rather depend on labour intensive which is cheap. Because of low level of technology used in furniture production they cannot have massive production to enable them enjoy economies of scale. This is in line with results of a study by Remi *et al.* (2010) who noted that problems that

hinder the advancement of small-scale enterprises include persistently low level of technology. From resource based view, a firm gains its competitive advantage based on service added in products as a result of adopting new technology. According to dynamic capability theory, firms with superior competitive positions in market are those who can respond to technology change and market change rapidly and coordinate and redeploy internal and external resources effectively.

### 4.5.3.11 Regulations

Findings show that, overall, national regulation does not affect competitiveness of small scale furniture industries. The results were tested at $p < 0.05$ and produced non-statistically significant results with $\beta = -0.043$, t-value $-0.070$ and p-value $= 0.287$. This might be attributed to the fact these regulations having not capacitated SMEs to operate efficiently to the extent that they are able to ensure safety of the products against external products. This supports findings of a study done by Anga (2014) who confirmed that government policies and regulations of the SMEs are less likely to affect the performance of SMEs. The findings tend to confirm Porter's (1998) argument that there is no strong evidence that policy support eases market entry or lead to increased competition.

### 4.6    Synthesis of the main findings

The findings above showed a significant analysis on the factors affecting competitive advantage of SIDO supported small scale furniture industries against imported furniture. Based on the findings, the study found that furniture business is mainly dominated by men. On average, SIDO supported small scale industries had

employed three compared to six employees in imported furniture industries. The average years of schooling were nine (9) and 14 for small scale furniture and imported furniture firms, respectively. In addition, the study found that on average small scale furniture started with low capital mainly from owners' personal savings, a situation which was contrary to that of their counterparts. On the aspect of ownership, 89% of small scale furniture manufactures were sole proprietorship and operate in terms of cash only whereas all imported furniture firms were sole proprietorship and use cash and credit systems. Location-wise, the study found that there was no significant difference in all social-economic variables studied except start up capital. Meanwhile, Arusha was found to have a bit higher start-up capital than Dar es Salaam in both aspects.

Concerning profitability, this study found that there was significant difference in profit generated between small scale furniture and imported furniture firms. RORI is 37% and 52% for small scale furniture industries and imported furniture, respectively. This is an indication that investment in small scale furniture industries generates profit, although when comparing to imported furniture firms, the profit generated is low. Overall, furniture business was found to be more profitable in Dar es Salaam than in Arusha. Whereas local furniture items generate slightly higher profit in Arusha compared to Dar es Salaam. This is so probably because of low price of furniture products in Arusha and thus attracts many customers resulting in higher profit.

With regard to the determinants of preferences, this study found that price, design, quality, income and household size significantly influenced preferences of either imported or locally made furniture. The differences between Arusha and Dar es Salaam consumers, as regards preference of locally made furniture against imported furniture, were found significant in all the factors studied except consumers' occupation. Arusha consumers gave the highest rating to price whereas Dar es Salaam consumers gave the highest rating to design.

Concerning factors that determine consumers' willingness to pay, this study found that locally made furniture was attributed to 48.8% imported furniture by 70.2% for all factors studied. On the other hand, competitiveness of small scale furniture industries was 69% affected by age, credit, initial capital, and number of employees, price, location, diversification and networking. It is established that a unit increase in age of the firm would cause an increase in financial performance (competitiveness) of small scale furniture manufacturing firm by 47%; a unit decrease in access to credit would cause an increase in financial performance by 63%. Also a unit increase in initial capital would result in an increase in financial performance by 26%. Further, a unit increase in number of employees would facilitate an increase in financial performance by 9.9%; a unit decrease in price would lead to an increase in financial performance by 24% while a unit decrease in distance to the furniture industries leads to an increase in performance by 18.9 % and a unit increase in level of networking would lead to about 5.3 % increase in performance.

# CHAPTER FIVE

# CONCLUSIONS AND RECOMMENDATIONS

## 5.1    Conclusions

### 5.1.1    General conclusion

The overall objective of the study was to analyze factors affecting competitive advantage of SIDO supported small scale furniture industries in Tanzania. Specifically, the study characterized SIDO supported small scale furniture industries, compared to the profitability of imported furniture against SIDO supported small scale furniture industries and analyzed the determinants of consumers' willingness to pay for imported versus locally manufactured furniture. Lastly, the study investigated  factors affecting performance of SIDO supported small scale furniture manufacturers. From the findings discussed in the previous chapter,  it can generally be concluded that competitive advantage of SIDO supported small scale furniture industries is low compared to imported furniture. However, this cannot negate the fact that SIDO supported small scale furniture industries are also feasible business. The major reasons may be due to insufficient start-up capital, inadequate employees, minimum utilization of networking potentials and inadequate marketing strategies as a result of low experience. In general, this section presents conclusions relating to research objectives as discussed hereunder.

### 5.1.2    Socio-economic characteristics of small scale furniture industries

The first research objective guiding this study sought to characterize SIDO supported small scale furniture industries. The study suggested that male domination

in furniture industry may be due to cultural background which hinders women involvement in many productive activities or may be due to negative perceptions of women on engagement in labour intensive activities. High level of education and age seemed to enhance the success of imported furniture compared to their counterparts. These were found to trigger imported furniture capacity in terms of processing information and flexibility to openness, innovation and development of strategic decisions. Furthermore, experience in furniture industry seemed to favour imported furniture than SIDO supported small scale furniture industries. Large exposure to the furniture business enhanced imported furniture learning curve and thus enabled them to earn more income compared to their counterparts. From resource view perspective, for SIDO supported small scale industries to achieve competitive advantage, they need to establish business networks, brands, general management skills, and innovation which will not be easily copied or caught up by their rivals.

The study further concludes that sources of income contribute to the success of furniture entrepreneurs. SIDO supported small scale furniture manufacturers mobilize initial capital mainly from informal sources which account for underperformance in furniture industry. To the contrary, sources of income for imported furniture had been diversified. This enabled them to expand their business and thus be able to enjoy the economies of scale from bulk purchasing and increased number of employees.

Location-wise, there was no significant difference in social-economic variables studied, except on start-up capital whereby Arusha was found to have a bit higher start-up capital than Dar es Salaam. The possible reason might be that initial cost for running furniture business is high in Arusha, probably due to high cost of furniture manufacturing raw materials.

### 5.1.3 Profitability of importers of furniture versus small scale furniture industries

Based on the profitability level, the findings of this study suggested that RORI earned per month was higher for imported furniture than that of SIDO supported small scale furniture industries. Two major reasons were found to affect profitability of SIDO supported small scale furniture industries. These were consumers' preferences on imported furniture and their willingness to pay higher prices on the same, and inadequate knowledge on cost effective analysis. Low preference and willingness to pay for locally made furniture were found to be due to old design, poor workmanship and poor quality. Ability to establish a cost advantage as proposed by Porter (1998) requires possession of scale efficient production, superior process technology, ownership of low cost sources of raw materials or access to low rate of loans. It is apparent that SIDO supported small scale furniture industries are yet to achieve.

In terms of geographical location, the study revealed that, overall, furniture business in Dar es Salaam was more sound compared to Arusha. However, in terms of specific items, Arusha was found to be benefited more by locally made furniture than imported furniture. This is to say that in Arusha locally made furniture enjoys a

competitive advantage over imported ones as they earn superior financial returns. That is when a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market.

### 5.1.4 Consumers' willingness to pay for imported versus locally manufactured furniture

From the findings of this study, significant differences were reported on the level of consumers' preference and willingness to pay for furniture products. Imported furniture seemed to be far ahead preferred by consumers and had positive inclination towards willingness to pay. It can, therefore, be concluded that the major differences in consumers' preference and willingness to pay for furniture were due to quality, design and brand of the furniture products. This indicates that SIDO supported small scale furniture industries should make emphasis on adequate skills, technology and innovation in order to produce competitive products and be able to boast the level of production. That is making the highest quality product, providing superior customer service, achieving lower costs than rivals, having a more competing brand, a more reliable and longer lasting product and providing customers more value for the money are strategies that will enable SIDO supported small scale furniture industries to achieve competitive advantage.

### 5.1.5 Factors affecting competitiveness of small scale furniture industries

The study highlighted that there were eight factors influencing competitiveness of small scale furniture industries. These included experience of the firm, level of accessing credit, sources of initial capital, type and number of employees, pricing

mechanisms, market location, products diversification and networking. It is therefore concluded that, for SIDO supported small scale furniture industries to be competitive in future, the fundamental prerequisites for market are the presence of barriers to entry. Barriers to entry are based upon scale of economies, ownership, experience advantage, brand reputation or some other resources (capital, employees, credits, business networks) which incumbent firms possess, but which entrants can acquire only slowly or at disproportionate expense.

## 5.2    Contribution to Knowledge

The study endeavoured to fill knowledge gaps associated with characterization, profitability and performance influencing factors in relation to competitiveness of SIDO supported small scale furniture industries. The study has established that most of the SIDO supported small scale furniture industries are managed by "owner managers" and that management is personalized rather than institutionalized. Both investment and management are tied together on personalities rather than the industry itself implying that decision making in favour of more advantageous course of action is easier.

The study has also established that SIDO supported small scale furniture industries generate adequate profit to sustain their operations. It has been confirmed that, regardless of influx of imported furniture, locally made furniture are profitable and competitive business entities.

The study established further that there are differences on the magnitude at which socio- economic factors influence consumers' preference and amount of money that consumer are willing to pay for locally made and imported furniture. It has been established that age of the firm, credit, and initial capital, number of employees, price, location, diversification and networking have a greater influence on competitiveness of small scale furniture industries compared to other factors.

The study has revealed that theories of competitive advantage used in this study provide only limited insights on the competitiveness of SIDO supported small scale furniture industries. When each theory is examined independently, none of them fully explains the complexity of competitiveness of the small scale furniture industries.

## 5.3    Recommendations

Based on the research results and the conclusions above, the following recommendations are proposed to government and other stakeholders involved so as to make SIDO supported small scale furniture industry more competitive.

Policy actions should be directed towards enabling SIDO supported small scale furniture manufacturers to upgrade their socio-economic characteristics by ensuring more women are involved in the business. Further, these should go together with enabling them to have capacity to process information and flexibility to openness, innovation and development of strategic decisions for betterment of their firms.

SIDO supported need to adopt modern production practices and improve their performance so that they can make adequate profits. This will be achieved if the government provide adequate environment for SIDO supported manufacturers to access modern equipment and be able to improve their knowledge. This should be done through enhancement of technology development, transfer and technical services that will enable them to improve productive capacity, productivity, products quality, and infrastructure and technology development.

To make consumers prefer locally made furniture and pay premium price, small scale producers need to employ market intelligence most importantly to understand differences in consumer behaviour based on market segmentation. Understanding the needs of each of the different segments may be helpful in product and price differentiation so as to effectively serve the high potential segments and avoid unnecessary competition, as it was shown in the findings that, gender and age, knowledge, quality and income influence willingness to pay differently. SIDO supported manufacturers need to improve on workmanship, especially in the area of quality design and surface finishing. SIDO supported small scale furniture manufacturers need to become responsive to changes in consumer preferences. They need to adopt an approach of customer oriented marketing and engage in intensive marketing strategies through advertising and promotion campaigns.

For SIDO supported small scale furniture manufacturers to build their capacity to produce better quality products, they need to strengthen their efforts in experience sharing and networking with other successful furniture manufacturers within and outside the country. Moreover, the government and other pertinent stakeholders

should establish support programmes such as incubator centres where aspired furniture manufacturers can be mentored prior to starting their own businesses. The experience gained in this form would help furniture manufacturers gain the business knowledge which is considered crucial for attaining competitive advantage.

Current practice shows that initial capital for SIDO supported small scale furniture industries enable them to survive in the business. However, for long term perspective, SIDO supported small scale furniture industry should strengthen sources for securing initial capital that is sufficient to capacitate firms operate with full potential.

Even if the majority of SIDO supported small scale industries enterprises found in the study area employed more than one person, the number and capacity of those employees would be found not to help much in firm performance. It is therefore recommended that SIDO supported small scale manufacturers should be encouraged to hire adequate number of employees with relevant skills in order to ensure proper workload and efficient use of working capacity in order to facilitate competitive performance.

The organizations engaged in SMEs promotion including VETA and SIDO must deploy a variety of instruments and methodologies, ranging from entrepreneurial skill training; business development services (BDS) and technical support, to capacity development, empowerment and the provision of credit and investment funding as well as monitoring mechanism to ensure that in future small scale furniture industries became competitive.

## 5.4    Areas for Further Research

Based on the findings from the study, the recommendations for further research given below will aim at making SIDO supported small scale furniture manufacturers more competitive. The following are proposed areas for further research.

(a)    This study did not focus on women entrepreneurial tendencies in furniture manufacturing sector. Therefore, it is proposed that future research should include entrepreneurial tendencies in the furniture manufacturing sector in Tanzania

(b)    Future study should also be on factors that affect formalization of furniture manufacturing industry in Tanzania. This will enable those who are concerned to come out with appropriate interventions and thus will make the furniture manufacturing industry more competitive.

(c)    Research on supply chain of furniture from manufacturers to the consumers should also be conducted. This will enable identification of actors involved, their roles as well as benefits received.

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66.

**APPENDICES**

**Appendix I:    Schedule of activities**

| S/No. | Activity | Time |
|---|---|---|
| 1 | Concept note development and presentation | January – June, 2012 |
| 2 | Proposal writing and presentation | June 2013 -June 2013 |
| 3 | Literature review | Various |
| 4 | Pre-testing the tool | September 2013 – November 2013 |
| 5 | Field work | November 2013 – January 2014 |
| 6 | Data coding and entry | February to April 2014 |
| 7 | Thesis writing | April  2014 –  Dec 2015 |
| 8 | Thesis submission for examinations | January 2015 |

**Appendix II:    Study budget**

| ITEMS | QUANTITY | RATE | AMOUNT |
|---|---|---|---|
| Accommodation | 4 Years | 720 000 | 2 880 000.00 |
| Meals | | | 9 600 000.00 |
| Pocket money | | | 4 800 000.00 |
| Settling allowance | | | 300 000.00 |
| Sub Total | | | 17 580 000.00 |
| **STATIONARIES** | | | |
| Printing paper | 10 | 8 000.00 | 80 000.00 |
| Writing pads | 10 | 1 000.00 | 10 000.00 |
| Books | 4 | 500 000 | 2 000 000.00 |
| Note book | 10 | 700.00 | 7 000.00 |
| Pen | 10PC | 5 000.00 | 5 000.00 |
| Pencil | 10PC | 300.00 | 3 000.00 |
| Erasers | 10 | 500.00 | 5 000.00 |
| Questionnaire preparation | 1 | 100 000.00 | 100 000.00 |
| Photocopying proposal | 10 | 4 000.00 | 40 000.00 |
| Photocopying questionnaire | 210 | 1 000.00 | 210 000.00 |
| Sub Total | | | 1 600 000.00 |
| **RESEARCH WORK** | | | |
| DSA | 150 days | 65 000.00 | 9 750 000.00 |
| Research Assistants | 100 | 45 000.00 | 4 500 000.00 |
| Literature search | | | 2 100 000.00 |
| Transport cost | 6 | 200 000.00 | 1 400 000.00 |
| Sub Total | | | 17 750 000.00 |
| **THESIS PRODUCTION** | | | |
| Printing | 10 copies | 15 000.00 | 150 000.00 |
| Photocopying | 10 copies | 5 000.00 | 50 000.00 |
| Soft binding | 10 copies | 10 000.000 | 100 000.00 |
| Hard binding | 10 copies | 20 000.000 | 200 000.00 |
| **Sub Total** | | | **500 000.00** |
| **GRAND TOTAL** | | | **37 430 000.00** |

**Appendix III:    A priori Expectations**

**For objective two**

GR a positive relationship is expected because the more the revenue the more the profit, ceteris paribus

ROR variable indicating the amount of money per capital invested. The coefficient of this variable is therefore expected to have a positive sign

TVC a negative relationship is expected because the more the variable cost the less the profit

TFC a negative relationship is expected because the more the fixed cost the less the profit

**For objective three**

AGE is a continuous variable showing age of the head of a household. It is expected to have positive sign as people get old they become more patriotic to their country and therefore willing to pay for locally furniture more than imported one

SEX is the dummy variable capturing sex of the head of the household as consumer. It takes the value of 1 if male and 0 otherwise. It is expected to have negative sign because it is a woman who takes care of house. Therefore women are likely to be more willing to pay imported furniture more than the locally made one

EDC captures the education of the head of the household as consumer. It will be measured by number of years schooling.  It is expected to increase ability to make informed decisions thereby making rational choices regarding willingness to pay for either locally or imported furniture. It is expected that willingness to pay for locally made furniture will increase with an increase in the level of education; as such the expected sign for the coefficient will be positive.

HHS is a continuous variable which captures the number of adults and children's in the household. Willingness to pay is expected to decline with household size. That is large households are expected to be less willing to pay for imported furniture to avoid high premiums as compared to small households. Therefore, the expected sign for the coefficient is positive.

OCP is a dummy variable capturing the occupation of the head of the household as consumer. It takes the value of 1 if he/she is employed in formal sector and 0 otherwise. This is expected to have negative sign because people in the formal sector of the economy are likely to have stable and predictable income sources hence are willing to pay for imported furniture more than the locally made one

INC is a continuous variable indicating the amount of money in a year in TZS of the household head as a consumer in a year. As such it is anticipated that households with higher levels of income are likely to be more willing to pay for imported furniture than households with lower levels of income. The coefficient of this variable is therefore expected to have a negative sign.

PRI is a continuous variable indicating the Amount of money charged for buying locally or imported furniture. As such it is anticipated that households (Consumers) will be more likely to pay for locally made furniture because they are priced low compared to imported furniture The coefficient of this variable is therefore expected to have a positive sign

BRD is a dummy variable indicating quality of furniture in terms of where the furniture is manufactured and sold 1 if product is locally made 0 if otherwise. It is expected that consumer will pay more for imported furniture than the locally made furniture because of high admiration to developed country lifestyle and hence the coefficient will be negative.

KNW about durability of brand is a dummy variable indicating the knowledge of a consumer to a product. It takes the value of 1 if consumers are knowledgeable on the

product and 0 if not. It is expected that consumers will pay for locally made furniture more than the imported one because they are knowledgeable about them and hence coefficient will be positive.

DIS is a dummy variable indicating style and design and takes the value of 1 if furniture is bought because of superior design, 0 if not. This is expected to have negative sign because consumers will prefer imported furniture more to locally made furniture because imported furniture have superior design

DIST a positive relationship is expected because distance to selling point, ceteris paribus the higher the transaction costs which in turn negatively influence consumers to buy imported furniture because the shops are located far from where the consumers stay

**For objective four**
AGE is a continuous variable showing age of the firm. It is expected to have positive sign as firm having many years since its establishment it become more experienced and hence its ability to attain competitive advantage is high

CAP Concerning initial capital it was assumed that, the higher the capital invested the more competitive advantage the industry can be hence positive sign is expected

BRD coefficient will be positive this is because the more the brands the more the sale and the more the competitive advantage

EDC It is expected that ability to attain competitive advantage is influenced by education level of owner hence positive correlation is expected

PRO It is assumed that, possession of professional skills positively will influence ability of the firm to attain competitive advantage hence the relationship will be positive

REG concerning formalization status, it is expected that those who registered their firm do their business in stable environment than those who do not hence the positive sign is expected

A negative relationship is hypothesized between competitive advantage and tax (TAX).The more the tax the less the competitive advantage.

NET positive relationship is hypothesized between networking and competitive advantage. The more the net work the firm has the more the competitive advantage

ORR positive relationship is hypothesized between existence of operation rules and regulations and competitive advantage. This is because with rules and regulations specify what is to be done in the firm and hence be in position to attain competitive advantage more than those who do not

CRD Concerning availability of credit it was assumed that, the more the amount of credit the owner of the firms receives the better the technology used and the more the products produced. This is because, the availability of credit to owner is always crucial to enable them acquire advanced tools and equipments hence the relation is expected to be positive

TECH it is expected to influence competitive advantage positive the advanced the technology used the more the production and the more the sale hence competitive advantage.

**Appendix IV:     Variance Inflation Factor Equation**

a) Variance Inflation Factor equation

Variance inflation factors are one measure that can be used to detect multi-colinearity (condition indices are another). Variance inflation factors are a scaled version of the multiple correlation coefficients between variable j and the rest of the independent variables. Specifically,

$$VIF_j = \frac{1}{1 - R_j^2}$$

where $R_j$ is the multiple correlation coefficient.

Variance inflation factors are often given as the reciprocal of the above formula. In this case, they are referred to as the tolerances.

If $R_j$ equals zero (i.e., no correlation between $X_j$ and the remaining independent variables), then $VIF_j$ equals 1. This is the minimum value. Neter, Wasserman, and Kutner (see Reference below) recommend looking at the largest VIF value. A value greater than 10 is an indication of potential multi-colinearity problems**.**

b) Breusch-Pagan test against heteroskedasticity.

Usage

Bptest (formula, varformula = NULL, studentize = TRUE, data = list ())

Arguments

Formula a symbolic description for the model to be tested (or a fitted"lm"object).

varformulaa formula describing only the potential explanatory variables for the variance (no dependent variable needed). By default the same explanatory variables are taken as in the main regression model**.**

Studentize logical. If set to TRUE Koenker's studentized version of the test statistic will be used.

Data an optional data frame containing the variables in the model. By default the variables are taken from the environment which bptest is called from.

The Breusch-Pagan test fits a linear regression model to the residuals of a linear regression model (by default the same explanatory variables are taken as in the main

regression model) and rejects if too much of the variance is explained by the additional explanatory variables**.**

## Appendix V:      Depreciation Formula

The straight line method of depreciation will be adopted in the study. It is represented thus:

$D = (C-S)/n$

Where

$D=$

Annual Depreciation

$C=$ Initial Costs of fixed assets

$A=$ Salvage value

$n=$ Production life of assets.

$C = S/N$

Where:

$C =$ Cost of fixed assets

$S =$ Salvage value

$n=$ Economically productive years of fixed input

**Appendix VI:    Questionnaires**



# MOSHI UNIVERSITY COLLEGE OF
# CO-OPERATIVE AND BUSINESS STUDIES
# (MUCCoBS)



## The Constituent College of Sokoine University of Agriculture

A PhD survey on Analysis of Competitive Advantage of SIDO Supported Small Scale Furniture Industries against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania, 2013

**A. SIDO SUPPORTED SMALL SCALE FURNITURE INDUSTRIES**

**Dear respondent,**

The purpose of this questionnaire is to enable the researcher to collect data on the **Analysis of Competitive Advantage of SIDO Supported Small Scale Furniture Industries against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania**. The data will be used in strict confidence for the academic purpose only. The purpose is to use data for developing a PhD study.

**Questionnaire number:** _____

**Date of interview:** _____

**Name of the enumerator:** _____

**Name of the interviewee:** _____

**Organization:** _____

**Registration (date if any)** _____

**Position in the firm:  1. Manager Employee**

**2. Manager owner**

**City:              1. Dar es salaam**

**2. Arusha**

**Phone number of the interviewee:** _____

**E-mail address:** _____

**A. Socio-economic and Demographic Characteristics of Respondents**

1. Sex of respondents (Tick appropriate answer)

| 0= Female | | 1=Male | |
|---|---|---|---|

2. Age of respondent……………………………………………………………………………………

3. Marital status (Tick appropriate answer)

| 1=Married | | 3=Divorced | | 5= Single | |
|---|---|---|---|---|---|
| 2=Widowed | | 4= separated | | 6= Other specify | |

4. Education level of respondent, state number of years in schooling………………...(Please circle the highest year of school completed):

1 2 3 4 5 6 7   8 9 10 11    12 13    14 15 16     17+

(Primary)    (O'Level)    (A'Level)    (College/University)  (Grad. school)

5. Household size composition

| Age | Sex | | Total |
|---|---|---|---|
| | **Male** | **Female** | |
| < 18 years | | | |
| 18 -60 years | | | |
| > 60 | | | |
| **Total** | | | |

6. Monthly income level of respondent in TZS during the year 2013………………………...

| Item | Amount |
|---|---|
| Sales of furniture | |
| Salary | |
| Business | |
| Remittances | |

| | |
|---|---|
| Crop sales | |
| Sales of livestock and livestock products | |
| Others | |
| **Total annual income from all sources** | |

7. Occupation status (Tick appropriate answer)

| 1= Employed | 0 = Not employed |
|---|---|
| | |

8. If employed in what category (Tick appropriate answer)

| 1= Civil servant | | 3= Owning a business/firm | |
|---|---|---|---|
| 2= Employed with non-governmental organization | | 4= Farmer | |
| 5 = Employed and owning business firm | | 6 = All of the above | |

## B. Characteristics of a firm

1. Years since establishment……………………………………………………
2. Capital

| Start up capital | Amount in TZS………. | Current Capital | Amount in TZS………. |
|---|---|---|---|
| | | | |

3. Source of initial capital (Tick appropriate answer)

| 1= Family contribution | Amount in TZS…. | 3 = borrowed money from SACCOs/Other Non-Banking financial Institutions Loan | Amount in TZS. | 5 = borrowed money from Bank | Amount in TZS…. |
|---|---|---|---|---|---|
| 2 = Personal Savings | Amount in TZS. | 4 = Upatu | Amount in TZS. | 6 = Inherited business from parents | Amount in TZS…. |

| 7 = Inherited cash from parents | Amount in TZS. | 8 = Other, specify | Amount in TZS. | | |
|---|---|---|---|---|---|
| | | | | | |

4. What is the source of labour for furniture production? : 1=family, 2=hired 3=Both hired and family labour

5. What kind of labour have you hired on your firm? 1=Casual, 2=Permanent, 3=Both

6. If you have hired both

   why………………………………………………………

   …………………………………………………………………………………

   …………………………………………………………………………………

   How many employees do you have?

| Casual | Male | | Female | | Total | How much on average do you pay them per day as their daily wage.............. |
|---|---|---|---|---|---|---|
| Permanent | Male | | Female | | Total | How much on average do you pay them per month……………… |
| Both | | | | | | |

7. Form of ownership (Tick appropriate answer)

| 1 = Sole proprietorship | 3= Co-operative | 5 = Other specify |
|---|---|---|
| 2 = Partnership | 4 = Corporation | |

8. Registration status (Tick appropriate answer)

| 1 = Registered | | 0 = Not registered | |
|---|---|---|---|

9. If yes in 9 above, give the registration ( TIN number)……………………………………

10. If no in 9 above why? (Tick appropriate answer)

| 1= I do not see the importance of registering a | 3= I do not know the procedure for business registration | 5= My business is not permanent | 7=Business registration takes long time |
|---|---|---|---|

| business | | | |
|---|---|---|---|
| 2= My business do not fall in the category that require registration | 4=Business registration and procedures are cumbersome | 6= Costs of registering a business are high | 8=Other specify |

11. The form of ownership has bylaw?

| Has by-law | Has no by-law |
|---|---|
| | |

12. If you don't have by-laws how do you operate towards the intended goals?……………
…………………………………………………………………………………………
…………………………………………………………………………………………

13. Types of equipment used (Tick appropriate answer)

| 1 = Modern electrical machine | 0 = Not modern non electrical machine |
|---|---|

14. Availability of professional skills (Tick appropriate answer)

| 1= Available | | 0 = Not available | |
|---|---|---|---|

15. Types of Wood used in furniture production (Tick appropriate answer)

| 1= From natural forest | | 2= Planted | |
|---|---|---|---|

16. If from natural forest among the following which one do you prefer

| 1 = Teak (*Tectona grandis)* | 3 = Mahogany (*Khaya senegalensis)* | 5 = Iroko (*Milicia excels)* |
|---|---|---|
| 2 = Gmelina (*Gmelina arborea)* | 4 = Makore (*Mansonia heckeii)* | 6 = Ogea (*Danniella oliverii)* |

17. Marketing model

| 1= For sale | | 2 = For contract | | 3= Both | |
|---|---|---|---|---|---|

18. In which form do you normally sale your furniture (Tick appropriate answer)

| **1=** On Cash | | 2 = On credit | | 3= Other (specify) | |
|---|---|---|---|---|---|

## C. Effects of imported Furniture

1. How would you rate availability of customers in the past ten years? (Tick appropriate answer)

| 1= Increasing | 2=Decreasing | 3 = No change |
|---|---|---|
| | | |

2. How do you rate availability of customers in the past ten years

| 1= Increasing | 2=Decreasing | 3 = No change |
|---|---|---|
| | | |

3. Do you think the trend explained in 2 and 3 related to importation of furniture?

| 1 = Yes | 2 = No |
|---|---|
| | |

4. If no why……………………………………………………………………………

   …………………………………………………………………………………………

   ……………………….………………………………………………………………………

   ……………………………..…………………………………………………………………

   If yes explain…………………………………………………………………………

   …............……………………………………………………….………………………

   ……………………………………………………………………………………………

   ……………………………………………………………………………………………

   How do you rate the quality of your furniture?

| 1= Very good | 2=Good | 3= Moderate | 4= Not good |
|---|---|---|---|
| | | | |

5. Give your opinion of the quality of imported furniture

| 1= Good | 2=Bad | 3= I don't know |
|---|---|---|
| | | |

6. Do you think customers are likely or not likely to buy your furniture?

| 1= More likely | 2=Likely | 3= Less likely |
|---|---|---|
| | | |

7. Explain your answer in question

   (8)………………………………………......................................……………

   …………………………………………………………………………………………

   ………………………………………………………………………………

Has the quality of your furniture changed as a result of imported furniture?

| 1= Yes | 0= No |
|--------|-------|

8. If yes explain
   why………………………………………………………………………………
   ………………………………………………………………………………………
   ………………………………………………………………………………………

9. Have you ever copied or imitated the design of your products from imported ones?

| 1= Yes | 0=No |
|--------|------|

10. If yes in question above have you been able to attract more customers?

| 1=Yes | 0= No |
|-------|-------|

## D. **Profitability**

1. **(costs involved in furniture production per month)**

| Production Costs | Amount in TZS |
|------------------|---------------|
| *Variable costs* | |
| Plank | |
| Timber | |
| Nail | |
| Adhesive | |
| Clothing | |
| Electricity | |
| Transport | |
| Labour | |
| Polish | |
| Any other cost | |
| **Total Variable Cost** | |
| *Fixed Cost* | |
| Depreciation of structures/Machines | |
| Shed | |
| Knives | |
| Hammer | |
| Rent | |

| | |
|---|---|
| Spraying machine | |
| Saw | |
| Jack plane | |
| Chisel | |
| Any other cost | |
| **Total Fixed Cost** | |
| **Total Cost** | |

2. **Please provide your daily sales, unit price and revenues**

| Types of furniture | | Number of unit sold | Price (TZS | Revenue(TZS/day |
|---|---|---|---|---|
| Sofa set | Small | | | |
| | Medium | | | |
| | Large | | | |
| cabinet | Small | | | |
| | Medium | | | |
| | Large | | | |
| Dinning table | Small | | | |
| | Medium | | | |
| | Large | | | |
| Coffee table | Small | | | |
| | Medium | | | |
| | Large | | | |
| Bed | Small | | | |
| | Medium | | | |
| | Large | | | |

**E. Factors that may impact competitive advantage**

1. How many products does your firm produce……………………………………………….

2. Have you attended any professional training

| 1= Yes | 0= No |
|---|---|
| | |

3. If yes mention the course pursued and institution offered?

| Name of the course | Institution attended |
|---|---|
|  |  |
|  |  |
|  |  |

4. Do you advertise your products ?

| 1= Yes | 0= No |
|---|---|
|  |  |

5. If yes how many times do you advertize your products per year
……………………………

6. Which methods do you use to advertize your products (Mention)

| 1= Radio | 3= News paper | 5= Word of mouth |
|---|---|---|
| 2= TV | 4= Postures | 6= Display sales system |

7. What advantages you got through advertising your products?

| 1= More profit | 3= Sales increase | 5= Positive image |
|---|---|---|
| 2= More customers | 4= Networking | 6= Other specify |

8. If you have been able to attract more customers how many

| Number of customers before advertisement | Number of customers after advertisement |
|---|---|
|  |  |

9. Do you firms have any rules or regulations that guide in day to day operation of your business

| 1= Yes | 0= No |
|---|---|
|  |  |

10. If yes 9 above how many………………………. and mention them

|  |  |  |
|---|---|---|
|  |  |  |

11. Have you ever borrowed money from any financial institutions

| 1= Yes | 0= No |
|--------|-------|
|        |       |

12. If yes how many times and how much

| Frequency of borrowing | Amount borrowed in TZS | Source |
|------------------------|------------------------|--------|
|                        |                        |        |
|                        |                        |        |
|                        |                        |        |

13. Does inflation affects your business

| 1= Yes | 0= No |
|--------|-------|
|        |       |

14. If yes in 12 above how

…………………………………………………………………………………

…………………………………………………………………………………

…………………………………………………………………………………

Are there any firm offering similar products as yours?

| 1= Yes | 0= No |
|--------|-------|
|        |       |

15. If yes how many

…………………………………………………………………………………….

16. Mention the firm offering similar products as yours

|  |  |  |
|--|--|--|
|  |  |  |

17. How do you differentiate your enterprise product/service from that of competitors? (Tick appropriate answer)

| 1= Price | 3= Design | 5= Others (specify) |
|----------|-----------|---------------------|
| 2=Type of material | 4= Brand |  |

18. Is there room for your enterprise to excel in relation to competition around?

| 1= Yes | 0= No |
|--------|-------|
|        |       |

19. What type of technology do you use in manufacturing your products? (Tick appropriate answer)

| 1= Modern electrical technology | 2= Traditional not electrical technology |
|---|---|

20. What criteria did you use to select the technology? (Tick appropriate answer)

| 1= Cost (Affordability) | 3= Ability to operate | 5= Availability of skills within the firm or around |
|---|---|---|
| 2= Availability in the market | 4= ease to maintenance | 6= Other (specify) |

21. Do you think the technology used maximizes the production?

| 1= Yes | 0= No |
|---|---|

22. If yes to the above 20 question why?

……………………………………………………………………………………………

……………………………………………………………………………………………

Do you pay tax? 1 = Yes, 0= No

23. How much in TZS do you pay as a tax in a year……………………………………….

24. What type of tax …………………………………………………………………..

………………………………………………………………………………………

………………………………………………………………………………………

25. Did your industry develop any network in the past 12 month    0 = No, 1 = Yes

If yes in Q22 list the name of institutions your organization network with

| 1. | 2. | 3. |
|---|---|---|
| 4. | 5. | 6 |

26. Number of business association you are involved with……………………………..

27. Do you think imported furniture affects your ability to make profit 0 = No, 1 = Yes

28. If yes on question no.27 how (explain)

……………………………………………………………………………………

……………………………………………………………………………………

…………………………………………………………………………………..

29. Are you aware of any business policy 0 = No, 1 = Yes

30. Do you think business policy affect your ability to generate profit 0 = No, 1 = Yes

31. If yes

how…………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

32. Have you received any assistance from the government? 0 = No, 1 = Yes

33. Are you satisfied with the service provided by government 0 = No, 1 = Yes

34. If no

why……………………………………………………………………………

…...............................…………………………………………………………

……………………………………………………………………………………

35. What are the challenges which affect your business?

……………………………………………………………………………………

……………………………………………………………………………………

……………………………………………………………………………………

36. What do you normally do to overcome the listed challenges?

……………………………………………………………………………………

……………………………………………………………………………………

Respond to the following statement

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | 5 | 4 | 3 | 2 | 1 |
| Do you advertise your commodity | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| before taking to the market | | | | | |
| The cost of your commodity is based on the existing market | | | | | |
| The cost of your commodity is based on the quality of your commodity | | | | | |
| Do you consider the quality of your commodity in relation to your customers needs | | | | | |
| Do you consider the time (lead) the commodity required by your customers in the market | | | | | |
| Do you consider profit of your commodity based on quality of your commodity | | | | | |
| Inflation affects your industries ability to make profit | | | | | |
| Technology used affect your industry ability to make profit | | | | | |
| Do you consider your commodity to have brands | | | | | |
| Do you consider imported furniture as good one | | | | | |

37. Policy Index

Respond to the following statement

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | **5** | **4** | **3** | **2** | **1** |
| Country business policies are good to my business | | | | | |
| I know policies related to my business | | | | | |
| Country policies do not allow massive import | | | | | |
| Country policies create good working environment | | | | | |
| I don't know how country policy affect my business | | | | | |

38.   Access to Credit index

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | **5** | **4** | **3** | **2** | **1** |
| It is possible to get credit | | | | | |
| I'm scared of funding my business through credit | | | | | |
| I can't afford to pay credi | | | | | |
| Credit is for rich people | | | | | |
| I have never heard of credit sources | | | | | |

39. Location Index

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | 5 | 4 | 3 | 2 | 1 |
| Visibility | | | | | |
| Convenient | | | | | |
| Accessibility | | | | | |

**Thank you very much for your time and information that you gave us**

**MOSHI UNIVERSITY COLLEGE OF**

**CO-OPERATIVE AND BUSINESS STUDIES**

**(MUCCoBS)**

The Constituent College of Sokoine University of

A PhD survey on Analysis of Competitive Advantage of SIDO Supported Small Scale Furniture Industries against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania, 2013

**B. IMPORTERS OF FURNITURE**

**Dear respondent,**

The purpose of this questionnaire is to enable the researcher to collect data on the Analysis of Competitive Advantage of SIDO Supported Small Scale Furniture Industries against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania. The data will be used in strict confidence for the academic purpose only. The purpose is to use data for developing a PhD study.

**Questionnaire number:** _____

**Date of interview:** _____

**Name of the enumerator:** _____

**Name of the interviewee:** _____

**Organization:** _____

**Position in the firm:**  1. Manager Employee

                     2. Manager owner

**City:**  1. Dar es salaam

                 2. Arusha

**Phone number of the interviewee:** _____

**E-mail address:** _____

## A. Socio-economic Characteristics of Respondents

1. Sex of respondents

| 0= Female | | 1=Male | |
|---|---|---|---|

2. Age of respondent……………………………………………………………

3. Marital status (Tick appropriate answer)

| 1=Married | | 3=Divorced | | 5= Single | |
|---|---|---|---|---|---|
| 2=Widowed | | 4= separated | | 6= Other specify | |

3. Education level of respondent, state number of years in schooling………...

   (Please circle the highest year of school completed):

   1 2 3 4 5 6 7    8 9 10 11    12 13    14 15 16    17+

   (Primary)  (O'Level)  (A'Level)  (College/University) (Grad. School

5. Household size composition

| Age | Sex | | Total |
|---|---|---|---|
| | Male | Female | |
| < 18 years | | | |
| 18 -60 years | | | |
| > 60 | | | |
| **Total** | | | |

6. Monthly income level of respondent in TZS during the year 2013………………...

| Item | Amount |
|---|---|
| Sales of furniture | |
| Salary | |
| Business | |
| Remittances | |
| Crop sales | |
| Sales of livestock and livestock products | |
| Others | |
| **Total annual income from all sources** | |

**B. Socio-economic Characteristics of a firm**

1. Years since establishment)…………………………………………………...

2. Capital

| Start up capital | Amount in TZS…. | Current Capital | Amount in TZS…. |
|---|---|---|---|

3. Source of initial capital

| 1= Family contribution | Amount in TZS………. | 3 = borrowed money from SACCOs/Other Non-Banking financial Institutions Loan | Amount in TZS………. | 5 = borrowed money from Bank | Amount in TZS………. |
|---|---|---|---|---|---|
| 2 = Personal Savings | Amount in TZS………. | 4 = Upatu | Amount in TZS………. | 6 = Inherited business from parents | Amount in TZS………. |
| 7 = Inherited cash from parents | Amount in TZS………. | 8 = Other, specify | Amount in TZS………. | | |

4. What is the source of labour for furniture selling? : 1=family, 2=hired 3=Both 4= both hired and family labour

5. What kind of labour have hired on your firm? 1=Casual, 2=Permanent, 3=Both

6. If you have hired both why………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

7. How many employees do you have?

| Casual | Male | Female | | Total | How much do you pay them per day as their daily wage?.............. |
|---|---|---|---|---|---|
| Permanent | Male | Female | | Total | how much do you pay them per month……… |
| Both | | | | | |

8. Sex of owner

| 0= Female | | 1=Male | |
|---|---|---|---|

9. Form of ownership (Tick appropriate answer)

| 1 = Sole proprietorship | 3= Co-operative | 5 = Other specify |
|---|---|---|
| 2 = Partnership | 4  = Corporation | |

10.Registration status (Tick appropriate answer)

| 1 = Registered | | 2  = Not registered | |
|---|---|---|---|

11. If yes in 9 above, give the registration ( TIN number)………………………

12. If no in 11 above why? (Tick appropriate answer)

| 1= I do not see the importance of registering a business | 3= I do not know the procedure for business registration | 5= My business is not permanent | 7=Business registration takes long time |
|---|---|---|---|
| 2= My business do not fall in the category that require registration | 4=Business registration and procedures are cumbersome | 6= Costs of registering a business are high | 8=Other specify |

C. **Profitability**

**i. (costs involved in furniture selling per month)**

| Production Costs | Amount in TZS |
|---|---|
| *Variable costs* | |
| | |
| Electricity | |
| Transport | |
| Labour | |
| Tax | |
| Any other cost | |
| **Total Variable Cost** | |

| Fixed Cost | |
|---|---|
| Depreciation of structures | |
| Rent | |
| Any other cost | |
| **Total Fixed Cost** | |
| **Total Cost** | |
| **Net income** | |

ii) **Please provide your daily sales, unit price and revenues**

| Types of furniture | | Number of unit sold | Price (TZS | Revenue(TZS/day |
|---|---|---|---|---|
| Sofa set | Small | | | |
| | Medium | | | |
| | Large | | | |
| cabinet | Small | | | |
| | Medium | | | |
| | Large | | | |
| Dinning table | Small | | | |
| | Medium | | | |
| | Large | | | |
| Coffee table | Small | | | |
| | Medium | | | |
| | Large | | | |
| Bed | Small | | | |
| | Medium | | | |
| | Large | | | |

iii) What are the challenges which affect your business?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

iv) What do you normally do to overcome the listed challenges?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

**MOSHI UNIVERSITY COLLEGE OF**

**CO-OPERATIVE AND BUSINESS STUDIES**

**A PhD survey on Analysis of Competitive Advantage of SIDO Supported Small Scale Furniture Industries Against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania, 2013**

**C. Furniture Consumers**

**Dear respondent,**

The purpose of this questionnaire is to enable the researcher to collect data on the Analysis of Competitive Advantage of SIDO Supported Small Scale Furniture Industries against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania. The data will be used in strict confidence for the academic purpose only. The purpose is to use data for developing a PhD study.

**Questionnaire number:** _____

**Date of interview:** _____

**Name of the enumerator:** _____

**Name of the interviewee:** _____

**City:**        **1. Dar es Salaam**

                 **2. Arusha**

**Phone number of the interviewee:** _____

**E-mail address:** _____

**A. Socio-economic and Demographic Characteristics of Respondents**

1. Sex of respondents (Tick appropriate answer)

| 1= Female | | 2=Male | |
|---|---|---|---|

2. Age of respondent……………………………………………………………….

3. Marital status (Tick appropriate answer)

| 1=Married | | 3=Divorced/separated | |
|---|---|---|---|
| 2=Widowed | | 4=Never married | |

4. Education level of respondent, state number of years in school………(Please circle the highest year of school completed):

    1 2 3 4 5 6 7  8 9 10 11    12 13     14 15 16       17+

    (Primary)    (O'Level)    (A'Level)    (College/University) (Grad. school)

5. Household size composition

| Age | Sex | | Total |
|---|---|---|---|
| | **Male** | **Female** | |
| < 18 years | | | |
| 18 -60 years | | | |
| > 60 | | | |
| **Total** | | | |

6. Monthly income level of respondent in TZS

| Item | Amount |
|---|---|
| Salary | |
| Business | |
| Remittances | |
| Crop sales | |
| Sales of livestock and livestock products | |

| Others | |
|---|---|
| **Total annual income from all sources** | |

7. Occupation status (Tick appropriate answer)

| 1= Employed | 0 = Not employed |
|---|---|

9. If employed in what category (Tick appropriate answer)

| 1    =Civil servant | 2 = Employed with non-governmental organization | 3= Owning a business/firm |
|---|---|---|
| 4 = Farmer | 5 = Others (Specify) | |

**B. Determinants of consumers' willingness to pay for imported and locally manufactured furniture**

1.a) Do you prefer to buy local furniture ? (Tick appropriate answer)

| 0 =  If prefer not to buy local furniture | 1 = If prefer to locally made furniture |
|---|---|

b) Do you prefer to buy Imported furniture? (Tick appropriate answer)

| 0 =   If prefer not to buy Imported furniture | 1 = If prefer to Imported  furniture |
|---|---|

2. Why do you prefers the above furniture

| | | |
|---|---|---|
| | | |

3. When was the last time you purchased furniture…………………………

4. What type of furniture? (Tick appropriate answer)

| | | |
|---|---|---|
| 1= Cabinet | 3= Dinning table | 5= Bed |
| 2=Coffee table | 4= Sofa set | 6= Other, specify |

5. How much did you pay (Price) in TZS…………………………………….

6. Was it imported or locally made furniture? (Tick appropriate answer)

| | |
|---|---|
| 1 = Imported furniture | 2= Locally made furniture |

7. Do you think you paid a fair price? (Tick appropriate answer)

| | | |
|---|---|---|
| 1 = Yes | 2= No | 3=I don't know |

8. If your response yes or no what quality attribute are you looking for?

| | | |
|---|---|---|
| 1 = Style/design | 2 = Quality | 2 = Branding |
| 4 = Product knowledge | 5= Advertisement | |

9. If you were to purchase now how much would you be willing to pay for the following?

| Type of furniture | | Locally | Imported | Reasons |
|---|---|---|---|---|
| Cabinet | Small | 1=150,000-250,000<br>2=251,000-350,000<br>3= 351,000-450,000<br>4=451,000-550,00 | 1=150,000-250,000<br>2=251,000-350,000<br>3= 351,000-450,000<br>4=451,000-550,000 | |
| | Medium | 1=551,000-650,000<br>2=651,000-750,000<br>3= 751,000-850,000<br>4=851,000-950,000 | 1=551,000-650,000<br>2=651,000-750,000<br>3= 751,000-850,000<br>4=851,000-950,000 | |
| | Large | 1=951,000-1,150,000<br>2=1,151,000-2,250,000 | 1=951,000-1,150,000<br>2=1,151,000-2,250,000 | |

| | | | | |
|---|---|---|---|---|
| | | 3= 2,251,000-2,350,000<br>4=2,351,000-2,450,000<br>5=More than 2,500,000 | 3=2,251,000-2,350,000<br>4=2,351,000-2,450,000<br>5=More than 2,500,000 | |
| Cofee table | Small | 1=150,000-250,000<br>2=251,000-350,000<br>3= 351,000-450,000<br>4=451,000-550,000 | 1=150,000-250,000<br>2=251,000-350,000<br>3= 351,000-450,000<br>4=451,000-550,000 | |
| | Medium | 1=551,000-650,000<br>2=651,000-750,000<br>3= 751,000-850,000<br>4=851,000-950,000 | 1=551,000-650,000<br>2=651,000-750,000<br>3= 751,000-850,000<br>4=851,000-950,000 | |
| | Larger | 1=951,000-1,150,000<br>2=1,151,000-2,250,000<br>3= 2,251,000-2,350,000<br>4=2,351,000-2,450,000<br>5=More than 2,500,000 | 1=951,000-1,150,000<br>2=1,151,000-2,250,000<br>3=2,251,000-2,350,000<br>4=2,351,000-2,450,000<br>5=More than 2,500,000 | |
| D/Table | Small | 1=150,000-250,000<br>2=251,000-350,000<br>3= 351,000-450,000<br>4=451,000-550,000 | 1=150,000-250,000<br>2=251,000-350,000<br>3= 351,000-450,000<br>4=451,000-550,000 | |
| | Medium | 1=551,000-650,000<br>2=651,000-750,000<br>3= 751,000-850,000<br>4=851,000-950,000 | 1=551,000-650,000<br>2=651,000-750,000<br>3= 751,000-850,000<br>4=851,000-950,000 | |
| | Large | 1=951,000-1,150,000<br>2=1,151,000-2,250,000<br>3= 2,251,000-2,350,000<br>4=2,351,000-2,450,000 | 1=951,000-1,150,000<br>2=1,151,000-2,250,000<br>3=2,251,000-2,350,000<br>4=2,351,000-2,450,000 | |

| | | | | |
|---|---|---|---|---|
| | | 5=More than 2,500,000 | 5=More than 2,500,000 | |
| Sofa set | | =150,000-250,000 2=251,000-350,000 3= 351,000-450,000 4=451,000-550,000 | =150,000-250,000 2=251,000-350,000 3= 351,000-450,000 4=451,000-550,000 | |
| | | 1=551,000-650,000 2=651,000-750,000 3= 751,000-850,000 4=851,000-950,000 | 1=551,000-650,000 2=651,000-750,000 3= 751,000-850,000 4=851,000-950,000 | |
| | | 1=951,000-1,150,000 2=1,151,000-2,250,000 3= 2,251,000-2,350,000 4=2,351,000-2,450,000 5=More than 2,500,000 | 1=951,000-1,150,000 2=1,151,000-2,250,000 3=2,251,000-2,350,000 4=2,351,000-2,450,000 5=More than 2,500,000 | |
| Bed | Small | 1=150,000-250,000 2=251,000-350,000 3= 351,000-450,000 4=451,000-550,000 | 1=150,000-250,000 2=251,000-350,000 3= 351,000-450,000 4=451,000-550,000 | |
| | Medium | 1=551,000-650,000 2=651,000-750,000 3= 751,000-850,000 4=851,000-950,000 | 1=551,000-650,000 2=651,000-750,000 3= 751,000-850,000 4=851,000-950,000 | |
| | Large | 1=951,000-1,150,000 2=1,151,000-2,250,000 3= 2,251,000-2,350,000 4=2,351,000-2,450,000 5=More than 2,500,000 | 1=951,000-1,150,000 2=1,151,000-2,250,000 3=2,251,000-2,350,000 4=2,351,000-2,450,000 5=More than 2,500,000 | |

If you were to purchase now how much would you be willing to pay for the following

| Type of furniture | | Locally | Imported | Reasons |
|---|---|---|---|---|
| Cabinet | Small | | | |
| | Medium | | | |
| | Large | | | |
| Cofee table | Small | | | |
| | Medium | | | |
| | Large | | | |
| Dinning set | Small | | | |
| | Medium | | | |
| | Large | | | |
| Sofa set | Small | | | |
| | Medium | | | |
| | Large | | | |
| Bed | Small | | | |
| | Medium | | | |
| | Large | | | |

9. Suppose price of imported or locally made furniture increase would you still buy it

10. If yes why…………………………………………………………………………

…………………………………………………………………………………………

11. Distance in kilometer to the selling point ……………………………………

12. What type of furniture do you normally buy?

| 1= Wooden furniture | 0 = other wise |
|---|---|

13. What brand of furniture do you normally buy?

| 1= From large imported furniture company |
|---|
| 2=From normal furniture shops in Kariakoo |
| 3=From local furniture manufacturers |

14. What impressions do you have on the furniture you bought last time from the product description? For each scale shown below, you may choose any number from "1" to "5

| | 1 2 3 4 5 | |
|---|---|---|
| Low in quality | 1 2 3 4 5 | High in quality |
| Low in knowledge | 1 2 3 4 5 | High in knowledge |
| Old-Fashioned | 1 2 3 4 5 | Contemporary |

15. Based on question 13 above why do you prefer the brand

| 1= Increases your reputation, | 3= Lowers costs of replacement | 6= They are cheap |
|---|---|---|
| 2 = Increase your satisfaction | 4=Full warranties | 7= Other specify |

16. What is the total time taken to receive ordered furniture in days………………

17. Respond to the following statement

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | 5 | 4 | 3 | 2 | 1 |
| I do buy furniture because of its quality | | | | | |
| I do buy furniture because of its design and style | | | | | |
| I do buy furniture because of its brand | | | | | |
| I do buy furniture because I'm knowledgeable about it | | | | | |
| I do buy furniture because of influence of advertisement | | | | | |
| I do buy furniture because of its type | | | | | |
| I do buy furniture because of its advertisement | | | | | |
| I do buy furniture at the market because of its presence at the time | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| the commodity required(lead) | | | | | |
| I do buy the furniture of high technology | | | | | |
| I do buy furniture of low price | | | | | |
| I do buy furniture because of income I have | | | | | |
| I do buy furniture without considering distance it obtained | | | | | |

**18.** Furniture Quality Index

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | 5 | 4 | 3 | 2 | 1 |
| Is confortability in furniture i'm looking for | | | | | |
| I buy furniture because is durable | | | | | |
| I Buy furniture of convenience | | | | | |
| I buy furniture that have warrant | | | | | |
| I don't buy furniture that are resistance to deterioration | | | | | |

**19. Furniture knowledge index**

| | Strongly agree | Agree | Undecided | Disagree | Strongly disagree |
|---|---|---|---|---|---|
| | 5 | 4 | 3 | 2 | 1 |
| I buy furniture because i used before | | | | | |
| I buy furniture because of advertisement in media | | | | | |
| I buy furniture because my friend say is good | | | | | |

| | | | | |
|---|---|---|---|---|
| I buy furniture after consulting friends | | | | |
| I just buy | | | | |

## 20. Furniture design index

| | Strongly agree | Agree | Undecided | Disagre e | Strongly disagree |
|---|---|---|---|---|---|
| I buy furniture of good shape | 5 | 4 | 3 | 2 | 1 |
| I buy furniture because of its size | | | | | |
| I buy furniture because if its design | | | | | |
| I buy furniture because of its accuracy | | | | | |
| I buy furniture because of its craftmanship | | | | | |

**Thank you very much for your time and information that you gave us**

**Appendix VII: Focus Group Discussion Guide**

**a) For SIDO Supported Manufacturers**

1. How do rate availability of customers in the past ten years

2. How do you rate availability of customers in the past five years

3. Do you think customers change is related to importation of furniture?

4. How do you rate quality of your furniture

5. What is your opinion on the quality of imported furniture?

6. Has the quality of your furniture changed as a result of imported furniture?

7. Have you ever copied or imitated the design of imported furniture?

8. Do you thing tax charged is fair for your business

**b) For consumers**

1. What are you looking for when buying furniture?

2. Do you think you pay a fair price?

3. If the prices of locally made furniture increase will u still buy it?

43. If the price of imported furniture increases will u still buy it?