



Cite this article as: Kumburu, N. P., Kessy, J. F. & Mbwambo, S. J. (2019). Profitability of SIDO Supported Small Scale Furniture Industries Against Imported Furniture in Dar es Salaam and Arusha Regions, Tanzania. *East African Journal of Social and Applied Sciences*, 1(2), 33-48.

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

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### ABSTRACT

*The study assesses the profitability of Small Industries Development Organisation (SIDO) supported small-scale furniture industry against imported furniture in Dar es Salaam and Arusha cities in Tanzania. A total of 127 respondents were interviewed using questionnaire, focus group discussion and documentary review was also employed to collect data. Descriptive statistics and profitability analysis were used in the analysis of the data. Findings revealed that location wise, there is no significant difference in all socio-economic characteristics. The study revealed that there was significant difference in profit generated between SIDO supported small scale furniture industries and imported furniture firms ( $t = 3.23$  at  $p < 0.05$ ), imported furniture were more profitable compared to locally made furniture. However the study established that SIDO supported small scale furniture industries generate adequate profit to sustain their operations. Furniture business was more profitable in Dar es Salaam, but local furniture industries, generate slightly higher profit in Arusha. Policy actions therefore should be directed towards enabling SIDO supported small-scale furniture manufacturers to adopt modern production practices and improve their performance so that they can make adequate profits.*

**Keywords:** Profitability; SIDO Supported; Small Scale Furniture Industries and Imported Furniture.

**Paper type:** Research paper

**Type of Review:** Peer Review

### 1. INTRODUCTION

Small and Medium Enterprises (SMEs) are recognized as engines of economic growth worldwide (Mutambala, 2011; Karadağ, 2016). In developing countries, including Tanzania, SMEs play 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; Banwo et al., 2017). The share of the SMEs to the gross domestic product (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 (Lameck 2014).

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 constitute 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, the sector 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 of Tanzania 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 ((URT, 2010a). 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. [Furniture industry is among the important sectors in the economy of Tanzania. The sector experienced an influx of furniture from outside the country due to trade liberalization, despite the fact that imported furniture are similar to those produced locally by small scale industries. However 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 have not adequately addressed the economics ( is not known)]. In a competitive environment, sellers of both local and imported furniture aspired to gain profit (Kashi, 2013). Furthermore, the sector has not been fully exploited to the extent that it gives full potential to the economy. [Many studies conducted in Tanzania on furniture industries focused on challenges of upgrading furniture clusters (Murphy 2007), knowledge, technology and cluster based growth (Musonda *et al.*, 2008), growth of small furniture firms (Mhede 2012, Isanga, 2012). None of previous studies assessed the profitability of domestic small-scale furniture manufacturing industries against imported furniture firms in Tanzania]. Thus there is knowledge gap on this matter, hence this study compare the profitability of imported furniture firm and SIDO supported small-scale furniture industries in Dar es Salaam and Arusha regions in Tanzania. In doing so, this study will help to inform policy makers and furniture manufacturers to make more informed decisions towards production, quality and performance of small-scale furniture industries in Tanzania and thus are able to compete effectively in the globalized market.

## 2. REVIEW OF RELATED LITERATURE

Profits are necessary for survival in a competitive environment. Long-term profitability derives from the relations between cost and revenue (Foreman-Peck *et al.*, 2006; Hayek, 2018). Entry barriers and costs pushed down by management ingenuity may hold up revenues. A low profit firm will lack the finance for expansion but a high profit business may conclude the risk and rewards of expansion are inadequate- a 'life-style' furniture

manufacturing for instance. Profitability today may be traded off against profitability tomorrow. Dynamic pricing may require initially lower profits in order to obtain higher future profits from greater market penetration (Disney, Haskel and Heden, 2003; Chenavaz *et al.*, 2017). A furniture manufacturing firms manager's time preference is likely to determine the inter-temporal profit trade-off.

The (static) neoclassical profit function- for the perfectly competitive maximising firm depends on output and input prices and 'technology', or, in the restricted version, includes fixed inputs as arguments as well (Foreman-Peck *et al.*, 2006). Profit performance must be standardised against the size of the operation or the resources employed. Returns on capital equations tend to adopt a specification derived from portfolio management (Söderbom and Pattillo 2002; Zhang, 2017). Cross-section returns are expected to differ between firms because of systematic risk. Also higher accounting profits will be necessary in more capital-intensive activities. Reliable (or any) measures of capital against which rates of return could be measured are not available for the present exercise. Consequently a profit–turnover dependent variable, which can be derived as an equilibrium conditions from output-choosing Cournot-Nash firms, is employed here (Cowling and Waterson 1976; Foreman-Peck *et al.*, 2006).

Melitz and Ottaviano (2008) develop a model of trade that allows for differences across firms; consider a monopolistically competitive industry in which many firms compete by offering different products that are relatively close substitutes for one another at least as compared to products in other industries. For simplicity, it is assumed that each firm produces a single product that demand for all products is symmetric, and that firms differ only with respect to productivity. Specifically, firms differ only with respect to their marginal costs of production only with respect to their marginal costs of production  $c_i$ , where  $i$  indexes firms. A number of authors have developed related models that allow firms to produce multiple products: for example, Eckel and Neary (2010); Bernard, Redding, and Schott (2011); and Mayer, Melitz, and Ottaviano (2011). Also, demand need not be symmetric: there can be product-quality differences across firms. Such product quality differences lead to very similar predictions for firm performance as the ones we now discuss for cost differences). For example, the price and quantity choices for two monopolistic competitive firms. Such product quality differences lead to very similar predictions for firm performance. Both firms face the same downward-sloping residual demand curve: residual demand is demand as perceived by the firm, and thus depends on the behavior of other competing firms in the markets. On the production side marginal costs for firm 1 are lower than those for firm 2 Firm 1 has a lower marginal cost ( $C_1$ ) than firm 2 ( $C_2$ ) It is also assumed that economies of scale exist because of a fixed cost that a firm must incur to develop a product and set up its initial production. In this setting, each firm maximizes profit by choosing an output that equalizes marginal cost and marginal revenue. Firm 1 chooses a higher output level equalizes marginal cost and marginal revenue than firm 2 ( $q_1 > q_2$ ), associated with a lower price ( $p_1 < p_2$ ). Firm 1 also sets a higher mark-up than firm 2:  $p_1 - c_1 > p_2 - c_2$ ; this is a consequence of the marginal revenue curve being steeper than the demand curve. Thus, firm 1 earns a higher operating profit than firm 2:  $\pi_1^o >$

$$\pi_2^o$$

It is assumed that all firms face the same set-up cost,  $f$  so firm 1 also earns higher net profits (subtracting the fixed cost  $f$  for all firms). Of course, differences in fixed costs would not affect marginal costs and thus would not affect firm decisions concerning price and output. It can thus summarize the relevant performance differences that result from marginal cost across firms in the following way. Compared to a firm with higher marginal cost, a firm with a lower marginal cost. will: 1) set a lower price but at a higher mark-up over marginal cost, 2) produce more output, and 3) earn higher profit. Both operating and net profit will be decreasing functions of marginal cost, while the difference between the two is the fixed set-up cost difference between the two is the fixed set-up cost  $f$ .

A firm can earn a positive operating profit so long as its marginal cost is below the intercept of the demand curve on the vertical axis. Let  $c^*$  denote this cost cut-off. A firm with a marginal cost  $c_1$  above this cut-off is effectively “priced out” of the market and would earn negative operating profits if it were to produce any output. Such a firm would choose to shut down and not produce (earning zero operating profit but incurring a net profit loss  $-f$  due to the fixed cost). Why would such a firm enter into business in the first place? Clearly, it would not if it knew about its high cost  $c_1$  prior both to entry and to paying the fixed cost  $f$ . It is assumed that entrants face some randomness about their future production cost  $c_1$ . This randomness disappears only after the set-up cost  $f$  is paid and is sunk. Thus some firms will regret their entry decision, as their net profit is negative (they cannot recover the sunk cost  $f$ ). This is the case for firm 2 in panel B; even though its operating profit is positive, it does not cover the sunk cost  $f$ . On the other hand, some firms discover that their production cost  $c_1$  is very low and earn a high (and positive) net profit. Firms consider all these possible outcomes, captured by the net profit curve in panel B when they make their entry decision. Firms anticipate that there is a range of lower costs where net profits are positive.

### 3. THEORETICAL FRAMEWORK

This study is built on the foundation of dynamic capability theory. The pursuit of profit is core to any business. Profit, in turn, is generated through entrepreneurship and innovation. The value created in the economic system is shared between society and the various stakeholders (including shareholders and employees) of business firms that produce or adopt innovations. While it is self-evident to most observers that some firms are far better than others at innovating and generating profits, economic theory has surprisingly little to say about why this might be so. The black-box model of the firm common to many economic models creates a blind spot that distorts economic analyses of certain major issues. A growing body of empirical research on income inequality, for example, has established that an understanding of firm-level differences is critical because wage differences are larger between companies than within them (Abowd *et al.*, 2017; Barth *et al.*, 2016). Song *et al.* (2015) found that over two-thirds of the increase in earnings inequality from 1981 to 2013 can be accounted for by the rising variance of earnings between firms and only one-third within firms. Bloom (2017) argues that inter-firm inequality has become greater and more persistent as firms increasingly sort themselves into a small number of knowledge-intensive companies and a larger pool of relatively labour-intensive firms. Moreover, evidence suggests that inter firm differences in profitability are becoming more persistent (Furman and Orszag, 2015). Understanding how some enterprises build capabilities, grow, and create competitive advantage, leading to higher profits (and higher wages) above a perfectly competitive level, is an essential element for understanding capitalism and the modern economy. 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 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 profitability, 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 profitability. 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.

#### 4. METHODOLOGY

The study was carried out in two cities: Dar es Salaam and Arusha in Tanzania. The two case-study cities were purposively chosen because they are among the largest cities in Tanzania. Furthermore, the cities are the major recipients of imported furniture and are among the 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. This study applied a cross sectional design because it encourages high response rates, provides assistance to respondents and is suitable for complex questions (Phillip *et al.*, 2010). Small-scale furniture industries were purposively selected because they have been supported by SIDO in terms of finance, equipment as well as technical assistance.

The sample size was determined using the formula by Fisher *et al.* (1991). The sample size was 233, of which 127 were SIDO supported small-scale industries and 76 were furniture-importing firms. Primary data were collected using questionnaire, focus group discussion, and secondary data through documentary review. 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. 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 was calculated using the following equations:

$$(GR) = \text{Total units} \times \text{price per unit of product sold} \quad \dots \quad \dots \quad \dots \quad \dots \quad (1)$$

**Where;** GR = Gross revenue

$$GP = GR - VC \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (2)$$

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

$$NP = GP - FC \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (3)$$

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

$$ROR = TR/TC * 100 \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (4)$$

**Where;** ROR = Rate of return, TR = Gross Revenue and TC =Capital invested (TC)

$$RORI = \frac{TR - TC}{TC} * 100 \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad \dots \quad (5)$$

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

$$NI = TR - TC(\text{Where}, TC = TFC + TVC) \quad \dots \quad \dots \quad \dots \quad \dots \quad (6)$$

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

Furthermore, 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 findings of Levene’s test for equality of variance, this tests whether the variation of scores of two samples is the same (Pallant, 2010). The findings on profitability were analyzed by the independent t-test.

## 5. FINDINGS AND DISCUSSION

### 5.1 Characteristics of SIDO supported small-scale furniture industries

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 managerial position in this context was being personalized rather than being institutionalized, which could affect the competitive advantage of the firm. This confirmed findings of Alao, and Kuje (2012) that, firm owners also took managerial responsibilities.

It was also important to assess forms of ownership of the firm. The findings 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 two 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. This reflects findings of Atsede *et al.* (2008) who found that sole proprietorship firms have a greater incentive to pursue risky projects and therefore expect higher profits and growth rates than other firms.

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 imports 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.

The number of employees was measured by the total number of full-time as well as part-time employees. The findings in Table 1 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 are 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.

The findings (table 1) showed that the average start-up capital for furniture importers was in Tanzanian Shillings (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.

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. Details are presented in Table 1.

**Table 1: Characteristics of SIDO supported small-scale furniture industries**

Variable	Types of the firm							
	SIDO SUPPORTED				IMPORTERS			
Management of the furniture enterprises	<b>Managerial owner</b>	<b>Managerial Employee</b>		<b>Total</b>	<b>Managerial owner</b>		<b>Managerial Employee</b>	<b>Total</b>
Form of ownership	124 (97.6%) <b>Sole proprietorship</b> 89%	3 (2.4%) <b>Partnership</b> 11%		127 (100%) <b>Total</b> 100%	73 (96.1%) <b>Sole proprietorship</b> 76 (100%)		3 (3.9%) <b>Partnership</b> 0 (0%)	76 (100%) <b>Total</b> 76 (100%)
	<b>Min</b>	<b>max</b>	<b>mean</b>	<b>Std.Dev</b>	<b>Min</b>	<b>max</b>	<b>mean</b>	<b>Std.Dev</b>
Age of the firm	4.00	21.00	8.708	3.258	3.00	12.00	7.144	2.666
Number of employees	.00	6.00	3.00	1.248	3.00	12.00	6.355	2.621
Start-up capital (in 000)	5000	50000	29240	3282	10000	100000	91428	42975
Current capital (in 000)	15000	90000	70110	9888	150000	200,000	172132	80614
Start-up capital in Dar es Salaam (in 000)	7000	50000	17295	1958	10000	100000	88846	44759
Current capital in Dar es Salaam (in 000)	15000	90000	75455	11803	15000	200,000	161192	84281
Start-up capital in Arusha (in 000)	5000	50000	17980	1760	10000	100000	98889	42928
Current capital in Arusha (in 000)	15000	80000	66365	4655	15000	200000	187500	78745

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 (see Fig.1).

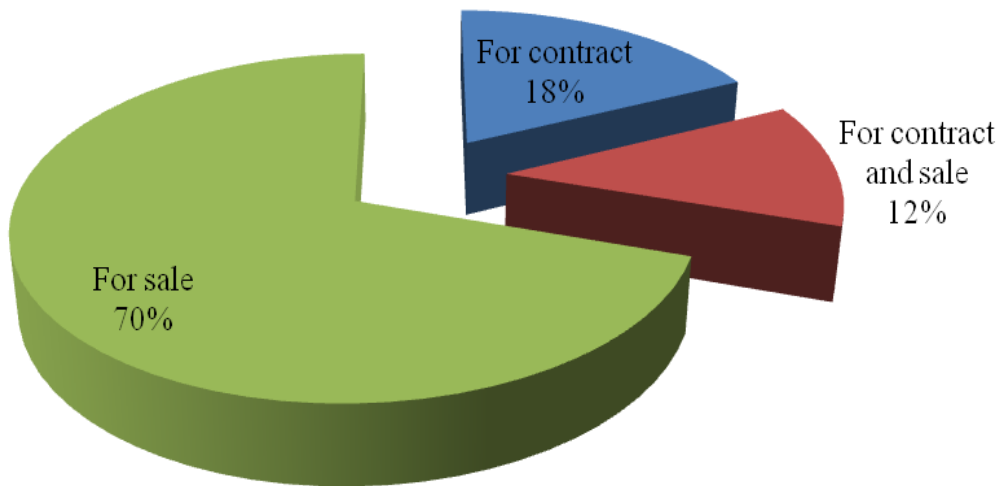


Figure 1: Furniture Marketing

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. 2).

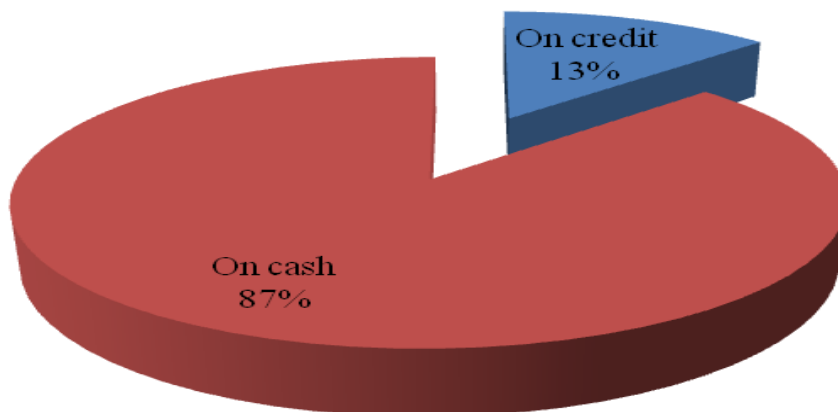


Figure 2: Form of selling

## 5.2 Profitability Analysis of the Furniture Industry in Tanzania

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

The findings (Table 2) 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 2: 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

**5.2.2 Cost of furniture production per month**

The findings (Table 3) 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 3: Cost of furniture production per month**

Item	SIDO Supported		Dar es Salaam		Arusha	
	Furniture Importers		SIDO Supported	Furniture Importers	SIDO Supported	Furniture Importers
<b>VC</b>						
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
<b>TVC</b>	<b>7,056,579</b>	<b>29,043,742</b>	<b>7,675,028.9</b>	<b>58249799</b>	<b>7,284,966.6</b>	<b>27,321,021</b>
<b>FC (Depreciation at 20% salvage value)</b>						
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
<b>TFC</b>	<b>2,044,869</b>	<b>4,986,667</b>	<b>2,772,108.9</b>	<b>5,200,340</b>	<b>2,677,875</b>	<b>4,978,381</b>
<b>VC+FC</b>	<b>9,101,448</b>	<b>34,030,409</b>	<b>10,447,137.80</b>	<b>34,703,578</b>	<b>9,962,841.6</b>	<b>32,299,402</b>

### 5.2.3 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 findings 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 4). 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. In addition SIDO supported industries were able to serve only customers available in respective area. This reflects that profitability is the overall suitability of firm's size in relation to its market environment and not just production and cost. This supports findings of studies done by Babalola. (2018) who observed the cost of materials used in producing the furniture, bargaining power between the producer and the consumer has a lot of influence on the final selling price.

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 4). 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 4: 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

### 5.2.4 Rate of return on investment analysis

Table 5 shows the performance analysis of the SIDO supported and imported furniture industries. The findings 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 5: RORI analysis of SIDO supported small scale furniture and imported furniture industries**

Item	SIDO Supported		Dar es Salaam		Arusha	
	Furniture importers	SIDO Supported	Furniture importers	SIDO Supported	Furniture importers	SIDO Supported
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	37%	52%	40%	59%	31%	30%
TR-TC/TC x 100						
Profitability Index PI=NI/TC	0.3701	0.5159	0.3962	0.5922	0.3150	0.3048

The findings (Table 5) 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, this is in line with Babalola (2018) who concluded that small-scale furniture enterprise in the study area is a profitable venture. The same was lower than for 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.

With regard to the cities, findings 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 firms 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 profitability of SIDO supported small-scale furniture manufacturers is low compared to furniture importers counterparts. From dynamic capability view, a firm has competitive advantage when it is able to create more economic value than its rivals. In this regard, imported furniture firms have high profit than locally made furniture because of having lower unit cost of production and a considerable return on investment.

## 5.2.5 T-test

### 5.2.5.1 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 6 presents a summary of the findings.

**5.2.5.2 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 6). Therefore, difference in the mean RORI values of two firms can be checked through application of independent sample t test.

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

Findings of t-test further (Table 6) 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 business, although their Rate of return is small compared to that of importing furniture firms. This is probably because of difference in their scale of market operation.

**Table 6: 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		

$P < 0.05^*$

**6. CONCLUSION AND RECOMMENDATIONS**

Based on the findings, the study concludes that on average, SIDO supported small scale industries had employed three compared to six employees in imported furniture industries. On average small scale furniture started with low capital mainly from owners’ personal savings, a situation which was contrary to that of their counterparts. The study also found that SIDO supported small-scale furniture industries had been in operation for many years. 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 51% 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. Local furniture items generate slightly higher profit in Arusha compared to Dar es Salaam. 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 can compete in the business environment.

It is, therefore, recommended that Policy actions should be directed towards enabling SIDO supported small-scale furniture manufacturers adopt modern production practices and improve their performance so that they can make adequate profits. This will be achieved if the government provide conducive 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.

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