

**CHALLENGES IN INITIATING SMALL ENTERPRISES:  
LESSONS FROM SINGLE RETAIL SHOPS IN ARUSHA  
MUNICIPALITY TANZANIA**

**Isaac Kazungu\***

**Benson Otieno Ndiege\*\***

**Penina Matolo\*\*\***

**Abstract**

This paper centered on assessing challenges facing entrepreneurs in initiating small businesses particularly single shop retail business in Arusha Municipal. It documents the difficulties entrepreneurs face when starting new small businesses, the possible causes for such difficulties and solutions which will be useful in solving such difficulties. Data were analyzed qualitatively and quantitatively. In quantitative analysis, descriptive statistics were used. The study observed that major challenges facing entrepreneurs in initiating small businesses are lack of knowledge of the business, high business running cost, insufficient capital, poverty and competition. The study recommend that the Government and other stakeholders should build and maintain infrastructures, creat employment opportunities and provide management workshops and seminars on enterpreneurial tendencies, proper record keeping, and financial management practices to the small business owners.

**Key Words:** Small Enterprises, Single Retail Shops, Entrepreneurship, Economic Development and poverty.

\* Moshi University College of Cooperatives and Business Studies, Moshi -Tanzania

\*\* Dalian University of Technology, Lingong Road 2 ganjingzi district Dalian, China

\*\*\* Moshi University College of Cooperatives and Business Studies, Moshi -Tanzania

## 1. Introduction

Small businesses play an important role in growth of the economies of all countries. They are often said to be responsible for driving innovation and competition in many economic sectors [1]. . Indeed they are more useful in the developing countries where majority of entrepreneurs have low financial capital to invest. Then the existence of small business is vital driving force towards job creation and income generation. Therefore they are means through which economic growth is accelerated and hence can be identified as important remedy for poverty [2].

Generally the Contributions of small business to development and poverty reduction are acknowledged by researchers in and outside Tanzania. Unfortunately within their existence small businesses are facing many obstacles that limit their long-term survival and development. According to the Small Business Administration (SBA) Advocacy of 2002, approximately 66% of small businesses survive their first two years. However, the survival rate drops to only 39.5% after six years of operation, and to less than 20% after 10 years of operation. Common problems faced by small business owners include managerial incompetence and inadequate financial resources [3] [4] [5] [6], marketing issues [7] [8] and business operations [9] [10], access to capital<sup>1</sup> and higher failure rate<sup>2</sup> [11].

Small business development has shown that the rate of failure in business depends on the level of economic development; it is higher in developing countries than in the developed ones. Essentially this should be the fact since economic differences between developed and developing countries create difference in many things like culture infrastructures, institutional arrangement. But also within developing countries still there are differences. For example developing countries have no uniform/identical level of economic growth, freedom and people's culture. Indeed, generally, researchers agreed on some factors which appear to cut across. These are a lack of financial resources, lack of management experience, poor location laws and regulations, social and economic conditions, as well as critical factors such as poor infrastructure, corruption,

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<sup>1</sup> It is argued that business owners in Africa tend to depend upon their own or family savings and access to capital remains a challenge, because most of them cannot meet the requirement for commercial loans, and those who do find such loans, it is expensive

<sup>2</sup> The failure rate is typically higher especially in the retail and service sectors, and these businesses are especially susceptible to closure in the early stages of development

competition, and declining sales. Therefore for proper policy development, scholars need to identify different factors as they appear in different geographical location, cultures or regions [12].

This paper therefore went deep in finding challenges facing entrepreneurs in initiating their business ventures taking retail shops in Arusha district as a case in point. The paper proposes solutions to the technical hitches which entrepreneurs are experiencing when initiating small business. Hence the contributions of this paper lie in increasing the knowledge on how to create favourable business environment for the small enterprises.

## **2. The Concept of Entrepreneurship and Entrepreneurs**

An entrepreneur is one who creates a new business in the face of risk and uncertainty for the purpose of achieving profit and growth by identifying significant opportunities and assembling the necessary resources to capitalize on them [13]. Entrepreneurs use innovation to exploit or create change and opportunity for the purpose of making profit. They do this by shifting economic resources from an area of lower productivity into an area of lower productivity and greater yield, accepting a high degree of risk and uncertainty in doing so. Entrepreneur also defined as an individual who takes risks and starting something new [14]. According to Kuratko [7], entrepreneurs are individuals who recognize opportunities where others see chaos or confusion.

## **3. Types of entrepreneurs**

There are different kinds of entrepreneurs, they include; Opportunity entrepreneurs, those who start businesses because they have spotted an opportunity in the market place. Necessity entrepreneurs, those who start businesses because they cannot find work any other way, Serial entrepreneurs, those who repeatedly start businesses and grow them to a sustainable size before striking out again push this characteristics to the maximum. The majority of serial entrepreneurs are people who start a company, manage its growth until they get bored, and then sell it to start another. Parallel entrepreneurs), are people who start and manage several companies at once [13].

There are five types of entrepreneurs who are; Idealist entrepreneur, the one who likes innovation and enjoys working on something new or creative. Optimizer entrepreneur comes in a

close second and is contented with the personal satisfaction of simply being a business owner. Hard workers entrepreneur this category includes persons who enjoy putting in long hours to build a larger more profitable business. They like the challenge it presents and of course reap the most rewards if the business turns out to be a multi-million dollar enterprise. Juggler entrepreneur likes the concept that the business gives them a chance to handle everything themselves, they are usually people with lots of energy and exist on the pressure of meeting deadlines, paying bills and of course making payroll. And the last one is Sustainers entrepreneur, this consists of people who like the thought of balancing work and a personal life, most often they do not wish the business to grow too large where it will cut into their personal life too much [13].

#### **4. The concept of Small Business**

A business is an enterprise which provides goods or services which people need, and at the same time gives the suppliers of material or labour and the owner sufficient payment for the supplies, hours of work or investment that they may have provided [15]. The Small Business Act passed by the United States Congress in 1953 defined a small business as one which is independently owned and operated and not dominant in its field of operation has come to be of greatest importance in most attempts to specifically define a small business [16]. Then Steinhoff simplified this by saying that a small business is one which possesses at least two of the following four characteristics; Management of the firm is independent, usually the managers are also the owners. Capital is supplied and the ownership is held by an individual or a small group. The area of operations is mainly local, with the workers and owners living in one home community, however the markets need not to be local. And lastly the relative size of the firm within its industry must be small when compared with the biggest units in its field. This measure can be in terms of sales volume, number of employees, or other significant comparisons. However Scarborough [13], added that small business is the one which is independently owned and operated and not dominant in its field of operation. Small businesses undertake common activities such as manufacturing, mining, wholesaling, retailing and services.

Due to the level of development in Tanzania most of her entrepreneurs can be classified as small enterprises. Mostly their businesses are owned by individuals or small group of individuals with small capital in local environments. In these circumstances they are faced with many challenges.

Entrepreneurs in Tanzania are facing a lot of challenges, which includes but not limited to; Poor infrastructure including working premises, roads, cold rooms, institutional conflicts and structures, warehouse, power, water and communication especially in rural areas and even where these activities are available, the supply is unreliable and costly. Serviced land or business premises are in short supply in most of the cities and towns, especially for industrial use [17].

### **5. Empirical studies.**

Van der Merwe and Lebakeng [18], in their survey they empirically investigated the important role that entrepreneurship play to combat unemployment, wealth creation and the alleviation of poverty. This study which was undertaken in Lesotho, revealed that key problems that women entrepreneurs are facing include; lack of business management, lack of education and training. Others are Inter-role conflict, lack of female role models, lack of timely business information, risk adverse (great fear of failure), and pressure of child care, also Inequality of access to credit lack of self-confidence, Inhibiting laws and regulations, Family pressures, Isolation from business network, socio-cultural environment.

Okpara, et al [19] did a study on factors that determine small business growth constraints sub-Saharan economies. They narrated lack of financial support, poor management, lack of capital, corruption, weak infrastructure, and poor recordkeeping the principal constraints to success. They recommended that policy makers and venture capitalists consider the Grameen Bank model<sup>3</sup> to counteract the problem of collateral and lending issues. Chu et al [20], in their empirical study of Nigerian entrepreneurs: success, motivations, problems, and stress, determine the effect of success and family support on entrepreneurs stress. They came up with the problems of unreliable/ undependable employees, a weak economy and electricity problems, harassment by government officials, poor electric supply and water shortage, Unsafe location and lack of management training, inadequacy of land and dwelling.

In Tanzania, Massawe [21] studied the constraints that hamper the development of new and vibrant SMEs in Tanzania. He summarised them into categories as; the macro-economic and

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<sup>3</sup> A group based credit approach on which small loans commonly known as microcredit or "grameencredit" are issued to impoverished without requiring collateral. It uses the peer-pressure within the group to ensure that borrowers follow through and use caution in conducting their financial affairs with strict discipline, ensuring proper loan repayment and developing good credit standing in the side of borrowers.

policy environment; physical and technological infrastructure; the banking and finance structure; the legal and regulatory framework; and the marketing capabilities and associated linkages. Also The University of Dar es salaam Entrepreneurship Centre (UDEC) in 2002 used documentary review to Identify and documents the needs and major issues which hamper the performance of women in MSEs. They categorized the major factors hindered the performance of women entrepreneurs in Tanzania in MSE sector. Women in the MSE sector are concentrated in the informal, micro, low growth, low profit areas where competition is intense. The growth rate of their MSEs is very low – indeed much lower than that of male-owned enterprises [22].

## 6. The research gap

While we acknowledge the many challenges and constraints that are facing MSEs, little is known about the retail businesses as to what challenges do they experience upon initiating their ventures and planning for sustainable growth. Many of the issues discussed earlier are general challenges they are not specific to a certain category of small business, they therefore provide answers which sometimes do not help all entrepreneurs. Most studies in Tanzanian context addresses issues on Women in MSE sector and not all entrepreneurs or challenges facing all entrepreneurs in starting their business hence provide solutions which are biased Therefore this information gap formed a basis for undertaking this study by looking at the challenges facing only entrepreneurs who want to initiate small business with amount of capital ranging from Tshs 50,000 to Tshs 5,000,000, and with the year of operation not exceeding five years specifically.

## 7. Methodology

This study is case study. The case study design because it facilitates an in depth understanding of the context of the research, developing skills and analysis of data and other findings related to research. The study was done in Arusha district. We collected both primary and secondary data. Primary data includes activities that are undertaken by clients in making single shop business into operation, their experience, level of education and challenges they face on doing the business. The respondents were the owners of single shop retail business, employees and the customers, and form part of the sample as they are believed to have vital information concerning the study. Secondary data include data obtained from document records of the individual.

The study conducted from a selected representative sample of single shops at Arusha Municipality who were believed to have vital information for the study. A sample size of 30

respondents was used. The size was, 15 owners of the single shops as the ones who initiate the businesses, 13 employees as the ones who run the day to day activities and 2 customers as the ones who make the business successful. We used probability technique and Judgemental sampling by picking only the sample that brings the best information that satisfied the key questions asked. We used two techniques; simple random sampling and purposive sampling to ensure that every member of the accessible population has an equal chance of being selected and easy accessibility of respondents with required information at a particular time. Data were collected through questionnaires, interviews and observation.

### **8.1 Data analysis techniques**

Data were analyzed by use of both qualitative and quantitative techniques. Qualitative technique enabled us to quantify and analyze the presence meaning and relationship of words and concept within the text. In quantitative analysis descriptive statistics was used to determine the challenges and results in presented in tables, figures and percentages. Statistical Package for the Social Sciences (SPSS) was used in determining results.

## **8. Results**

### **8.1 Difficulties faced by entrepreneurs**

The results in Table 1 below indicate that all respondents said that they faced challenges when initiating small business. Lack of business knowledge identified the most significant challenge. It is true that having enough capital for example will not ensure survival and sustainability of the business if business owner is blind in keeping records, identifying customers, customer care and other business strategies. High Running cost is in second place. This is due to poor infrastructure specifically road, and energy. These increases the cost of production for the small businesses and hinder their survival. Poverty is also a significant challenge whereby member of the families depends on business for their daily survival despite the fact that the business may be too young and hence having low profit. Also the results show that competition is a challenge to small business especially when there are goods imported by experienced businesses. Another important challenge mentioned is insufficient capital. Small business owners are in most cases not eligible to borrow from formal financial institutions because of lack of security. Basically they are forced to borrow from microfinance institutions where they can get limited funds.

**Table 1: Difficulties faced by entrepreneurs**

	Frequency	Percent
Insufficient capital	2	6.7
Lack of knowledge of the business	9	30.0
Family depend on the business	3	10.0
High running cost	8	26.7
Unfaithfull employees	1	3.3
Very low profit	2	6.7
Fake currency	2	6.7
High competition from others	3	10.0
<b>Total</b>	<b>30</b>	<b>100.0</b>

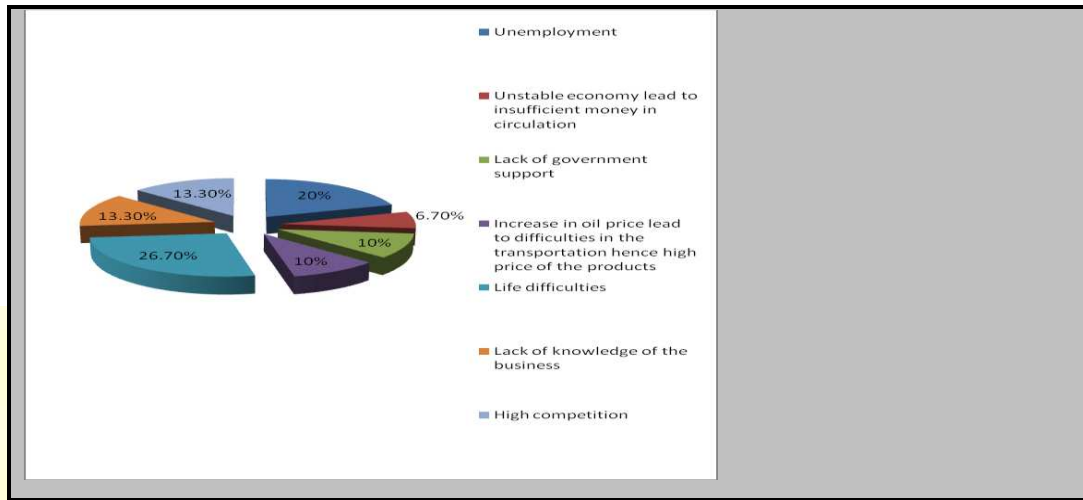
Source: Field Survey (2012)

### 8.2 Causes for such difficulties

Figure 4.3, show that the main difficulty facing enterprenuer when starting a business is the life difficulties. Difficulties faced in life maily associated with poor living standards faced by the family members when part of the income which should have been consumed is invested. In the initial processes of investment the business is likely to collapse if at all the pressure will be too high. The respondents also identified others causes as unemployment which results to low capital, unstable economy which affect the money value and prices in the market and lack of government support. Others are increase in oil price which lead to difficulties in transportation hence high price of the products, lack of the knowledge of the business, and of the respondents indicated that there is high competition in the market.

**Figure 1: Possible causes for such difficulties**



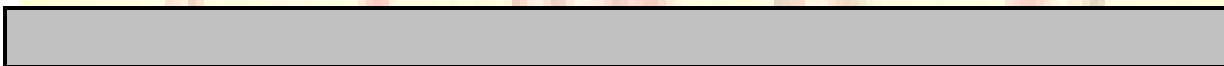


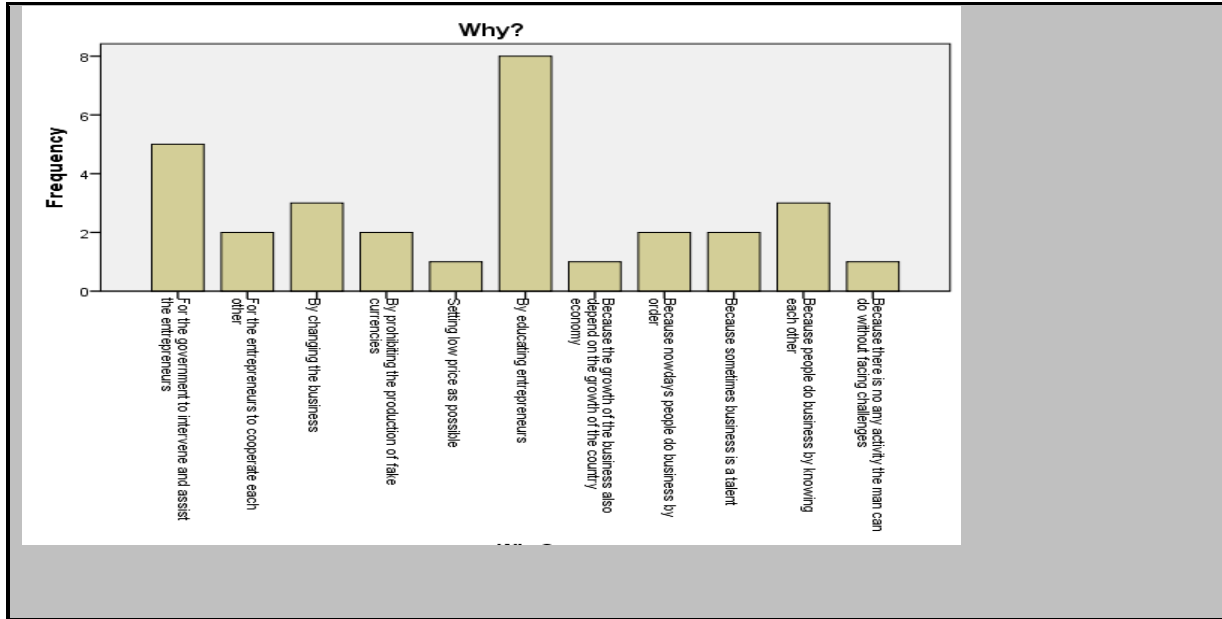
Source: Survey (2012)

### 8.3 Solutions to problems

Repondents believe that it is possible to eliminate difficulties and create sustainable enviroment for the small businesses. The main solutions surgested the the respondents are proper education to enterpreneurs and the Government intervention to offer assistance to entrepreneurs (see Figure 2). This means Most enterpreneurs are using local skills which can not help in free market where there is stiff competition. Also since these small business owners have small capital the goverment need to protect them for example by reducing taxes, ensure availability of credits and other likes.

Figure 2: possible solutions for difficulties





Source: Survey (2012)

## 9. Conclusion

The enterprenurers who wish to start small businesses basically have small capital and have low business knowledge. They are very vulnerable in free market environment due to competitions, life dificulties and poor infrastructures than other entrepreneurs. The results portray that entrepreneurs in small businesses face some difficulties when deciding to start their own business, although the difficulties may differ from one entrepreneur to another. But generally problems include lack of sufficient capital, lack of knowledge, higher running cost and poverty.

Government intervention is still important to empower small business owners. The government should create conducive environment for the small entrepreneurs. This involves; provision of business education, reduce income tax to increase purchasing power, provide employment opportunities, and encourage establishment of microfinance institutions for the provision of loans with low interest so that they can favor entrepreneurs. also build business buildings and rent them to entrepreneurs at low price, listen to the needs of the entrepreneurs, solve the problem of electricity and controll importation of goods and servises that can be produced locally. Also Business owners should make sure that when supporting their families, use only profit obtained from the business and not the capital of the business cause this has been the problem to many entrepreneurs finding themselves closing down their shops due to lack of

capital for running their business since they consumed profit together with the capital for meeting day to day needs or transactions of their families.

In recognition of the importance of SME sector to the country's economy, the Government of Tanzania continued to design and implement a number of policies and programmes supportive to the development of the sector. Some of these are Tanzania Development Vision 2025 seeks to transform from a low productivity agricultural economy to semi-industrialised one. The National Micro Finance Policy covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sector that are engaged in all types of legal economic activities, The minerals Policy of Tanzania identifies the artisanal and small scale mining operations as a major target group to be promoted through improved access to finance and availability of tools, equipment and consumables, supportive extension services, simplified licensing and enhanced marketing opportunities. Apart from that there are also a number of government policies already in place aimed at facilitating growth of the economy, which have a bearing on the development of the SME sector. These includes: Gender and women Development Policy, Cooperative Development Policy, the National Energy Policy and the National Environmental Policy and Rural Development State [23]. Our recommendation is that all these should strictly be in practise and not in papers (theoretical), and it will be more meaningful in development of small businesses hence contribute to economic development and poverty reduction in Tanzania.

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