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Socio-Cultural Determinants and Enterprise Financial Sources among the Chagga and Sukuma Small and Medium Enterprises in Tanzania

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Abstract

This paper examines the influence of socio-cultural determinants (SCDs) on the choice of enterprise financial sources (EFSs) among the Chagga and Sukuma small and medium enterprises (SMEs) in Tanzania. A survey of 254 owner-managers was conducted in Kilimanjaro and Mwanza regions in order to collect quantitative data and case studies for qualitative data. Descriptive and Binary Logistic Regression Model (BLRM) analysis were employed to analyze quantitative data and case studies analysis for qualitative data. The results show that borrowed fund from financial institutions, borrowed fund from family/relatives/ and or friends, personal savings and trade credit demonstrate positive effect while family assistance and economic groups show negative effect on capital growth among the Chagga and Sukuma SMEs in Tanzania. However, results show variation on the effect of EFSs on capital growth between the Chagga and Sukuma in which EFSs have higher contribution to capital growth among the Chagga than Sukuma SMEs. This study concludes that SCDs have effect on EFSs and capital growth and its implication is that individuals exposed to such SCDs are likely to grow capitals better than individuals under exposed. Through these findings the study recommends that policy makers should consider the effect of SCDs on the choice of EFSs among Tanzanian SMEs.

Key words: *Socio-cultural Determinants, Financial Sources, Chagga, Sukuma, SMEs, Tanzania*

1. Introduction

Entrepreneurship has become a buzzword in the public debate in recent years (Iversen *et al.,* 2008). The essence of entrepreneurship lies in the perception and exploitation of new opportunities through bringing about different uses of natural resources in that they withdraw from their traditional and subject them to new combinations including introduction of a new product, method of production, market, source of inputs and organization (Schumpeter, 1934). In Tanzania, Small and Medium Enterprises (SMEs) is used to mean micro, small and medium enterprises engaging up to four people or employing a capital of up to TZS five million, between five and 49 employees or with a capital from TZS 5 to TZS 200 million and between 50 and 99 employees or with a capital from TZS 200 to TZS 800 million respectively (URT, 2003). Tanzania National Baseline Survey Report (2012) estimates the contribution of MSMEs to Tanzania's GDP is about TAS 6.9 trillion, or about 27% of GDP. Also, REPOA (2008) indicates that about a third of GDP in Tanzania originates from SME sector and it contributes to employment creation, income generation and stimulation of economic growth. Social-cultural determinants (SCDs) consist of the whole range of behaviours and relationships in which individuals engage in their personal and private lives, including: the characteristics of the population (e.g. age, sex or ethnicity), values, norms, attitudes, social structure, religion, family, school, peers and media (Wetherly, 2011; Bradt, 2010; Phil, 2010).

According to Tundui (2012) business growth in terms of capital is not homogeneous across all ethnic groups in Tanzania since certain social groups are more prone to grow their businesses and over-represent others. The argument for this is that SCDs associated with economic growth through entrepreneurial undertaking vary among ethnic groups. Tanzania consists of more than 120 ethnic groups of which the Sukuma from Lake Zone are the largest with an estimate of 3.2 million members representing 10-13% of the country's population (Palmer, 2008; URT, 2002). Out of 120 ethnic groups the most commonly pronounced one with enterprising tendencies is the Chagga from Northern Tanzania (Olomi, 2009). The most cited reason for higher business growth in this ethnic group is luck of receiving early colonial education (Olomi, 2009). Other ethnic groups such as Haya and Nyakyusa were also privileged with early colonial education, but their entrepreneurial performance generally lags behind those of their northern Tanzania counterparts (Olomi, 2009). Thus, the privilege of early education alone cannot sufficiently explain the differences in business growth. It is argued instead, social and cultural values regarding entrepreneurship may have important influence on the choice of financial sources (Majenga, 2013).

Despite the fact that SMEs play a great role in the Tanzanian economy, they are faced by a number of problems including persistent anti-entrepreneurial culture, undercapitalization

due to poor access to financial services, and inaccessibility to business information (SIDO, 2010; URT, 2003). Tanzania National Baseline Survey Report (2012) indicates that insufficient working capital is the major constraint to MSMEs which constitutes of 38% of all constraints. The study of Mashenene and Rumanyika (2014) indicates that insufficient capital (53.3%) is among the critical constraints affecting potential growth of SMEs in Tanzania. In attempting to address these problems, the government has taken some initiatives such as improving loan schemes, provision of entrepreneurial training, business information and development of 2003 SME policy to promote the sector but the government has not relate SCDs and EFSs.

Though entrepreneurship development is associated with many factors aforementioned, the relationship between SCDs and enterprise financial sources (EFSs) has not been rigorously studied in Tanzania. In many studies that have studied financial constraints facing SMEs in Tanzania, the variables of SCDs are assumed and not measured within the studies. This implies that, SCDs have been used as residual rather than explanatory variables (Tundui, 2012; Ndunguru, 2006). For example, Tanzania National Baseline Survey Report (2012) pointed out that insufficient working capital is the major challenge facing MSMEs but did not link this challenge with SCD. Mashenene and Rumanyika (2014) study indicates that insufficient capital is among the critical constraints affecting potential growth of SMEs in Tanzania but the study does not relate SCDs and EFSs. The question of interest is how such SCDs influence choice of EFSs. Despite the fact that SCDs have much bearing on choice of FSs elsewhere including Tanzania, yet they are not thoroughly studied something which calls for academic investigation. Therefore, this study examined and analyzed the relationship between SCDs and EFSs among the Chagga and Sukuma SMEs in Tanzania.

2. Literature Review

2.1 Theoretical Literature Review

2.1.1Three Levels of Uniqueness in Human Mental Programming (TLUHMP)

The model was developed by Hofstede in 2003 by dividing the pyramid of human mental programming into three main levels. *Human nature* is an inherited trait that all humans have, *culture* is learned qualities that are shared with a group (educational, occupational, national etc.) and finally *personality* that is partly inherited and learned trait which is specific to the individual. In the context of this study, an individual's historic environment; family, education, norms and beliefs have the impact on an individual's entrepreneurial behavioural intention. In this case, the choice of financial sources is greatly influenced by ethnic density, risk-taking propensity and traditions which are the variables of culture.

2.1.2 The Theory of Planned Behaviour (TPB)

The theory was proposed by Ajzen in 1991which predicts that behaviour can be deliberate or planned and the best predictor of behaviour is intention. Intention is the cognitive representation of a person's readiness to perform a given behaviour and it is influenced by beliefs grouped in six categories including behavioural beliefs, attitude toward the behaviour, normative beliefs, subjective norms, control beliefs and perceived behaviour control. As a general rule, the more favourable the attitude and subjective norm and the greater the perceived control, the stronger should be the person's intention to perform the behaviour in question, in this study choice of EFSs. The relevance of TPB to this study is that the behavior to choice EFSs is predicted by intention resulting from individual's attitude.

2.2 Empirical Literature Review

2.2.1 SCDs and Financial Sources

Shapero and Sokol (1982) on self-employment in USA and Northern Italy suggest that entrepreneurs emerge from a "nutrient-rich" environment. These nutrients must include social and cultural support, information and tacit knowledge as well as tangible resources. Xavier (2007) in Malaysia reports that there is a correlation in entrepreneurial propensity and economic factors including capital. According to Landqvist and Stålhandske (2011) in Germany, risk-taking propensity could effectively be conceptualized as an individual's orientation toward chances in any decision making scenario. In this study, the decision making scenario is the decision to make choices on the right EFSs. Landqvist and Stålhandske (2011) concludes that risk-taking propensity of entrepreneurs is affected by their background to some extent, as having been brought up by a risk taking parent, might result in a relationally higher risk-taking propensity than others. Morley (2014) shows that indigenous entrepreneurs are achieving success since they have been underpinned by embedding culture and their community in their business operations; hence, they have access to finance and business networks. Foltz and Gajigo (2010) in Gambia indicates that the Serahules ethnic group which is ethnically dense than other is entrepreneurially successful as it can easily access credits from ethnic networks

In Tanzania, Ndunguru (2006) studied entrepreneurs in Mtwara, Lindi, Ruvuma, Iringa and Mbeya on entrepreneurial motives and culture using quantitative and statistical techniques. The results show that culture is an important explanatory factor that influences entrepreneurship motivation and start-ups. Maziku *et al*. (2014) and Majenga (2013) indicate that ethnicity has the effect on the performance of women SMEs in Tanzania. In the context of this study, ethnic density is among the SCDs to be studied.

3. Methodology

A cross-sectional study was conducted in Kilimanjaro (Moshi urban and Hai districts) and Mwanza (Nyamagana and Kwimba districts) regions of Tanzania which host a number of SMEs. These were selected purposively to represent other regions in the country because the Sukuma from Mwanza and the Chagga from Kilimanjaro are the largest ethnic groups in Tanzania, the Sukuma being the first and the Chagga the third (Palmer, 2008; URT, 2002). Proportionate stratified and purposive sampling techniques were used to select the sample. Structured questionnaire and interview guide were used as tools for data collection. A survey of 254 owner-managers was conducted in order to collect quantitative data and case studies for qualitative data. During the interview, the researchers took some brief notes and recorded the interview session using a mobile phone and after the interview the researchers transcribed the whole story of the owner-managers to develop four case studies. In case some issues were not clear, the researcher made a telephone call for clarification. Descriptive and qualitative methods were used in data analysis. The statistical Package for Social Sciences (SPSS) version 20 was used to analyze the data. Descriptive analysis involved the use of percentages and tables while qualitative analysis involved the use of case studies and responses from focus group discussion (FGD) in which they were matched with the existing literature in order to supplement Quantitative data.

Binary Logistic Regression Model (BLRM) was used to analyze quantitative data in which the effect of independent variables (financial sources) on dependent variable (capital growth) was estimated. The data in this study are mainly binary, categorical and continuous. The dependent variable is a binary response measuring whether owner-managers have grown capitals, 1= an owner-manager grown capital above or equal to TAS 5 million, and 0= an owner-manager with capital below TAS 5 million. We used this binary response with reference to the definition given by the SME development policy of the United Republic of Tanzania (URT, 2003). The Empirical Model (BLRM) used is given by the equation hereunder.

$$Logit(Y) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon \quad \ldots\ldots (1)$$

Where by Y = Entrepreneurial capabilities, x_1 = additional capital from family assistance, x_2= additional capital from borrowed from family/relatives/ and or friends, x_3= additional capital borrowed from Financial Institutions, x_4=additional capital from personal savings, x_5=Additional capital borrowed from economic groups, x_6= Additional capital from trade credit. β_0, β_1, β_2, β_3 β_4 β_5 β_6 are coefficients in the BLRM which tell how much the logistic changes based on the values of the predictor values.

4. Results and Discussion

4.1 Capital from Equity Financial Sources and Socio-Cultural Determinants

4.1.1 Family Assistance

The findings **(Table 1.0)** show that only 29.9% of SMEs received start-up capital from family assistance while the majority of SMEs (70.1%) did not get their start-up capitals from family assistance. These findings are consistent with Majenga (2013) study which finds that only 11.3% of women SMEs got their start-ups from assistance from their parents/relatives.

In this study, we compared the findings of EFSs for start-up capital from family assistance between the Chagga and Sukuma SMEs. The findings reveal that the majority (55.9%) of the Chagga SMEs got start-up capitals from family assistance while 44.1% did not. On the other hand, only 3.9% of Sukuma SMEs got start-up capital from family assistance while 96.1% did not get family assistance for their start ups. These findings are consistent with those in the case of FZB who said *"I thank my brother who gave me a start-up capital when I was starting my business. He has also been very close to support me whenever my capital drops".* These findings are supported by those in Oladele *et al.* (2014) study which show that the larger percentage of respondents (80.4%) in Ekiti State in Nigeria had their businesses funded by family.

Table 1.0: Sources of Start-up Capital among the Chagga and Sukuma SMEs

Start-up Capital Sources	**Ethnic Group**		**Total**
	Chagga	**Sukuma**	
Family assistance	71(55.9%)	5(3.9%)	76(29.9%)
Working with family/relative/friends' business	47(37.0%)	4(3.1%)	51(20.1%)
Borrowed from family/relatives/friends	71 (55.9%)	3 (2.4%)	74 (29.1%)
Borrowed from FIs	13(10.2%)	0(0.0%)	13(5.1%)
Personal savings	125(98.4%)	124(97.6%)	249(98.0%)
Partners' contribution	8(6.3%)	3(2.4%)	11(4.3%)
Economic group	25 (19.7%)	0 (0.0%)	25 (9.8%)
Trade credit	36 (28.3%)	0 (0.0%)	36 (14.2%)
Total	**127(50.0%)**	**127(50.0%)**	**254(100.0%)**

Source: Compiled from field data (2013)

4.1.2 Working with Family/Relatives/Friends' Businesses

In this item respondents were asked to tell if they received start-up capital from working with family/relatives and/or friends. The findings show that **(Table 1.0)** the majority (79.9%) the Chagga and Sukuma SMEs did not get start-up capitals from working with family/relatives/and or friends while only 20.1% agreed to have received start-up capitals from working with family/relatives/and or friends. The implication of these findings is that Tanzanian SMEs have weak ethnic density as they do not employ their family members or friends in their businesses. These findings are in harmony with those of Tundui (2012) study which indicates that 33.3% of women-owner managers in Tanzania obtained their start-up capitals from friends and families.

In this study, we compared the Chagga and Sukuma SMEs on receiving start-up capital from working with family/relatives/and or friends. The findings **(Table 1.0)** reveal that, 37.0% of the Chagga SMEs agreed to have received their start-up capitals from working with family/relatives/friends' businesses while 63.0% did not. In the case of the Sukuma, only 3.1% received their start-up capital from working with family/relatives/friends' businesses while the majority (96.9%) did not. The implication of these findings is that there is a weaker ethnic density among the Sukuma than the Chagga SMEs. Through FGD with the Sukuma, it was revealed that *"we Sukuma hate to employ family members/relatives/and or friends in our businesses as we believe that any close person to you may harm you either through superstition power or otherwise since he/she knows the secrecy of your business. In order to avoid this unforeseen event, we employ individuals whom we don't have any close ties. Accordingly, we try to avoid conflicts within the clan if a relative employee demonstrates the unbecoming conduct such as theft since we believe in Kiswahili that "pesa inaweza kuua undugu" which means that money has a chance to destroy bloody relationships".* The FGD with the Chagga revealed that *"we make sure that we employ Chagga in our businesses with two reasons. Firstly, we believe that any Chagga is capable of doing business since business is part and parcel of our lives. Secondly, this is the way to share your wealth with your fellow Chagga who will also share with other Chaggas in future. By so doing, this has become pattern and parcel of our culture to employ our relatives and after three to five years the employee is given a capital and is allowed to leave the employment and start his/her own businesses".*

4.1.3 Start-up Capital from Personal Savings

In this study, respondents were asked to tell if they used their personal savings as start-up capitals for their businesses. The findings **(Table 1.0)** show that, the majority (98.0%) of the Chagga and Sukuma SMEs started their businesses with start-up capitals from their personal savings while only 3.9% did not. These findings are in harmony with Tundui (2012) study which reveals that the majority (57.4%) of female owner-managers in Tanzania started their businesses from their own savings. Also, these findings are consistent with Majenga (2013) study which indicates that the majority (33.8%) of the respondents obtained their start-up capitals from their own savings. The implication of these findings is that the majority of SMEs in Tanzania start their own businesses using their own savings. In reality, it is very difficult to accumulate reasonable amount of money through personal savings which can be used as start-up capital. The most commonly cited reason is that most of SMEs in Tanzania have extended families with a number of dependants. For instance, in this study the majority 166 (65.3%) of the Chagga and Sukuma SMEs have more than five dependants. Such big number of dependants does not allow SMEs in Tanzania to save adequate money for start-

ups. These findings are supported with those in Oladele *et al.* (2014) study which indicates that 90.7% of respondents agreed that their businesses were funded from personal savings in their bank accounts.

In this study, we compared the Chagga and Sukuma SMEs in terms of using personal savings as start-ups. The findings **(Table 1.0)** show that it is a more or less the same in both ethnic groups in such a way that 98.4% of the Chagga agreed to use personal savings as start-ups and that of the Sukuma is 97.6%. However, through FGD it was revealed that, the Chagga accumulated larger amount of money for their start-up capitals than the Sukuma due to the fact that the Chagga have smaller number of dependants than that of the Sukuma SMEs. *"We Chagga do not have so many dependants as every Chagga strives to start his own business. Also, insufficient resources like land have made us automatically to have small-sizes families which are manageable in accordance to the available resources".* In case of the Sukuma through FGD it was reported that *"It is one of our culture to have many children and large number of dependants as we live in extended families. In Sukumaland, it is unethical to practice family planning methods for birth control as the result of many dependants".* The statistics in this study comparatively show that, only (15.0%) of the Sukuma SMEs have less than four dependants while (85.0%) have more than five dependants. For the case of the Chagga, the situation is quite different the majority (54.3%) have less than four dependants while only (45.7%) have more than five dependants. Also, through FGD it was revealed that the Sukuma have poor financial discipline to enable them save large amount of money for start-ups.

Moreover, in this study we asked SMEs if they use personal savings as financial source for additional capital. The findings **(Table 2.0)** show that, the majority (61.4%) of the Chagga and Sukuma SMEs do not use personal saving from other economic activities other than business as financial source for additional capital whereas only 38.6% agreed to use personal saving as financial source for additional capital. The implication of these findings show that once the business is established, the majority of owners tend to stop from injecting money into the established business. One owner-manager through FGD said that *"we stop injecting money into the business once is established and leave the business to operate on its own and we use our personal savings to solve family problems since we have many family responsibilities".* In comparison between the Chagga and Sukuma SMEs regarding the use of personal saving as additional capital, the findings indicate that 27.6% of the Chagga SMEs agreed to have used personal savings as additional capital while the majority (72.4%) disagreed. In the case of the Sukuma, 49.6% agreed to have used personal savings additional capital whereas 50.4% disagreed. The implication of these findings suggests that there is little separation between business and personal funds. Furthermore, the FGD with the Sukuma

revealed that *"we normally use our personal savings as the source for additional capital as we normally use business funds to tackle family problems. In reality, we don't separate business fund from personal fund".*

Table 2.0: Sources of Additional Capital among the Chagga and Sukuma SMEs

Additional Capital Sources	**Ethnic Group**		**Total**
	Chagga	**Sukuma**	
Family assistance	1(0.8%)	1(0.8%)	2(0.8%)
Borrowed from family/relatives/friends	7(5.5%)	0(0.0%)	7(2.8%)
Borrowed from FIs	81(63.8%)	27(21.3%)	108(42.5%)
Personal savings	35(27.6%)	63(49.6%)	98(38.6%)
Partners' contribution	0(0.0%)	1(0.8%)	1(0.4%)
Economic group	66 (52.0%)	33 (26.0%)	99 (39.0%)
Trade credit	111 (87.4%)	46 (36.2%)	157 (61.8%)
Retained earnings	127(100.0%)	127(100.0%)	254(100.0%)
Total	**127(50.0%)**	**127(50.0%)**	**254(100.0%)**

Source: Compiled from field data (2013)

4.1.4 Partners' Contribution

In this study, we asked respondents if they received start-up capitals from partners' contributions. The findings **(Table 1.0)** show that, only 4.3% of the Chagga and Sukuma SMEs received their start-up capitals from partners' contributions while the majority (95.7%) did not. The implication of these findings show that the majority of SMEs in Tanzania are individualistic, that is, they do not operate in partnership which is one of the limitations for them to grow their capitals. In comparison between the Chagga and Sukuma SMEs on the use of partners' contribution as start-up capital, the findings show that the two ethnic groups are individualistic as only (6.3%) and (2.4%) of the Chagga and Sukuma SMEs respectively agreed to have received their start-up capital from partners' contributions. These findings are in harmony with Majenga (2013) study which shows that only 15.0% of women SMEs in Tanzania operate their businesses in partnership. Through FGD, one informant from Sukuma said that *"the problem with partnership is trust, people are not trustful and that is why we don't operate in partnership. Also, most of Sukuma are individualistic as the result everyone avoids to join with others to form partnership with an argument that if you work jointly as partners you are going to make your business partner become rich".*

4.1.5 Retained Earnings

The findings **(Table 2.0)** show that 100.0% of the Chagga and Sukuma SMEs use retained earnings to grow business capital. The implication of these findings is that, the majority of Tanzanian SMEs use traditional/routine ways as financial sources for additional capital. Through FGD, one of the key informants said that *"we use retained earnings to grow our capital but the profit we are making from our businesses is very meager. Additionally, the profit we make is used to meet other family obligations".*

4.2 Start-up Capital from Debt Financial Sources

4.2.1 Debt Financial Source from Family/Relatives and/ or Friends

The findings **(Table 1.0)** show that the majority (70.9%) of SMEs among the Chagga and Sukuma did not get credit from family/relatives/ and or friends for their start-up capital. Only 29.1% received credit for start-up capital from family/relatives/ or friends. These findings are in harmony with the Tanzania National Baseline Survey Report (2012) which indicates that only 39% of micro, small and medium enterprises (MSMEs) in Tanzania take loans from friends and/or family. The implication of these finding reveal that there is a weak ethnic density among SMEs in Tanzania due to a small number of SMEs who receive loans from friends and/or family. In comparison between the Chagga and Sukuma, the findings show that, 55.9% of the Chagga received credit for their start-ups from family/relatives/friends while only 2.4% of the Sukuma received credit for their start-ups from family/relative and/ or friends. These findings suggest that there is a stronger ethnic density among the Chagga than Sukuma since the majority of the Chagga solicited their start-up capital via loan from family and/or fiends. These findings are consistent with Foltz and Gajigo (2010) study which indicate that the Serahule ethnic group of Gambia which is ethnically dense is entrepreneurially successful, larger and more profitable as their enterprises have better sources of finance including credit from within their ethnic group.

4.2.2 Debt Financial Source from Trade Credit

In this study we wanted to know if owner-managers received start-up capital using trade credit. The findings **(Table 1.0)** show that only 14.2% of the Chagga and Sukuma SMEs obtained their start-up capital using trade credit. These findings are consistent with the results from Tundui (2012) which reveal only 9.3% of female owner-managers in Tanzania acquired start-up capital from other sources such as trade credit and UPATU. Also, the results are consistent with ILO (2003) study in Tanzania which shows that 21.1% of respondents started their businesses by receiving trade credit from friends and family members. Moreover, these findings are in harmony with those in Majenga (2013) study which shows that only 5.0% of women SMEs in Tanzania started their businesses with start-up capital from trade credit. However, we compared trade credit as the source of start-up capital among the Chagga and Sukuma, the findings reveal that, 28.3% of the Chagga received their start-up using trade credit while 0.0% of Sukuma SMEs used trade credit as a source of capital for start-up. This discrepancy among the Chagga and Sukuma could be due to weaker and stronger ethnic density among the Sukuma and Chagga ethnic groups respectively. It was reported by the Sukuma key informants through FGD that *"we do not use trade credit because people are not willing to give us goods on credit. The main reason for this is that we are too much individualistic to assist each other in which people avoid to give someone goods on credit with a claim that he/she will become rich. Also, dishonesty is another reason whereas there the probability of losing your money due to dishonesty if you sell on credit is high."*

Moreover, the study intended to investigate how useful trade credit it is to SMEs as a source of additional capital. The findings **(Table 2.0)** show that the majority (61.8%) of the Chagga and Sukuma SMEs obtain additional capital using trade credit from suppliers whereas 38.2% of the Chagga and Sukuma SMEs do not use trade credit as additional capital for financing their businesses. Generally, these findings suggest that strong ethnic density exist among SMEs in Tanzania. On the other hand, the comparison between the use of trade credit as the source of additional capital between the Chagga and Sukuma show that, the majority of the Chagga (87.4%) use trade credit as a financial source for additional capital while only 36.2% of Sukuma use trade credit a source for additional capital. The implication of these findings is that stronger ethnic density exists among the Chagga than in the Sukuma. These findings are consistent with Foltz and Gajigo (2010) study which indicate that the Serahule ethnic group of Gambia which is ethnically dense is entrepreneurially successful, larger and more profitable as their enterprises have better sources of finance including credit. These findings are supported by a case of WSB who says *"trade credit has helped me to grow my capital. I real thank the suppliers from my ethnic group as they have been very supportive to me in giving me goods on credit"*.

4.3.2 Debt Financial Source from Financial Institutions (FIs)

In this study we wanted to know how risk-taking propensity influences the decisions to find capital from borrowing. First, we asked respondents if they borrowed their start-up capital from FIs. The findings **(Table 1.0)** indicate that the majority (94.9%) of the Chagga and Sukuma SMEs did not receive loans from FIs and only 5.1% of respondents agreed to have received loans from FIs for their start-up capital. These findings are consistent with those in the Tanzania National Baseline Survey Report (2012) which indicates that only 9% of MSMEs got loans to start their businesses in which 26% and 10% got loans from micro finance institutions (MFIs) and Banks respectively. The implication of these findings is that the majority of SMEs do not get start-up capital using loans from FIs due to low-risk taking propensity.

In this study we compared the debt financial source from FIs between the Chagga and Sukuma SMEs. The findings show that 10.2% of the Chagga got loans for their start-up capital from FIs whereas 89.8% did not. In contrast, none (0.0%) of the Sukuma SMEs received loan for their start-up capital from FIs. The implication of a discrepancy between the Chagga and Sukuma is that the Sukuma have lower-risk taking propensity compared to the Chagga. Through FGD with the Sukuma, one participant reported that *"we Sukuma afraid to approach FIs for loans. This fear has become our culture as at the moment you tell people you want to get a loan from FIs, you become unpopular and you get discouraged by the society members. As the result of this, most of the Sukuma SMEs do not seek loans from FIs"*.

Furthermore, we asked SMEs who obtained additional capital through borrowing from financial institutions (FIs). The findings **(Table 2.0)** show that only 42.5% of the Chagga and Sukuma SMEs borrowed additional capital from FIs while 57.5% of the Chagga and Sukuma SMEs did not borrow from FIs. The reasons for such moderate risk-taking propensity were obtained using FGD including fear from borrowing in case the business does not perform well, lack of collateral, lack of role models who borrowed and repaid the loans successfully and presence of some SMEs in the society whose personal assets were confiscated due to failure to repay back the borrowed funds. These findings are congruent with those of Majenga (2013) study which shows that unfavourable socio-cultural factors, lack of collateral and bureaucratic procedures were the constraints for women SMEs to access loans from the FIs. In contrast, the findings show that the majority (63.8%) of the Chagga SMEs obtained loans from FIs while only 21.3% of the Sukuma SMEs obtained loan from FIs. These findings suggest that, the Chagga have higher risk-taking propensity than the Sukuma SMEs. The results from the FGD with the Chagga SMEs reveal that, *"we Chagga are very courageous as we can borrow from even more than one financial institution and we don't fear anything from borrowing since we have commitment with the business".* On the other hand, the FGD from Sukuma reveal that, *"we afraid borrowing from FIs due to lack of financial plan, poor financial discipline, discouragement from the family and society members, lack of adequate information, lack of collateral, high interest rates, corruption within FIs in which FIs' officers ask for bribe from loan applicants in order to get loans and bureaucratic procedures".*

The findings from the case study by FM (the Chagga owner-manager) reveal that *"It is through my personal savings and a support of working equipment (tables, chairs, and cooking utensils) and little money from my friend enabled me to secure my start-up capital. However, today I have been financing my business using loans from NMB, PRIDE, REAL PEOPLE, SACCOs and retained earnings".* We also, asked FM if she does not get afraid to borrow from creditors for some reasons including business failure, FM said *"I don't fear anything from borrowing since I plan before I borrow and use the borrowed funds as per my plan; it is only the creditors which limit the amount to borrow, but I could borrow as much possible without fearing anything".* On the other hand, the responses from SG (the Sukuma owner-manager) show that *"at the moment I wanted to get a loan from a bank I told my parents who prohibited me strongly from getting a loan from a bank. My parents said, why are you trying to search for the problems, how will you repay the loan in case business fails! We your parents have not borrowed from any FIs since we started our marriage life".*

4.3.3 Debt Financial Source from Economic Groups

In this study, we wanted to know how collectivism influences owner-managers to join membership in economic groups such as Savings and Credit Co-operative Societies (SACCOs) or Village Community Banks (VICOBA) aiming at pulling together financial resources and later be able to access credit. We asked owner-managers who have secured credit from SACCOs or VICOBA. The findings **(Table 1.0)** show that only 9.8% of owner-managers obtained their start-up capital using credit from economic groups. The majority (90.2%) did not obtain credit from any economic group. The implication of these findings is that there is low collectivism among the SMEs in Tanzania. Through FGD we obtained the following reasons for such low collectivism among the Chagga and Sukuma SMEs; individualistic trait that hinder SMEs to join such membership and later be in a position to access credit, lack of training and business information on the importance of such economic groups. These findings are in harmony with the Tanzania National Baseline Survey Report (2012) which indicates that only 13% and 4% of MSMEs in Tanzania received loans from SACCOs and money lenders respectively. However, in comparing the Chagga and Sukuma SMEs we found that, 19.7% of the Chagga owner-managers got loans for start-up capital from economic group while 80.3% did not. On the hand, 100.0% of Sukuma SMEs did not secure loan for start-up capital from economic groups. The findings from the Sukuma suggest that, the Sukuma are individualistic and have low-risk taking propensity.

Consequently, we asked owner-managers who received additional capital from economic groups. The findings **(Table 2.0)** show that only 39.0% of the Chagga and Sukuma SMEs obtained additional capital using loans from economic groups while 61.0% did not. The implication for smaller number (39.0%) of SMEs who obtained additional capital from SACCOs and VICOBA suggest low collectivism among SMEs in Tanzania. However, we compared the access of additional capital using SACCOs and VICOBA between the Chagga and Sukuma SMEs, the findings show that the majority (52.0%) of the Chagga obtained loans as additional capital from economic groups while 48.0% did not. In the case of the Sukuma SMEs, only 26.0% secured additional capital from economic groups while 74.0% did not. The implication of such discrepancy between the Chagga and Sukuma SMEs suggest that, the Chagga are collectivists while Sukuma are individualists. These findings are consistent with Arowomole (2000) study in Japan which indicates that Japan culture or tradition emphasizes on group action and cooperation has resulted into high level of entrepreneurial performance.

4.3 Regression Analysis

4.3.1 Sources of Additional Capital among the Chagga and Sukuma SMEs

The results from Binary Logistic Regression analysis between capital growth and sources of finance are presented in **Table 3.0.** The BLRM results for borrowed fund from financial

institutions was significantly positive related to capital growth with the coefficient of 1.547 at p < 0.000. These findings suggest that 10% increase in fund borrowed from FIs will result into an increase of capital by 15.5%.Similarly, personal savings was significantly positive related to capital growth with the coefficient of 1.022 at p < 0.004 and this suggests that 10% increase in personal saving will result into 10.2% increase in capital. Accordingly, trade credit was significantly positive related to capital growth with the coefficient of 2.017 at p < 0.000 and this suggests that 10% increase in trade credit will result into 20.2% in capital growth. Moreover, borrowed fund from family/relatives/ and or friends was positively significant with the coefficient of 1.535 at p < 0.089 and these suggests that 10% increase in borrowed fund from family/relatives/ and or friends will result into 15.4% increase in capital. On the other hand, family assistance was negatively related with increase in capital with the coefficient of -20.884 at p < 0.999. Also, economic group was negatively related with increase in capital with the coefficient of -0.055 at p < 0. 0.871. The implication of these findings reveal that borrowed fund from FIs, personal savings, trade credit and borrowed fund from family/relative/ and or friends have more contribution to the capital growth while family assistance and economic group have poor contribution to capital growth among the Chagga and Sukuma SMEs.

Table 3.0: Sources of Additional Capital among the Chagga and Sukuma SMEs

Sources of Finance	B	S.E.	Sig.	Exp(B)
Family assistance	-20.884	26529.347	.999	.000
Borrowed fund from family/relatives/friends	1.535	.902	.089	4.642
Borrowed fund from FIs	1.547	.354	.000	4.698
Personal savings	1.022	.355	.004	2.780
Economic group	-.055	.338	.871	.947
Trade credit	2.017	.367	.000	7.515
Constant	-2.605	.407	.000	.074

Source: Compiled from Field data (2013)

4.3.2 Sources of Additional Capital between Chagga and Sukuma SMEs

Table 4.0 presents the results of BLRM between capital growth and sources of finance among the Chagga SMEs which are in comparison with those of the Sukuma SMEs (**Table 5.0**). The BLRM results from the Chagga SMEs for borrowed fund from financial institutions was significantly positive related to capital growth with the coefficient of 1.447 at p < 0.003 and those of the Sukuma was 1.343 at p < 0.024. These findings suggest that 10% increase in fund borrowed from FIs among the Chagga SMEs will result into an increase of capital by 14.5% and 13.4% in the case of the Sukuma SMEs. These findings are supported by those in Mashenene *et al.* (2014) study which finds out that the Chagga SMEs demonstrate higher entrepreneurial capability in terms of capital than the Sukuma SMEs. Also, these findings are

consistent with the TPB as intention to borrow fund from FIs vary among SMEs as it is affected by some ones attitude. Similarly, personal savings was insignificantly positive related to capital growth among the Chagga SMEs with the coefficient of 0.703 at $p < 0.175$ and those of the Sukuma was significantly positive with the coefficient of 1.323 at $p < 0.011$. These findings suggest that personal savings as the source of finance has more contribution among the Sukuma than in the Chagga. These results are supported with those from descriptive analysis which show that the Sukuma depend heavily on personal savings to grow their capital unlike for the case of the Chagga. Accordingly, trade credit was significantly positive related to capital growth among the Chagga with the coefficient of 1.455 at $p < 0.016$ and those of the Sukuma was 2.402 at $p < 0.000$. These findings suggest that 10% increase in trade credit among the Chagga SMEs will result into 14.6% in capital growth and 24.0% in the case of the Sukuma. These findings suggest that trade credit has higher contribution in capital growth within the Sukuma SMEs than in the Chagga SMEs. However, these findings contradict with those found in descriptive and qualitative analysis which reveals that trade credit has higher contribution among the Chagga SMEs than Sukuma SMEs. This contradiction can be due to the fact that trade credit among the Sukuma SMEs is the second dominant source of finance as descriptive statistics show. Moreover, borrowed fund from family/relatives/ and or friends was positively insignificant among the Chagga SMEs with the coefficient of 1.435 at $p < 0.126$ and this suggests that 10% increase in borrowed fund from family/relatives/ and or friends will result into 14.4% increase in capital. In the case of the Sukuma SMEs, this variable was dropped by the system since it had no any contribution as none of the Sukuma SMEs used this source of finance to grow their capital. These findings reveal that the Chagga demonstrate stronger ethnic density in business than the Sukuma SMEs. Furthermore, economic group was positively insignificant among the Chagga SMEs with the coefficient of 0.047 at $p < 0.912$ while those of the Sukuma SMEs was negatively insignificant with the coefficient of -0.367 at $p < 0.530$. These findings suggest that economic group has higher contribution in capital growth among the Chagga SMEs than in the Sukuma. On the other hand, family assistance was negatively related with increase in capital with the coefficient of -21.405 at $p < 1.000$ and -19.663 at $p < 1.000$ for the Chagga and Sukuma SMEs respectively. These findings suggest that family assistance as the source of capital has poor contribution to capital growth for both Chagga and Sukuma SMEs.

Table 4.0: Sources of Additional Capital among the Chagga SMEs

Sources of Finance	B	S.E.	Sig.	Exp(B)
Family assistance	-21.405	40192.970	1.000	.000
Borrowed fund from family/relatives/friends	1.435	.937	.126	4.199
Borrowed fund from FIs	1.447	.485	.003	4.252
Personal savings	.703	.519	.175	2.020

Economic group	.047	.427	.912	1.048
Trade credit	1.455	.605	.016	4.284
Constant	-2.003	.742	.007	.135

Source: Compiled from field data (2013)

Table 5.0: Sources of Additional Capital among the Sukuma SMEs

Sources of Finance	B	S.E.	Sig.	Exp(B)
Family assistance	-19.663	40192.970	1.000	.000
Borrowed fund from FIs	1.343	.595	.024	3.830
Personal savings	1.323	.520	.011	3.754
Economic group	-.367	.584	.530	.693
Trade credit	2.402	.525	.000	11.044
Constant	-2.863	.531	.000	.057

Source: Compiled from field data (2013)

5. Conclusion and Recommendations

This paper concludes that borrowed fund from FIs, borrowed fund from family/relatives/ and or friends, personal savings and trade credit have higher contribution to capital growth among the Chagga and Sukuma SMEs. These findings suggest that SMEs with strong ethnic density and high risk-taking propensity in borrowing funds are likely to become entrepreneurially successful in growing up their capitals. Through high ethnic density, enterprises are likely to enjoy equity financial sources from family/ and or friends' assistance, working with family/ and or friends' businesses. Additionally, through strong ethnic density, individuals are likely to enjoy debt financing through trade credit and borrowing from family and/or friends. Trade credit, borrowed fund from FIs, borrowed fund from family/relatives/ and or friends and economic groups are financial sources with higher contribution in capital growth among the Chagga SMEs than the Sukuma SMEs. These findings suggests that the Chagga demonstrate a stronger ethnic density than the Sukuma, as the result the Chagga SMEs solicit larger capitals than the Sukuma SMEs using ethnic density as a competitive advantage. These findings imply that there are opportunities among Tanzania SMEs to grow their capitals using ethnic density as a paramount variable.

Moreover, the study concludes that high risk-taking propensity is an important variable for SMEs to grow their capital through accessing debts from money lenders. Generally, the study concludes that Tanzanian SMEs have low risk-taking propensity in terms of borrowing money from lenders. On the other hand, the Chagga have demonstrated to have higher risk taking propensity than the Sukuma in all variables studied in this study regarding risk-taking propensity. The implication of these findings is that the Chagga have been able to grow their capitals by far compared to their Sukuma counterpart.

Regarding the traditional financial sources, the study concludes that the majority of SMEs in Tanzania relies of personal savings and retained earnings as the key sources for financing their businesses. The problem with these sources is that personal savings and retained earnings being too meager to suffice capital requirement since such sources of capital also required in solving family expenses. However, the Sukuma seem to rely too much on personal saving as the main source compared to the Chagga.

From these findings, the following are policy recommendations. There is a great need for policy makers to integrate SCDs in lending and loan schemes. Special strategies including business training particularly the relationship between SCDs and financial sources should be designed and implemented. Although in some cases many factors like age of the businesses, collateral owned by the loan applicant, type and nature of the business etc have been addressed by policy makers, yet the influence of SCDs on financial sources need to be addressed as well. Furthermore, valuable SCDs related to financial sources should be integrated in school or college/and or university curricular in order to enable the young generations be in positions to choose the right financial sources and dishonor the unfavourable ones.

To SMEs, the study recommends that multiple sources of business finance should be used as it will make easier for the enterprises to raise their capitals. The study discourages the behavior of SMEs to rely on one or a few sources of capital. This will not be possible unless SMEs strengthens ethnic density within their social environment and acquires high risk-taking propensity which will be a motivating factor for them to get loans from lenders.

The recommendations to academicians is that another study need to be conducted including more than two ethnic groups in order to make generalization of the relationship between SCDs and enterprise financial sources in Tanzania.

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