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# An Entrepreneurship Safari

## *Examining the effect of the entrepreneurship ecosystem on SME growth in the Republic of Tanzania*

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### **Abstract**

The importance of SMEs for economic growth has made the development of the sector a priority for many developing countries. Several studies identify obstacles impeding growth of SMEs, such as a lack of access to capital, poor infrastructure and bureaucratic procedures. This thesis aims to take a holistic approach to these obstacles and determine if interactions in the entrepreneurship ecosystem can explain how and why these obstacles affect growth through identifying the underlying cause. A qualitative study exploring the perception of stakeholders in Tanzania is employed and together with a review of the SME policy analysed to determine the state of the ecosystem and the constraints of the domains therein. This thesis finds that it is mainly the culture and a lack of trust that causes obstacles that affect growth of SMEs in Tanzania because it reduces the legitimacy of entrepreneurial activities. Further it finds that compliance to normative constraints carries more weight than to regulative ones in producing legitimacy. It is suggested that active efforts to change the culture are implemented and that media is given a central role in changing social norms.

**Keywords:** *Entrepreneurship Ecosystem, SME, growth constraints, Tanzania, legitimacy*

## Acknowledgements

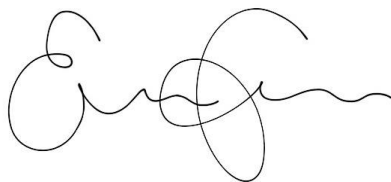
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Stockholm, May 16 2015

A handwritten signature in black ink, appearing to read 'Emma Forsman', with a stylized, cursive script.

Emma Forsman

## Table of Contents

<b>Acknowledgements .....</b>	<b>.....</b>
<b>Definitions .....</b>	<b>I</b>
<b>1. Introduction .....</b>	<b>1</b>
<b>1.1 Purpose and Research Question .....</b>	<b>3</b>
1.1.1 Delimitations.....	4
<b>1.2 Thesis Overview .....</b>	<b>4</b>
<b>2. Literature Review, Framework &amp; Theory .....</b>	<b>5</b>
<b>2.1 Economic Development.....</b>	<b>5</b>
<b>2.2 Global importance of SMEs.....</b>	<b>6</b>
<b>2.3 The Entrepreneurship Ecosystem Framework.....</b>	<b>7</b>
<b>2.4 Entrepreneurship and Institutional Theory.....</b>	<b>10</b>
<b>2.5 Importance of Entrepreneurship in Developing Countries .....</b>	<b>12</b>
<b>2.6 Entrepreneurship and SMEs in Tanzania .....</b>	<b>13</b>
<b>2.7 The Gap.....</b>	<b>16</b>
<b>3. Methodology.....</b>	<b>18</b>
<b>3.1 Research design .....</b>	<b>18</b>
3.1.1 Time frame.....	19
3.1.2 Selection of case.....	19
3.1.3 Selection of interviewees.....	20
<b>3.2 Data collection .....</b>	<b>20</b>
3.2.1 Interviews .....	20
<b>3.3 Data analysis .....</b>	<b>22</b>
<b>3.4 Excellence of Study.....</b>	<b>23</b>
3.4.1 Reliability .....	23
3.4.2 Validity .....	23
3.4.3 Weaknesses of study .....	24
<b>4. Empirical data.....</b>	<b>26</b>
<b>4.1 Policy.....</b>	<b>26</b>
4.1.1 The entrepreneur's perspective .....	26
4.1.2 The non-government perspective.....	27
4.1.3 The government policy.....	28
<b>4.2 Finance .....</b>	<b>30</b>
4.2.1 The entrepreneur's perspective .....	30
4.2.2 The non-government perspective.....	31
4.2.3 The government policy.....	32
<b>4.3 Culture.....</b>	<b>33</b>
4.3.1 The entrepreneur's perspective .....	33
4.3.2 The non-government perspective.....	36
4.3.3 The government policy.....	37
<b>4.4 Support.....</b>	<b>37</b>
4.4.1 The entrepreneur's perspective .....	38
4.4.2 The non-government perspective.....	39
4.4.3 The government policy.....	41
<b>4.5 Human Capital .....</b>	<b>42</b>
4.5.1 The entrepreneur's perspective .....	42
4.5.2 The non-government perspective.....	43

4.5.3 The government policy.....	44
<b>4.6 Markets.....</b>	<b>45</b>
4.6.1 The entrepreneur's perspective .....	45
4.6.2 The non-government perspective.....	46
4.6.3 The government policy.....	47
<b>5. Analysis .....</b>	<b>49</b>
<b>5.1 Findings.....</b>	<b>49</b>
5.1.1 Policy.....	50
5.1.2 Finance .....	50
5.1.3 Culture .....	51
5.1.4 Support.....	52
5.1.5 Human Capital.....	52
5.1.6 Markets .....	53
<b>5.2. The health of the entrepreneurship ecosystem .....</b>	<b>54</b>
<b>5.3 Implications for SME growth .....</b>	<b>55</b>
<b>6. Concluding Discussion .....</b>	<b>58</b>
6.1 Conclusion.....	58
6.2 Contribution & Implication.....	59
6.3 Limitations Discussion .....	60
6.4 Further Research .....	60
<b>Bibliography .....</b>	<b>62</b>
Electronic Sources .....	62
Literature.....	62
<b>Interviews .....</b>	<b>69</b>
<b>Appendix .....</b>	<b>71</b>

## Definitions

**Entrepreneur** – This thesis does not make a distinction between an “Entrepreneur” and a “Business owner” but rather uses the two interchangeably, where an entrepreneur is someone who has started and runs their own business.

**Entrepreneurship ecosystem** – An entrepreneurship ecosystem is defined as ‘a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of ‘blockbuster entrepreneurship’, number of serial entrepreneurs, degree of sell- out mentality within firms and levels of entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment’ (Mason 2014 p5)

**SME / Small and Medium-sized Enterprise** - There is no universal definition of SMEs rather every country or region define their measurements according to their level of development, and many also include Micro-sized enterprises (MSMEs). Thresholds that define the size of an enterprise are generally number of employees along with some kind of financial number, such as annual sales or turnover. In the purpose of this study, the Tanzanian definition is used: Tanzania defines SMEs according to total number of employees and capital investment in machinery (see chart below). In the Tanzanian definition of SMEs, micro enterprises are included.

Enterprise Category*	# of employees	Capital Investment in Machinery (Tshs.)
Micro	1-4	-5 mil.
Small	5-49	5-200 mil.
Medium	50-99	200-800 mil.
Large	100+	800+ mil.

\* If an enterprise falls under more than one category, it is the level of investment that determines which category they are a part of.

## 1. Introduction

Economic development refers to the process to improve the living standards and economic health of people. The importance of economic development is viewed through the improving quality of human lives and capabilities; lower mortality rates, democracy higher literacy etc. (Tovar & Smith 2010). Historically economic development has been on going but really gained speed through industrialisation, which began the improvement of living standards (Ashton 1997). Entrepreneurs played a vital role in industrialisation through the invention and capitalisation of new products and services and the start of new firms (Hoppit 2011, Foster 2004). These firms contribute to economic growth, most commonly measured through gross domestic products (GDP), which is one condition of economic development (Ranis et al 2000).

Small and medium-sized enterprises (SMEs) are recognised as important players in achieving sustainable economic growth. SMEs enhance competition and entrepreneurship, which benefits innovation and productivity, and they boost employment since they in general labour are intensive (World Bank 2002, World Bank 2004). In many advanced economies SMEs contribute to over 65 per cent of employment and over 50 per cent of GDP, making them a vital part of a countries economy and welfare (OECD 2005). In low-income countries SMEs contribute a much lower share; 16 per cent of GDP and 18 per cent of employment (Ayyagari et al 2003). Entrepreneurs play important roles in the transformation from low-income economies to modern economies by creating new firms that contribute to growth; providing employment opportunities, innovative input to firms and by raising productivity in several sectors (Gries & Naudé 2010). For entrepreneurship to be successful; not only does the entrepreneur need to possess a certain persona or characteristics, but the society within which the entrepreneur operates have to have structures in place that support such ventures, or at least does not impede them Cuervo (2005). An entrepreneurship ecosystem describes the environment and the actors surrounding the entrepreneur and how they benefit or hinder the entrepreneur to realise their idea. This idea, however great it might be, might fail to turn into a successful business if it for example is inaccessible to customers or if there is no accessible support to help the

entrepreneur develop the idea into a product or service. A healthy entrepreneurship ecosystem will work in symbiosis to benefit entrepreneurs that meet market demands and aid in growing a small venture into a bigger company (Isenberg 2010).

Several reports and studies (Ishengoma, & Kappel 2006, OECD 2004, Omar et al 2009, United Nations Industrial and Development Organization 2013) list the challenges of developing country SMEs to grow: limited access to finance, poor infrastructure, lack of efficient institutions, bureaucratic procedures of setting up, operating and exit a business and a high-cost business environment. If developing countries can increase their share of SMEs, GDP growth and employment rate should increase as well, effectively affecting the economic development of the country.

On the Human Development Index, the African continent in general, and the Sub-Sahara region in particular, have the highest percentage of low ranked countries, indicating that this is a region where economic development is vital (United Nations Development Program 2014). Tanzania ranks at 159 out of 187 countries on the HDI and the government has recognised the importance of economic growth to foster sustainable economic development, and one of the focused areas is the development of the SME sector (Republic of Tanzania, 2003). However, when the World Bank uses data to rank countries on ease of doing business, Tanzania places 131 out of 189 countries, making it one of the most difficult countries for firms to do business in. In sum it is high costs and timely procedures that make doing business in Tanzania difficult according to the OECD rankings and registering a business is very complicated leading to a very large informal sector. (World Bank 2015b) Though about 95 per cent of businesses in Tanzania fall under the SME definition as small enterprises, they only contribute around 35 per cent of the GDP (TCCIA 2009). Data on entrepreneurs and SMEs in Tanzania are scarce and unreliable, mainly because the informal sector makes up a substantial part of the number. Thus it is a subject that is not easily studied, which translates into a need to gather further data to better understand the environment for business ventures in Tanzania; what obstacles entrepreneurs face when they try to grow their firms and what can be done to change it. Lack of access to finance, lack of adequate business skills, and bureaucratic procedures are factors that have been found to affect the growth of SMEs in Tanzania and subsequently the government have developed an SME policy to

try and overcome the obstacles they provide for SMEs (United Republic of Tanzania 2003), but the result has not been satisfactory and these obstacles still hinders SMEs growth (United Nations Industrial and Development Organization 2013).

Rather than looking at the individual obstacles, this thesis will look at the entirety of the entrepreneurship ecosystem in Tanzania to determine if SME growth can be related to interactions in the ecosystem. It will further identify how the ecosystem affects SME growth and why. By interviewing with different stakeholders this thesis will evaluate the entrepreneurship ecosystem through the perspectives of the stakeholders and analyse its implications for SME growth through theory of institutions to look for an explanation of how and why and thus contribute to previous studies by adding a holistic perspective that could explain the root cause of these individual obstacles.

### **1.1 Purpose and Research Question**

This particular study takes a holistic approach when looking at the problems facing SME growth in developing countries by looking at the effect of the entrepreneurship ecosystem as whole. If interactions in the ecosystem can explain how and why growth is affected by individual obstacles it provides opportunities to demolish these obstacles, rather than just overcoming them. By identifying an underlying cause for the obstacle and reducing it a more friendly and facilitating environment for SMEs to sustain and grow can prevail that will be beneficial for future firms as well. Since SMEs have been found to be important for a country's economic development, a more facilitating environment for SMEs could increase the sectors contribution to growth, aiding countries to develop. For a low-income country like Tanzania finding an explanation to how and why the ecosystem affects SME growth could benefit the development and implementation of better policies and strategies to improve the environment for SMEs, effectively increasing their contributions to the economy and perhaps aid in the country's economic development.

From this purpose the research question was formulated:

*"How does the entrepreneurship ecosystem affect SME growth in the Republic of Tanzania?"*



To effectively answer this research question, the state of the entrepreneurship ecosystem will be determined and then how and why it affects SME growth.

### **1.1.1 Delimitations**

Due to the limited time frame of this thesis project, this study is a single case study looking at one country at one point in time. It does thus not include a comparison of two or more entrepreneurship ecosystems. The study focuses on entrepreneurs located in urban areas due to logistics and comparability. In addition, early contact with entrepreneurs and support organisations highlighted that the capital Dar es Salaam is the location that see most entrepreneurial activity in the country, as well as being the location where most of the support functions are located.

A second delimitation is the focus on stakeholder perceptions, experience and feelings of individuals, to determine the state of the ecosystem. The perceptions of the stakeholders and entrepreneurs in particular are interesting since they are the ones affected by the ecosystem; if they perceive it as a difficult environment to sustain and grow in it most likely is. While the author feels interviews give a more in-depth data, it is limited because it is subjective to the interviewed individuals. However, it does provide more elaborate and detailed answers than a more quantitative survey.

### **1.2 Thesis Overview**

This thesis is divided into 6 chapters. The first chapter introduces the topic covered and why it has a general importance and concludes with the purpose and research question. The second chapter covers previous research and existing literature on the chosen topic as well as theory used to develop the data gathering and discussion. The third chapter outlines the methodology used and the excellency of the chosen methodology. The fourth chapter covers the empirical data gathered and is presented from the different perspectives of the interviewees; the entrepreneur, NGO worker and the policies. The fifth chapter will analyse the empirical findings and its implications to the research question. The sixth chapter discusses the conclusion, the limitations and ends with suggestions of further research.

At the end of the report the bibliography and appendices are presented.

## 2. Literature Review, Framework & Theory

This chapter will review literature on economic development and the global importance of SMEs, followed by a definition and discussion of the entrepreneurship ecosystem framework that has been used in the design of the study and then a review of institutional theory's role in the growth and sustainability of an entrepreneurial organisation. The chapter concludes with a review of literature of SMEs in developing countries in general followed by the case of Tanzania in particular.



### 2.1 Economic Development

Economic development refers to the process to improve the living standards and economic health of people. With economic development comes quality improvement of human lives and capabilities such as economic and social equality, elimination of poverty and higher living standards, education and higher literacy, political participation and democracy, rule of law etc. (Todaro & Smith 2010). The United Nations has as one of its objectives to foster economic development and through the United Nations Development Program it publishes the Human Development Index, HDI, for every country. It is considered the most common index for measuring economic development and includes life expectancy, education, and per capita income indicators (United Nations Development Program 2014). One way to increase economic development is to increase economic growth, most commonly measured through gross domestic products (GDP)(Ranis et al 2000).

Historically economic development has been on going but really gained speed through industrialisation, which has been linked to all cases of high and sustained economic growth in modern times (Szirmai 2009). Industrialisation started in Europe in 1760, and began the improvement of living standards (Ashton 1997). Entrepreneurs played a vital role in industrialisation through the invention and capitalisation of new products and services and the start of new firms (Hoppit 2011, Foster 2004).

Studies on economic development began during the post-WWII era and much research is concerned with why some countries are rich and others are poor. Many researchers adopt a historical perspective and attribute economic development to regional history (Engerman & Sokoloff 1997, Acemoglu et al 2002, La Porta et al 1997) or a cultural perspective where traditions, beliefs and attitudes affect economic development (Keating et al 2003, Tabellini 2005, Guiso et al 2006). Yu (1998) suggests that the inclusion of entrepreneurship in development policy is of high importance, both from a technology perspective and an opportunity one. This is supported in *Entrepreneurship and Economic Development* (Naudé, ed. 2011) where the importance of support for entrepreneurship is highlighted as a factor for any state of economic development.

## 2.2 Global importance of SMEs

*"Small firms depend on entrepreneurs - the individuals who have the ideas and are willing to take the risks necessary to get a firm off the ground."* (European Commission 2013). As the quote suggests Small and Medium-sized Enterprises (SMEs) are recognised as important players in achieving sustainable economic development and growth. In *Innovation, Entrepreneurship and Economic Development* (Szirmai et. al 2011) the editors emphasise the great importance of SME's for any economy. In many advanced economies SMEs comprise over 95 per cent of the private sector and contribute to over 65 per cent of employment and over 50 per cent of GDP, making them a vital part of a country's economy and welfare (OECD 2005). In low-income countries SMEs contribute a much lower share; 16 per cent of GDP and 18 per cent of employment. When comparing SMEs contribution to GDP and employment in developing and developed countries; one can see that low-income countries get their largest contribution from the informal sector as opposed to high income countries who get their largest contribution from the formal SME sector. (Ayyagari et al 2003) While the informal sector is not completely negative for an economy, it is associated with low quality jobs, high risks, insufficient social protection, and in the long perspective increased poverty levels (OECD 2015)

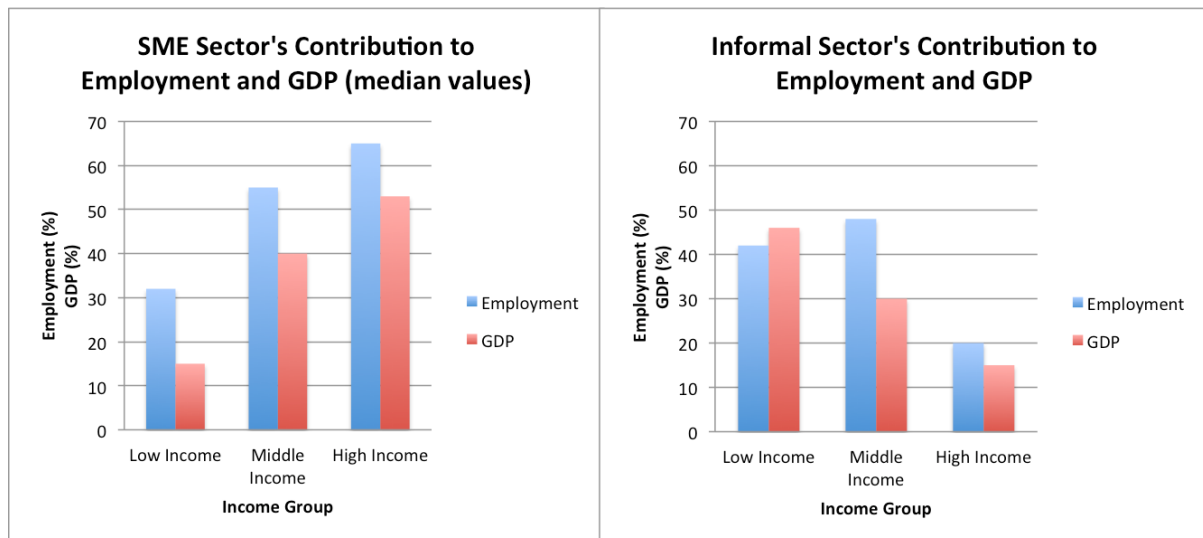


Figure 1: SME Contribution to Employment and GDP (Ayyagari et al 2003, p 27-28)

Beck et al (2005) find that there is a positive relationship between the size of a country's SME sector and growth in GDP, meaning that successful economies generally have a strong SME sector even though it cannot be proven that SMEs by themselves are causal for growth. It is however seen as general notion that SMEs have the ability to generate growth because they expand the tax base, enhance competition and entrepreneurship, which benefits innovation and productivity, they boost employment because they are in general labour intensive and they generate economic growth (OECD 2005, World Bank 2002, World Bank 2004, Fritsch & Mueller 2005, O'Casey & Weerawardena 2009, Feldman 1999). A high share of SMEs is therefore considered important for any economy's well being. Countries that have a large share of SMEs have a favourable business environment that facilitates firm start-up, growth and survival (Nijkamp 2010).

### 2.3 The Entrepreneurship Ecosystem Framework

The concept of the entrepreneurship ecosystem refers to the environment that surrounds the entrepreneur and is made up of stakeholders; individuals, organisations and institutions, that have an interest in the development of entrepreneurship within that specific environment. These stakeholders act in a nurturing way for entrepreneurial ventures to grow and sustain. An entrepreneurship ecosystem can also work in the opposite way if it is not nurturing and supporting entrepreneurship, creating an unfavourable environment for entrepreneurs, thus hindering growth. The impact of the surrounding environment highlights that it is not only individual

characteristics of the entrepreneur that determines success or failure of the firm, but that the environment has impact as well. The study of entrepreneurial ecosystems comes from curiosity over why firms cluster together and why benefits arise for the individual businesses from this clustering. The concept of ecosystems takes a holistic view of entrepreneurial success as well as taking the external perspective of firm growth rather than internal capabilities. (Mason 2014)

To determine the state of entrepreneurship ecosystems several frameworks have been developed by different organisations; the Babson Entrepreneurship Ecosystem Project, the Koltai Six+Six, the Innovation Rainforest Blueprint, the Council on Competitiveness' Asset Mapping Roadmap, the OECD's Entrepreneurship Measurement Framework and the World Bank's Doing Business ranking to name a few. The Babson Entrepreneurship Ecosystem Project developed by David Isenberg (2010) can be used to study an ecosystem at both a national and sub-national level. Compared to other frameworks it is more flexible in assessing the ecosystem and in using data available. In addition it takes a more holistic approach rather than focusing on a limit number of domains or a certain sector. (Aspen Network of Development Entrepreneurs 2013)

The OECD identifies three elements that are important in assessing the entrepreneurship ecosystem; determinants, entrepreneurial performance and impact. The determinants are the factors that affect entrepreneurship, such as different policies, amount of accessible capital and availability of business support. Entrepreneurial performance is the measurable activities that lead to value creation, such as number of high-growth firms, employment rates and number of new firms. Impact is the created value of entrepreneurship and can be measured in macroeconomic variables; GDP, Gini-coefficient (income distribution) or formal-informal sector size (OECD 2004). In Isenberg's framework there are six determinants, referred to as domains; policy, finance, culture, supports, human capital and markets which interacts to create a more or less healthy environment for entrepreneurship to be successful. The interactions between these elements are complex and Isenberg emphasises the importance of shaping the ecosystem around local conditions where it is employed. Standing alone, each element contributes to promoting entrepreneurship, but in order for entrepreneurship to be sustainable the elements have to be used collectively and

holistically (Isenberg 2011). The six domains comprise hundreds of elements out of which 50 are exemplified in the figure below. By evaluating these different elements of ecosystem, the health of the ecosystem can be determined; the extent to which the ecosystem facilitates and encourages entrepreneurship.

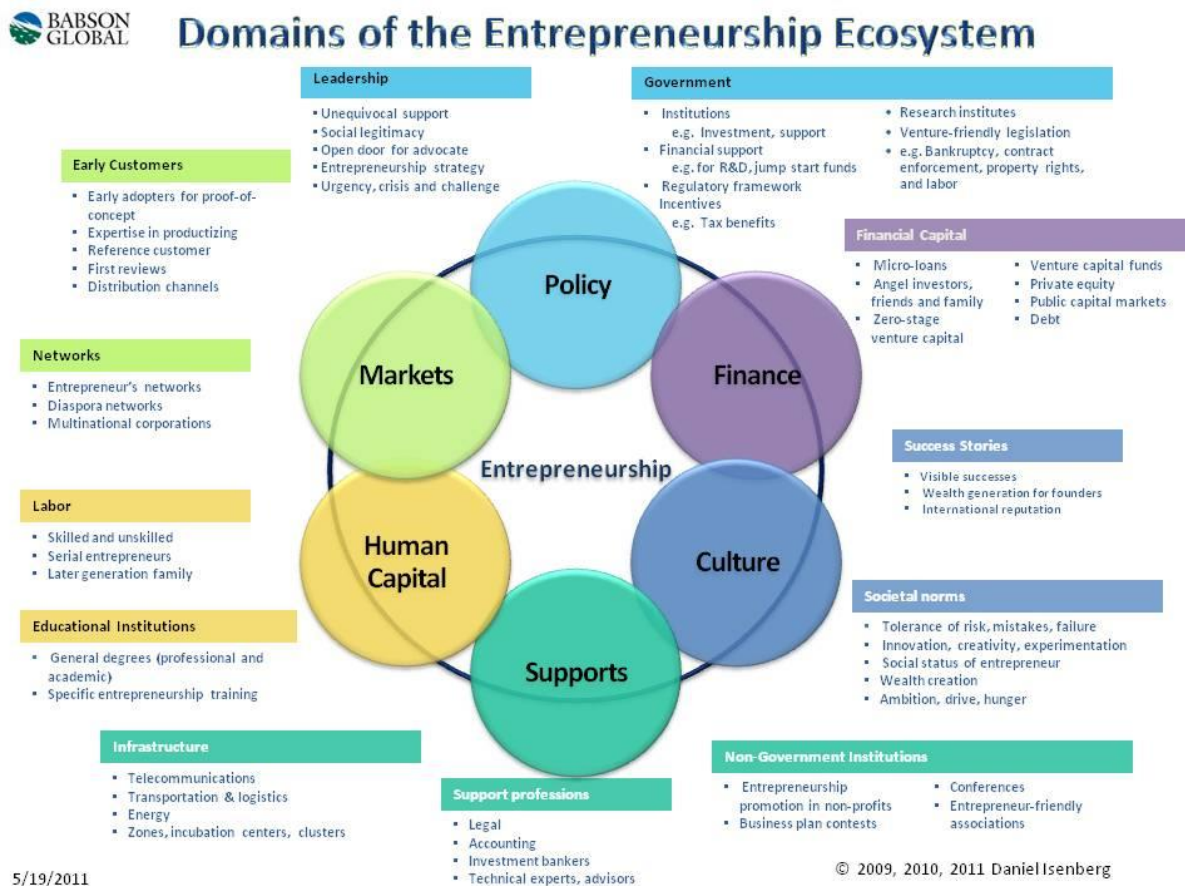


Figure 2. The Domains of the Entrepreneurship Ecosystem (2011)

Within the entrepreneurship environment, Isenberg (2010) stresses nine factors that are important in order to create an entrepreneurship ecosystem; to stop emulating Silicon Valley, to shape the ecosystem around local conditions, to engage the private sector, to favour high potential ventures, to get a “big win” on board, to tackle cultural change head on, to stress the roots, to not over engineer clusters and finally to reform legal, bureaucratic and regulatory framework. In sum, emphasis should lie on tailoring the entrepreneurship ecosystem to the specific region, while aiding in its natural development.

The entrepreneurship ecosystem promotes holistic thinking since one high-functioning domain on its own cannot create sustainable entrepreneurship while simultaneously

encouraging governments to look beyond sole policy reform to promote entrepreneurship (Isenberg 2010). The holism of the entrepreneurship ecosystem provides a great framework for assessing the different domains of an ecosystem and structures the data collection to assess how the domains collectively affect growth of SMEs in that particular ecosystem.

## 2.4 Entrepreneurship and Institutional Theory

To explain why the entrepreneurship ecosystem impacts the survival and growth of individual firms, institutional theory can be employed. Institutional theory explains why institutions arise and how they maintain despite not always acting rationally. Institutional theory can thus provide an understanding to why entrepreneurial ventures fail or succeed within a society. Social legitimacy and survival are the core of institutional theory; institutions survive because they conform to institutional pressure, which in turn creates legitimacy. (Meyer & Rowan 1977, Powell & DiMaggio 1991, Scott 1995) Media is an important tool in governing these institutions and social norms as they provide society with information, and indirectly communicate what is accepted or legitimate, e.g. how an SME should behave (McCombs & Shaw 1972). Media is not unbiased; they filter and shape information according to what is considered legitimate behaviour (Mazzoleni & Schulz 1999). It is one example of that organisations do not solely react to market mechanisms, but to pressures that arise from other organisations, government, individuals and society at large (Greenwood & Hinings 1996).

Scott and Meyer (1983) describes institutions as *symbolic and behavioural systems containing representational, constitutional and normative rules, together with regulatory mechanisms, that define a common meaning system and give rise to distinctive actors and action routines*. When these “action routines” are perceived as normal, or “how it should be done”, they have been institutionalised (Scott 1995). Institutions are manmade constraints that regulate political, organisational and social contact in that they shape perceptions, behaviour and choices (North 1991). These constraints can be both informal (such as values, norms, traditions etc.) and formal (such as rules, regulations and contracts etc.). Complying with these institutions is what gives an organisation, or an entrepreneur, legitimacy and thus ensures survival (Meyer & Rowan 1977). SMEs

that sustain in the institutional environment conform to these constraints, which in turn give them legitimacy.

Institutional theory is built on three pillars that balance the environment (Scott 1995): regulative, normative and cognitive. These pillars interact to balance the institutions. The regulative pillar consists of laws, rules, regulations and policies in the national environment and promotes or restricts certain types of behaviour and actions. The normative pillar consists of social norms, values, beliefs, and assumptions concerning human behaviour that are socially shared in the society; it is often referred to as culture. This pillar defines the objective and how to pursue it. The cognitive pillar reflects the structures and social knowledge that is shared by the people in the given region. (Scott 1995) The organisations that prevail in a society have adapted to the conditions of that institutional environment, e.g. if the institutional environment rewards entrepreneurship, entrepreneurial firms will come into existence (North 1993, Furusten 2007).

Several studies on the emergence of entrepreneurship have been conducted using institutional theory but the majority of these studies have been conducted on developed countries (Veciana 2008). Weber (1964) and Cochran (1960) both studied entrepreneurship and entrepreneurial behaviour from a socio-cultural perspective and showed that culture has a major influence on behaviour. According to Scott (1995) culture is an important aspect of legitimisation, and compliance is significant for survival. Newer research has looked more into the regulatory constraints (Nee 1992, Stephen et al. 2005) and finds that enforcement of rules affect economic development, and according to Aponte (2002) public policy and support programmes for promoting entrepreneurship has been a popular research area.

While the entrepreneurship ecosystem describes the institutional environment the entrepreneur is provided with, institutional theory can explain the importance of the entrepreneurship ecosystem in specific regions. Institutions act together with economic constraints, to determine if it is feasibly to engage in economic activity; to start a new firm, and explain why certain countries have more SMEs than others.



## 2.5 Importance of Entrepreneurship in Developing Countries

Researchers within the field of entrepreneurship have long been arguing for the importance of entrepreneurship for developing economies, but research on the matter has been scarce. Although most studies have been on advanced economies, scholars argue that the findings that entrepreneurship have positive effects on employment, welfare and innovation are true in developing countries just the same (Naudé 2010). Most studies on entrepreneurship in developing countries have been on the individual entrepreneur's character, skills and motivation rather than looking at the impact of entrepreneurship on the development of countries, but the academic trend is shifting to the latter (Naudé 2013). Cuervo (2005) further argued that one has to analyse both characteristics of the entrepreneur and the environment together with the institutions that govern economic activity in order to understand the emergence of entrepreneurship in an economy. In Goedhuys & Sleuwaegen's article *High-Growth Entrepreneurial Firms in Africa: A Quantile Regression Approach* (2010) they identify individual entrepreneur's attributes and their firm's characteristics that aids in generating high-growth firms in the eleven surveyed countries within the manufacturing sector, including Tanzania. Results found indicate that engaging in product innovation, having their own transportation and having a firm website tend to generate higher growth. Entrepreneurial firms of any size that can serve their own infrastructure; e.g. provide their own vehicles and keep generators for back-up electricity seem to have a higher growth rates, which is related to the often poor-infrastructure of these eleven sub-Saharan countries.

Gries & Naudé (2010) show that entrepreneurs play important roles in the transformation from low-income economies to modern economies by creating new firms, providing employment opportunities, providing innovative input to firms and by raising productivity in several sectors. Szirmai et al (2011) mentions that Adam Smith's insight that while entrepreneurs are driven by making profit for their own, they tend to generate spill over benefits to the society in broad is important for developing countries. These spill overs can have contribute both positive and negative to development outcomes; the outcome of entrepreneurship is determined by the conditions of the environment where it is developed Naudé (2013). This corresponds to

the findings of Baumol (1990) who identifies that entrepreneurship can be productive, unproductive or destructive, causing both positive and negative effects on society.

Hence, both quality and quantity of entrepreneurship are important for economic growth (Naudé 2008). Quantity of entrepreneurial ability can be raised through education, culture and improving awareness and perception of entrepreneurship as an occupation, while quality can be raised through incentives aimed at individuals who have high entrepreneurial ability and through incentives that encourage self-employed people to go back to wage employment (in Naudé's definition self-employed people are different from entrepreneurs since they do not create employment for others therefore not contributing to growth).

In addition, emergence of entrepreneurship is according to Knight (2012) about risk-taking; an entrepreneur is someone who risks his/her career and financial security to spend time and capital on an uncertain idea. In poor economies, entrepreneurship is highly related to opportunity costs; if it is associated with a high cost to pursue entrepreneurial opportunities, individuals will turn away from that opportunity (Naudé 2008). This corresponds to Shane's (2003) findings that risk-taking behaviour by entrepreneurs is driven by the thought of making profit, if that expectation cannot be met, potential entrepreneurs are less likely to try and overcome market uncertainty. This feature applies for opportunity entrepreneurs, but not for necessity entrepreneurs who do not have any other option for survival, however necessity entrepreneurs do not risk a monetary opportunity cost since the definition of a necessity entrepreneur is that there is no formal employment available (Brewer & Gibson 2014). Other challenges that constrict entrepreneurship in developing economies are limited access to finance, poor infrastructure, lack of efficient institutions, bureaucratic procedures of setting up, operating and exit a business and a high-cost business environment (Ishengoma & Kappel 2006, OECD 2004, Omar et al 2009, United Nations Industrial and Development Organization 2013). All of these factors create an unfavourable business environment that limits SME growth.

## **2.6 Entrepreneurship and SMEs in Tanzania**

According to World Bank rankings, Tanzania is one of the countries in the world where doing business is most difficult. Variables affecting Tanzania's rankings negatively for

Starting a business is Time (the amount of days it takes to register a firm) which is almost 3 times as high as OECD average, Cost (fees that are mandatory, recorded as percentage of the income per capita) which is 7 times higher and Procedures (number of procedures required to register a firm) which is twice as high as OECD average. The difficulty of starting a business is why the informal sector constitutes such a large part of the SME sector.

Starting a business	Tanzania	Sub-Saharan Africa average	OECD average
Time	26.0	7.8	4.8
Cost	23.8	56.2	3.4
Procedures	9.0	7.8	4.8

*Table 1. Doing Business scores (World Bank 2015c)*

In line with the ranking, the determinants in the entrepreneurship ecosystem in Tanzania are mainly reviewed negatively (United Nations Industrial and Development Organization 2013). The government have not been successful in implementing the strategies that would facilitate for SMEs; legislature does not protect minority shareholders (World Bank 2015c) and corporate tax rates are considered too high (OMIDYAR 2014). Access to financing is another major obstacle and many government efforts focus on micro-finance, which is not what SMEs need to develop. One constraint for bank loans is the high spread between the savings interest rate (3%) and the lending interest rate (18-22%) (United Nations Industrial and Development Organization 2013). The OMIDYAR Network report (2014) also highlights that insufficient and unreliable infrastructure e.g. bad roads and railroads and high costs of electricity (1453 per cent of the per capita income (World Bank 2015c)), and poor quality of business support services restricts both firm formation and firm growth. In addition, Tanzania has not been able to turn their rich base of natural resources into a competitive advantage that could benefit firms (United Nations Industrial and Development Organization 2013).

Potential for SME development is also stifled because of access to skilled labour; Tanzania's labour force is limited by lack of formal education and training and the

education system in general lacks a common standard, especially in entrepreneurship education (United Nations Industrial and Development Organization 2013). In addition, entrepreneurs themselves believe they lack managerial skills (OMIDYAR Network 2014), which can be attributed to an education system that promotes employment over entrepreneurship (United Nations Industrial and Development Organization 2013). This can be ascribed to a culture that is represented by high uncertainty avoidance and a low individual need of achievement (Tanzania Chamber of Commerce 2009), characteristics contradicting the traditional traits of an entrepreneur (Clifton & Badal 2014).

Tanzania's history has a part in explaining the state of the entrepreneurial climate today. The social leadership of Julius Nyerere called *Ujamaa* (Swahili for extended family) that developed when Tanzania became independent in 1961 promoted government-owned cooperative ventures rather than individual entrepreneurial ones and discouraged side-ventures beside the official work. This was a strong influence in the Tanzanian business climate until the 1990s when the government started to invest in entrepreneurship awareness and education to bring the country out of poverty. Although entrepreneurship is now an important part of Tanzania's policies to increase economic development, society is still characterised by strong family-ties and extended family networks. The legacy of *Ujamaa* lives on and there is still a view of *entrepreneurs as unemployable, necessity-based traders or [those] who make a living through unreliable or illegal means* (Mwasalwiba et al 2012, p.394). This translates into entrepreneurship as low status especially among the older middle and upper class generation who discourage their children to pursue a career as entrepreneurs (Mwasalwiba et al 2012). However, according to the OMIDYAR Network report (2014) the view on entrepreneurship is getting better; 64 per cent of surveyed entrepreneurs in Tanzania agrees on that entrepreneur as a career choice is desirable and 55 per cent believes that a person who successfully starts a new firm receives a higher level of respect than a corporate manager.

Performance related to the entrepreneurship ecosystem is hard to measure because comprehensive data on the Tanzanian SME sector is lacking, that which exists is sketchy, and much development is seen in the informal sector. It has however been

confirmed, that SMEs play an important role in the development of the economy (Republic of Tanzania 2003). In the policy review conducted by United Nations Industrial and Development Organization (2013) Tanzania is estimated to have more than 3 million SMEs, employing more than 5 million people. Out of these SMEs 45 per cent are located in urban areas. The SME sector employs roughly 20 per cent of the labour force and has the greatest potential for further generating employment. (National Bureau of Statistics 2014)

Despite the difficulties of doing business, Tanzania has averaged a GDP growth of around 7 per cent over the past five years, making them one of the best performing countries in East Africa (World Bank). According to the Tanzania SME Policy (2005) about a third of GDP is estimated to originate from the SME sector. The informal sector remains large and in 2010 the size was estimated to roughly 40 per cent of the GDP. The informal sector employed 93.3 per cent of the labour force in 2006 and more than 80 per cent of those are self-employed, meaning that they operate their own business without any employees and not fully contributing to economic growth (United Nations Industrial and Development Organization 2013). The size of the informal sector helps explain why even though GDP is growing Tanzania is one of the poorest countries in the world, ranking as 159 out of 187 countries on the Human Development Index 2014. The Tanzania GDP is just above 33 billion USD and the gross national income, GNI, 630 USD, which is less than half of the Sub-Sahara African average (World Bank 2015a). In addition, the income distribution is skewed, with 43.5 per cent living below the poverty line (World Bank 2015d).

## 2.7 The Gap

Previous research has mainly studied single factors that impede SME growth, and that research has predominantly been made on developed economies. Research that takes a holistic view of the environment to view if it is the relationship between different factors or a combination of them that affects SME growth has not been found during the literary review. For example, if lack of access to financing is the biggest obstacle for SMEs in developing countries (Beck & Demirguc-Kunt 2006), are there factors within the environment that can explain why that is the case, and in the long perspective provide a solution to fundamentally create change, rather than external stakeholders going around that obstacle by providing capital to the market?

Thus, there is a gap in previous research that a study of the entrepreneurship ecosystem as a collective can fill and where the answers can contribute to existing theory on institutions and entrepreneurship ecosystems. This study contributes to existing literature by taking a holistic view on the causes of obstacles for SME growth and uses theory to verify it. By looking at Tanzania, the study not only contributes to the topic in general, but also provides additional data from a developing country.

### 3. Methodology

This chapter outline the research methodology used. Firstly, the research approach is explained and the selection of a case. Second, the data collection and analysis phase is presented. Finally, a discussion of the excellency of the study will be provided.

#### 3.1 Research design

This study was conducted as a mix of an explanatory and an exploratory case study using an abductive approach to determine how the entrepreneurship ecosystem affect the SME growth in a developing country. An exploratory study is an initial research into a topic and attempts to determine if what is being observed can be explained by theory and is usually done with a qualitative approach. An exploratory approach is often compatible with case studies in areas where little previous research has been conducted as in the case of the entrepreneurship ecosystem in Tanzania (Bryman & Nilsson 2002). An explanatory study attempts to explain rather than explore or describe the studied phenomena, which fits with the research questions objective of explaining the ecosystems impact on SME growth (Maxwell & Mittapalli 2008). An abductive approach can be described as a mix of deductive and inductive reasoning; theory is used to build a proposition of if A is true then B is entailed; if SME growth is impeded it is because of factors in the entrepreneurship ecosystem. The abductive approach provides an explanation, but not necessarily a certainty; it serves as a starting point to orient the study; starting in existing research and theories and comparing it with the empirical data collected to identify patterns that can explain the data (Alvesson & Sköldberg 2008).

The abductive approach is suitable because the study is based on the entrepreneurship ecosystem framework and related articles with the theory that by looking at the domains of the ecosystem, it could explain growth of SMEs. Through further review of literature on economic development and importance of SMEs, factors in the ecosystem were continuously mentioned as having impact on SME growth. Because the author could not identify any previous research on the entrepreneurship ecosystem and its impact on SME growth, there was no hypothesis on how the domains holistically impacted SME growth; that was to be explored through interpreting the empirical data

to identify patterns that could answer the research question. The identified pattern was then discussed using institutional theory.

### **3.1.1 Time frame**

According to Yin (2011), the time frame is important to consider in the design of the research study. Considering the time frame for this study, approximately four months, a cross-sectional study was decided upon since the author could find no previous research on the state of the entrepreneurship ecosystem of Tanzania. Without previous data to compare with and with limited time to conduct a comparable study over time, this was deemed the only option (Bryman & Bell 2007). The time frame also limited the study to one single case.

### **3.1.2 Selection of case**

Feagin et al (1991) proposes that a case study is ideal when a holistic, in-depth study is needed and that they are designed to bring out details from the perspective of the participants. Yin (1994) identifies three conditions that need to be met for a case study to be a valid choice; the research question has the form of “how” or “what”, the research focus on contemporary events and the researcher does not have control over behavioural events. This specific thesis meets those three requirements.

When selecting a case to study, it has to be done so the study is maximised in the time available for the study. Tanzania was selected as a case because it fit with four criteria:

1. It is a developing country
2. It has identified that there are obstacles impeding SME growth
3. It is a case where personal contacts could be utilised, which facilitated research since a challenge in conducting case research is to gain sufficient access to the actors within that case (Yin 2011)
4. It is a country which the researcher has no previous knowledge of, thus avoiding bias from experiences unrelated to the local study (Yin 2011)

Having an established point of contact within SIDA (Swedish Agency for Development Cooperation) facilitated the identification and primary contact with stakeholders that in turn could reference to other individuals; a “snowball effect”. Because a case study uses a multi-perspectival analysis it considers the voice of the actors within the group and



the way they interact (Feagin et al 1991). Therefore, access to different stakeholders was important.

### 3.1.3 Selection of interviewees

Because this study is looking at stakeholder perception it was important to conduct interviews with several of the stakeholders<sup>1</sup> within the entrepreneurship ecosystem as mentioned above. Because of time and relevance interviews were sought with the following stakeholders: entrepreneurs, policy makers and non-governmental support organisations (NGOs) that work specifically with entrepreneurial support. NGOs were chosen because they have a broader perspective of the environment than the entrepreneur who often only has his/her own perspective. After conducting further research and talking to people with contacts in the government it was decided that policy makers would not be interviewed but represented by their policy document (United Republic of Tanzania 2003); partly because they were reluctant to agree to interviews but also because their perspective would not add any additional value to the policy review (what policy makers would answer to the questions would be the same as stated in the published policies, no one that high up in the government might want to contribute their own personal perspective). Because of the limited time frame, interviews were conducted at one location, Dar es Salaam, or through Skype if necessary.

## 3.2 Data collection

A qualitative approach was used since perceptions of stakeholders are the main focus and the interviewees' feelings and attitudes needed to be captured. Hakim (2000, p 34) writes that qualitative research is *"concerned with 'individuals' own accounts of their attitudes, motivations and behaviour. It offers richly descriptive reports of individuals' perceptions, attitudes, beliefs, views and feelings, the meanings and interpretations given to events and things, as well as their behavior."*

### 3.2.1 Interviews

Interviews were conducted with nine entrepreneurs operating locally in Tanzania and six representatives of non-governmental support organisations (abbreviated to NGOs in

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<sup>1</sup> See appendix for a list of interviewees

the thesis) that work directly with supporting entrepreneurship locally in Tanzania.<sup>2</sup> Five female and four male entrepreneurs and three female and three male NGOs were interviewed so gender equality is almost perfect. However, no empirical data gathered showed any signs of being gender biased.

In line with Bryman (2011) semi-structured interviews were chosen in order to allow interviewees to expand on thoughts and to avoid interpretation bias, while still ensuring that the interviews had comparability to one another. Because the questionnaire was extensive and many questions were rather complex and open-ended, 13 of 15 interviews were conducted face-to-face and the other two were conducted via Skype due to logistical difficulties. All but one interview, which was conducted in the interviewee's office, were conducted in public places, such as a café, a restaurant or an open workspace. This was due to the fact that many of the interviewees did not have an office of their own and wanted to meet somewhere convenient between other obligations.

All questions were asked in English, using the same wording for all interviews, however in cases where interviewees spoke Swedish (three out of 15) answers were given in Swedish. The interviewees were shown the questions prior to the commencement of the interview to ensure that they understood the topics covered. Each interview took approximately one hour.

The questionnaire was designed with the entrepreneurship ecosystem framework as a template. Questions were then created and tested on an entrepreneur and a support stakeholder to ensure applicability. These questions were asked to all interviewees, regardless of stakeholder category, to ensure comparability, but it was expected that certain stakeholders would have more input and elaborate answers to different questions.<sup>3</sup>

To avoid interpretation bias from the author at the end of each interview the interviewee was asked to give a score to each domain on a scale from 1-10.

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<sup>2</sup> A list of interviewees can be found in appendix

<sup>3</sup> The questionnaire can be found in appendix

### **3.2.1.1 Data documentation**

Due to the noisy environment that the interviews were conducted in, recording them was attempted but not presented as useful. Instead, note taking was utilised and then transcribed immediately after the interview ended to ensure that no information got lost over time. In addition, some of the interviewees requested ahead to not have the interviews recorded as they would be more comfortable, which was more important for the data. In accordance with Yin (2011) note taking was conducted in a way as to not “burden the participants” by having them speak slowly or pause unnaturally, through shorthand writing and distinguish between quotes and general information. In order to conceive an open and relaxed environment, a notepad instead of a computer was used to record the notes during the interview.

### **3.3 Data analysis**

The analysis is based on findings from the data gathered from the interviews as well as the official SME policy document issued by the government of the Republic of Tanzania (2003). The analysis is based on the entrepreneurship ecosystem framework because it builds on the assumption that SME growth is affected by the interaction between the domains in the ecosystem.

Each domain is given a grade, which is a combined score from the interviewee groups (scores with grading A+ to D-) where A+ is the ideal situation where the entrepreneurship ecosystem is perfect and D- is the worst possible situation where the domain is deemed disastrous and in need of complete change. The entrepreneurship ecosystem is given a holistic grade based on the grades of the domains that will determine the state of the ecosystem collectively in the eyes of the interviewees.

The domain grades are measured against the A+/ideal situation to highlight the gap in perceptions and compared with the oral answers and interpreted as a whole. Because the limitation an assigned score has as compared to actual explanatory answers, the oral answers given in the interview will carry more weight in the analysis. The scores and answers from the interviews are compared with the SME policy document to determine the perceived gaps between what the interviewees need and what the government plans to do. These comparisons were interpreted to determine which domains affect SME growth, and more specifically how and when they affect growth.

When these domains and their impact were determined institutional theory was employed to explain why these domains impact SME growth.

### **3.4 Excellence of Study**

In this section the author will discuss the reliability and validity of the methodology used, a common way of measuring the quality of the conducted study.

#### **3.4.1 Reliability**

Reliability determines whether the result from a study could be re-produced at another point in time with the same outcome (Yin 1994, Malhotra 2004). Therefore it is of high importance to accurately document and describe the process of the study (Bryman & Bell 2007). According to Bryman (2011) qualitative research by nature runs the risk of being of lower validity because of how it is collected and analysed.

Because this research study is conducted cross-sectional at one point in time absolute reliability is difficult to argue for. The study is based on qualitative interviews where the interviewees give their current perspective of the entrepreneurial climate. If this study was conducted at a later point in time or with different interviewees the given answers might well differ because of new and different experience, or simply because there has been a change in the entrepreneurial environment. Therefore, timing plays a big role in reliability; the sooner the study is replicated the more identical the result would likely be. To correct for this and increase reliability interviews were sought with people of different industries, different experience levels and different backgrounds to give a broad perspective.

In addition, the methodology process have been narrated as detailed as possible in order for the process to be re-produced if the interest exists.

#### **3.4.2 Validity**

Validity determines how well the study measures what it set out to study (Bryman & Bell 2007). Validity is measured in two; internal validity and external validity. Internal validity describes how well the study measures what it intended to measure and external validity describes how generalizable the results are (Yin 1994).

The author has aimed to give an indication of what the entrepreneurship ecosystem look like in the perspective of the stakeholders in it and how it affects firm growth. The aim has not been to give a perfect description of the ecosystem because it would not have been possible with the limited time frame. The study does however give an indication of what the ecosystem look like and what obstacles entrepreneurs face in trying to establish and grow their companies. Because this study is based on qualitative interviews there is a risk that interviewees are biased, recollect incorrectly or highlight extremes because of current mood, which should be taken into account when looking at the results of this study. Because of the time requirement that the interviews had to commit to, and they all took time out of their schedules to do the interview and prepare the questions, it hopefully minimised any risk for false answers.

Yin (2011) refers to Joseph Maxwell (2009, pp. 244-245) strategies to “combat threats to validity” (Yin 2011, p.79) where triangulation is one of them. Triangulation collects evidence from different sources that support the same claim, which in this study has been collected from two different interview groups and government policy. Respondent validation is another mentioned strategy that obtains feedback from the interviewees in order to avoid misinterpretation of their answers, which in this study was obtained by having each interviewee review their own interview notes to check for misinterpretation of the given answers (Maxwell 2009). Another applied concept to increase validity is theoretical saturation; when succeeding respondents gave similar answers as the previous ones, saturating the category, the data obtained is considered verified, e.g. all the entrepreneurs saying that the culture is risk averse verifies that the culture is risk averse (Seale 1999).

### **3.4.3 Weaknesses of study**

The weakness in this study lays mainly in the variation of interviewees; the interviewees were chosen from personal contacts, from referrals from other interviewees and from contacting entrepreneurs directly through Internet networks so it was attempted to gather a diverse sample although they sample may not be representative for the country as a whole.

Among the entrepreneurs all but one had less than five years of experience (the one had 7 years) and longer experience might have contributed with a long-term perspective.

On the other hand the shorter experience-span could give a more accurate picture of what the state is at this point in time, rather than adding experience from years back. The NGOs had slightly more variation in experience, both of the industry and from Tanzania, which extracts the same consequences as for the entrepreneurs.

In addition there are not interviewees represented from all different industries meaning that there could be perspectives missing that would have added different experiences to the ones interviewed. However, none of the questions were industry-specific and because of the theoretical saturation mentioned in the previous section, the seven industries that were represented are considered sufficient for this empirical data collection.

Lastly, the main location of the interviewees, which were Dar es Salaam might not be representative for the whole country as it was also stated in the interviews that Dar es Salaam was the “best place to be an entrepreneur” and the region with the highest concentration of them. However, because of this reason, that Dar es Salaam is where the highest concentration of entrepreneurs can be found along with government agencies and institutions, it could be argued that this would be the best region for SMEs to grow and that the answers given would be even more positive than in other parts of the country, meaning that the obstacles facing SME growth in Dar es Salaam would be magnified in the rural parts.

## 4. Empirical data

The empirical chapter is divided into six sections corresponding to the domains of the entrepreneurship ecosystem, and each section includes three sub-sections where data is categorically presented from each stakeholder's perspective.

### 4.1 Policy

The Policy domain focuses on governmental efforts to promote entrepreneurship, as public leadership advocacy, institution effectiveness, friendly legislation and promoting policies.

The combined ranking of the entrepreneurs gave the policy domain a C, indicating that the governmental policies and efforts are in need of big improvements, while the NGOs gave the domain a C+, viewing the efforts slightly more positive.

	Score	Grade	Quote
Entrepreneurs	3,89	C	"There is a lot of talk about entrepreneurship, but there is little action" – <i>Entrepreneur G</i>
NGOs	5,67	C+	"The government recognises that entrepreneurship is a way out of unemployment for many people so they talk about it as a priority but there does not seem to be a concrete strategy" – <i>NGO F</i>

#### 4.1.1 The entrepreneur's perspective

The entrepreneurs were asked about government officials' role in promoting entrepreneurship and theoretically government officials are advocating for entrepreneurship, but they are not doing anything tangible to improve the situation for entrepreneurs. "There is a lot of talk about entrepreneurship, but there is little action" (Entrepreneur G). Several entrepreneurs expressed low trust in government officials, because they do not do what they promise. "Government officials aren't honest" (Entrepreneur A). When compared with other prioritised areas, such as education, entrepreneurship is not as high on the agenda according to Entrepreneur C; while education was made free, entrepreneurship and business have not seen the same efforts. Entrepreneur C also points to the obstacles that legislation provides and says, "if

government officials wanted to promote entrepreneurship, they wouldn't make regulation such a hinder".

Legislation is not facilitating entrepreneurship and definitely not in practice according to all the entrepreneurs; Entrepreneurs D, E and I all answers "NO!" to the question if legislation is friendly. Just the process of getting a business started is time-consuming and difficult; "licenses and permits that are required are several and you need to get them from separate offices far away from each other and the they don't seem to know what the next office requires" (Entrepreneur A). According to Entrepreneur D there are several "hoops" that entrepreneurs need to jump through at different stages of business development, which discourages entrepreneurs from formally growing their businesses. According to Entrepreneur B incentives work against smaller entrepreneurs, because they get tangled up in bureaucracy; "like VAT registration, they have an exempt up to a certain level, which means that when small-scale entrepreneurs reach above that limit they are overwhelmed with all the bureaucracy that suddenly follows". Legislation is not just unfriendly, but it is time-consuming to comply, which focuses resources away from operations.

Like legislation, institutions are not facilitating entrepreneurship either. Entrepreneur B is of the opinion that "the government institutions hinder rather than help entrepreneurs" and none of the entrepreneurs speak of any effectiveness of the institution they know of. Many of the institutions are focused on larger ventures, but there are institutions focused on entrepreneurs; "the innovation hub BUNI and the research institution Costech target entrepreneurship" says Entrepreneur G, though any outcomes are hard to measure.

#### **4.1.2 The non-government perspective**

The NGOs lack results in government promotion of entrepreneurship. "They talk about [entrepreneurship], but they don't do much" (NGO A). While government officials are advocating for entrepreneurship through policy creation it does not turn into anything tangible. Lack of financing is a major reason; where policies exist they are rarely put in action because of lack of finances, even in cases where donors provide financial aid. There is also no sole entrepreneurship focus for policies, "they include



entrepreneurship in other policies, so there is a lack of priority for it” (NGO B). Because of the lack of concrete results NGOs do not view it as a government prioritised area, although they recognise that the government see entrepreneurship as a way to reduce unemployment and promote economic growth. “The government recognises that entrepreneurship is a way out of unemployment for many people so they talk about it as a priority but there does not seem to be a concrete strategy” (NGO F). Several NGOs point to the socialist background of Tanzania as a hinder to change the mind-set towards entrepreneurship and that the private sector is too weak to have any influence over the government. “I think the socialist background affects the mind-set of politicians even if they had good ideas from the beginning” (NGO C).

Legislation has similar problems; there is a will to facilitate legislation, but that there is no visible result. “Legislation isn’t friendly. There are some positive examples but overall the climate is poor,” says NGO D while NGO A says “Yes, I would say it’s friendly but there is no financing to implement them”. All interviewed NGOs agree that in practice, legislation is not facilitating the environment for entrepreneurs and SMEs because there is too much bureaucracy. “Politically there is a willingness [to facilitate legislation], but it doesn’t trickle down to the technical departments so it gets lost in bureaucracy and nothing effective happens” (NGO C). Corruption and bribes also affects the friendliness in practice, so even if there is a will to change it does not reach the entrepreneurs.

Similar problems affect institutions that support SMEs; they exist but are not considered effective. NGO E mentions SIDO (Small Industries Development Organisation) and NEEC (National Economic Empowerment Council) as government created institutions but adds that “they are yet to be effective in the regions where they are most needed” despite that they have been established for several years. As with policies, “most institutions under the government are underfinanced so they do not make a difference” (NGO A), and there is no single focus on entrepreneurship or SMEs.

#### **4.1.3 The government policy**

The government perspective of the Policy domain is that a lot has been set in motion, but that there is a lot yet to be done. According to the SME policy document (Republic of Tanzania, 2003) the government have launched several strategies and programmes that

aim to address some of the difficulties SMEs face; they include Tanzania Development Vision 2025, the Sustainable Industrial Development Policy, the National Micro Finance Policy, the Minerals Policy of Tanzania and Business Environment Strengthening for Tanzania. The three main areas are to establish an enabling business environment, to develop financial and non-financial services, and to put in place supportive institutional infrastructure.

To support the strategies and programs, the Small Industries Development Organisation was established, which is the main government arm for promoting SMEs in Tanzania. In addition, several other institutions that support overall enterprise development, including SMEs exist; Tanzania Industrial Research Development Organisation, Centre for Agricultural Mechanization Rural Technology, Tanzania Engineering and Manufacturing Design Organisation, Tanzania Bureau of Standards, Board of External Trade, and the Technology Transfer Centre. According to the policy document “most of the institutions supporting SMEs are rather weak, fragmented, concentrated in urban areas and uncoordinated. This calls for the need to strengthen the institutions supporting small and medium enterprises”, which is why the SME Development Policy was launched (United Republic of Tanzania, 2003).

As a part of the SME Development policy legislation has been identified as being bureaucratic, costly and centralised, and an obstacle for growth; “As a result most of informal enterprises have failed to formalise and micro enterprises have been unable to grow and graduate into Small and Medium Enterprises“. For SMEs in particular compliance is disproportionately costly and is suggested to be the key issue in why enterprises do not formalise and grow. “The high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment.” New legislation that facilitates for business has gone into affect, but overall, there are still changes needed before legislation will work efficiently to support entrepreneurship. (United Republic of Tanzania, 2003)

Changes that were presented in the policy were the following (United Republic of Tanzania, 2003 p.xxii):

- Simplify business registration and licensing procedures.
- Simplify tax system and introduce tax incentives to nurse SMEs.
- Establish a window within the commercial court for handling SME business disputes.
- Train and sensitise SMEs on intellectual property rights.
- Enhance the knowledge and skills of relevant government officials at all levels on SMEs development.

## 4.2 Finance

The Finance domain focuses on the availability and accessibility of financing for entrepreneurs to grow their businesses.

The combined ranking of the entrepreneurs and the combined rankings of the NGOs gave the finance domain a C, indicating that the access to finance are bad and in need of big improvements.

	Score	Grade	Quote
<b>Entrepreneurs</b>	4,06	C	<p>"It's a struggle to launch as an entrepreneur" – <i>Entrepreneur I</i></p> <p>"Interest rates are insane!" – <i>Entrepreneur D</i></p>
<b>NGOs</b>	4,17	C	<p>"Borrowers do not always understand that loans need to be repaid, and therefore often default on them, which decreases accessibility for bank loans" – <i>NGO A</i></p>

### 4.2.1 The entrepreneur's perspective

In the perspective of the entrepreneurs financing is difficult to get, because financiers are not entrepreneur-friendly. "It's a struggle to launch as an entrepreneur," says Entrepreneur I because "there isn't a lot of financing available at ground level. Growing a business is very difficult; often long track records are needed for loans, and even if you have one the loans that are given are usually too small for the companies to grow the way they need. High interest rates of up to 25 per cent are common and provide another obstacle to obtain financing. "Interest rates are insane!" (Entrepreneur D). Trust is a key factor in getting financing, banks do not trust that entrepreneurs can repay their loans and entrepreneurs do not trust local investors to get control in their business.

“Ownership is a bit lawless so you have to be careful” (Entrepreneur B). “If someone puts in money they have a say in your company” (Entrepreneur E).

To avoid the trust hinder friends and family provide start-up capital for many entrepreneurial ventures. “It works in the beginning, but when it comes to larger investments they cannot help”(Entrepreneur C). Micro-loans, because they are group loans, are not really interesting for entrepreneurs as they are usually too small. Most entrepreneurs go for donor grants to receive financing, but many times they are available only to certain groups or industries and it is difficult to get the paperwork they need for the application ready. “It’s rather about being a good narrator than being good at your business in order to get those grants” according to Entrepreneur D and adds “there should be more support for locals to get the grants rather than foreign ventures”.

Two of the entrepreneurs says that it is better to work up the money you need and save it, that is how most tech entrepreneurs do it because their industry is less capital intensive in the start-up phase. Entrepreneurs that are a part of an innovation hub or a community trade services. “There are two options: trade or save, borrowing is too limited and the loans are too small anyways” (Entrepreneur H). Entrepreneur B tells an additional story of financing where business owners prostitute themselves in order to get the money they need. “These female shop owners travel to China and when they get there they sell themselves to get money so that they can buy goods to bring back and sell here in Tanzania”.

#### **4.2.2 The non-government perspective**

The NGOs see a positive change in the financing situation where there are more possibilities to access financing although there is still a long way to go. Trust affects the accessibility of bank loans, because lenders are not confident that they will get repaid and therefore meeting bank requirements is difficult. “Borrowers do not always understand that loans need to be repaid, and therefore often default on them, which decreases accessibility for bank loans” (NGO A). Despite the difficulty bank loans are still the most accessible financing available but it is extremely costly with high interest rates and additional costs that the borrower needs to pay. “Interest rates can be between 12 and 25 per cent” (NGO B). According to NGO D “the government is making

an effort to improve legislation to try and make financing more accessible to the broad mass” but “it’s a good idea but implementation is still missing” (NGO F).

The inaccessibility of financing has shifted focus to educating people to save money instead of borrowing it. “Focus has shifted to saving because loans are too expensive and very hard to get” (NGO A). Other sources such as angel investors exist in very small scale but are mostly available in the tech industry, and micro loans are available but are too small to provide any bigger momentum for an entrepreneur. Family and friends are the most common source, but they also pose a problem says NGO D, “when the entrepreneur starts to make money, the family wants a part of that money, which means that they can’t re-invest that money into the business”. To avoid involving family many apply for donor grants, but they are hard to get for most entrepreneurs because NGOs are not allowed to disrupt the competition and the receiver also needs to show a broader societal impact, which they rarely can do. According to NGO F “most of the grants are only available for large-scale projects and not small start-up entrepreneurs because they don’t fit the requirements”.

#### **4.2.3 The government policy**

The government recognises that the financial situation is difficult, with limited access to financing. “The SME sector in Tanzania has limited access to finance due to the following factors: the sector is perceived as a high risk one; inability of the SME operators to fulfil the collateral requirements; most banks do not operate an SMEs financing window; some of the banks operate in limited geographical areas; inexperience of Bank Staff in issues related to Micro- finance; lack of a guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present applications that meet bank's requirements” (Republic of Tanzania 2003 p.xxvi). The government claims that the financial sector has been liberalised with better financial rates and a stock exchange market. Still, access to finance is a major constraint for SMEs to survive and grow. (Republic of Tanzania 2003)

To facilitate access to finance the following strategies were presented: (United Republic of Tanzania p.xxvii):

- Facilitate opening up of SME windows in financial Institutions

- Promote innovative financial products for SMEs such as hire purchase scheme, leasing, inventory financing, venture capital SMEs and, Saving and Credit Schemes
- Promote improving access of SMEs to bank financing through simplification of procedures

### 4.3 Culture

The Culture domain focuses on societal norms that affect an entrepreneur's encouragement and success stories that are spread to inspire entrepreneurship in the ecosystem.

The combined ranking of the entrepreneurs and the combined ranking of the NGOs gave the culture domain a C+, indicating that the governmental policies and efforts are bad, and in need of big improvement.

	Score	Grade	Quote
<b>Entrepreneurs</b>	4,89	C+	"They see an opportunity to make money, but not many grasp the entrepreneurship spirit" – <i>Entrepreneur A</i>
<b>NGOs</b>	5,50	C+	"Entrepreneurship requires you to pull away from the group and not be like everyone else which goes against the Tanzanian culture of everyone being equal and working together" – <i>NGO D</i>

#### 4.3.1 The entrepreneur's perspective

According to the entrepreneurs the society at large does not encourage trial and error, if you have failed at something, you should not try it again. "People get beaten in school for providing the wrong answer [...] so no, I wouldn't say that the society tolerates failure" (Entrepreneur D). Likewise the society does not encourage people to try something new, but are instead very risk averse according to all entrepreneurs. "People are discouraged from doing what they aren't good at" (Entrepreneur D). The risk averseness means that a lot of micro businesses are started as a pension – a security for later on in life, as people do not trust others to provide for them. "Everyone owns a small business, it's the security you need for when you get older" (Entrepreneur B). Entrepreneurship in terms of starting ones own business is therefore very situation

dependent and really only approved as a last resort out of necessity. The entrepreneurs agree on that the younger generation takes more risk, but that they are not encouraged by their elders to do so; “the appropriate way to go is to get an education, get a job and a secure salary” (Entrepreneur C.) This connects with risk and the toleration towards it; “the more money that is involved the more averse people are” (Entrepreneur F), so if you have a paying job, risking that salary to start your own business is not encouraged.

Therefore, innovative thinking and experimenting is very low in Tanzania, two of the entrepreneurs call it a “more of a copy-paste culture” (Entrepreneur H) and relates it to the risk averseness of the society. While the entrepreneurs agree on that innovative thinking and experimenting are not encouraged, it is appreciated if it has a positive outcome. “You’re not encouraged to experiment by anyone, but if your solution solves a problem better than people will appreciate it” (Entrepreneur D). However, making a career out of it is more complicated and less appreciated. As with risk averseness, the younger generation are more positive and encouraging, largely do to social media, which gives people an idea of what society in Tanzania could look like if it had the resources that other countries have. Encouragement is also region-dependent, people in Dar es Salaam is more encouraging and tolerate according to the entrepreneurs; “Dar is really the only region to be an entrepreneur,” says Entrepreneur E.

The lack of encouragement to try something new relates to ambition and drive; the entrepreneurs all land on that the average person is not that ambitious and that it is often making fast money that drives people to start a business. According to Entrepreneur D “the average person is not [ambitious], they need help to get things started” and Entrepreneur B “the vision to make money is a driver for people to take more chances”. All entrepreneurs agree on that the most common motivator for pursuing entrepreneurship is still necessity and earning money to survive. After that comes seeing an opportunity and fulfil it and thirdly there is the chance to make an impact on society. “They see an opportunity to make money, but not many grasp the entrepreneurship spirit” (Entrepreneur A). Security is also a key factor; “trust is a motivator too, having your own business means that you are in control” (Entrepreneur C). That seems to be the motivator for serial entrepreneurs as well; “it isn’t like in Silicone Valley where people start a company, exit and then start a new one. Here

people try to run five companies at the same time because they have to make money” says Entrepreneur D, signifying necessity entrepreneurship over opportunity entrepreneurship.

Society’s view of entrepreneurship as a profession is not overly positive though it is beginning to change, at least in media covered regions, though it is still not regarded as highly as being employed. “It is still more respectable to work for a bank or an NGO” (Entrepreneur D) and it is very dependent on success; “if you succeed in your venture, you as an entrepreneur will be well perceived, but if you don’t, you are regarded as a failure and someone who is uneducated” (Entrepreneur C). According to the entrepreneurs the view on entrepreneurship is tightly connected to the money you make rather than the change you conceive.

The perception on money and wealth creation is affected by society’s socialistic heritage with everyone working together. Wealth is seen as positive if it is shared with the family and the community and if it is earned in a legal way. “Your family see it as positive because they know you will share it with them” (Entrepreneur F). There is a lot of scepticism towards wealth creation because of high rates of corruption and crime. “If people can’t see how you made your money they think you did something illegal and that’s not good” (Entrepreneur G).

Money and wealth creation, how it was made and where it has taken them, is often highlighted in the success stories of successful entrepreneurs and they are mainly spread through social media. “Social media is booming and reach pretty far” (Entrepreneur B). Entrepreneur C says that traditional media should become better at spreading these positive stories, because “traditional media, especially radio, has a larger reach, especially in illiterate regions and in the older generation” and for entrepreneurship to be viewed more positively more people need to know how it can create positive outcomes. Besides media’s large reaching span, a lot of information is spread through word of mouth, “gossip is the best source of information, people talk on the streets, at the hairdresser, when delivering goods, everywhere” (Entrepreneur D).



#### 4.3.2 The non-government perspective

NGOs view on encouragement for trial and error is dim. Mistakes and failures are not well received in Tanzanian culture and thus people are risk averse. “You become the laughing stock of the community if you fail” (NGO B). According to the NGOs people only take risk out of necessity to survive, but they would not give up a good career to try something new. “We have hosted business competitions where contestants have stated they if they had the choice they would rather take up employment if it was offered” (NGO A). The socialistic heritage is mentioned by several of the NGOs as strengthening risk averseness and hindering entrepreneurship; the community is very strong and entrepreneurship works against it. “Entrepreneurship requires you to pull away from the group and not be like everyone else which goes against the Tanzanian culture of everyone being equal and working together” (NGO D). Risk averseness is a problem in Tanzania because “people play it safe rather than trying something new” (NGO F).

As with trying something new, the NGOs agree on that innovative thinking and experimenting is not encouraged in Tanzania. “It’s the opposite in Kenya, there they encourage experimenting and they are doing much better than Tanzania, it’s frightening, how non-innovative people here are even when they’re given the chance” (NGO A). Social media works as an inspiration, but there is no encouragement to take it further. “Social media inspires people to become more innovative” (NGO B). “People can be innovative when it comes to solving smaller every-day problems but they aren’t encouraged to turn it into a business” (NGO D). NGO C says that in Tanzania “there is a tradition of acknowledging success or punishing failure” which corresponds to the lack of encouragement and support but the appreciation of a successful outcome. The appreciation for success and money translates into wealth creation being looked up upon according to almost all NGOs, though the socialistic heritage still affects people’s opinion on it; if someone has money people expect them to share it with the community. “The old socialistic view of sharing and cooperation has been replaced by individualism and a yearn to make money and to benefit themselves and that makes some people negative” (NGO A). Corruption also makes people mistrust wealth if it is not clear how you made your money; “if you have money, you must have gotten it in an illegal way” (NGO B).

Making money means being an entrepreneur is slowly gaining in status if you are successful, relating back to “acknowledging success or punishing failure”, but the “best way” to a good future is to get a real job. “No, because society still thinks that the best way to a good future is to go to university, get a job and become a professional, rather than go to university, get a job, become a professional *and start your own business.*” This risk averseness and focus on getting a secure salary affect peoples motivation becoming entrepreneurs, they all bottom down to necessity and making money/becoming rich first hand and tackle poverty/create change secondly. “Necessity forces people to become entrepreneurs, if they could they would rather be employed” (NGO A). “Being financially independent is a large inspiration” (NGO E). “Becoming rich is a powerful driving force in Tanzania, but also the realisation of ones ideas” (NGO D).

#### 4.3.3 The government policy

The government mentions awareness the culture not being pro-entrepreneurship. “Some of the traditions, perceptions and values have tended to create a culture that is anti-entrepreneurial. Furthermore, past policies limited individual entrepreneurship initiatives” (Republic of Tanzania 2003 p.xxiii). It is also recognized that job employment is more favourable than job creation in the culture. Still there is no concrete effort focusing on changing these traditions perceptions and values to become more entrepreneurship-friendly. It is mentioned as an objective; “Strengthening Entrepreneurial Culture” through the education system, but there are no clues as to how it should be done.

#### 4.4 Support

The Support domain focuses on the availability and accessibility of different kinds of support that facilitates for the entrepreneur such as professional support and mentorship, NGO involvement and infrastructure.

The combined ranking of the entrepreneurs gave the support domain a B-, indicating that the support functions and infrastructure are OK, but in need of improvements. The NGOs gave the support domain a C+, indicating that they have a slightly more pessimistic view of the domain.

	Score	Grade	Quote
Entrepreneurs	5,11	B-	"Infrastructure has improved a lot in the last years but it is still unreliable and very expensive for what you get" – <i>Entrepreneur B</i>
NGOs	4,67	C+	"The port in Dar is extremely ineffective so companies use ports in other countries instead, which is a loss for Tanzania...it's more difficult to ship products within Africa than outside so that reduces potential too" – <i>NGO C</i>

#### 4.4.1 The entrepreneur's perspective

Professional support in form of accountant, legal advice and mentors exist but is very inaccessible to entrepreneurs and they cannot always be trusted because of a lack of standards in education. "In other countries there are standards for lawyers, accountants etc., but here you never know what you get when someone calls himself a lawyer" (NGO B). These services are expensive even with the basic services. "They aren't up to date with the industries, like they know how to write a business plan but not how to tailor it to investors of your industry" (Entrepreneur A). There is also a gap between what these professionals can provide and what the entrepreneurs need, a lot of time professional support is very generic and not tailored. "People help you with what you ask for, not taking the extra steps to help you" (Entrepreneur H). According to Entrepreneur D many entrepreneurs need to be educated in how to use these services and what to ask for because they lack the basic skills themselves so they do not utilise them to the full extent. Non-governmental organisations help with basic training, but also here it is very generic and often aimed at micro businesses or certain sectors. "There's a lot of women this, women that...I think it's more empowering than practically useful for businesses" (Entrepreneur A).

Infrastructural support is lacking as well. Transportation infrastructure is very inefficient, unreliable and costly according to all entrepreneurs. Moving goods in, around and out of the country is a nightmare and can have a great effect on how business is doing. "If you transport perishable goods, like for me in the food industry, you can never trust transportation" (Entrepreneur A). The same is said about

communication infrastructure, though it is improving, is also unreliable and expensive. Entrepreneur H explains that he needs four different mobile providers to ensure some kind of reliability in connectivity, which becomes very expensive. In rural areas, coverage is still poor and provides an obstacle for business. “Infrastructure has improved a lot in the last years but it is still unreliable and very expensive for what you get” (Entrepreneur B).

Almost the same is true for electricity; it is unreliable which is detrimental for entrepreneurs who rely on electricity to run their business. It is also very expensive, prices rose with 60 per cent in 2014. “It’s not just that the prices are high, but it’s also really expensive to keep back-up such as generators and batteries and fuel” (Entrepreneur B). Not knowing when or how long you will have electricity affects business and can create huge losses in revenue. “We are without electricity almost 50 per cent of the time which is a real hassle” (Entrepreneur B). In rural areas it is an even bigger problem and access is more costly. “In rural areas you don’t get the same services and not everyone even has electricity because some areas completely lack connection to the electric grids” (Entrepreneur H)

The problems in infrastructure means that local resources cannot always be used, either because it cannot be transported or because it is not of the needed quality. “I use local produce in my products, but if you can’t find what you need here, why wouldn’t you import it?” (Entrepreneur A). Infrastructure also affects the existence of high growth ventures; they are more dependent on geography than existence of institutions; proximity to sea and ports, to national parks and nature, and to neighbouring countries. “There are four regions: Dar, Arusha/Kilimanjaro, Kwanza and Umbeya, probably because of the landscape where they are” (Entrepreneur H). Entrepreneurial spirit is highest in Dar es Salaam according to the entrepreneurs and it is where it is “the only place to be an entrepreneur” (Entrepreneur E).

#### **4.4.2 The non-government perspective**

While professional support is available in the larger cities, its accessibility depends on capital. “Of course there are, at least in the cities, I don’t know about out in the country, but it is expensive” (NGO D). Over the past years there have been a positive

development and the private sector is starting to take over the role that non-governmental organisations have had in giving support and advice. “It’s improving, which is good because foreign aid shouldn’t be relied upon” (NGO A). Non-governmental organisations are then shifting focus from basic training to provide network platforms and more high-level discussions although these efforts are only just getting started and have not yet seen any effect. All the NGOs agree on that the non-governmental organisations are important in filling the gaps of the government efforts, but that their focus is very narrow to certain groups or sectors. “Not all entrepreneurs receive help, it depends on what sector they’re in” (NGO F).

Infrastructure is also better in the cities than out in the rural parts of the country. Transportation options are bad and expensive, both locally in cities but also across the country. Because of its location, Tanzania has the potential to serve its seven neighbouring countries, but because of the ineffective port and the bad transportation internally in Africa they do not seize that opportunity. “The port in Dar is extremely ineffective so companies use ports in other countries instead, which is a loss for Tanzania...it’s more difficult to ship products within Africa than outside so that reduces potential too” (NGO C). Communication infrastructure has improved, but is still poor in remote areas, which is related to the lack of electricity; if you cannot charge your cell phone there is no big demand for service. Because electricity is costly and unreliable many rural areas cannot afford to get connected. “Electric lines aren’t even drawn into all villages because they know they can’t pay for it” (NGO F). According to Entrepreneur D, “only 15 per cent of the country has access to electricity”. Especially manufacturing is in need of reliable electricity. “If electricity is down for one day, production and revenue for that day is lost, and if it happens several times every month your business becomes unreliable” (NGO C).

Despite the problems that the infrastructure poses, NGOs believe entrepreneurs could be better at utilising local resources, but they are not innovative enough. “For example, if vegetables were dried, pickled and juiced they would be more resource efficient and have more value addition” (NGO A). Raw material is sold abroad, refined and then imported back, not only making goods more expensive than they could be but also losing Tanzania thousands of job opportunities. “Tanzania has a lot of cashews, but they

are processed in India, creating some 70 000 jobs there, and then imported back to be sold” (NGO B).

Local resources mean that different geographic zones exist in different places in Tanzania for different type of industries. However, if there is one that is friendlier to entrepreneurs and start-ups it is Dar es Salaam according to two of the NGOs. “Three zones are important, the Dar zone along the coast, the Lake zone and Umbeya; this is where population is growing and opportunities are higher” (NGO B). “Dar is the most friendly place for entrepreneurs, but probably not outside it” (NGO D).

#### **4.4.3 The government policy**

Business development services that the government call services to SMEs from professionals are known to be underdeveloped and not accessible in terms of cost, but also “On the other hand, SME operators lack information as well as appreciation for such services and can hardly afford to pay for the services” (Republic of Tanzania 2003 p.xvii). Support in terms of infrastructure is an established constraint for SMEs that is also affected by high costs. “The poor infrastructure in Tanzania including working premises, roads, cold rooms, warehouses, power, water and communication adversely the development of the SMEs. Even where these services are available, the supply is unreliable and costly” (Republic of Tanzania 2003 p.xxii). In particular this affects the attraction of SMEs in rural areas, where 80 per cent of inhabitants live. In addition available technology does not reach SMEs, mainly because they cannot afford what is provided. (United Republic of Tanzania 2003)

The government recognises that Tanzania has plenty of natural resources but that “the challenge lies in the ability to transform efficiently and effectively the resources into goods and services that can be availed to the market at competitive prices. One of the major limiting factors is the lack of entrepreneurs at different levels” (United Republic of Tanzania 2003 p.xxiii). One of the mentioned reasons for this is that past policies limited entrepreneurial initiatives and that it still resonance through the business environment.

To address the support and infrastructural obstacles the below strategies were presented: (Republic of Tanzania 2003 p.xxiii):

- Identify and allocate underutilised public buildings to SMEs.
- Facilitate capacity building of Industrial Support Organisations (ISOs) and other service providers.
- Facilitate establishment of incubators.

#### 4.5 Human Capital

The Human Capital domain focuses on the quality of education and the motivation entrepreneurs bring from the educational environment as well as the labour and skills availability for an entrepreneur to grow their company.

The combined ranking of the entrepreneurs gave the human capital domain a C, indicating that the entrepreneurial education and the skills of the labour force are not good and in need of big improvement. The NGOs gave the domain a C-, indicating that through their perspective even bigger improvements are needed.

	Score	Grade	Quote
Entrepreneurs	4,56	C	"It's very much memorise and very little critical thinking and problem solution" – <i>Entrepreneur I</i> "You learn entrepreneurship on the streets, not in school" – <i>Entrepreneur F</i>
NGOs	3,00	C-	"Too many to list..." – <i>NGO E</i> (on labour skills that are lacking)

##### 4.5.1 The entrepreneur's perspective

Education overall does not stimulate entrepreneurship says the entrepreneurs. "It's very much memorise and very little critical thinking and problem solution" (Entrepreneur I). The entire education curriculum needs to be more practical and focus on teaching the skills that are lacking for students to graduate with relevant knowledge. "I think education would improve if it were more practical and corresponded to the needs of society" (Entrepreneur B). Several of the entrepreneurs mention that there is a need for entrepreneurship education to include all the basic business skills, even "the boring ones like basic accounting" (Entrepreneur D). Becoming an entrepreneur and starting up a company is not encouraged overall in schools, not even in entrepreneurship classes, it is still all about getting a job. "You learn entrepreneurship

on the streets, not in school” (Entrepreneur F) Entrepreneur H highlights that there is no career fairs for entrepreneurs that focus on how to start a business. “Entrepreneurship education should teach students how to pitch and idea and think on your toes and how to come up with creative solutions, so that when they graduate they have a business plan ready to go with” (Entrepreneur C). According to Entrepreneur B entrepreneurship education in Tanzania need to be even broader than in a developed country to prepare the entrepreneurs for the real world; “In a developed country you have to be good at what you are good at, the rest you can hire someone else to take care of, but here you have to learn it all yourself first, then hire someone to do it, and then check that he is doing it correctly” indicating that it is difficult to trust the knowledge of even professionals.

Regardless of education level there are many skills lacking in the labour force, both soft and hard and both basic and more advanced. “Skilled labour is not available” (Entrepreneur A). Trusting labour skills at all can be difficult; “People don’t have any basic skills and especially the older people rarely want to admit that they don’t know anything” (Entrepreneur B). Everything from communication, professionalism and customer care, team-work and innovative thinking to “how to use a computer and the Office-programs”, financial management and how to access capital, marketing and strategy are needed on the market for entrepreneurial ventures to succeed and grow.

#### **4.5.2 The non-government perspective**

According to the NGOs education is the major problem in Tanzania; it is too academic and does not prepare students for the real working life. “It’s not practical enough for the real world” (NGO A). “Tanzania still has a big need for more practical skills and vocational training” (NGO D). There is a research centre at the University of Dar es Salaam that focuses on entrepreneurship, but it is still not very developed according to NGO B. And even at the entrepreneurship centre students are not encouraged to start their own companies after graduating, though they might be encouraged to do so as a part of their studies, but not to keep pursuing it afterwards. “Focus is still on getting an education and a job rather than encouraging students to start up their own companies” (NGO D). “Social entrepreneurship is encouraged at the university [...] but it is focused on current students and not on graduates” (NGO B).



The labour force in Tanzania lacks a lot of skills, basic skills like customer service and how to behave in an office are needed, as well as out-of-the-box-thinking and adaptive skills. “I would say that the general labour force lacks adaption skills” (NGO F). There is also a lack of industry specific skills that are tailored to the needs of important industries in the society. “Since there’s no real business culture in Tanzania there is no exposure for the labourers to attain the skills they need, there should be more internships offered” (NGO A). Another big skills problem affects the market; the non-existence of customer care and hospitality, which needs to be included in business training according to several of the NGOs. “Customer care is horrible, though it is becoming much better” (NGO A).

#### 4.5.3 The government policy

The establishment of the Entrepreneurship Development Centre at the University of Dar es Salaam in 1999 is an indicator that the government are looking into education within entrepreneurship, at least in theory. The centre provides “consultancy and training in SME related issues” and the College of Business Education at the University offers “business training that includes entrepreneurship development” (Republic of Tanzania 2003). However, there is no mentioning of how this education should be carried out in practice, though improvement of the education system with an emphasis on entrepreneurship development is an objective. Also, when it comes to skills of SME operators, business skills are regarded as low, and institutions providing these services are considered unaffordable and unattractive in terms of quality. There is no mentioning of the general skills of the labour force and any targeted efforts to improve them. The designed strategies to improve education are: (United Republic of Tanzania 2003 p.xxxiii-xxiii)

- Review school curricula to accommodate entrepreneurship development
- Introduce entrepreneurial programmes in vocational and technical training
- Facilitate entrepreneurship development programmes for selected target groups/sectors e.g school leavers
- Embark on capacity building of business training institutions aimed at improving quality of services provided
- Facilitate tailor-made business training programmes for start-ups and for strengthening existing businesses

## 4.6 Markets

The Markets domain focuses on the customers and the network opportunities for the entrepreneur.

The combined ranking of the entrepreneurs and the combined ranking of the NGOs gave the market domain a B-, indicating that the availability and accessibility to customers and networks are OK, but in need of improvements.

	Score	Grade	Quote
Entrepreneurs	6,50	B-	"The potential is what makes it worth being here" – <i>Entrepreneur B</i>
NGOs	6,08	B-	"Social media influence drives demand because people see that there are much products and services that aren't supplied in Tanzania" – <i>NGO B</i> "Customer care is horrible, though it is becoming much better" – <i>NGO A</i>

### 4.6.1 The entrepreneur's perspective

There is a big demand for new products and services on the Tanzanian market but entrepreneurs need to be better at identifying the needs of the customers, alternatively to know how to educate them. "The potential is what makes it worth being here" (Entrepreneur B). "You need to educate the customers so marketing is really important" (Entrepreneur A). Social media has a huge impact on customer demand. "Social media gives people access to what other countries have, like on Instagram people can see what products are available to other countries and want it too" (Entrepreneur B). However, one problem is the affordability, which is generally low in Tanzania. "Customers want things to be cheap, but they don't always understand that development is expensive" (NGO F). There is a potential for international demand according to all the entrepreneurs, but most entrepreneurs lack the knowledge of how to fill that demand and what they could produce and export according to Entrepreneur B.

Payment flexibility poses another problem for the Tanzanian market potential. It is a cash society with very low trust in credit cards and online payments. Trust is the key issue here; not trusting that customers will pay or that sellers will deliver if payment

and service/product provision is not simultaneous. “There’s a big risk that you won’t get paid or won’t get what you paid for if you don’t get it immediately in cash” (Entrepreneur B). “People only trust what they see, they buy what they see, but won’t pay until they see it” (Entrepreneur E). “Mobile payments are increasing flexibility to an extent, but it is still mainly used when the good/service is delivered at the same time” (Entrepreneur D). Low trust hampers the Internet as a distribution channel, which reduces reach to remote areas. “We could sell memorabilia and DVDs online, but people don’t trust it” (Entrepreneur D).

Utilising networks to educate oneself on the market or reaching customers is not really established. Networks of different kinds exist, but they are not very well developed and entrepreneurs do not seem to know how to utilise them at all times. Often the networks are too general and not good at matching, so many entrepreneurs use social media to network with customers or other entrepreneurs. “Matching isn’t good enough so there’s no point, they become too general” (Entrepreneur B). “Most networking is done through social media, both with other entrepreneurs and with investors” (Entrepreneur H). For tech entrepreneurs and start-ups hub communities are good at providing a network platform.

International collaborations as a way to network is more geared towards larger established companies. “Foreign cooperation exists, but is mainly for larger successful companies” (Entrepreneur C). However, it provides additional suppliers when lack of trust in local ones exists or when a different quality is needed. “In many of the bigger sectors cooperation exists, mostly because local suppliers cannot be trusted” (Entrepreneur B).

#### **4.6.2 The non-government perspective**

In the perspective of the NGOs market opportunity exists as long as the entrepreneurs understand the needs and payment ability of the market. There is an increasing middle class that brings a market opportunity with it and increased urbanisation adds to the potential market. “There’s definitely a market, especially with the increasing middle class who have consumption needs” (NGO A). Ability to pay is what restricts the market, which is why looking at international market opportunities is important for local

entrepreneurs in order to look at economies of scale. “It’s important that the entrepreneurs understand what the needs are and the affordability of the market” (NGO E). The biggest influencer of the market is social media, which shows people what they could demand. “Social media influence drives demand because people see that there are much products and services that aren’t supplied in Tanzania” (NGO B).

The use of social media as an information channel has not turned it into a purchasing channel. Mainly because online payments and credit card payments are not common. Flexible payments are non-existent in Tanzania because people do not want to pay upfront for a product or service, and people do not want to supply a product or service without getting paid. “It’s very different, people do not want to pay upfront for goods or services, and it is not always easy to get them to pay afterwards either, people simply refuse to pay!” (NGO A). Several of the NGOs mentions examples where a product or service have been delivered by a business where the receiver refuse to pay afterwards, which fuels the issue of trust. “Companies that purchased ad space in our magazine didn’t pay once it was printed, they couldn’t be reached, so we had to go find them” (NGO A). Distrust is also an obstacle for distribution channels; where they exist relationship building and capital is key to secure distribution of ones product. “Distribution channels are definitely scarce, and the ones that exist are expensive and unreliable so you have to invest in the relationship” (NGO B).

Networks, that for example could be beneficial for distribution relationships, exist but the NGOs are disagreeing on their effectiveness and many of the NGOs believe that they work better for larger enterprises. “There aren’t many but the ones that do exist focus more on established companies than SMEs” (NGO C). Getting foreign companies to invest in Tanzania is difficult because of the un-ease of doing business, but there is great potential for those that manage to establish themselves. “Foreign companies get discouraged because it’s difficult to do business here” (NGO A). However, cultural differences are a challenge for international cooperation according to NGO B.

#### **4.6.3 The government policy**

Tanzania is recognised as having great market potential, if goods and services can be provided at affordable prices. For local SMEs prices have to be competitive in order to compete with foreign providers. Sustainability of a firm is largely dependent on its

marketing performance, something that hinders local enterprises. “Sustainability of a firm depends largely on its performance in the marketing. Unfortunately, many enterprises are facing problems of marketing due to poor quality of products, poor packaging, inadequate marketing skills and stiff competition.” (Republic of Tanzania 2003 p.xxv-xxvi) Another recognized hinder is the access to the rural sub-markets as well as international markets, which should be improved through improved better access to information.

Strategies included in facilitating the market reach are: (Republic of Tanzania 2003 p.xxviii)

- Strengthen marketing agencies and institutions that support SMEs
- Facilitate SMEs participation in local and international markets through trade fairs and missions.
- Establish SMEs exhibition centres
- Support establishment and strengthening of Associations of SMEs
- Facilitate strengthening and networking of service providers of SMEs

## 5. Analysis

This section will cover the findings and the analysis of the health of the entrepreneurship ecosystem and observations and interpretations that have been made on the empirical data. First it will highlight the findings, then the health of the entrepreneurship ecosystem, followed by the implications for the growth of SMEs.

### 5.1 Findings

The below chart of the domain scores highlights the gaps between the optimal environment (score 10) and the current environment according to the entrepreneurs and NGOs in Tanzania.

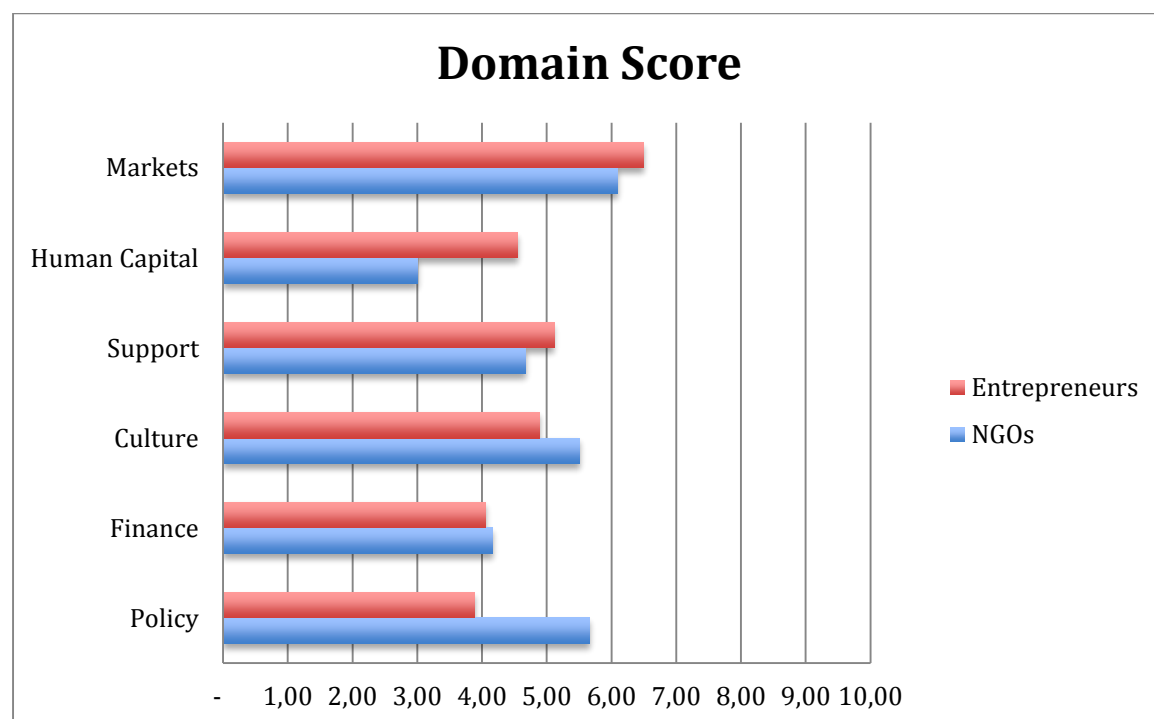


Figure 3. Ecosystem Domain Score

According to the empirical data of the entrepreneurs in chapter 4 the smallest gap between the optimal state and the perceived current state is found in the Market domain and then descending as follows: Support, Culture, Human Capital, Finance and Policy. When compared to the perspectives of the NGOs the smallest gap is in the Market domain as well, followed by Policy, Culture, Support, Finance and Human Capital.

Small differences in the scores between the two groups are to be expected as the sample is quite small in the separate groups and thus one individual's score has a great bearing on the aggregated score. The main difference between entrepreneurs and NGOs is in the Policy domain, where NGOs are more positive and the Human Capital domain where NGOs are more negative. This could be explained by the wider perspective of the NGOs as compared to the entrepreneurs, and also because several of the NGOs come from a different cultural background; thus having a different perspective of what these domains could look like and valuing them differently (Ayres 1962).

#### 5.1.1 Policy

The mixed ranking of the Policy domain between entrepreneurs and NGOs is not surprising; the domain mainly gets low scores because of the failure of the government to put talk into action. The government has acknowledged that legislature is in need of improvement to be more favourable to SMEs and is setting up policies that will facilitate for this group. Both entrepreneurs and NGOs acknowledge this fact, though they are not seeing any effect coming out of these initiatives and do not experience any promotion of entrepreneurship in practice. It corresponds with both groups lacking effective government institutions and believing that legislation is unfriendly towards entrepreneurs.

In general NGOs recognise the existence of positive efforts but a lack of execution, while the entrepreneurs mainly experience it as a lot of talk but little practical effort. The difference in ranking can be led from the entrepreneurs' disappointment in the lack of action since they themselves are doers<sup>4</sup>, while NGOs, with a more holistic perspective, know how difficult it can be to put theory into practice.

#### 5.1.2 Finance

The low score for the Finance domain was expected since previous research has pointed out that access to finance is an obstacle for SME growth. Financing is recognised as difficult by all three stakeholders, and this is an area where entrepreneurs and NGOs feel that the government could do more in facilitating lending from banks, such as regulate interest rates, hence it is tightly connected to the Policy domain. It is not that institutions for financing do not exist, it is that their conditions, such as interest rates,

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<sup>4</sup> Its French root *entreprendre* literally means "to undertake", "to do"

fees and records, are too tough for entrepreneurs and SMEs and the interviewees does not seem to expect it too improve in the near future. Trust is a major issue and there is no concrete government effort to reduce it or to improve conditions for loan approval. Poor accessibility to financing turns entrepreneurs away from traditional financiers towards ways of saving money on their own, and available financing, whether it is borrowed or saved, is in general too small to excel growth.

### 5.1.3 Culture

While the Culture domain is ranked fairly high by both interview groups it is not seen as encouraging entrepreneurial behaviour. Both groups agree on that the society is very risk averse, does not encourage innovative thinking or problem solution, but does appreciate it if it is beneficial to the society. The socialistic heritage affects the society to a great extent; everyone is equal and everyone works together, which to an extent goes against the entrepreneur who goes his/her own way. Because the people are very poor, they do not take risks to lose what they have gained, which is why there is a clear path for what success looks like in terms of getting an education = getting a job = getting a salary. Though positive change is beginning to show in the younger generation in urban areas, the society as a whole is not supporting entrepreneurship as a professional career. In the Culture domain there is a gap since the government are not showing any signs of taking particular action to create change in the cultural domain that is needed to create a more facilitating environment. However, the interviewees are not asking them to do it either.

The grading of the Culture domain is surprising because it does not fit the interpretations of the oral answers given in the interviews. Perhaps it is because the entrepreneurs and NGOs have accepted the cultural environment they are in and in contrast with the other domains where there is a clearer connection to the shortcomings and the effort of the government, culture is harder to think of as a concrete obstacle and concealing the affect it has on other domains. Another explanation could be the view of culture as improving; it was described as changing with the young generation, and is therefore viewed with a sense of hope for pending improvement, making the hinder it poses today seem less problematic. After all, the attitude of the entrepreneur him/herself is vital in the aspect of overcoming the cultural barrier, and going ones own way to realise an idea is one characteristic of an



entrepreneur, suggesting that the opinion of others is less central in decision-making for some (Schumpeter 1976).

#### **5.1.4 Support**

The Support domain's lack of health is not directly contributed to the government by the interviewees, but rather an accepted truth related to the development of the country; the Tanzanian infrastructure is not significantly worse than that of the neighbouring countries. In addition, support functions are improving and entrepreneurs are adapting their ways of working to accommodate the available state of infrastructure. Lack of adequate business support and poor infrastructure hinders certain entrepreneurial ventures or makes it difficult to operate, such as perishable food that cannot be transported quickly or adequately, or electricity-dependent operations that suffer great losses if there is a power surge. Poor dependability on or no accessibility to infrastructure hinders growth because the market cannot be expanded, and because firms cannot be resource efficient. Overcoming hinders that the Support domain present is often timely and costly, but not impossible. After all, a part of the entrepreneurial spirit is recognised as being problem solution oriented and coming up with innovative ideas. While the entrepreneur view the support domain from their perspective in terms of need, the NGOs have a more holistic view of the state in the whole country and what opportunities Tanzania are missing by not improving their transportation infrastructure, which in turn affects the score they give.

In this domain it is infrastructure reliability and accessibility that is the main problem for the entrepreneurs, because it is associated with high costs, lost revenue and missed opportunities, but the government does not present any targeted strategy towards reducing reliability and increasing accessibility.

#### **5.1.5 Human Capital**

Despite the difference in scores the expressed perspective on the Human Capital domain converge. The two interviewed groups do not view education and labour skills positively and there is still much improvement needed before this domain can act as a facilitator of entrepreneurship, which is acknowledged by the government. The interviewees believe there is a lack of practical elements all through the education system and that students do not leave school prepared for the working life. Students are not encouraged to start their own companies from the education system, which

highlights an environment that are not encouraging entrepreneurship as a full-time profession. The labour force as a whole, including entrepreneurs, lacks many basic skills that are needed to operate a business, which affects growth of firms. Lack of innovative and “out-of-the-box”-thinking also stifles growth because there are no intrapreneurial ideas to excel growth.

Efforts to improve education on all levels are a priority from the government, though it is not focused on entrepreneurship in particular and it does not particularly state that it would rectify what entrepreneurs and NGOs see as a problem; the lack of practical experience that the market needs.

#### **5.1.6 Markets**

The fact that the Market domain is seen as the least unhealthy domain is not too surprising. Entrepreneurs would not exist if there were no market for them; it is a matter of finding the needs of the market and how to meet them. The existence of an entrepreneur is to realise a discovered opportunity (Kirzner 1978). Market potential in developing countries are considered high since there are many needs that are not met due to the economic development.

This is the case with market potential in Tanzania, which is mainly restricted by the affordability of the consumers, but entrepreneurs that can overcome and adjust their products/services have a large market to serve. The government is not making any effort to improve market conditions, for examples import taxes are often favourable which discourages local entrepreneurs in certain sectors, but entrepreneurs and NGOs does not view this as particularly hindering as there is plenty of market potential in existence, as long as you know how to meet customer needs. International cooperation and investment is increasing and provides increased supplies, but cultural differences and un-ease of doing business hinders more formal cooperation between international companies and local SMEs, which has affect on growth opportunities.

The Market domain is not viewed as a barrier for entrepreneurs as long as you can identify the needs and the price level of your customers. This is true for an entrepreneur on any market and will determine if an idea will be successful and sustain. As the economy develops and grows, income increases, creating additional market potential.

The market in Tanzania is however very much constrained by poor infrastructure, which hinders customer reach and thus market expansion and growth something the government acknowledges but have not presented any concrete solution for.

## **5.2. The health of the entrepreneurship ecosystem**

The combined score of the domains give the entrepreneurship ecosystem a score of 4.15/a C, which according to the scoring system indicates that the ecosystem is in need of big improvements in the opinion of entrepreneurs and NGOs. In accordance with the literary review several of the domains individually exhibits poor health, which in turn can affect SME growth, but it is the interaction between the domains that creates an unhealthy ecosystem. It is especially the Cultural domain that affects the other domains; it affects the way policies are formulated and implemented, trust in investments and financing, and the education and skills taught to the prospective and current labour force. It also has minor effects on the market domain as it hinders trust in additional payment options and distribution channels and in the support domain it mainly affects the trust in professional support.

Through the case study in Tanzania the author has made two important observations not directly belonging to the six domains but that affects the ecosystem; the importance of social media and the lack of trust, as these two concepts are recurring in the interviews. It is not surprising that social media and lack of trust is continuously mentioned as they present a clash of the new and the old; the opportunities and the difficulties that the culture represents for entrepreneurs. One could say that social media provides entrepreneurs with the resources that lack of trust creates. Social media provides the entrepreneur with elements that are lacking in the ecosystem; it facilitates feedback on business ideas and creates customer awareness of needs, it connects the entrepreneur to other entrepreneurs, mentors, financiers and other support and it spreads success stories that help inspire aspiring and existing entrepreneurs. Social media provides values and norms from a different culture and can therefore provide the support and encouragement that the culture in Tanzania does not provide. Social media provides a channel to build relationship with customers and reach markets beyond geographical borders, which has been found to increase SME growth (Jagongo & Kinuya 2013). Trust affects the view of government officials, access to finance, wealth creation and payment flexibility and lack thereof are acting as a constraint for entrepreneurial

success. Lack of trust is culturally conditioned. While trust is thought to boost economic development (Boschma 2005, Harari & Tabellini 2009), a lack of trust in institutions discourages people from working hard and to innovate i.e. it impedes entrepreneurship (Didero et al 2008). The lack of trust not only affects getting approved for loans or accepting different payment methods, but is also affecting the lack of formalisation of firms, since there is no trust in the government. So a culture that lacks in trust affects several of the ecosystem domains on levels that the interviewees might not attribute to the culture of Tanzania.

With theory as a framework it is the institutional environment that does not reward entrepreneurship and makes for an unhealthy entrepreneurship ecosystem; the regulatory framework is in practice not facilitating for entrepreneurs, the cultural norms and beliefs are not supporting entrepreneurial spirit and there are little structures in place that promote entrepreneurial ventures. Many SMEs do not conform to institutional pressure and are therefore not seen as legitimate in society, causing problems in resource accessibility, which hinders them to grow.

### **5.3 Implications for SME growth**

One important implication of the lack of legitimacy is that it narrows the number of SMEs more than in an institutional environment that rewards entrepreneurship (because all entrepreneurial ventures are not successful). Less people try their luck on entrepreneurship because they are not encouraged, or even discouraged to do so, and those that have a good idea with high potential get discouraged, which creates fewer people coming out at the end of the funnel, operating their own successful firm. Culture does not only discourage the formation of an entrepreneur, but it constantly acts as a hinder throughout the growth phase until the firm is perceived as legitimate. Media itself is an important tool in governing norms and social media gives entrepreneurs access to a different institutional environment where different norms and beliefs acts as constraints. The importance of social media among entrepreneurs in Tanzania suggests that they receive legitimacy to carry on from an outside environment, where being an entrepreneur is accepted in the institutional environment.

Compliance with the regulative pillar seems to have less affect on legitimacy. With an informal sector that is larger than the formal one, it shows that established firms can

still exist without following rules and regulations set up by the government. It stifles growth, because if firms become too big they will attract attention from the government and be forced to formalise, which is considered too bureaucratic. Though formal constraints in form of legislation are of importance because they mainly impede entrepreneurship, they have less importance than social informal constraints such as social norms. In the case of Tanzania the large informal sector shows that complying to regulations are not needed for business to be legitimate to society, but following social norms are. The regulative environment at large in Tanzania is affected by social norms because institutional pressures, including social norms, affect regulative bodies. Access to financial resources highlights this since the conditions are considered difficult for many SMEs to comply to.

Social norms further suggest that when it comes to occupation, being employed is the right option and being self-employed, which in Tanzania is considered the same thing as being an entrepreneur, is for those that could not get employed. Social norms then oppose dedicating time to your entrepreneurial venture as a full-time profession to see it grow and sustain. Social norms have big importance in the legitimacy of the institution of entrepreneurship because it is not until a venture is successful and can provide payback to the community it is seen as legitimate; a real job with a secure pay check. Not only do this norm hinder the entrepreneur from working full-time on their venture, but it also hinder skilled recruitment since society encourages people to take “real jobs” at banks or in the government.

These social norms affect the cognitive pillar; there are few proper structures in place that promote entrepreneurship, such as entrepreneurial hubs and networks, which supports the interviewees claim that entrepreneurial ventures are not seen as legitimate in the eyes of society, thus impeding access to needed resources and effectively, growth.

Hence, the analysis suggests that informal constraints are more important to comply with than formal constraints suggesting that the normative pillar is of high importance, which needs to be taken into account when looking at firm growth. According to the nine prescriptions presented by Isenberg (2010) tackling cultural change “head-on” is

key in altering social norms about entrepreneurship. However, it is the only domain where the government has no pending actions presented, indicating that improvement of the ecosystem might take time.

## 6. Concluding Discussion

This concluding chapter will discuss the answer to the research question, the contribution and implication this study has on the research area as a whole and what limitations have affected the result of the study. To finish there will be a short discussion on possible future research to further enhance knowledge on the subject of entrepreneurship ecosystems in developing countries.

### 6.1 Conclusion

This thesis has aimed to answer the question *"How does the entrepreneurship ecosystem affect SME growth in the Republic of Tanzania?"* with the focus of explaining the state of the entrepreneurship ecosystem, how it affects SME growth and why it affects SME growth. While existing literature points out several factors impeding growth in Tanzania such as lack of access to finance, poor infrastructure and bureaucratic procedures, (United Nations Industrial and Development Organisation 2013, World Bank 2015c) this thesis have aimed to look at the underlying causes of these obstacles and if the root can be found by studying the ecosystem holistically and thus explaining why these obstacles affect growth of SMEs. This root has been identified as the culture and the informal constraints it produces in the environment.

The entrepreneurship ecosystem affects growth of SMEs in Tanzania through culture in general and lack of trust in particular causing resources to remain inaccessible and/or unreliable; there is no encouragement to innovate, the education system does not produce skilled workers and professionals, and financing conditions are difficult to meet due to a lack of trust. The ecosystem affects growth at all stages, from the formation of the entrepreneur via the formation of the firm to the stages of growth, because constraints hinder SMEs to be considered legitimate until it is successful enough to contribute to the overall wealth of the society. The affect of the ecosystem is at large connected to informal constraints, social norms, which is a strong influencer of legitimacy in Tanzania.

This conclusion infers that to create a business environment that is favourable for SME growth, Tanzania must address its unfavourable culture. Focus should be on creating a pro-entrepreneurial culture that encourages innovation and problems solution - both in

society at large but mainly in the educational system - and promotes the start-up of new firms rather than focusing on employment. Trust has to be increased, especially in financing but also in other business transactions in order to access an even greater market potential. In addition, it calls for the government to take concrete action and implement strategies they have presented, and not just talk about making changes. It is further suggested that local media is involved in actively creating a pro-entrepreneurial culture, especially when the lack of trust in government is low media's role as a governor and shaper of norms becomes even more important.

## **6.2 Contribution & Implication**

This thesis have taken a holistic view of the entrepreneurship ecosystem and by support from institutional theory tried to explain how and why it affects growth of SMEs. The theoretical contribution of this thesis is that the normative pillar in the institutional environment has greater importance in explaining legitimacy and existence of entrepreneurs and growth of firms in the given context.

Through conducting qualitative interviews with two groups of stakeholders and comparing their perspectives, this thesis have found that culture through informal constraints plays a big role in the Tanzanian entrepreneurship ecosystem and affects several of the domains, constructing obstacles for SME growth through inhibiting legitimacy. Though the regulatory constraints are not favoring entrepreneurship, it is the informal constraints that affects the domains of the ecosystem and causes it to impede growth of SMEs. By studying the entrepreneurship ecosystem it is suggested that the pillars of the institutional environment can have different impact in the determination of the institutional environment of a region or country and that the normative pillar carries more weight in the Tanzanian institutional environment for entrepreneurs.

This thesis contributes to literature on SME development in developing countries in general and Tanzania in particular, through suggesting that identifying the underlying cause of obstacles to do business can aid in the destruction of those obstacles, thus creating a better environment for all firms.



### 6.3 Limitations Discussion

This thesis has its limitations; mainly the time frame of the study, the single case study and the difficulty in measuring perceptions of individuals.

The time frame of roughly four months creates a limitation in observation and data gathering as well as analysis. Mainly, it narrowed the number of interviews that could be scheduled and conducted and it also led to the single case study as opposed to having a multiple case study for comparison. The single case study of Tanzania has limitations as it narrows the generalisation of the study. If it could have been compared to an identical study in another region, the analysis and conclusion could have a higher level of generalisation.

Another limitation affecting this thesis is the difficulty in measuring perceptions. Qualitative interviews capture individual's perceptions, which in turn are built on their own experiences, which in itself is limiting. Therefore an even larger sample of interviewees, and also from a wider regional spread, could add to the interpretation of the data.

### 6.4 Further Research

As with the case of exploratory studies, it often concludes by calling for further research into the subject (Bryman & Nilsson 2002).

One observation that had bearing on the impact on the legitimacy was the importance of social media for entrepreneurs and since there is a scarcity of literature on global social media's impact on the institutional environment this subject would contribute to the development of institutional theory in a world where globalisation is a fact.

This thesis started off in the perception that a healthy ecosystem is causal for SME growth. There is however a "chicken or egg" dilemma, where research could be made on if it is a healthy ecosystem that is causal for SME growth, or if a strong SME sector causes a healthy entrepreneurship ecosystem to prevail and what implications that have for countries that struggle to grow their SME sector.

From the findings of this thesis further research could be made on which social norms have the biggest implications for entrepreneurship and how institutional entrepreneurs could change the institutional environment of a developing country like Tanzania in order to reach goals set out by the government to increase the number of SMEs.

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## Interviews

Date	Interviewee	Location
March 16	Entrepreneur A	Dar es Salaam

March 16	NGO A	Dar es Salaam
March 17	Entrepreneur B	Dar es Salaam
March 18	NGO B	Dar es Salaam
March 18	Entrepreneur C	Dar es Salaam
March 18	Entrepreneur D	Dar es Salaam
March 19	Entrepreneur E	Dar es Salaam
March 19	Entrepreneur F	Dar es Salaam
March 19	Entrepreneur G	Dar es Salaam
March 20	NGO C	Dar es Salaam
March 20	Entrepreneur H	Dar es Salaam
March 20	Entrepreneur F	Skype
March 26	NGO D	Dar es Salaam
March 27	NGO E	Skype
March 27	NGO F	Dar es Salaam

## Appendix

### The Entrepreneurs

**Entrepreneur A** has an ice cream company that sells ice cream with fresh flavours made from local produce. Entrepreneur A started the process in 2012 and became a full-time entrepreneur in September 2013. Is a native Tanzanian.

**Entrepreneur B** has a cosmetic company that imports and sells cosmetic through their own shops in Tanzania. Entrepreneur B has been a full-time entrepreneur since March 2011, the company started sales in 2012. Is from an EU country.

**Entrepreneur C** has a social entrepreneurial youth organisation that aims to promote entrepreneurship among Tanzanian youth all over the country. The organisation was established in 2002 and Entrepreneurs C has been a full-time entrepreneur since August 2012. Is a native Tanzanian.

**Entrepreneur D** has a tech start-up that creates edutainment, educational entertainment for kids in both Tanzania and now also in Kenya. Revenue comes from selling TV-ads throughout the show as well as some smaller text message fees because the end consumer does not have any purchase power. Entrepreneur D has been a full-time entrepreneur since April 2013. Is originally from an EU country.

**Entrepreneur E** has a tech start-up that works with software development and application development since June 2012. They focus mainly on B2B sales but are moving into B2C. Is a native Tanzanian.

**Entrepreneur F & G** are two of the co-founders of an innovation hub in Dar es Salaam that was founded in 2011. Are both native Tanzanians.

**Entrepreneur H** has started several small businesses from 2008 and onwards, currently the entrepreneur has a safari company that arranges safari tours and game drives at different Tanzanian national parks as well as a small event and PR business. Since October 2014 Entrepreneur G also works part-time for the Entrepreneur's Organisation. Is a native Tanzanian.

**Entrepreneur I** has a solar power company that aims to make solar power accessible for everyone in Tanzania. Entrepreneur I has been a full-time entrepreneur since October 2012. Is from a North American country.

## The NGOs

**NGO A** is the founder and head of an organisation that promotes youth health in Tanzania. The organisation focus on entrepreneurship as a way to increase employment options for youth and was established in 1999. Is from a European country.

**NGO B** works with entrepreneurship in a locally based international organisation that focuses on youth-led development. The organisation was established in Tanzania in 1995 and NGO B has worked for the organisation since 2008. Is a native Tanzanian.

**NGO C** works for the European Union delegation to the Republic of Tanzania on the Economic and Governance sector and has trade as an expertise area. NGO C has worked in Tanzania since July 2013. Is from an EU country.

**NGO D** works for a foreign agency that has development assistance to developing countries as their focus and has been present in Tanzania since 1963. NGO D is head of the Private Sector Development area in Tanzania. NGO D has worked in the industry since 2008 and in Tanzania since 2013. Is from an EU country.

**NGO E** works for a foreign agency established in 1958 that has development assistance to developing countries as their focus. NGO E works with business for development, focusing mainly on women and youth entrepreneurs. NGO E has worked in Tanzania since July 2014 for the agency that was established in 1961. Is from an EU country.

**NGO F** works for a foreign agency that has development assistance to developing countries as their focus and has been present in Tanzania since 1963. NGO F works with entrepreneurship and SME development in Tanzania since August 2014, and has worked in the industry since March 2013. Is from an EU country.

## The Questionnaire

### Policy

#### Is public LEADERSHIP promoting entrepreneurship?

1. How are government officials advocating for entrepreneurs/entrepreneurship? (i.e. are they offering support to entrepreneurs) (this could also include policies to promote entrepreneurship)
2. Are government officials making entrepreneurship a priority? (this could be from frequency in media/public discussions)
3. Is there a strategy to promote entrepreneurship?

#### Is the GOVERNMENT EFFORT promoting entrepreneurship?

1. What type of institutions have the government created to support SMEs? (e.g. research institutions, financial institutions)
  - a. FOLLOW UP: Are these institutions effective in your opinion?
2. Are there:
  - a. Research institutions? (Y/N)
  - b. International cooperation? (Y/N)
  - c. Dialogue forums? (Y/N)
  - d. Workshops? (Y/N)
3. Is the legislation friendly to entrepreneurs? (e.g. regarding bankruptcy, contract enforcement, property and labour legislation)
4. Are there incentives created by the government for entrepreneurs? (e.g. tax incentives)

### Finance

1. How would you describe the financing situation for entrepreneurs?
  - a. Challenges?
  - b. Opportunities?
2. For early stage financing, how would you rank the accessibility of the financiers?
  - a. Banks (debt)
  - b. Micro-loans
  - c. Angel investors
  - d. Family
  - e. Private Equity
  - f. Donor grants
3. How easily accessible is this capital for entrepreneurs? (if the answer is some/a few, then which entrepreneurs?)
4. What evaluation criteria are used for selecting SMEs to support? (e.g. is high potential SMEs favoured?)

### Culture

#### Are SOCIETAL NORMS promoting entrepreneurship?

1. Does the society tolerate failures and mistakes?
2. Does it encourage risk taking?
3. Does it encourage innovative thinking and experimenting?
4. Would you describe the average person as ambitious/driven?

5. How is wealth creation by an individual perceived by society?
6. Is entrepreneurship considered to be a respectable profession?

### **Are there SUCCESS STORIES that promote entrepreneurship?**

1. Are there any visible success stories?
2. How are they spread?
3. Who do they reach?
4. Is there any successful Tanzanian SME/entrepreneur that is used as a role model?
5. What are motivating entrepreneurs to become entrepreneurs?
  - a. What are motivating them to continue being entrepreneurs?
6. How are people inspired to become entrepreneurs in your opinion?

## **Support**

### **Do PROFESSIONALS SUPPORT entrepreneurs?**

1. Are there advisors available who support entrepreneurs? (e.g. Mentors?, Lawyers, Accountants?, Technical experts?, Investment bankers?)
2. Are they accessible to the entrepreneurs?

### **Do NON GOVERNMENTAL AGENCIES SUPPORT entrepreneurs?**

1. Are there NGOs that help investors and entrepreneurs to exchange knowledge? (i.e. to network)
2. Do NGOs provide training for entrepreneurs?
3. Business competitions?
4. Dialogue forums?
5. Conferences?

### **Does INFRASTRUCTURE SUPPORT entrepreneurship?**

1. What is the state of the available transportation options? (e.g. roads, railways, shipping, airport /e.g. poor, good, good enough, non-existent)
2. What is the state of the communication options? (e.g. digital, broadband, mobile)
3. Are energy resources available? (e.g. electricity, fuel)
4. Are they accessible to entrepreneurs in terms of costs?
5. Are entrepreneurs utilising local resources when they build their business? (e.g. human resources, raw materials, financial resources)
6. Are there any geographic locations that have a concentration of high-growth firms?
7. If these locations exist, are they close to:
  - a. Universities?
  - b. Think tanks?
  - c. Suppliers?
  - d. Skills training?
  - e. Professional support? (e.g. advisors)

## **Human Capital**

### **Does EDUCATION promote entrepreneurship?**

1. How would you describe the entrepreneurship education that is offered in the education system?
2. What is the state of entrepreneurship research?
3. Is faculty at universities encouraged to join start-ups?
4. Are students encouraged to start companies?
  - a. How?

### Labour

1. What skills are lacking in the labour force for SMEs to grow?
2. Are there any “serial entrepreneurs”? (i.e. do people generally start more than one venture)

## Markets

### Customers

1. How would you describe customer demand for new products/services?
  - a. On local level?
  - b. On international level?
2. Are potential customers willing to give feedback on new products/services?
3. Are they flexible with payment conditions? (e.g. to pay in advance for a product)
4. Are there sufficient distribution channels?

### Networks

1. Are there entrepreneurial networks that link entrepreneurs together?
2. Are there networks that link entrepreneurs and established companies together?
3. Are there networks that link high achieving ex-patriates with locals?
4. Are there multinational corporations present that engage in networking?
5. Do public and private sector do business together? (i.e. do they support each others business)
6. How is the cooperation between foreign companies and local SMEs?

### Scoring Scale (for each domain)

10	9	8	7	6	5	4	3	2	1
A			B			C			D

- A. Optimal – no improvement needed
- B. Good – slight improvement needed
- C. Bad – big improvement needed
- D. Disastrous – needs complete change