Assessment of Challenges facing Small and Medium Enterprises towards International Marketing Standards: a Case Study of Arusha Region Tanzania

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Abstract

Small and Medium Enterprises (SMEs) new or existing, often face challenges when approach products providers for both enterprise fixed capital investment and market standards. The insufficient supply of microloans is a major issue, particularly where business creators are unemployed persons. This study aims to assess challenges facing Small Medium Enterprises (SMEs) towards international marketing standards. Study findings show that SME’s face challenges to access international marketing unaware of regulations and standards, lack of financial support from the Government, poor understanding of consumer’s needs and services, lack of essential entrepreneurial skills and weak networking structures to penetrate into international marketing. The study therefore recommends the improvement of information that is available to SME owners; to the government and other partners avail accessibility to financial facilities with reasonable interest rate of return, encourage more advertisements and use of up to date technology for business and international marketing standards through seminars and trainings on entrepreneurship, and networking structures for export and import of goods and services. The study also recommends that the government supports SME’s to ensure that they play their role in helping improve the economy of Tanzania and improve the country’s Gross Domestic Product (GDP).

Key words

International Marketing, International regulations and standards, consumer needs and assessment, entrepreneurship skills, and international market networking structure

1. Introduction

Small and Medium Enterprises (SMEs), new or existing, often face certain challenges when they approach products providers for both enterprise fixed capital investment and market standards. The insufficient supply of microloans is a major issue, particularly where business creators are unemployed persons, women or form part of ethnic minorities with different cultural dependencies. Supporting the supply of microloans is therefore not only an issue of entrepreneurship and economic growth, but also of social inclusion (Karatas et al., 2008).

Tanzania has been in the constant wheel of fighting for liberalization of market in the African’s sister countries. This gave to the country the political power but remaining behind economic development (NSGRP, 2008). Further, it was reported that there are more than 1.7 million SME projects in Tanzania that employed more than 3 million people, which represent 20% of labor force in Tanzania, where SMEs are vital engines for the economy growth and play a great role for gross domestic product of Tanzania (NSGRP, 2008).

Deakins (2009) agreed that there are quiet numbers of potential reasons why firms and organizations participate in international marketing; these include SME growth, employment, sales increment, marketing benefits through interaction based factors associated with international standards in overseas markets. AMA (2007) reports that international marketing is for good help for the country to establish good process of market planning and strategies for product and services conception, pricing, and promotion, and distribution.
Market provides evidence that markets entry costs for start-up firms are significant across countries (Djankov et al., 2002). SME policy of Tanzania (2002) indicates that Tanzania has been in the constant move to build and support SMEs for job creation and income generation activities.

Despite the ongoing reform programs for economy in Tanzania, SMEs face challenges for international marketing standards. Arusha being the heart of the economic development of Tanzania because of its level of tourist’s sites and also the capital city for the East Africa Community, this study aimed to assess the challenges facing SMEs in Arusha towards international marketing standards.

1.1. Objectives of the study

This study aims to assess challenges facing Small Medium Enterprises (SMEs) towards international marketing standards in Arusha.

1.2. Research Questions

What are the challenges facing SMEs towards international marketing in Arusha?

2. Literature review

2.1. Non-Access to International Marketing

International marketing is a multinational process of planning and executing international marketing standards for pricing, promotion, distribution of ideas, goods and services to create exchange that satisfy individual and organizational on national and international level (Kottler, 2009). Firms expand into international markets slowly and deliberately over time for the market that are familiar to their home market (Johanson et al., 1977).

International market has generally been assumed to take place when the production process becomes more standardized to take advance of certain factors unique to specific locations. Kottler (2012) and King and McGrath (2002) show that there are strategies that entrepreneurs can apply to penetrate the international market such as exportation, joint venture, and direct investment for international production.

Education program is one of the most important factors that positively have impact on the growth of SMEs. A considerable growth of SMEs in international markets characterizes an international involvement. The global market provides new business opportunities such as innovation and new export markets with activities for large firms and between SMEs themselves. SMEs have played a central role in developing the private sector and integrating into the global economy as an efficient way to alleviate poverty in developing countries (Raynard and Forstater, 2002).

Abonyi (2003) recommended that to participate effectively in global markets, SMEs are required to have and maintain significant capabilities in different areas ranging over the industry value chain, including production, design, distribution, branding, and marketing. Amyx (2005) finds that the most significant challenges facing SMEs is the negative perception that their clients have on their ability to provide adequate and quality services for their needs.

Longenecker et al. (2005) and Oketh (2000) find that improper planning and poor management have been posited as main causes of failure for SMEs. Lack of credit has been identified as one of challenges facing SMEs and that hinders their growth towards international marketing. And with the current trends of globalization, SMEs are facing a turbulent environment in which competition is intensifying whilst their size and other existing constraints remain the same.

2.2. Lack of International Marketing Standards and regulations

Fariza (2012) suggested that Governments should continuously upgrading the environment so that it is conducive to the international growth and development of SMEs, by proactively seeking international business opportunities, strengthening legal institutions and administrative and financial establishments, and formulating appropriate policies.

Marketing and information are two of export problems, which revolve around lack of knowledge of foreign markets business practices and competition strategies, lack of strategies for sales management, lack
of are percents to be major barrier in exporting of SMEs in developing countries (Siringoringo et al., 2009). Li (2004) provides evidence that international marketing knowledge is depending on the relevance and depth of marketing information available to the firm. Karatas et al. (2008) find insufficient supply of microloans is a major issue, particularly where business creators are unemployed persons, women or form part of ethnic minorities. Supporting the supply of microloans is therefore not only an issue of entrepreneurship and economic growth, but also of social inclusion.

The point is that (http://www.oecd.org) SMEs face internal and external challenges. Internal barriers include limited information to locate and analyse markets, inefficiencies of human resource management with regard to internationalisation, lack or insufficiency of finance with regard to internationalisation, pressures imposed by external forces on adapting the elements of the company’s product and pricing strategy, barriers associated with the distribution, logistics and promotion aspects of in foreign markets. External barriers include: aspects of transactions with foreign customers, actions or inaction by the home and foreign government in relation to its indigenous companies and exporters, firm’s customers and competitors in foreign markets, the economic, political-legal and socio-cultural environment of the foreign market(s), restrictions on exporting and internationalising imposed by government policies and regulations in foreign markets.

Sroyan et al. (2012) ascertains that international marketing standards play a number of important roles in the economy, support innovation, growth and competitiveness of countries. Standards also offer many significant benefits for individual businesses and industries, and provide SMEs with a vital competitive edge. Further, they stated that SMEs could play a fuller role in standardization, but are unhampered by a number of factors that include: lack of awareness of standards relevant to their business, perception that they are more relevant to large business, and lack of hum (technician) and financial resources to both develop and make use of standards.

Studies have pointed out that a range of barriers faced by SMEs concerned with their awareness of international marketing regulations and standards (either generally, or of relevant to their business), any or all of which may prevent them from realizing the full benefits that standards can bring. Insufficient awareness may originate lacking relevant knowledge, or a failure to communicate effectively, and no involvement of SMEs in income growth, entrepreneurial training, and creation of technological capabilities (Katrank and Strange, 2002; Weeks, 2002). Hamisi (2011) indicates that SMEs have the necessary wherewith to improve its situation, not only in terms of their resources, but also in terms of supply chain strategy for international regulations and standards.

2.3. Lack of Government Support to SMEs

Despite existing policies on financial support for small businesses, very few entrepreneurs receive financial help when they need it. Mambula (2002) find that 72 percent of entrepreneurs he studied in Nigeria considered lack of financial support as number one constraint in developing their business. Although in some African countries banks are by law required to set aside a certain percentage of their profits for small business loans, many banks would rather pay a fine than make what they believe to be a high risk loan to SMEs.

Akwani (2007) suggests that basic physical infrastructure required for economic development, such as good roads, ample power supply, and good rail and river transportation facilities, are in very poor shape in most African countries. In addition to the problems noted above, the information and communication infrastructure in most African countries are weak. Cogburn and Adeya (2000) find that access to information infrastructure is considered as an indispensable condition for widespread socio-economic development in this age of globalization and information economy SMEs and other small African firms have challenges to join international market and sell their products in their home market.

Small business assistance from governments of African countries is weak and inadequate. Most research studies on African entrepreneurship have concluded that training programs for entrepreneurs have been few and far between and different in content than what is needed (Wallace, 1999). The technology involved in the training tended to be beyond what trainees can afford to buy and use. In most cases there was no after-training follow up services.

Access to bank loans and direct government financial support are reported in surveys of entrepreneurs as a serious problem for small businesses in Africa (Honohan and Beck, 2007). Better financial assistance is
needed to address this problem. According to Honohan and Beck, African firms finance a significant percentage of their investment with internal funds, about 68 percent. This observation highlights lack of financial assistance to small-scale enterprises. Policies to address this problem should be established with input from lending institutions.

Honohan and Beck (2007) suggest that the concerns of banks should be taken into consideration in developing financial support policies for small businesses. Governments should work with lending institutions to lower the risk of loan default. While governments need to play an important role, other sources of assistance to small businesses, such as venture capitalists, should be considered. It is also important that entrepreneurs recognize the benefits of education and training in ensuring the success of any business endeavor.

Despite all the challenges facing entrepreneurship in Africa, economic growth rates across much of Africa are rising, and there are successful entrepreneurial ventures across the continent (BBC News, 2006). This observation suggests that opportunities exist for African entrepreneurs, and some of these opportunities have already resulted in some international and local business successes.

2.4. Setting customer services and needs satisfaction

Large buyers are important drivers of technological innovation in global value chains because of their emphasis on higher product standards, constant threat of supplier replacement, and support of their customers and suppliers (Kula et al., 2006). Individuals or organizations may get involved in International Marketing in a rather unplanned way that gives the impetus to more formal and larger operations. The small-scale enterprises enquiries through word of mouth, visits, exhibitions, and experience through others may result in orders. These may be of domestic based export merchants, domestic based export agents, export management companies or cooperative organizations (Agriculture and Consumer Protection, 1997).

Zeithaml et al. (2008) find that SMEs struggle to ensure that the right product is available in the right quantities at operational level. Some SMEs have targeted specific customer service level, but have been unable to translate their growth plans into improved category performance, largely due to operational inefficiencies. Others suffered as a result of consumer feedback, an indication that the SME outlets seemed to have frequent out-of-stocks, affecting consumer brand image for the SME and increasing lost sales. And Grönroos (2000), and Zeithaml et al. (2008) agree that it is important to make each and every service encounter a positive experience for the customer, focusing on creation and building social bonds with customers. According to Customer satisfaction is when the outcome of the service matches the expectations. Kotler et al. (2005) show that customer satisfaction consists of other factors inherent in the service and outside of the service: The service as a product itself, and the other human interactions or influences involved, respectively.

Dealing with competitiveness in the field of SMEs development means to strengthen the ability and performance of SMEs to satisfy customer demands/requirements better than competitors. This can be done by selling and/or supply goods and/or services success- fully; to meet the quality standards of target markets at prices that are competitive; and provide adequate returns on the resources employed in producing them (TNA REPORT, 2010).

2.5. Lack of Skills for entrepreneurship

The challenges facing entrepreneurs and small medium enterprises in Africa are varied and many; lack of financial support, weak economic infrastructure, and lack of policy coherence, and lack business support. Given the small number of indigenous African small firms compared to firms from other parts of the world, education and training support for entrepreneurs and small-scale enterprises will help establish a good foundation for small business growth (Biggs and Shah, 2006).

TNA Report (2010) indicates that sales and marketing are regarded as the most important knowledge areas to develop, followed by innovation & technology, leadership, production management, quality management systems, export promotion, tax/laws, finance and control, personnel and organization and problem-solving skills. Further, the report states that the process of gaining and consolidating competitive advantage requires a variety of skills and knowledge relating to the changing features of company business. In practice this means that SME training and other business support services should play an important leverage
effect and enhance competitive advantage through their supporting and facilitating efforts in the learning process of the entrepreneur.

2.6. Weak Networking Structure for international marketing

The reasons given for the unfavorable internationalization of small firms in Africa includes: unsaturated domestic markets, reputation for small quantity although quality products, low technological requirement for success in markets, and difficulties in joining international supply-chain networks (Rankin et.al, 2006). Inter-firm linkages between small and large firms or domestic and international enterprises in value chains contribute to small firms’ growth and success. This type of cooperation allows small firms to reap the benefits of scale and scope economies. The skills small firms develop and knowledge they acquire in inter-firm linkage can lead to competitive advantage in the global marketplace (McCormic, 1999).

Lawrence (2005) indicates that linkages between small firms and large firms are generally weak at this time, especially between small manufacturing firms and agricultural suppliers. In addition to that large foreign companies are reluctant to establish local linkages with small enterprises because of product quality concerns (Yumkella and Vinanchiarachi, 2003). This weak linkage between large and small medium enterprises is a problem for future small business development. Building inter-firm linkages in African countries will require government policies that create an enabling investment environment through tax incentives, red tape reduction, property protection, and other measures that have a positive impact on the overall economy (UN Conference on Trade and Development, 2007).

3. Methodology of research

Participants

The study used the descriptive design with descriptive techniques. 50 respondents were accessed for primary data. The secondary data set includes views and arguments from different scholars and other relevant studies. The demographic data of the survey show that more than half 62% of respondents were women and only 38% of respondents were men. Based on education, more than half 56% have achieved secondary level of education, 28% of respondents have passed only primary level of education, 10% have degree from university, and only 6% of them have Postgraduate level of studies. The results further indicate that 52% of the respondents own the business, 30% of respondents are employed, and only 18% of them are working from family organization.

Measures

A structured questionnaire was administered to the participants of the study. The tool was designed to assess challenges facing SMEs towards international marketing. The tool had 2 parts: a) identification and profile of respondents, b) assessment of challenges facing SMEs towards international marketing.

For respondent’s profile questions are asked in real mean of their gender, age, education, experience, housing status, and capital for their business. On the other hand challenges are assessed using a 3-point scale: Disagree, Moderate, and Agree.

Procedure

Data set from this study is collected from respondents that practices and are SMEs entrepreneurs. The study used different respondents given the anonymous nature of participation. Respondents were explained of the purpose of the study and were encouraged to give truthful answers. Responses of respondents were electronically coded and saved for analysis using Statistical Package for Social Sciences (SPSS) 16.

Data Analysis

The data sets were analyzed using descriptive techniques. To assess the challenges of SMEs facing for international market frequencies, mean, variance and percentages for arguments and opinions were computed. For simplicity, percentages of corresponding responses for each variable were discussed. Since it is not the interest of the study to examine the relationship between variables any inferential statistics were not
reported. The consistency of the descriptive techniques as stated above was analyzed at face value by observing the highest and lowest.

4. Results

Table 1. Challenges of SMEs towards international marketing

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Access to international Marketing</td>
<td>Agree</td>
<td>36</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>14</td>
<td>28</td>
</tr>
<tr>
<td>Lack of International marketing regulations and standards</td>
<td>Agree</td>
<td>44</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Lack Government support</td>
<td>Agree</td>
<td>47</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Lack of consumer services and Needs assessments</td>
<td>Agree</td>
<td>41</td>
<td>82</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Lack of skills for entrepreneurship</td>
<td>Agree</td>
<td>34</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>16</td>
<td>32</td>
</tr>
<tr>
<td>Weak networking structures for SMEs</td>
<td>Agree</td>
<td>45</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Access to International Marketing

Result shows that 72% (36) of respondents agreed that they don’t have access to the international Marketing, and only 28% (14) disagreed. Despite the opportunities that regions are making possible for entrepreneurs, SMEs in Arusha still have difficulty do not have access to international market. This means that SMEs are unable to penetrate the international market. The majority is relying on local market for their economic development. This confirms the findings of Johanson et al. study (1977) reporting that firms expand into international markets slowly and deliberately over time for the market that are familiar to their home market.

The result opposes with the study of Kottler (2012), Abonyi (2003) and King and McGrath (2002) stating that there are strategies that entrepreneurs can apply to penetrate the international market, and to participate effectively in global markets, SMEs are required to have significant capabilities in different areas ranging over the industry value, including quantity and quality of production, distribution, and marketing. Also it is observed that SMEs in Arusha have improper planning and poor management that have been posited as main causes of failure to have access to the international marketing (Longenecker et al., 2005 and Oketh, 2000).

Lack of International marketing regulations and standards Awareness

Those who agreed on the factors that they are not informed on international marketing regulations and standards for marketing in Arusha were 88% (44), and only 12% (6) disagreed. The study done by Fariza (2012) supports the findings that Governments should continuously upgrade the environment to the international growth and development of SMEs. The result is supported by Siringoringo et al., (2009) and Li (2004) showing that marketing and information are the two fundamental problems, which revolve around lack of knowledge of international marketing and foreign business practices. OECD report online supports the above result
showing that SMEs face internal that include limited information to locate and analyse markets, inefficiencies of human resource management with regard to internationalisation, lack or insufficiency of finance with regard to internationalisation.

Stroyan et al. (2012) also confirms the result indicating that SMEs are facing number of challenges that include: lack of awareness of standards relevant to their business, perception that they are more relevant to large business, and lack of technician to make use of the international marketing regulations and standards. Studies have pointed out that a range of barriers faced by SMEs concerned with their awareness of international marketing regulations and standards either generally, or of relevant to their business (Kattrak and Strange, 2002; Weeks, 2002).

Lack of Government Support to SMEs

The question asked to assess the support of the government to SMEs businesses, 94% (47) of respondents agreed that there is support from the government to promote their businesses, and only 6% (3) agreed to have support from the government.

The result is supported by the findings of Mambula (2002) study stating that despite existing policies on financial support for small businesses; very few entrepreneurs receive financial help when they need it. And Wallace (1999) confirms that small business assistance from governments of African countries is weak and inadequate. Honohan and Beck, (2007) agreed that African firms finance their investment with internal funds.

Lack of Consumer Needs Assessments

Findings indicate that 82% of respondents agreed to lack consumer needs assessments and strategies for competition, and only 18% disagreed. Large buyers are important drivers of technological innovation in global value chains because of their emphasis on higher product standards, and support of their customers and suppliers (Kula, Downing, and Field, 2006). This result confirms what the Agriculture and Consumer Protection report (1997) find that small-scale enterprises consider word of mouth, domestic based export merchants, domestic based export agents, export management companies and cooperative organizations. Zeithaml et al. (2008) find that SMEs struggle to ensure that the right product is available in the right quantities at operational level regardless customer services. Grönroos (2000), and Zeithaml et al. (2008) agree that it is important to make each and every service encounter a positive experience for the customer, focusing on creation and building social bonds with customers.

Skills for entrepreneurship and Relying on Local products

Result shows that 68% (34) of respondents agreed to have been doing business without enough knowledge of entrepreneurship and they only rely on their local product, only 32 % (16) disagreed and stated to have knowledge of entrepreneurship and although relying on their local products. The challenges facing entrepreneurs and small medium enterprises in Africa are varied and many; lack of financial support, weak economic infrastructure, and lack of education and training support for entrepreneurs and small-scale enterprises that would help establish a good foundation for small business growth (Biggs and Shah, 2006). In practice this means that SME training and other business support services should play an important leverage effect and enhance competitive advantage through their supporting and facilitating efforts in the learning process of the entrepreneur (TNA Report, 2010).

Weak networking structures for the international marketing

Findings show that 90% (45) agreed to have weak relationship/network structures or not at all interact with others partners in the global market, and only 10% (5) disagreed. The reasons given for the unfavorable internationalization of small firms in Africa includes: unsaturated domestic markets, reputation for small quantity although quality products, low technological requirement for success in markets, and difficulties in joining international supply-chain networks (Rankin et al., 2006). Inter-firm linkages between small and large firms or domestic and international enterprises in value chains contribute to small firms’ growth and success. This type of cooperation allows small firms to reap the benefits of scale and scope economies. The skills small
firms develop and knowledge they acquire in inter-firm linkage can lead to competitive advantage in the global marketplace (McCormic, 1999). Lawrence (2005) indicates that linkages between small firms and large firms are generally weak at this time, especially between small manufacturing firms and agricultural suppliers. In addition large foreign companies are reluctant to establish local linkages with small enterprises because of product quality concerns (Yumkella and Vinanchiarachi, 2003). This weak linkage between large and small medium enterprises is a problem for future small business development (UN Conference on Trade and Development, 2007).

5. Conclusion

Study findings show that SME’s lack financial power to produce quantity of their product to serve large community. Further findings show that SMEs face challenges to access international marketing unaware of regulations and standards, with poor understanding of consumer’s needs and services, lack of essential entrepreneurial skills and weak networking structures to penetrate into international marketing. Further, they lack support and provision of loans leading to poor growth of the SMEs economy development in Arusha Region. The study therefore recommends the improvement of information that is available to SME owners; to the government and other partners avail accessibility to financial facilities with reasonable interest rate of return, encourage more advertisements and use of up to date technology for business and international marketing standards through seminars and trainings on entrepreneurship, and networking structures for export and import of goods and services. The study also recommends that the government supports SME’s to ensure that they play their role in helping improve the economy of Tanzania and improve the country’s Gross Domestic Product (GDP).

Recommendations

The study recommends that:
- Firms and academic institutions that constitute centres of excellence could provide the critical mass analysis for the economic turn-around process, through highlighting opportunities and challenges facing SMEs;
- Increasing market competitiveness of SMEs not only focus specific economic sector perspectives, but also a form of viewing all chain of international marketing standards;
- The government’s to define strategies in the formulation of large enterprise Vs SME integration at both central and local level and develop large enterprises Vs SME linkage policies.

References