

Globalization Impact on Small and Medium Enterprise: Tanzania Case

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Abstract

We are looking the impact associated with globalization in favor of small and medium enterprises (SMEs) growth and how helped to reduce the obstacle facing SMEs growth. We used empirical analysis in order to examine the relationship underlying the globalization and its impact to SME growth. We employed primarily data from Tanzania SMEs. Further we seeks to explain the negative notion that has been created that globalization is not friendly to SME growths. We employed primary data from Tanzania SMEs. The partial least squares (PLS) was used for analysis. The conclusion has indicated that globalization has a relationship with SMEs growth and has contributed to the reduction of obstacles that inhibit SMEs growth. However study confirmed controversial result on part of availability of managers and manpower with global perspectives to influence SMEs growth. The test accepted that globalization has influenced availability of managers with global perspectives but reject the availability of these managers influences the SMEs growth. The results give a clear outlook to help policy maker in policy review process, formulate base for extensive study on issues for manager perspectives and draw intervention.

Keywords: Globalization, SMEs growth, PLS, empirical analysis, manager

1. INTRODUCTION

In world we are living today, it's hard to live away from concept of globalization. It's a vital concept and applicable to our most economic activities. It has come to a bottom line of solution for challenges facing Small and Medium Enterprises around the world. The motive behind globalization and trade liberalization was to foster the economic growth of developing countries including Tanzania.

Major problems affecting growth of small enterprises growth in Tanzania indicated in small and medium enterprises (SMEs) Policy 2003, are lack of finance for development, poor infrastructures, unfavorable laws and regulations, low government support, market accessibility, information asymmetry and networking. This made SMEs in 1990s remain stagnant and not integrated with the global market. The general preconditions

for growth have been suggested to be (1) entrepreneur's growth orientation; (2) adequate firm resources for growth; and (3) the existence of the market opportunity for growth [1]. The globalization phenomena in other country has proved to strike these challenges to SMEs. What about Tanzania?

After the discussion above, the purpose of this research is to examine the impact of globalization on SME growth in Tanzania. In trying to respond the following questions:

1. Is there any relation between globalization and Small and Medium Enterprises sector (SMEs) growths in Tanzania?

2. How does globalization influence the growth of SMEs in Tanzania?

In chapter 2, related works are reviewed and hypothesis constructed. In chapter 3, data analysis are conducted. Chapter 4 discuss data analysis results. Finally, in chapter 5, we discuss about conclusion and future research.

2. HYPOTHESIS

In its broadest sense, globalization refers to the broadening set of interdependent relationships among people from different parts of a world that happens to be divided into nations. Also, the term sometimes refers to the integration of world economies through the reduction of barriers to the movement of trade, capital, technology and people. Throughout recorded history, human contacts over ever wider geographical areas have expanded the variety of available resources, products, services and markets and we have been affected positively and negatively outside of our immediate domains. Again scholars have declared measuring globalization especially for comparisons is problematic, as first the country must be measured indirectly and second national boundaries could shift domestic business transactions to become international transactions or vice versa. However to mention factor in increased globalization which include increased and expansion of technology, cross border trade and resource movement, service that support international business, growth of consumer pressures, change of political situations and cross national cooperation [2].

The proposed conceptual framework of the research indicates that Globalization has a relationship with SME growth in Tanzania. Seeks to show that globalization in Tanzania come with improved financial availability to SMEs, increase in networking and information flows, the reform of laws, regulation and administrative procedures which has been hampering the growth of the sector ,increase of availability and accessibility to information technology application and the presence of managers with perspectives towards globalization as strategic for SMEs growth. These construct are due to growth of SMEs in Tanzania.

Despite what other researchers have indicated the challenge facing SME growth, factors for SME growth and negative impact of globalization to small and medium enterprises, there is still some good positive effects that come with the globalization process especially in SME sector. The central aim of this study is to generate the knowledge of the impact of globalization in SMEs growth Tanzania. The study will contribute to existing knowledge on globalization and SME development in Tanzania and enhance the understanding of the positive relation between the two, and also contribute toward Tanzania SME policy review process. Finally, the study will mitigate literature shortage in the sector and encourage future research in area.

To achieve goal of this research we construct the following 9 hypothesis and Figure 1 represents the conceptual model. For more detail explanation, refer to background of hypothesis construction [3, 4].

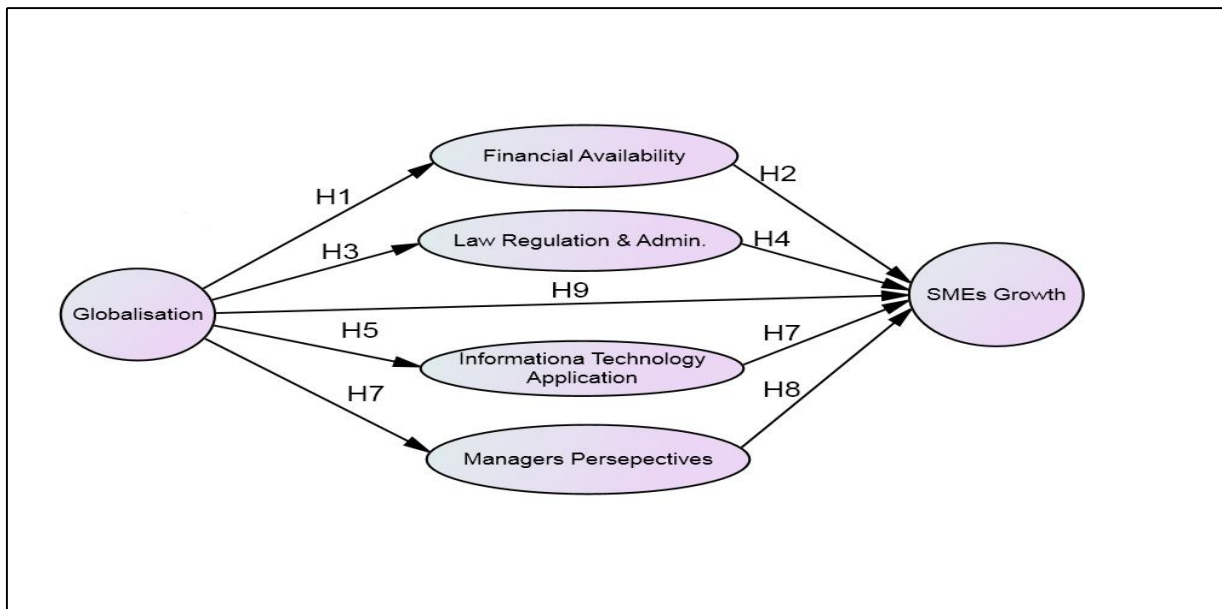


Figure 1. Conceptual framework

- H1. Globalization reduces financial availability obstacles to SME
- H2. Financial availability influences the SME growth
- H3. Globalization forces the reforms of laws, regulations and administrative procedure in favor of SMEs
- H4. Laws, regulation and administrative procedure reformed influences SMEs growth
- H5. Globalization enhances the availability of information technology application to SME
- H6. The availability of information technology application influences SME growth
- H7. Globalization enhances availability of managers with global perspectives to SME
- H8. Availability of Manager with global perspectives influences SME growth
- H9. Globalization influence the growth of SME in Tanzania SME Growths

One of the obstacles SMEs have encountered hampering growth in Tanzania was financial availability and accessibility. This has been either due to regulation related to finance availability of institution with readiness and expertize to deal with SMEs, or historical background towards the industry. However the force of globalization was inevitable to financial revolution. Related to this situation we have the following two hypothesis. For more detail explanation refer to [3].

3. DATA ANALYSIS

Data was collected through a survey. A questionnaire was distributed to stakeholders in Small and Medium Enterprise firms and supporting organizations located in Tanzania. The study samples are drawn from the list of in the Ministry of Industry and Trade of Tanzania and Small Industry Development Organization of Tanzania (SIDO).

In all, 25 instruments capture the globalization, financial availability, laws regulations and administrative procedure, information technology application, manager’s perspectives and SME growth. These instruments were developed after extensive review of literature. Where instrument 1 to 4 covered financial availability (FA), 5 to 8 covered Laws, regulation and administrative procedure (LRA), 9-12 covered information

technology application (ITA), 13-16 covered managers' perspectives (MG), 17-21 Covered globalization (GL) and 22-25 covered small and medium enterprises growth (SMEG).

This study used partial least square structural equation modeling algorithm that allows assessment of reliability and validity of constructs, and also again assesses the relation to the underlying indicator variable. Therefore the factor loading check the observable variable relationship and path coefficient check the effect underlying the construct. In that sense path coefficient will accept or reject the hypothesis. The factor loading should be at least 70% and path coefficient should be at least recommended 2 and not below 1 [4].

All constructs satisfied internal consistency reliability critical values which is above 70% Cronbachs Alpha(α). The result indicates three within 70% and three above 80%. The convergent validity which is measured by AVE values, construct correlations smallest value accepted is 50%. Three construct are within 50%, two within 60% and one above 60%. In PLS SEM Algorithm, model is evaluated by Outer loading which is evaluating the relationship between the latent variables and their indicators which should be at least above 0.70, and composite reliability construct is evaluated by quality criteria which look into internal consistency of reliability (Cronbach's alpha) should also be 70% and convergent validity is measured by average variance extracted(AVE) which should be above critical value 50% [5].

Hypothesis test result is in Table 1.

Table 1. Hypothesis Testing Results

Hypotheses	Constructs	Path Coefficient	T significance	Supported or Not
H1. The globalization reduces financial availability obstacles to SME	GL to FA	0.732	17.785	Supported
H2. Financial availability influence the SME growths	FA to SMEG	0.212	1.961	Supported
H3. Globalization forces the reforms of laws, regulation and administrative procedure in favor of SME	GL to LRA	0.691	15.835	Supported
H4. Laws, regulation and administrative procedure reformed influences SMEs growth	LRA to SMEG	0.184	1.994	Supported
H5. Globalization enhances the availability information technology application to SME	GL to ITA	0.651	14.259	Supported
H6. The availability of information technology application influences SME growth	ITA to SMEG	0.250	1.929	Supported
H7. Globalization enhances availability of managers with global perspectives to SME	GL to MG	0.744	23.521	Supported

H8. Availability of Manager with global perspectives influences SME growth	MG to SMEG	-0.117	0.996	Not supported
H9. Globalization influenced the growth of SME in Tanzania	GL to SMEG	0.279	2.767	Supported

Note: After bootstrapping measurement Indicator for T. Significant should be 5% \geq 1.96, 1% \geq 1.65

Drawing the fact from analysis of data, result has shown globalization is associated with SME growth in Tanzania. The path coefficient and T significance test supported eight hypotheses out of nine as indicated in the above Table 6. Except H.8 availability of manager with global perspectives influenced the SME growth, however the result cannot prove that the situation is perfectly correctly in actually field, because the H.7 has accepted the availability of manager with global perspective which share common path on the construct. Again sample size involved 138 cases.

4. DISCUSSION

This study explores the globalization and its impact to SMEs growth in Tanzania. It tries to verify the possible positive impact rather ignoring the other side of negative myth of globalization. This study will provide information that will position stakeholders’ understanding on the contemporary situation in the sector and help develop further measure to curtail the need for better development of SMEs start up and existing. The nine hypotheses where developed and analyzed using data collected from SMEs stakeholders across trade, manufacturing and service sub sector in SMEs. This study stresses on impact of globalization to SMEs rather what affect globalization. Again does not aim to explain the catalyst of globalization but explain the positive effects to SMEs associated with globalization. In simple concept “What globalization has brought to SMEs in Tanzania”

The Model consist of six construct, where globalization effect financial availability, laws regulation and administrative procedure reforms, Informational technology availability, and managers perspectives and these direct effect SMEs growths by inhibit obstacles hindering sector growth. The results has shown Globalization influences SMEs growths. Financial availability analysis has confirmed that, both start up and existing SMEs has been released from tension of accessibility of fund and confirmed different package created by the Government of Tanzania has supported the sector growth.

5. CONCLUSION and FUTURE RESEARCH

From the result of this study, several conclusion can be drawn. First that globalization has a relationship with SMEs growth and has contributed to reduce the obstacles which have been impeding the sectors growth. This means improvement of financial ability, presence of good laws and regulation in favors SMEs, information technology application availability which has favored increase of information of sharing amongst SMEs. For other useful business performance research refer to [7, 8].

This confirms that SMEs firm are aware of globalization and its potential to their success. They have ignored the tension which has been existing that globalization will increase the competition on which they are not able to sustain and hence they will collapse. For policy makers this seems to suggest the need to draw

interventions to support the SMEs to work globally including more sophisticated procedure for financing, export and import procedure, sensitize subcontracting and networking issues. Again exposing smaller companies to international environment will trigger further growth. However on managers perspectives and manpower need more special intervention, study suggest more detailed research to confirm the situation prevailing. Since this study is based on small sample size, and few companies there is need to confirm this research of globalization and its impact on broader framework across the all subsector. Involves other factor and modify the model.

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