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Exploring the Nexus: Investigating the Impact of Investment on SMEs Growth in Dar es Salaam, Tanzania

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Abstract

Investments stand out as pivotal financial decisions crucial for the sustainable growth of enterprises. The investment activities of Small and Medium-sized Enterprises (SMEs) owners wield significant influence on both individual businesses and macroeconomic factors within the economy. This study look into characterizing the diverse types of investments embraced by SMEs and scrutinizes the impact of these investment practices on the growth trajectory of SMEs in Dar es Salaam city, Tanzania. To achieve this the cross-sectional design was used with study respondents being 384 SME owners whose effects of investment decisions were estimated by the use of ordinary least square model. The findings reveal that most business owners in Dar es Salaam allocate a portion of their financial resources to investments in assets, education-related activities, health-related initiatives, and religious matters. Notably, a substantial proportion of financial resources or profits is channeled into financial instruments such as shares, bonds, and real estate, with these categories reporting higher average investment values. To enhance SME growth in Dar es Salaam, policymakers should encourage diversification of investment portfolios, emphasizing awareness of various financial instruments. Implementing financial literacy programs is crucial for empowering SME owners to make informed investment decisions aligned with their business objectives. The establishment of a regulatory framework is recommended to ensure transparency and accountability in financial markets, especially for SMEs engaging in activities like buying and selling financial assets.

Keywords: SMEs owner, Investment, SMEs growth

1.0 Introduction

The paramount goal of Small and Medium-sized Enterprise (SME) owners is to enhance the value of their investments, a pivotal indicator of their enterprise's growth trajectory (Gveroski and Risteska, 2017). Recognizing the profound impact of financial investments on the overall capabilities of a firm, this research underscores their significance in fostering sustainable performance and endowing owners with the flexibility to adapt swiftly to dynamic business environments and capitalize on generated profits (Ye and Kulathunga, 2019). The MSMEs national baseline survey illuminates the diverse investment patterns among SME owners, with 0.1% allocating funds to bonds, 0.5% to shares, 85.2% earmarked for household expenses and school fees, 62.8% directed towards reinvestment, and 14.0% invested in real estate. These investment practices form an integral part of the economic entity's management strategy, aligning with the overarching objective of maximizing owners' income and augmenting the market value of the enterprise (Piatkowski, 2020).

Anane, Cobbinah, and Manu (2013) assert that investment plays a pivotal role in driving SME growth, as these enterprises effectively leverage savings for investment purposes. This observation is particularly relevant in developing countries like Ghana, where a positive correlation has been identified between savings offered by microfinance institutions and the growth of SMEs. Investments not only contribute to business development but also hold significant implications for household progress. This study seeks to delve deeper into the specific types of investments SMEs are inclined to undertake, shedding light on the multifaceted relationship between these investment practices and the overall growth dynamics of SMEs.

Building on the contextual backdrop, the study aims to provide a comprehensive understanding of the investment landscape within SMEs by delineating the specific types of investments they engage in. By exploring the intricate details of these investment practices, the research endeavors to unravel the nuanced connections between various investment choices and the resultant growth trajectories of SMEs. The survey-based approach, involving SME owners with operational experience exceeding one year in Dar es Salaam, Tanzania, is poised to yield valuable insights into the diverse and dynamic nature of investment decisions made by SMEs. Ultimately, this study seeks to contribute nuanced perspectives to the discourse on SME growth, offering evidence-based insights that can inform strategic decision-making processes for SME owners, policymakers, and other stakeholders in the economic landscape.

2. Theoretical review

In anchoring the theoretical framework of this study, the research draws upon the widely recognized and influential Resource-Based Theory (RBT). RBT posits that firms can be understood as an amalgamation of internal resources, encompassing both firm-specific assets and managerial attributes, as well as external resources, such as market position and customer relationships. The theory contends that the effective utilization of these resources, along with strategic deployment, is instrumental in the development of products, services, and overall business strategies. According to RBT, a firm's progress and attainment of growth are contingent upon its ability to leverage and capitalize on these diverse resources (Barney, 1991).

RBT introduces the concept that a sustainable competitive advantage can be achieved if a firm's resources possess specific attributes, namely being valuable, rare, inimitable, and non-substitutable (Barney, 1991). This foundational idea underscores the importance of not just having resources, but having resources that confer a distinct advantage in the competitive landscape. Additionally, Nason and Wiklund (2018) contribute to this perspective by emphasizing that social capital, representing the intangible resources of a business, plays a crucial role. They posit that equity received and savings are integral components of tangible capital (resources) that contribute to business growth, enabling further investments in diverse sectors.

The dynamic nature of resources and growth strategies across different firms is acknowledged within the RBT framework, emphasizing the need for a nuanced understanding of how these variables interact uniquely within each organizational context. This study leverages the RBT lens to explore the nuanced relationships between SMEs' investment practices, resource utilization, and subsequent growth trajectories, contributing to the ongoing discourse on sustainable competitive advantage and business growth strategies.

3. Empirical review

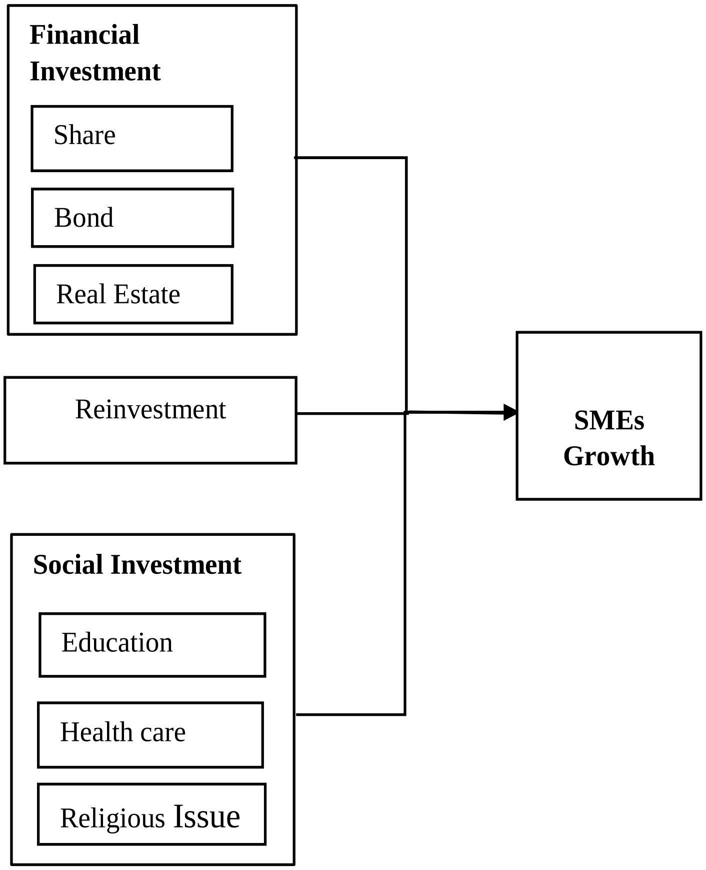
The investment landscape for Small and Medium-sized Enterprises (SMEs) in Tanzania plays a pivotal role in the economic growth trajectory of the country. The Financial Sector Deepening Trust (FSDT, 2017) highlights that Micro Finance Institutions (MFIs) are instrumental in supporting SMEs, with approximately 50% of their products tailored to meet the specific needs of these enterprises. The diverse investment avenues and financial products now accessible to small investors contribute to economic dimensions, such as the enhancement of goods and services, swift adaptation to current and future business needs, and the mitigation of operational risks at the organizational level.

The nexus between personal financial literacy and investment decisions is emphasized in a study by Lotto (2020), revealing a strong and positive correlation. Effective investment decisions, as underscored by the study, are instrumental in accumulating financial resources to bolster the economic well-being of households and businesses, particularly for SME owners. Scholars like Anane, Cobbinah, and Manu (2013) underscore the significance of savings and investment in driving SME growth, with savings serving as a catalyst for strategic investments. Piatkowski (2020) further elucidates that the long-term growth of SMEs hinges on prudent investment choices and an understanding of market dynamics.

Literature underscores the direct impact of investment and financing decisions on firm growth, with finance perspectives emphasizing the importance of effective investment and proper financing decisions, while managerial scholars highlight the influence of factors such as product quality, customer satisfaction, managerial acumen, and technological integration (Altan and Arkan, 2011). Feng and Wu (2021) specifically delve into the realm of real estate investment, noting its consequential impact on firm growth and recommending careful evaluation of real estate portfolio investment allocation for sustained competitiveness.

Mori (2019) emphasizes the critical role of timely market information for successful investment in the stock exchange and real estate. This is particularly relevant for Small and Medium-sized Enterprises (SMEs) in Tanzania, where the ability to secure the best prices in the market is essential for winning tenders and securing contracts. Furthermore, the importance of reinvestment in fostering enterprise performance and financial access is highlighted by Beck, Pamuk, and Uras (2014), who posit that enterprises tapping into reinvestment opportunities are expected to sustain higher productivity levels. Overall, the empirical review establishes a foundational understanding of the intricate relationships between various investment choices and their impact on SME growth, setting the stage for the present study's investigation into the specific investment practices of SMEs in Dar es Salaam, Tanzania.

Figure 1: Diagram to show the designed conceptual framework for the study



Source: Author, 2021.

4. Methodology

The study was conducted in Dar es Salaam city, encompassing the municipalities of Kinondoni, Ilala, Temeke, Kigamboni, and Ubungo. Within Dar es Salaam city alone, there are 466,049 small businesses, with an additional 935,256 in other urban centers and 1,675,385 in rural areas (URT, 2012). The sample size for the study comprised 384 SME owners with a business operational history exceeding one year, spanning across the manufacturing and processing, service provision, and trade sectors. This inclusive approach involved both registered and unregistered SMEs. The sample size calculation was based on a 5% level of precision, denoted by the acceptable error (e), a 95% confidence level (z = 1.96), and a population variance (p) of 5%.

To ensure the robustness of the study, both primary and secondary data were collected. Primary data, defined as original information specific to the researcher's needs, were gathered from SME owners through structured questionnaires. This approach was chosen to capture diverse dimensions of the phenomenon under study (Noble and Roberta, 2019). Secondary data, sourced from previous studies, surveys, publications, internal records, and reports, included SMEs' financial reports and other relevant financial and legal documents (Martin et al., 2018).

The data analysis encompassed both descriptive and inferential statistics. Descriptive statistics were employed to present an overall picture of SME characteristics and behaviors. For inferential statistics, a Multiple Linear Regression model was utilized to estimate the effects of investment avenues (share, bond, real estate, reinvestment, education, health care, and religious) on SME growth. The Ordinary Least Squares (OLS) model was chosen due to its properties as the best linear unbiased estimator (Mahaboob et al., 2018). The OLS model gauged the strength of the relationship between independent and dependent variables, offering insights into the impact of changes in independent variables on SME growth, measured by sales/revenue growth over a specified period. The econometric regression model expressed in the OLS form was employed to facilitate a comprehensive examination of these relationships.

The econometric regression model in Ordinary Least Squares (OLS) form is expressed as follows:

$$G = \beta_0 + \beta_1 Shares + \beta_2 Bond + \beta_3 Reinvestment + \beta_4 Education + \beta_5 Health + \mu$$

In this model, G represents SMEs growth, and the β coefficients signify the estimated effects of the respective variables, including Shares, Bond, Reinvestment, Education, Health, and other control variables. The coefficients (β_0, β_1,β_2,β_3,β_4,β_5) represent the quantitative impact of each variable on SMEs growth. The error term, μ, accounts for unobserved factors or variability that is not explained by the included variables.

This regression model facilitates the exploration of how different investment avenues and other relevant variables contribute to SME growth. The estimated coefficients (β) provide insights into the magnitude and direction of the impact of each variable, aiding in the identification of key drivers or hindrances to SMEs growth in Dar es Salaam. The OLS method allows for the determination of the best-fitting line that minimizes the sum of squared differences between the observed and predicted values of SMEs growth, providing a robust statistical approach to understanding the relationships within the dataset.

5. Results

The study's findings, illustrated in Table 1, reveal a prevalent trend among business owners in Dar es Salaam, where a significant majority invest a portion of their financial resources in various domains such as assets, education-related activities, health-related concerns, and religious matters. Notably, 90% of SME owners who participated in the study reported allocating a portion of their financial resources to diverse assets and socioeconomic initiatives over the past 12 months. In contrast, a smaller proportion, constituting 10%, indicated that they refrained from any such investments during the same period. When probed further, SME owners cited reasons for non-investment, pointing to challenges such as "unsustainable business growth" and "inadequate business cash flow."

These results underscore the active engagement of SME owners in investment activities, emphasizing the multifaceted nature of their investment choices. While a significant majority channel financial resources into assets and socioeconomic endeavors, a notable minority faces challenges that hinder their investment practices. Understanding the reasons behind non-investment is crucial for devising targeted strategies and interventions that address the specific needs and concerns of SME owners, fostering a more conducive environment for sustainable business growth.

Table 1. Investment Status of SMEs owners

Status	Frequency	Percentage
Business owner invest	344	90
Otherwise	40	10
Total	384	100.0

Source: Author computation (2021)

In delineating the diverse investment modes adopted by SME owners, participants were queried about the specific avenues through which they channeled their business investments. The responses were categorized into three distinct groups: financial investment, social investment, and re-investment. Financial investment modes encompassed investments in shares, bonds, and real estate, while social investment included allocations towards education, health, and religious matters. Additionally, re-investment pertained to funds directed back into the business for expansion or improvement. Participants were further prompted to specify the amount invested in each of these modes. Table 2 provides a comprehensive overview, presenting the mean, standard deviation, and the minimum and maximum values of the funds invested in shares, bonds, real estate, re-investment, health, education, and religious matters, including offerings. This detailed breakdown allows for a nuanced understanding of the investment patterns and magnitudes within each category, shedding light on the diversity and distribution of SME owners' investment practices.

Table 2. Investment Modes used by SMEs owners

	Minimum	Maximum	Mean	Std. Deviation
Share	0	13000000	1464908	2331877
Bond	0	25000000	2803499	5075297
Re-investment	0	15000000	1590332	2152668
Real estate	0	54100000	6948289	9849206
Education	0	5025000	694617.2	1139485
Health	0	5500000	426236.2	677206.1

Religious matters	0	4500000	469559.9	715947.9

Source: Author computation (2021)

Table 2 unveils that over the past 12 months, certain SMEs owners in Dar es Salaam refrained from investing specific amounts in the designated modes of investment. Notably, the highest maximum amount reported was TZS 54,100,000/=, invested in real estate. The calculated average amounts invested in the various modes, as depicted in Table 2, highlight a predominant allocation of financial resources towards shares, bonds, and real estate. Real estate emerged as the most favored investment avenue, with the highest average value reported at TZS 6,948,289/=. Following closely were investments in bonds at TZS 2,803,499, and shares at TZS 1,464,908/=. In contrast, the smallest average amount reported was TZS 469,559.9, reflecting the average investment in religious matters by SME owners in Dar es Salaam. These results underscore a discernible pattern of prioritization in investment choices, providing valuable insights into the prevailing trends and preferences among SMEs in the region.

Regression Analysis

Prior to delving into the regression analysis, essential diagnostic tests were performed to assess multicollinearity and heteroskedasticity. Addressing multicollinearity is crucial in regression analysis as its presence can compromise the statistical significance of independent variables, indicating a linear relationship among them (Shrestha, 2020). On the other hand, Multicollinearity was rigorously examined using Variance Inflation Factors (VIF), a statistical measure that assesses the degree of correlation among independent variables. This diagnostic test scrutinized the relationships among the various independent variables under consideration. It serves as a pivotal step to ensure the robustness and reliability of the subsequent regression analysis.

Table 3: Multicollinearity test results

Variable	**VIF**	**I/VIF**
Religious	1.41	0.7092
Bonds	1.37	0.7299
Real estate	1.29	0.7752
Share	1.22	0.8197
Health	1.21	0.8264
Reinvestment	1.15	0.8696
Education	1.05	0.9524
Mean VIF	1.24	0.8065

Source: Author’s computation (2021)

The model results presented in Table 3 encapsulate the outcomes of the computed multicollinearity test using Variance Inflation Factors (VIF). The mean VIF is reported at 1.24, significantly below the conventional threshold of 10. This result signifies the absence of multicollinearity problems among the independent variables, affirming the robustness of the regression analysis. Multicollinearity, characterized by a linear relationship among independent variables, does not pose a challenge in the examined model.

Furthermore, the study conducted a Heteroskedasticity test to scrutinize the homogeneity of error variances across subjects, a key assumption in linear regression models. Heteroskedasticity, indicating varying error variances, is a departure from this assumption and can lead to unreliable coefficient estimates (Zhou et al. 2015). The Breusch-Pagan / Cook-Weisberg test was employed for this purpose, revealing insights into the presence or absence of heteroskedasticity. This diagnostic test is essential in ensuring the accuracy and reliability of regression coefficient estimates, safeguarding against the potential inflation of statistical significance when not warranted. The subsequent sections will delve into the specific findings and implications derived from the regression analysis, shedding light on the nuanced dynamics between investment practices and SMEs growth in the context of Dar es Salaam.

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of Growth

chi2(1) = 18.89

Prob > chi2 = 0.0000

Source: Author's computation from survey data, (2021).

The null hypothesis (H_0) posits the presence of constant variance, indicating homoskedasticity, while the alternative hypothesis (H_1) contends the existence of non-constant variance, implying heteroskedasticity. Examination of the heteroscedasticity test results revealed a chi-squared p-value of 0.000, which is below the conventional significance level of 0.05. This indicates the rejection of the null hypothesis and the acceptance of the alternative hypothesis, signifying the presence of heteroskedasticity. To address this issue, robust standard errors were introduced in the earlier regression analysis using the vce(robust) command. Subsequently, the regression results incorporated heteroscedasticity-corrected standard errors, presented in the table below. This robust standard error approach ensures the reliability of coefficient estimates in the presence of varying error variances, addressing the identified heteroskedasticity problem.

Table 4: Regression results

Variables	Coefficient	Robust Standard error	t	p>|t|	Confidence Interval	
Share	*0.7659*	*0.2167*	*3.53*	*0.000*	*0.3397*	*1.1921*
Bonds	*0.5416*	*0.1067*	*5.07*	*0.000*	*0.3317*	*0.7516*
Reinvestments	*0.7920*	*0.3285*	*2.40*	*0.016*	*0.1460*	*1.4380*
Real estate	*0.2765*	*0.0503*	*5.49*	*0.000*	*0.1775*	*0.3755*
Education	*2.444*	*0.4705*	*5.20*	*0.000*	*1.5194*	*3.3697*
Health	*1.1196*	*0.9026*	*1.24*	*0.216*	*-0.6551*	*2.8945*
Religious matter	*-0.3203*	*1.0534*	*-0.30*	*0.761*	*-2.3918*	*1.7510*
Constant	*7.7113*	*0.6567*	*11.74*	*0.000*	*6.4199*	*9.0026*
Number of observations		*384*				
F(7, 376)		*36.33*				
Prob>F		*0.0000*				
R squared		*0.6685*				

Source: Author's computation (2021)

The comprehensive findings derived from the regression analysis, elucidated in Table 4, furnish a detailed understanding of the intricate relationships between various investment modes and SMEs growth in Dar es Salaam. The statistical significance of the model is underscored by a p-value of 0.000, indicating that the considered investment modes—namely, share, bond, real estate, education, health, religious matters, and reinvestment—are collectively significant at the 1% level in explicating the relationship with SMEs growth. The R-squared statistic, standing at 0.4185, implies a model fit of approximately 42%, elucidating that 56.85% of the total variability in SMEs growth is explained by the chosen investment factors. However, the model leaves approximately 33.15% of the variations in Small and Medium Enterprises growth unaccounted for.

Delving into the nuanced relationship between owner's investment practices and SMEs growth, as outlined in Table 4, unveils the distinctive impact of each investment mode. Share, bonds, real estate, reinvestment, and education emerge as statistically significant variables, while health and religious matters exhibit statistical insignificance, characterized by p-values of 0.216 and 0.761, respectively. Moreover, the study uncovers a positive correlation between investment in shares and SMEs growth, reflected in a coefficient of 0.766. This implies that a unit increase in the amount invested in shares corresponds to a 0.766-unit increase in SMEs growth, keeping other factors constant. The statistical significance at the 1% level, denoted by a p-value of 0.000, underscores the impactful role of share investments.

Turning to investment in bonds, the regression results manifest statistical significance at the 1% level, with a p-value of 0.000. The positive coefficient of 0.542 signifies that a unit increase in the amount invested in bonds correlates with a 0.542-unit increase in SMEs growth, indicating bonds' role as a substantial long-term financing avenue contributing to both business needs and societal welfare.

Reinvestment in enterprises emerges as a positive influencer on SMEs growth, displaying statistical significance at the 5% level with a p-value of 0.016. The coefficient of 0.79 underscores that a unit increase in the amount reinvested in enterprises results in a 0.79-unit increase in SMEs growth, accentuating the critical role of reinvestment decisions in fostering enterprise expansion. This finding aligns with prior research highlighting the significance of reinvestment in overall enterprise growth (Olomi and Mori, 2015).

Investment in real estate also emerges as a positive contributor to SMEs growth, with a coefficient of 0.28. The statistically significant relationship at the 1% level (p-value = 0.000) implies that a unit increase in the investment in real estate corresponds with a 0.28-unit increase in SMEs growth. This finding corroborates existing literature emphasizing the positive association between real estate investment and firm growth, underscoring the strategic allocation of assets in areas with higher economic returns (Salaouatchi et al. 2021).

Finally, investment in education demonstrates a positive and statistically significant relationship with SMEs growth, as evidenced by a coefficient of 2.44. The p-value of 0.000 indicates that a unit increase in the investment in education leads to a 2.44-unit increase in SMEs growth, emphasizing the pivotal role of education in SMEs' pursuit of productivity, talent attraction, and workforce innovation. This finding aligns with previous studies highlighting the importance of education in fostering innovation and digital strategies, particularly relevant in the current era of rapid technological advancements (Feng and Wu, 2021; MIT, 2012).

Furthermore, the regression analysis provides nuanced insights into the diverse relationships between specific investment modes and SMEs growth. These findings hold implications for stakeholders, policymakers, and SME owners aiming to foster sustainable economic development. The detailed exploration of each investment mode, along with their individual impact, contributes to a richer understanding of the dynamics shaping SMEs growth in Dar es Salaam.

5.0. Conclusion and policy implication

This study illuminates the informed investment practices of SME owners in Dar es Salaam, emphasizing the prevalent awareness and engagement in diverse investment modes. Notably, SME owners exhibit a discernible preference for real estate investment, followed by shares, with religious matters emerging as a less favored option, based on the reported amounts invested in these modes. The multiple linear regression analysis underscores the significant influence of specific investment modes—shares, bonds, real estate, reinvestment, and education—on the growth of SMEs in Dar es Salaam. The positive relationships unveiled in this study signal promising opportunities for SMEs to leverage these avenues for substantial growth. Consequently, the onus rests on SME owners in Dar es Salaam to actively engage and capitalize on these opportunities, propelling their enterprises from small and medium scale to larger, more robust entities. Moreover, this study offers number of policy implications in order to improve and enhance SMEs development as here explained:

Financial institutions are urged to continue sensitizing SME owners in Dar es Salaam about the diverse and simplified investment products available. Emphasis should be placed on promoting the adoption of digitalized financial services, offering cost-effective and secure alternatives. This proactive approach ensures SMEs are well-informed and equipped to navigate the financial landscape effectively.

Institutions such as the Dar es Salaam Stock Exchange (DSE), Bank of Tanzania (BoT), financial service providers, and capital market stakeholders should invest in comprehensive awareness and capacity-building programs. Focused on the benefits of active SME participation in shares, stocks, and bonds, these initiatives aim to empower SMEs with essential financial investment management skills. Informed decision-making in the capital market is pivotal for SMEs' sustainable growth.

Real estate agencies are encouraged to play a pivotal role in educating and training micro, small, and medium enterprise owners and managers about the strategic advantages of investing in real estate for business growth. By imparting knowledge on real estate investment, SMEs gain diversified options, enhancing their ability to identify and navigate various investment avenues effectively. This, in turn, contributes to increased business income and government revenues.

Recognizing the pivotal role of financial literacy in SME growth, this study advocates for concerted efforts from stakeholders such as financial market participants, financial service providers, the Ministry of Education, Science, and Technology, government agencies, non-government organizations, and civil society organizations. Collaborative endeavors should focus on delivering general financial education and tailored financial literacy programs to specific audiences, ensuring widespread financial literacy among SME owners and managers.

In essence, these recommendations align with the overarching goal of fostering a financially literate and proactive SME community in Dar es Salaam, poised for sustainable growth through strategic and informed investment practices.

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