

Contribution of Innovation, Marketing and Entrepreneurship towards Industrial Development in Tanzania.

By

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Introduction

The role of Engineers and the whole technical community of practice is critical to the development of any nation. There is no way and there shall never be whereby industrialization can grow without the innovative commitment of engineering community. The engineering products ought to be marketed very well by various SMEs so that a good return on investment can be realized. Therefore, a need of not only entrepreneurship skills but *Entrepreneurship spirit*. When innovation takes place and new products get introduced to the market the process of diffusion of innovation takes time. There are innovators of new idea who are always estimated to be 2.5% of the market population, 13.5% early adopters, 38% early majority, 38% late majority and 16% laggards. It is important for engineers and marketers to appreciate this diffusion process of any innovation which they introduce in the local and international markets.

Industrialization and Technological Innovation

Maxine Berg, writing about industrialization in Britain, illuminates this distinction between invention and innovation and its importance to economic historians. “Economic historians now draw a distinction between those factors affecting the invention of techniques from those affecting diffusion or innovation. They concede that the springs of invention lie beyond the limits of economic theory, but believe diffusion to lie firmly within its grasp” (Berg, p. 171). This suggests that economic theory cannot adequately explain what gives rise to invention, i.e. the creation of new technology, but can attempt to explain how and why that technology is diffused throughout an industry. That economic theory cannot adequately explain the springs of invention leads one to ask whether policy makers can encourage and/or facilitate invention. If so, and if invention is crucial for industrial competitiveness, one can then rightly expect policy makers to seek to take steps to encourage invention in hopes of ensuring continued competitiveness. The degree to which policy makers can manage the flow of invention is an open point to which we will return.

Ashton (2006), explored the role of invention in the initial development of industry in Britain and one way that states can seek to manage innovation. Ashton betrays his liberal economic position by stating that “the state came to play a less active... part in affairs” and that “legislative impediments to enterprise [were] removed” (Ashton, p. 2). His skepticism towards state intervention in the marketplace continues with a lukewarm endorsement of the role of patent law in promoting invention and innovation. He writes that the patent system “gave security to the inventor, but it allowed some privileged positions to be maintained for an undue length of time, and it was sometimes used to block the way to new contrivance” (Ashton, p. 10). Whether or not patents are effective, Ashton later addresses the relationship between invention and scientific research and education. He argues that “Invention, again, is more likely to arise in a community that sets store by things of the mind than in one that seeks only material ends. The stream of English scientific thought... was one of the main tributaries of the industrial revolution” (Ashton, p. 12). Ashton clearly believes that while state intervention in the form of patent protection may not facilitate innovation, a strong educational tradition is essential. He might be willing though to leave the development of such a tradition to private hands rather than governmental action.

The connection between invention and education is not an inconsequential one when one considers Eric Hobsbawm’s argument that the decline of the British industrial economy in the late 19th century was due to a lack of international industry competitiveness. Hobsbawm suggests that “since the

Industrial Revolution, the transformation of industry has become continuous [and] because the earlier phase of industrialism had been unusually and visibly archaic. Britain, as a pioneer, apparently remained wedded to this archaic pattern, while other and newer industrial economies did not” (Hobsbawm, p. 150). He goes on to characterize the development of this ‘second’ Industrial Revolution as one in which the roles of science and technology become increasingly prominent: “The major technical advances of the second half of the nineteenth century were therefore essentially scientific; that is to say they required at the very least some knowledge of recent developments in pure science for original inventions” (Hobsbawm, p. 151). Therefore, in order for an economy to be competitive in this second phase of industrialization it must be, as Mokyr argues, both inventive and innovative. Hobsbawm lays the decline of British economy at the feet of an antiquated educational system. He writes that “clearly, the British did not adapt to new circumstances. They could have done so... [but] for the virtual absence of university education and the feebleness of formal technological training” (Hobsbawm, 160). Hobsbawm, like Ashton, recognizes the importance of education in facilitating invention. Unlike Ashton, Hobsbawm seems to believe that more extensive state intervention in the creation of a system of higher education would have benefited Britain’s industrial competitiveness.

Invention leads to innovation which leads to technological progress and that all of these components are necessary to development. The same can be said for policy makers facing the challenges of a modern globalizing and technologically advanced economy. They must recognize the circumstances, ascertain the best course of action, and have the resources to effectively follow that course and the political will to achieve its implementation. Without each of these factors, one cannot say that the state has wilfully chosen to succeed or fail.

Small and Medium Enterprises (SMEs) in Tanzania

The SMEs nomenclature is used to mean micro, small and medium enterprises (SMEs). The SMEs cover non – farm economic activities mainly manufacturing, mining Commerce and services. There is no universally accepted definition of SMEs. Different countries use various measures of size depending on their levels of development. The commonly used yard sticks are total number of employees, total investment and sales turn over. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to TZS. 5.0 Million. The majority of micro enterprises fall under the informal undertakings engaging between 5 and 49 employees or with capital investment from TZS 5Millions to TZS 200 million medium enterprises employ between 50 and 99 people or use capital investment from TZS 200 millions to TZS 800 millions and large enterprises employ above 100 employees and the capital investment in machinery is above TZS 800 million (Juma, 2002).

Small and Medium Enterprises Development in Tanzania

In Tanzania, the SME sector has been recognized as a significant sector in employment creation, income generation, and poverty alleviation and as a base for industrial development. The sector is estimated to generate about a third of GDP, employs about 20% of the Tanzanian labour force and has greatest potential for further employment generation. However, Tanzania has never had a specific policy focusing at the development of SME Sector. The different policies have various uncoordinated programmes and interventions aimed at supporting the sector with limited impact. This has resulted in

a number of gaps leading to inability to address the core constraints in habiting the growth of the sector. This has made it difficult to exploit the existing potentials for acceleration of SME development and limits its ability to exploit the exciting potential of SMEs to accelerate growth (Chapala, 2008).

Based on the importance of this sector and its potential, the SME development policy has been designed to revitalize the sector to enable it to contribute to the objective of the National Development Vision 2025. Furthermore, it aims at creating a mechanism to put in place an effective Institutional framework for its implementation, coordination, monitoring and evaluation. Central to all these strategies is the ultimate objective of attaining rural industrialization in line with the poverty reduction strategy and the vision 2025. The policy aims at revolutionizing the SMEs sector to make it a vibrant and sustainable agent of stimulation of growth of the economy. In recognition of this, various interventions, including policies and programmes have been initiated to develop the sector. Based on all these considerations it is of paramount important that a special tailored policy to take into account the development of this sector is envisaged (Chapala, 2008).

Importance of SMEs to the National Economy

It is estimated that about a third of the GDP originates from the SME sector. According to the informal sector survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons, that is about 20% of the Tanzania labour force. Though data on the SME sector are rather sketchy and Unreliable, it is reflected already in the above data the SME sector plays a crucial role in the economy.

Since SMEs tend to be labour – intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labour force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the under employed reserve. Most of these persons end up in the SME sector and especially in the informal sector. Given that situation and the fact that Tanzania is characterized by low rate of capital formation, SMEs are the best option to address this problem (URT; 2003).

SMEs tend to be more effective in the utilization of local resources using simple and affordable technology. SMEs play a fundamental role in utilizing and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt. Also, SMEs are better positioned to satisfy limited demands brought about by small and localized markets due to this lower over heads and fixed costs. Moreover, SME owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation (URT, 2002).

Challenges faced by SMEs in Tanzania

Generally small and medium enterprises are challenged with unique problems including heavy costs of compliance resulting from their size. Other constraints include insufficient working premises and limited access to finance. In additional, Business Development Services, namely service related to entrepreneurship, business training, marketing, technology, development and information are under

developed and not readily available. On the other hand, SMEs operators lack information as well as appreciation for such services and can hardly afford to pay for the services. As a result, operators of the sector have rather low skills. Also, there is not umbrella association for SMEs. At the same time, the institutions and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector (URT, 2002).

Opportunities of SMEs in Tanzania

Tanzania is endowed with a rich natural resource base. Even with all these resources Tanzania is still a least developed country. 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. Some of the tradition, perceptions and values have tended to create a culture that is anti – entrepreneurial. Furthermore, past policies limited individual entrepreneurship initiatives. In addition, the education system has tended to create employment seekers rather than job creators (Gran, 1993).

Government Support on the Growth of SMEs

According to Magutu (2010), in recognition of the importance of the SME sector, the government has continued to design and implement a number of policies and programmes supportive to the development of the sector. Tanzania development vision 2005 seeks to transform from a low productivity agricultural economy to semi industrialized one led by modernized and highly productive agricultural activities which are buttressed by supportive industrial and services activities through active mobilization of people and other resources towards the achievement of shared goals. In the poverty reduction strategy, the government has decided to promote private sector participation including small and medium Enterprises.

The sustainable industrial Development Policy SIDP (1996 – 2020) places specific emphasis on promotion of small and medium industries through the following measures. Supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs and improve and improve access to financial services (SIDP, 1996). In addition, SIDP encourages informal sector business to grow and be formalized. Furthermore, the policy identifies measures to enable indigenous entrepreneurs, women, youth and people with disabilities to take part in economic activities.

There are also a number of government policies already in place aimed at facilitating growth of the economy, which have a bearing on the development of the SME sector. These include Gender and Women Development policy and Rural Development Strategy. Central to all these policies is a creation of an enabling environment, building of a robust private sector and articulation of strategies that will create a sustainable growth. A number of institutions, both public and private were established to implement and coordinate various programmes arising from these policies furthermore the government has undertaken various measures aimed at creating an enabling environment to enhance enterprise development. These include, among others, maintaining micro – economic stability, review of tax regime; simplification of licensing procedures, implementing a programme on Business Environment Strengthening for Tanzania – BEST and implementation of competition policy” (URT, 2002).

Entrepreneurship for Industrialization

Burns, (2001) asserts that there is no universal definition of the term entrepreneur. The Oxford English Dictionary defines the term entrepreneur as person who attempts to make profit by taking risk and initiative. This implies that entrepreneurs exercise a very high degree of initiative and are willing to take risk to reach their goals. Engineers therefore need to have a thinking of Entrepreneurship engineering. This will enable them to consider the market challenges hence to initiate the solution to solve the challenges facing the society. The engineering community of Practice ought to understand that *'people do not buy products but value'*. We therefore need to have Entrepreneurial-Engineers. The terms, entrepreneur and small business owner are often used synonymously. The most common definition for the entrepreneur or for the small business owner is that she or he is a person who has started a business.

Some researchers (Stewart et al. 1998: 204; Carland, Hoy, Boulton and Carland 1984: 358) have specified a portrait of an entrepreneur and a small business owner. An entrepreneur is an individual who establishes and manages a business for the principal purposes of profit and growth. She or he is highly driven for success and characterized principally by *innovative behaviour*. Usually entrepreneur employs strategic management practices in business and she or he has a high propensity for risk taking. The small business owners are less risk oriented and they are not as highly motivated to achieve as the entrepreneurs are.

In Tanzania, the definition of SME's, the SME's nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (**MSMEs**). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. This is shown in Table 1.

Table 1: Categories of Range of MSME's in Tanzania

Category	Employees	Capital Investment in Machinery (Tshs.)
Micro enterprise	1 – 4	Up to 5 mil.
Small enterprise	5 – 49	Above 5 mil. to 200 mil.
Medium enterprise	50 – 99	Above 200mil.to 800 mil.
Large enterprise	100 +	Above 800 mil.

Source: Tanzania SME's policy documents, 2003.

The typical characteristics of SMEs are connected to small scale, personality and independence (Nooteboom 1994, 327 – 331; Julien 1998, 15 - 17). Hudson et al. (2001, 1105) summarizes a number of key characteristics for SMEs:

- Personalized management, with a little devolution of the authority
- Severe resource limitations in terms of management and manpower, as well as finance
- Reliance on a small number of customers, and operating in limited markets
- Flat, flexible structures
- High innovatory potential

- Reactive, fire-fighting mentality
- Informal, dynamic strategies

Attributes of an Entrepreneur

According to Messeghem (2003: 199) and Julien (1993: 158), the major characteristics of SMEs involve simple organisational structures, the prime role played by the owner-manager as a driving force, an essentially local market, implicit strategy and a little planning and control. Their resources are limited and their strategic options are comparatively simplistic and narrow (Robinson and Pearce, 1984:128).

As advantages of the small scale, SMEs typically have a motivated, committed management and labour. They also have the capacity to customise their products and processes, being able to respond to varying customer requests (Martinsuo and Karlberg, 1998:7). SME's with their centralized decision-making, organic organization and relatively non-specialised production factors are able to change quickly (Julien,1993:161).

The personal characteristics of the owner-manager have been under increasing interest. Some attempts have been made to explain business success or failure in terms of personality traits of the entrepreneur (Glancey, Greig and Pettigrew 1998; Stewart, Watson, Carland and Carland, 1998). Nooteboom (1994: 329 - 330) highlights that one of the most important characteristics of the small business is its diversity. The sources that produce diversity lie in the variance of the backgrounds, motives and goals of the entrepreneurs. The terms, entrepreneur and small business owner are often used as synonyms. The most common definition for the entrepreneur or for the small business owner is that she or he is a person who has started a business.

Innovativeness refers to the willingness to support creativity and experimentation. Risk taking means a tendency to take bold actions such as venturing into unknown new markets. Proactiveness is an opportunity-seeking and forward-looking perspective. The fifth dimension, competitive aggressiveness, reflects the intensity of a firm's efforts to outperform the industry rivals (Lumpkin and Dess, 2001: 431).

High performing, entrepreneurial-oriented firms are successful in exploiting business opportunities. Before opportunities can be exploited, they must be recognised. According to de Koning and Brown (2001), the entrepreneurial orientation is positively associated with opportunity alertness. Shane (2000:465) has discovered that people recognise the opportunities related to the information and knowledge they already possess. He has also noticed that entrepreneurs can and will discover opportunities through recognition rather than through search.

In addition to the various characteristics of an entrepreneur, it is necessary to recognise also the team with which she or he works. The values and goals affect the preferences. With the context/structure, it is necessary to consider not only items of technology and market but also institutions. Life cycle refers to the stage of the development of the product or the market in which the firm is involved and the

developmental stage of the firm. The opportunity competencies are related to identifying, assessing and seeking market opportunities. The relationship competencies embrace the ability to build, keep and use networks with all the firm's stakeholders. The conceptual competencies refer to the abilities that are reflected in the behaviour of the entrepreneur associated with intuitive thinking, innovative behaviour, assessment of risk and the need to have different view of the market.

The organizing competencies are related to managerial functions such as planning, organizing, leading, motivating, delegating, and controlling. The strategic competencies deal with setting, evaluating, and implementing the strategies of the firm. The commitment competencies are the abilities that drive the entrepreneur to work hard and face the difficulties involved in sustaining the business. Moreover, findings of previous studies indicate that communication ability is one of the relevant competencies for entrepreneurship (Onstenk, 2003; Hood and Young, 1993).

Entrepreneurial competencies

Similar to competitiveness, the concept of competency is also related to performance but the focus is mainly at individual level. Entrepreneurial competencies are obviously related to managerial competencies which are articulated by the works of Boyatzis (1982). This approach is a response to the need for possession of characteristics more than simply skills and abilities in facing the increasing competition. In other words, there is a need for combining certain values and attitudes with these skills and abilities towards competence. The process approach of studying entrepreneurial competencies is our current emphasis. It assumes that the mere possession of competencies does not necessarily make an entrepreneur competent. Rather, these competencies can only be demonstrated with one's behaviours.

Consequently, six competency areas have been summarized:

1. *Opportunity Competencies* - This group of competencies is considered to be very central in the process of entrepreneurship. It comprises two main elements - to spot the opportunities and to develop the opportunities.
2. *Organizing Competencies* - This group of competencies calls for the ability to lead, control, monitor, organize and develop the external and internal resources to become the firm's capabilities.
3. *Strategic Competencies* - This area of competencies requires the entrepreneur to set vision and goals and to formulate strategies for the whole company. They represent abilities and skills from a broader perspective.
4. *Social Competencies* - To successfully use contacts and connections, the entrepreneur needs to possess social competencies in communication, persuasive and relationship building abilities, either internally within the firm or externally with others.
5. *Commitment Competencies* - These competencies are required to sustain the entrepreneur's effort to the business or particular aims. Another aspect is the initiative or proactive orientation, that is, to do things before being asked or forced to by events.
6. *Conceptual Competencies* - The ability in making cognitive and analytical thinking, learning, decision making and problem solving, sustaining temporal tension, innovating and in coping

with uncertainty and risk belong to this area of competencies. They involve a high level of conceptual activities as reflected in the entrepreneur's behaviours with a shorter-term perspective, resolving instant events or requiring intuitive responses.

A pertinent starting point in conceptualizing entrepreneurial competencies is to first define competence. A competence is simply the ability which an individual requires to do assigned job. In the words of Woodruffe (1990), competence is "A work related concept which refers to areas of work at which the person is competent". Therefore, competent employees or individuals are those who meet their performance expectations. In management literature, "competencies", is used to describe the set of disparate skills managers require to help them perform their jobs. These skills are identified and effectively initiated in training courses or programmes. Competencies therefore constitute a cluster of related knowledge, attitudes, and skills which an individual acquires and uses together to produce outstanding performance in any given area of responsibility. In fact, in competency based training all three factors - knowledge, attitudes and skills must be effectively addressed and taught in an integrated manner. It is therefore imperative to appreciate that the technical community needs to have all the necessary competencies. Normally when there is innovation, it takes time to diffuse to the customers in the market.

Diffusion of Innovation

In his comprehensive book *Diffusion of Innovation*, **Everett Rogers** defines diffusion as the process by which an innovation is communicated through certain channels over time among the members of a social system. Rogers' definition contains four elements that are present in the diffusion of innovation process. The four main elements are:

- (i) innovation - an idea, practices, or objects that is perceived as new by an individual or other unit of adoption.
- (ii) communication channels - the means by which messages get from one individual to another.
- (iii) time - the three time factors are:
 - (a) innovation-decision process
 - (b) relative time with which an innovation is adopted by an individual or group.
 - (c) innovation's rate of adoption.
- (iv) social system - a set of interrelated units that are engaged in joint problem solving to accomplish a common goal.

The Adoption Process

In his book *Diffusion of Innovations*, Rogers defines the diffusion process as one "which is the spread of a new idea from its source of invention or creation to its ultimate users or adopters". Rogers differentiates the adoption process from the diffusion process in that the diffusion process occurs within society, as a group process; whereas, the adoption process pertains to an individual. Rogers defines "the adoption process as the mental process through which an individual passes from first hearing about an innovation to final adoption".

Five Stages of Adoption

Rogers breaks the adoption process down into five stages. Although, more or fewer stages may exist, Rogers says that "at the present time there seem to be five main functions". The five stages are:

(i) awareness, (ii) interest, (iii) evaluation, (iv) trial, and (v) adoption.

In the awareness stage "the individual is exposed to the innovation but lacks complete information about it". At the interest or information stage "the individual becomes interested in the new idea and seeks additional information about it". At the evaluation stage, the "individual mentally applies the innovation to his present and anticipated future situation, and then decides whether or not to try it". During the trial stage "the individual makes full use of the innovation". At the adoption stage "the individual decides to continue the full use of the innovation".

The Innovation - Decision Process

Rogers defines the innovation-decision process as the "process through which an individual or other decision making unit such as a group, society, economy, or country) passes through the innovation-decision process".

Table 2 identifies seven characteristics consistently found in 'early knowers'. These characteristics should be taken into consideration when targeting the early or late knowers segment of the population.

Table 2: Characteristics consistently found in 'early knowers'

1	Earlier knowers of an innovation have more formal education than later knowers.
2	Earlier knowers of an innovation have higher socioeconomic status than late knowers.
3	Earlier knowers of an innovation have more exposure to mass media channels of communication than later knowers.
4	Earlier knowers of an innovation have more exposure to interpersonal channels than later knowers.
5	Earlier knowers of an innovation have more change agent contact than later knowers.
6	Earlier knowers of an innovation have more social participation than later knowers.
7	Earlier knowers of an innovation have more cosmopolite than later knowers.

The knowledge stage of the innovation-decision process is of great value to advertisers because at this vulnerable stage of the innovation-decision process, advertisers are able to create an impressionable impact on their target audience. Advertisers should focus their efforts on creating awareness and knowledge when promoting a new product or innovation.

The Process of Innovation

In *The Innovative Choice: An Economic Analysis of the Dynamics of Technology*, Mario Amendola and Jean-Luc Gafford compare the process of innovation with the diffusion of innovation as "the extent and the speed at which the economy proceed to adopt a superior technique." The concern is on how the economy adjusts or 'diffuses' to the new technology. This adjustment or diffusion can be instantaneous or gradual.

Amendola explains a 'new', expanded interpretation of the process of innovation has emerged. Less emphasis is on the actual absorption of a given technology, and more importance is placed on the

actual process through which a new technology is developed step by step. "The economy, in this context, no longer adjusts passively to the technology but becomes the instrument for determining the extent, the nature and the articulation through time of the development of the technology." (Amendola, 1988). Although, we are most concerned with how the diffusion of innovation theory relates to the field of advertising, it is meaningful to give a brief description of other existing research that is based on and integrates the diffusion on innovation process into its' study.

‘Engineering Vs. Business at Cross-road’

It is evident that in terms of the mindsets of our experts in Tanzania and Africa at large that there is a competition of the two side of the coin; Engineering Vs Business Management. Engineers claim to be right because *they are powerful and not powerful because they are right based on the empirical evidence from calculus*. The Business experts claim to be right because *‘they can sell a refrigerator made by engineers to the Ice-land even if they cannot fix the temperature regulator’*. This mindset war needs to be addressed as soon as possible. The reality from the real world experience is that these two communities of practice should not compete but complement one another to have good innovation strategies with a sustainable value chain hence creation of employment of decent jobs.

Conclusions

The current philosophy of the fifth phase Government is ‘Industrialization’. It is a great opportunity for the technical and Business Community to embark on this philosophy and put it in action. There is no way Industrialization can happen before industrializing the minds of the people. Therefore, our experts should start by mindset industrialization. The SMEs should always think of ferreting the opportunities timely while changing their challenges to opportunities. The markets for the products is necessary hence a need of application of Marketing Concept and Not Production concept which has taken a larger part of most of the SMEs. There is a need also to ensure that the community understands a difference between an Industry and a Factory. In simple terms, an Industry can be a combination of homogeneous factories. For intangible products, we also need to appreciate the existence and contribution of Service Industries.

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