



**UHASSELT**

KNOWLEDGE IN ACTION

2019 | Faculty of Business Economics

Doctoral dissertation submitted to obtain the degree of  
Doctor of Business Economics, to be defended by

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DOCTORAL DISSERTATION

Rural Entrepreneurship and  
Value Creation in Furniture  
Manufacturing Industry in  
Tanzania

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# Rural Entrepreneurship and Value Creation in Furniture Manufacturing Industry in Tanzania

Doctoral thesis by Jasinta Msamula

November 2019

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**Abbreviations**

BRELA	Business Registration and Licensing Agency
CBO	Community-Based Organisation
DGD	Director General for Development Cooperation
EO	Entrepreneurial Orientation
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IGAs	Income Generating Activities
IIDS	Integrated Industrial Development Strategy
LGA	Local Government Authority
MITM	Ministry of Industry, Trade and Marketing
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small and Medium Enterprises
NGOs	Non- Governmental Organisations
NFYDP	National Five-Year Development Plan
OECD	Organisation for Economic Co-operation and Development
RBT	Resource-Based Theory
SIDO	Small Industries Development Organisation
SIDP	Sustainable Industrial Development Policy
TAFORI	Tanzania Forests Research Institute
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture

TDV	Tanzania Development Vision
TEMDO	Tanzania Engineering and Manufacturing Design Organisation
TFS	Tanzania Forest Services
TIRDO	Tanzania Industrial Research Development Organisation
TRA	Tanzania Revenue Authority
TShs	Tanzanian Shillings
USD (US\$)	United States of America Dollar
UNIDO	United Nations Industrial Development Organisation
URT	United Republic of Tanzania
VETA	Vocational Education Training Authority

## **Acknowledgment**

This PhD thesis is a valuable research output which permitted my academic growth. I am indebted to a number of people whose support made it a success. I am thankful to my supervisors Prof. Dr. Wim Vanhaverbeke, Dr. Hawa Tundui and Prof. Jan-Erik Jaensson for their guidance and support.

More specifically, I am indebted to Prof. Dr. Wim Vanhaverbeke and Dr. Hawa Tundui for their support in relation to the action research. Their leadership in the P4 project (which aimed at promoting entrepreneurship through integrated community-based activities) was invaluable in this research. I am thankful for their trust in me to conduct the activities such as training, linkage and workshops that facilitated the execution of the research. Similarly, I am grateful to P4 project members specifically Dr. Nsubili Isaga and Nicholaus Tutuba for their support in the implementation of action research activities in the Mvomero district.

I am grateful to inter-university council of Flemish universities (VLIR-UOS) programme which is supported by the Belgian government through the director general for development cooperation (DGD) for funding this research. In addition, I am thankful to the programme coordinators and programme managers from Flemish universities and Mzumbe University for the facilitation of programme activities which has contributed to the achievement of the research.

This PhD thesis is a result of the collaboration between Hasselt University, Belgium and Mzumbe University, Tanzania. I extend my appreciation to both universities for providing me with a good working environment. Similarly, I am thankful to the practical assistance from staff at Hasselt University. I appreciate the valuable assistance from Marc Thoelen, a coordinator at the international office; Cindy Vankerkom, administrative director in the Faculty of Business Economics; and The Doctoral School. Their support has contributed to the accomplishment of the research.

I am indebted to research participants for their time and effort which made vital contributions to the research. Similarly, the involvement of staff at Mvomero district and small industries and development organisation is highly appreciated. I thank my family members specifically my mother- Margaret Msamula; my son- Stanslaus Utouh; my brothers- Christopher and Ramadhani for supporting me

throughout the research journey. Similarly, I am grateful to Mette and Per Lindgren as well as Olaug and Gunnar Torset for their support and prayers. I am thankful for the support from my colleagues specifically Dr. Jim Cheng, Dr. Pegah Yaghmaie, Dr. Joanna Rybka, Dr. Oana-Maria Pop, Hamzeh Obeid and Usman MUhammad at Hasselt University and Dr. Edward Makoye and Baraka Kambi from Mzumbe University. Lastly, I am thankful to the Almighty God for the protection and guidance throughout the research.

## **Abstract**

This PhD thesis analyses customer value creation through the entrepreneurial activities of rural micro and small enterprises (MSEs) in the wood furniture manufacturing industry. Tanzanian customers have a stronger preference for imported wood furniture because products of Tanzanian MSEs are low in quality. Rural MSEs need to find new ways to create value to customers if they want to survive and flourish in the business. This research examines the challenges that affect rural MSEs in the creation of value to customers, and the changes required in MSEs for the creation of customer value.

The thesis has the following theoretical bases: resource-based theory; institutions theory; bricolage; entrepreneurial orientation and business model. It is a qualitative research which was carried out in the Mvomero district, Tanzania. An action research approach was employed. For that purpose, a purposive sampling technique was used to establish a sample size of 30 rural MSEs and 11 buyers of rural MSEs' products. Data were obtained through interviews, observations, and discussions.

My findings indicate that the challenges that affect MSEs in value creation are; insufficient financial capital, furniture-making machines, manufacturing and management skills, competition, middlemen, supply of raw materials, transport services, access to customers, and government regulations. These factors are not the same for all MSEs because different conditions of basic amenities shift the importance of these different factors. These factors are situated at different levels: enterprise, industry, and institutions. My research points out that it is necessary to tackle the institution-level factor (government regulations) first before considering changes in industry-and MSE-level factors in the course of value creation in rural MSEs.

After the identification of the challenges, this research examines the potential ways to respond to value creation challenges. The focus is on two major ways to deal with these challenges: first, the change in business models and, second, the change of the form of entrepreneurship. Both have the potential to respond to value-creation challenges in rural MSEs.

Next, this research is focusing the implementation of these two ways of tackling the mentioned challenges. Motivation, leadership, and commitment are three determinants that influence the adaptation of business models and entrepreneurship form. Furthermore, this study classifies four types of rural MSE based on the need to adapt the way of enterprising and the engagement of MSEs in the adaptation. These four types are; prospective MSEs, progressive MSEs, protective MSEs, and perpetuating MSEs. These different categories of MSEs respond differently to the challenges mentioned above and in order to develop the right approach it is important to understand in which category a specific MSE belongs. Prospective MSEs are the most promising ones to implement changes while perpetuating ones have a hard time to change. The other categories take in-between positions.

These findings are valuable for strategic initiatives of rural MSEs and their supporting entities (such as non-governmental organisations, donors and government entities including ministry of industry, trade and marketing; ministry of natural resources and tourism; small industries development organisation and local government authorities example community development offices) that are meant to improve the performance in customer value creation in rural areas. This study shows how the adaptation of business logics and entrepreneurship governance can be powerful tools in enhancing value creation to customers in rural MSEs. However, more research is needed to develop a comprehensive framework that can function as a guideline to improve the situation of rural MSEs in developing countries.



## **Chapter 1: Introduction**

This PhD thesis examines customer value creation through the entrepreneurial activities of rural micro and small enterprises (MSEs) in Tanzania. In this chapter, I provide the background of the research, which highlights the relevance of entrepreneurship in economies and the role of MSEs as actors in entrepreneurial activities. Furthermore, it shows the potential of entrepreneurship in non-farm income generating activities (IGAs) to elevate rural economies of developing countries through the utilisation of rural resources.

In addition, the research problem is presented to articulate the challenges of MSEs in developing countries-in particular Tanzania-that are linked to poor performance in customer value creation. Moreover, the link between the business environment in rural areas and MSEs' performance is demonstrated, and the potential for changing how entrepreneurial activities are conducted for creating customer value in MSEs in the context of rural areas is unveiled. Additionally, this chapter highlights the research questions, scope of the study, and significance of the research in terms of its contribution to the literature and its practical relevance for managers of small rural firms and government agencies. The chapter ends by providing entrepreneurship synopsis in Tanzania, research theories and concepts, levels of research and an outline of the thesis.

### ***1.1 Background of the research***

Entrepreneurship is increasingly acknowledged as a stimulant of economies through MSEs, which have a role in creating employment opportunities and income (Hobohm, 2001; URT, 2003; Khaleda, 2013). The contribution of entrepreneurial activities to economies is prevalent in both developed and developing countries (Acs, Desai, Hessels, 2008; Khaleda, 2013). More specifically, the development of rural economies in developed and developing economies is associated with the entrepreneurial activities of business enterprises (Stathopoulos, Psaltopoulos, Skuras, 2004; Vaillant and Lafuente, 2007; Lee and Phan, 2008; Komppula, 2014) that utilise rural resources. Hence, entrepreneurship is relevant to developed and transitional countries because it is linked to their economic progress; similar results are expected in developing

countries (Li *et al.*, 2012). Although entrepreneurial activities are conducted in both urban and rural areas, more entrepreneurs exist in rural areas in developing economies (Mead and Liedholm, 1998). Rural entrepreneurship has the potential to elevate rural economies (Vaillant and Lafuente, 2007; Lee and Phan, 2008) and reduce income poverty (Bruton, Ketchen, and Ireland, 2013) through generating employment opportunities and sources of income in rural areas (Hobohm, 2001; Duncombe and Heeks 2002) of developing countries. Rural entrepreneurship is evident in developing countries, including in African countries such as Tanzania, where approximately 40% of rural inhabitants run business entities (Nagler and Naude, 2017).

As indicated by Hobohm (2001), Bruton *et al.* (2013), and international fund for agricultural development (IFAD) (2014), a large proportion of the total population in most developing countries reside in rural areas; approximately 55% of the world's population live in rural areas. Furthermore, 70% of this population are poor (1.4 billion people), earning less than US\$1.25 per day. Nearly 80% of the rural workforce in most developing economies are employed in agriculture (IFAD, 2014). More specifically, rural dwellers in Sub-Saharan Africa are employed in farm-related activities more often than non-farm activities (Davis *et al.*, 2017).

Tanzania's rural population accounts for at least 73.6% of the country's total population (at least 30 million people), and 36% of this rural population lives in poverty (Olomi, 2006; World Bank, 2011). The proportion of the population living in poverty in rural areas is double that of urban areas (Lyimo-Macha and Mdoe, 2002). Economic activities in rural areas are mainly associated with their abundance of natural resources, which, if efficiently utilised, have the potential for wealth creation. Entrepreneurial activities of rural enterprises concentrate on business opportunities engrained in this natural resource abundance. Tanzania, like other developing countries, has 80% of its labour force employed in agriculture, which contributes to 27.7% of the national economy (CIA Fact Book, 2013). The dependence of rural communities on agricultural activities makes rural populations more vulnerable to poverty because of fluctuations in agricultural productivity.

Although the income generating activities of rural people consist of both farming and non-farm economic activities, a need exists for recognising IGAs from non-farm sectors more to elevate rural economies. In addition to the abundance of land for farming activities, rural areas may capitalise on IGAs that are linked to other sectors such as tourism, fishing, mining, and forests. Enterprises that are involved in non-farm activities have the potential for heightening rural output (i.e., productivity) (IFAD, 2014). Such an increase in output from non-farm activities may be further linked to desired employment and income growth of rural populations. Thus, business opportunities emerging from the abundance of natural resources (forests in this study) in developing countries' rural areas are worthy of attention. With a focus on the Tanzanian furniture manufacturing subsector, exploitation of inherent business opportunities through rural entrepreneurship may be related to possibilities for boosting the economy of rural areas. In 2012, the manufacturing sector was associated with 25% of the national economy along with a 7.8% growth rate in Tanzania (CIA, World Fact Book, 2013).

## **1.2 Research problem**

This section articulates research problem with an attention to MSEs challenges, MSEs performance, value creation as performance indicator in rural MSEs, an outlook of MSEs performance in furniture business, the context of rural areas, the need for strategy in rural MSEs, strategic entrepreneurship in rural MSEs through business models for value creation, and the link between business models and organisational forms. It ends with description of scope of the study, research significance and research objectives as well as research questions.

### **1.2.1 MSEs challenges**

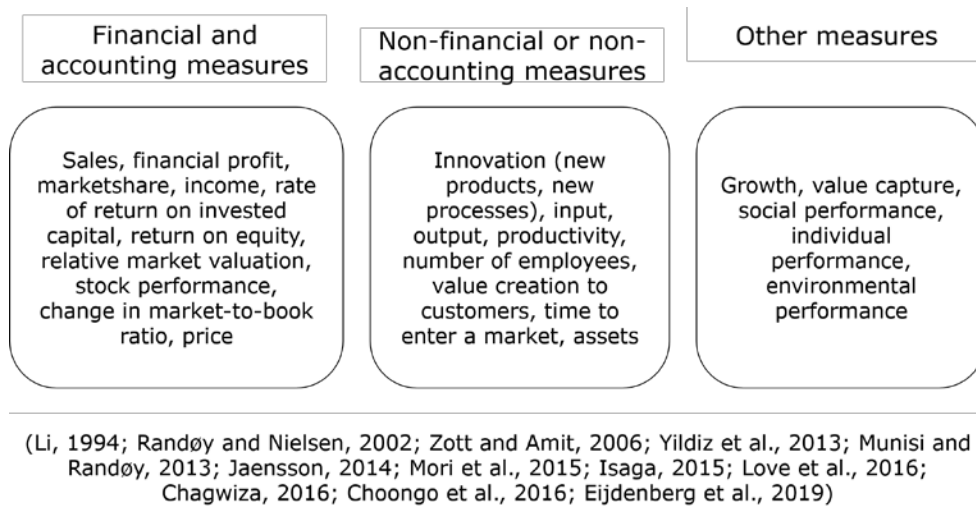
MSEs located in the rural areas of developing countries encounter many challenges, including competition, the power of middlemen, problems with market access, regulations (Patel and Chavda, 2013), resource inadequacy (Bruton *et al.*, 2013) such as supply of raw materials, skilled human resources, access to finance, technological resources (Kanagawa and Nakata, 2008; Patel and Chavda, 2013); unfavourable institutions and culture (Bruton *et al.*, 2013); inadequate infrastructure such as electricity (Kanagawa and Nakata 2008); and

telecommunication services (Aker and Mbiti, 2010) and transport services (Duncombe and Heeks, 2002; Seedhouse, Johnson and Newberry, 2016). In the Tanzanian furniture manufacturing industry, MSEs are affected by similar challenges (Sutton and Olomi, 2012). These challenges reside in the business environment where entrepreneurial activities of the businesses occur. In addition to these challenges, I find it crucial to recognise the nature of the enterprises that are involved in entrepreneurial activities in Tanzania. These enterprises are considered the actors for the development of the private sector, which is reliant on their performance. Both formal and informal enterprises exist in Tanzania. According to the United Nations Industrial Development Organization (UNIDO, 2012), most MSEs are not formal, are single-owned, and have a low formalisation rate. The contribution of informal MSEs engaged in non-farm activities to the national income is decreasing, with a shift from 43% in 1991 to 27% in 2010 (UNIDO, 2012). The informal nature of MSEs limits their potential to make a visible contribution to the economy. More specifically, in the rural areas of Tanzania, business enterprises are informal; Olomi (2006: 2) indicated that, 'a majority of small enterprises have permanently remained micro and informal, limiting their access to markets and some support services, quality of jobs created by them, their capacity to pay taxes and eventually poverty reduction at the grass root level. This situation is likely to worsen as competition intensifies with the ongoing globalisation...'. In this regard, enterprises are affected by various challenges, while the informal nature of these enterprises adds more difficulties to their reactions towards such challenges. Therefore, the performance of these enterprises is determined by these contextual influences, which have an effect on their entrepreneurial activities.

#### *1.2.2 MSEs performance*

The performance of business enterprises is explained based on financial or accounting measures, non-financial or non-accounting measures, and other measures. These performance measures of business enterprises are presented in Figure 1.1.

**Figure 1.1: Performance measures of business enterprises**



Source: Own construct from the literature (2019).

These performance measures are interconnected; for instance, a relationship exists between financial measures such as price, sales revenue, and market share, of which sales revenue is a function of a unit price for all items sold in the business. Furthermore, market share can be explained in terms of sales revenue; it represents the ratio of sales of the firm divided by the total sales of all firms in a particular industry. Finally, a connection exists between financial and non-financial measures of enterprise performance; for instance, profitability is a comparison between the cost of input and price of the output or income generated from the output.

However, in a wider perspective, the study on a performance of business enterprises may focus on MSEs and/or other stakeholders. It is acknowledged that analysis of performance of MSEs towards various stakeholders including employees, creditors, government, local communities is important, but this study is attentive to performance of MSEs towards their customers. In this regard, the performance of an enterprise is measured by the creation of value to customers.

### *1.2.3 Value creation to customers as performance indicator in rural MSEs*

Value creation is a crucial aspect in an enterprise in that financial measures of performance, such as sales revenue and profitability, depend on it. These financial measures are among the indicators of value capture in a business. Shafer, Smith, and Linder (2005) and Priem, Wenzel, and Koch (2018) stipulated that businesses are required to consider the value creation and capture aspects concurrently. This is possible when value capture occurs simultaneously with value creation by the enterprise (Pitelis, 2009). However, Lepak, Smith, and Taylor (2007) contended that 'value creation and value capture should be viewed as distinct processes' p. 181. In this regard, my attention is on value creation independent of value capture because an enterprise can capture value after creating it, (Pitelis, 2009), capture value without creating it, or create value without capturing it. However, it is vital for enterprises to capture value after creating value for their customers to sustain their businesses (Hitt *et al.*, 2011; Priem *et al.*, 2018). The relationship between value creation and value capture was provided by Bowman and Ambrosini (2003), who suggested that business performance—specifically profitability—is related to the provision and acquisition of distinct offerings in a particular market to maximise the 'exchange value' and 'use value' from the transaction. Enterprise performance is reliant on capturing exchange value through creating competitive offerings that have unique use value; effective deployment of resources from suppliers to maximise this use value; and the removal of activities that distort the value.

How value is created differs across contexts. Value creation at firm level is mostly associated with innovation (Lepak *et al.*, 2007; Hitt *et al.*, 2011). However, value is created not only through innovations; the strategy of MSEs is also a means of value creation (Pitelis, 2009) of which their entrepreneurial orientation (Covin and Lumpkin, 2011) in embracing strategy (Jeremy *et al.*, 2009; Hitt *et al.*, 2011) through business models (Chesbrough and Rosebloom, 2002) is vital for value creation.

### *1.2.4 MSEs performance in furniture business*

Despite opportunities in the sector, the performances of enterprises in the Tanzanian wood furniture business are below expectations (Dinh *et al.*, 2012;

Dinh and Monga, 2013). A study on the performance of various countries including Tanzania in the wood furniture industry by Dinh *et al.* (2012) indicated that the industry is comprised of local enterprises with less investment from foreign companies. Furthermore, in 2008, at least 90% of furniture manufacturing businesses were MSEs, only 37% of furniture manufacturers had technical skills, and 12% had managerial skills. The unit price of imported furniture is low compared with locally-made furniture; for instance, in 2008, the unit price of imported furniture was US\$17–29, whereas it was US\$37 for locally-produced furniture. Tanzanian customers have a stronger preference for imported wood furniture from China compared with locally-produced furniture. Dinh *et al.* (2012: 209) insisted that ‘...in comparison with imported furniture, Tanzanian products are not competitive’ and moreover, they argued that the furniture produced is of low quality and the productivity is low. In Tanzania, 0.3–0.7 furniture are produced per labourer per day, which is at least 10 times lower compared with China’s productivity. The quality of human resources and machines has an influence on productivity. The lack of skilled human resources contributes to the loss of raw materials by 15–30% in the furniture manufacturing process. The machinery is outdated and at least 20–65 years old. Another productivity determinant is electricity insufficiency. Therefore, the performance of enterprises in the Tanzanian furniture business is poor because their products are unable to compete in the industry. A lack of customer preference for products that are made by local enterprises suggests that local producers have poor performance in creation of customer value. This suggests the need for MSEs to create more value if they want to survive and flourish in the business.

#### *1.2.5 The context of rural areas*

Entrepreneurial activities are not the sole determinants of economic progress; the environment surrounding such activities is associated with desired economic development (Naude, 2008; Muller and Korsgaard, 2018). In addition, entrepreneurship is a contextual social process (Steyaert, 2007; Hitt *et al.*, 2011); thus, the success of entrepreneurship resulting in economic progress is related to the contextual forces surrounding it. As Dorado and Ventresca (2013) stipulated, there is no ‘one fits all’ approach to socio-economic development. In addition, for whom is the value created is of utmost importance to business enterprises. Among

other factors, the perception of created value is affected by sociocultural settings (Lepak *et al.*, 2007). This suggests that it is vital for rural enterprises to gain an understanding of desired customer value.

#### *1.2.6 The need for strategy in rural MSEs*

As specified by Bruton *et al.* (2013), small-sized enterprises in poor rural areas lack strategies to compete effectively in their industries. However, strategies used in developed and even transitional economies may not be suitable for small enterprises in poor areas because of differences in the institutional, cultural, and economic environments. Most empirical studies on rural entrepreneurship are from developed economies (Pato and Teixeira, 2016). Duncombe and Heeks (2002) adds that a limitation exists in transferring entrepreneurial approaches from developed countries to generate desired results in rural areas of developing countries. Similarly, Bruton *et al.* (2013) stipulated that strategies used by large companies in similar settings to MSEs may differ from the strategies that should be used by small enterprises because of differences in resource bases. Strategies employed by MSEs in poor rural areas are expected to be different from those used in developed economies or large companies.

Jeremy *et al.* (2009) indicated that management in small entrepreneurial establishments lacks strategic thinking. It is the dominance of entrepreneurship theories that guides the behaviours of enterprises. They urge the incorporation of 'strategy' in business enterprises in such a manner that the performance of enterprises should be linked to strategic entrepreneurship, which incorporates strategic management and entrepreneurship disciplines. Hitt *et al.* (2011) pinpointed one of the areas of importance related to strategic entrepreneurship; they showed that small business enterprises face challenges in becoming more strategic.

#### *1.2.7 Strategic entrepreneurship in rural MSEs for value creation*

The competitive advantage of a firm is the focus of strategic management, whereas the creation and exploitation of opportunities is the focus of entrepreneurship. Value creation is at the focal point of both disciplines; strategic management and entrepreneurship. Thus, strategic entrepreneurship manifests



in the creation and exploitation of opportunities to create value for competitive advantage (Hitt *et al.*, 2011; Lieberman, Balasubramanian, and Garcia-Castro, 2018). Strategic entrepreneurship of small-sized enterprises in developing countries' rural areas is expected to be different. The literature is silent about the analysis of how customer value is created by such enterprises through a strategic lens. At the core of the present study is an analysis of the creation of customer value through entrepreneurial activities of rural MSEs. Therefore, I focus on the entrepreneurial orientation of rural micro and small enterprises in developing countries and attempt to elucidate how they can become strategic for the creation of customer value. This study is centred on their practices that involve the way of doing business and the form of entrepreneurial structure.

#### *1.2.8 Towards strategic entrepreneurship in MSEs through a business model for value creation*

Shafer *et al.* (2005) provided different standpoints on what strategy entails: strategy is 'a plan or a pattern, or a position or a perspective'. p. 203. Mintzberg *et al.* (2003) defined strategy as 'the pattern or plan that integrates an organisations major goals, policies and action sequences into a cohesive whole. A well formulated strategy helps to marshal and allocate resources into unique posture based on internal competencies and shortcomings, anticipated changes and contingent moves of competitors'. By concentrating on the firm-level of the business, it is difficult to indicate differences between its strategy and business model (Mason and Spring, 2011). The business model is different from the strategy, but the two concepts are interrelated (Teece, 2010; Casadesus-Masanell and Ricart, 2011). Strategy focuses on the competitive position of the business in a particular industry: thus, value capture is a dominant aspect in strategy. Business models focus on configuration of the actions of the enterprise to define customer value and deliver such value to the target customers (Chesbrough and Rosenbloom, 2002; Magretta, 2002). Furthermore, the interconnectedness between strategies and business models was demonstrated by Vanhaverbeke (2017). Shafer *et al.* (2005) and Chesbrough (2010) showed that strategic decisions can be shaped through business models. Business enterprises are required to align business strategies with business models to develop competitive advantage across industries (Teece, 2010).

Hence, strategy entails the competitive advantage of the business enterprise, and is also associated with its profitability. A business model entails the way a business enterprise identifies customer needs and makes specific decisions that involve different resources and activities to deliver identified value profitably and distinctively. Business models consist of value creation and value capture aspects (Shafer *et al.*, 2005; Zott and Amit, 2006; Chesbrough, 2010; Osterwalder and Pigneur, 2010; Teece, 2010; Vanhaverbeke, 2017; Priem *et al.*, 2018). In this regard, competitive advantage can be obtained by business enterprises through different means, such as through developing innovative products or owning superior resources. However, the disposition of superior resources to the business or new product development may not be sufficient for businesses to attain a competitive advantage if their business models are not aligned with such resources or innovations. As described by Casadesus-Masanell and Ricart (2011), there is a growing interest in businesses using business models to compete in different industries. In explaining sustainable competitive advantage through business models, they explained that a business model involves enterprise decisions about business activities and resources that are committed to achieving certain short- or long-lived outcomes. It is difficult for competitors to imitate business models that are associated with long-lived outcomes. Sustainability of the competitive advantage of a particular business relates to the existence of an exclusive business model that is difficult for competitors to copy in a particular industry (Magretta, 2002; Teece, 2010).

Competitive advantage is a performance indicator of strategy, whereas value creation is one of the indicators in a business model. A connection exists between competitive advantage and value creation. Although not all value-creating businesses have a competitive advantage, value creation is a vital ingredient for an enterprise to have such performance. This study focuses on value creation through business models. I do not focus on competitive advantage through strategy because business models prevail in both ongoing and new businesses whereas strategy is not prevalent in every business enterprise (Casadesus-Masanell and Ricart, 2011). Similarly, it is possible that not every rural enterprise may have strategies – but each enterprise must have business model. In addition, small business enterprises are flexible in changing their responses to business

challenges (Vanhaverbeke, 2017). Through business model changes, enterprises can adapt their business model in response to the business environment or even change the business environment through business models (Teece, 2010).

The business model perspective is more visible in businesses that do not have external sources of finance, such as shareholders, because shareholders are not in support of adjustments of business models (McGrath, 2010). From a business-model perspective, the invested resources are assumed to be internally acquired, making business enterprises the beneficiaries of inherent captured value. In strategy, invested resources are assumed to be internally and externally acquired; thus, beneficiaries of captured value include various stakeholders (Chesbrough and Rosenbloom, 2002). Business models are more appropriate for enterprises that are reliant on internal financial resources independent of externally acquired financial capital. As earlier indicated, most enterprises in Tanzania are self-owned, making them flexible in changing their manner of doing business for the creation of customer value.

#### *1.2.9 The link between business models and organisational forms*

The organisational form of business enterprises plays a crucial role in shaping their business models (Kindstrom and Kowalkowski, 2015). Business models of enterprises may function in the individual or collective forms of entrepreneurship. The individual form of entrepreneurship represents owner- or manager-managed enterprises (Gedajlovic, Lubatkin, and Schulze, 2004). By contrast, the collective form of entrepreneurship involves enterprises that are member- or team-based, such as community-based enterprises and cooperatives (Peredo and Chrisman, 2006). The decisions and actions regarding the elements of business models of enterprises are based on assumptions that are shaped by '...rules, norms and beliefs...' (Chesbrough and Rosenbloom, 2002: 531) and thus, business models depend on the 'contextual rationality' (Chesbrough and Rosenbloom, 2002: 536) of managers and owners or business model teams (Teece, 2010). The assumptions that are incorporated into the development of a business model are reliant on the contexts in which a business enterprise operates. More specifically, these assumptions are based on the reasoning of the owner/manager regarding whether the enterprise operates within an individual form of enterprising, or on

the cognitive abilities of an enterprise's business model team if it functions in a collective form of entrepreneurship.

To summarise, activities of business enterprises in rural areas occur in a business environment that is entrepreneurially underprivileged. Context-based constraints require rural businesses to seek different ways of utilising opportunities in their reach. The value creation activities of enterprises in the context of rural areas in developing countries may be different. The utilisation of business opportunities within a constrained business environment requires rural enterprises to change how they conduct entrepreneurial activities. Thus, initiatives for elevating the increase in income in rural areas requires the involvement of various stakeholders who are in support of rural development. This includes researchers considering the influences of entrepreneurial activities through various approaches to stimulate the attainment of the expected economic gains. Bruton *et al.* (2013) emphasised the need for studying the performance of enterprises to identify the determinants of their success by concentrating on their practices in their settings. Similarly, Covin and Lumpkin (2011) specified that what enterprises 'have' is important for their performance but what they 'do' is even more important for their performance. Their concept of entrepreneurial orientation is discussed in Chapter 6 in detail. In addition, they specify a need for empirical studies on entrepreneurial activities conducted in underprivileged/poor settings. Thus, the previous section (section 1.2.5) explained that studies indicated that Tanzanian MSEs in furniture business are producing low quality furniture at high costs. Their products lack strong customer preferences compared to imported furniture. This signifies that MSEs are creating little value for their customers. This argument has been validated through a pilot study which was conducted before the data collection step of conducting this research. For rural MSEs to play the role of a driving force in the economy of developing countries, the dynamics that influence their performance are worthy of being studied. I focus on three main topics in the thesis: (1) the challenges that affect MSEs in value creation; (2) the changes required for rural MSEs to implement to create customer value; and (3) the implementation of such changes that are meant to have an influence on the creation of customer value.

#### 1.2.10 Scope of the study

Entrepreneurship may generally increase the income of developing economies, but despite such an increase at the general level, entrepreneurship may not generate substantial income for the poor (Yanya et al., 2011). Thus, rural entrepreneurs should engage in entrepreneurship to create and capture value from such activities. As UNIDO (2011) specified, the benefits of value creation by business enterprises should offset the associated costs, and such benefits should be substantial for the income generation of communities in rural areas. Capturing value through value creation is at the core of entrepreneurship (Hitt et al., 2011). Therefore, it is vital for strategic entrepreneurship in rural MSEs to focus on value creation and value capture aspects. In this study, I focus more on value creation than on value capture.

From a strategic entrepreneurship viewpoint, Hitt et al. (2011) explained that value is created through the identification and exploitation of opportunities to create competitive advantage. Value is created for individuals, business enterprises, and members of society (comprising the shareholders and other members of society). In addition to value creation, Lepak et al. (2007) and Lieberman et al. (2018) elucidated the value capture aspect while considering stakeholders such as owners, users, the workforce, local communities, and nations at large.

Value is created for different stakeholders, which implies that the meaning of value differs for different stakeholders. While value can be use value or exchange value, its application differs with the recipient of value in a particular market for the exchanged offering. Different stakeholders have different interpretations of what 'value' entails (Bowman and Ambrosini, 2003). Stakeholders including customers, suppliers, owners, and business enterprises have different understandings of what value consists of. To customers, value connotes 'use value', which indicates the perception of individual customers about the exchanged offering between customer and business enterprise. In this respect, a customer seeks to maximise 'use value'. To suppliers of physical resources, value denotes 'exchange value' for the 'use value' supplied to the business enterprise. Suppliers seek to maximise 'exchange value' gained from the supplied resources. To the supplier of workforces, value refers to the exchange value for the capacity

to work. The creation of new use value is related to the level of commitment of human resources. Therefore, a business enterprise is required to design a unique relationship with human resources to maximise the 'use value' obtained from the work capacities of human resources to the business enterprise. To owners of businesses, value denotes 'more exchange value' in the invested capital that owners provides to businesses. To the business enterprise, value consists of the 'use value' for the offerings exchanged between suppliers and a business enterprise, whereas value denotes the 'exchange value' for the offerings exchanged between business enterprises and customers (Bowman and Ambrosoni, 2003).

In this thesis, I focus on how MSEs provide 'use value' to customers, which in turn enables them to obtain 'exchange value' from customers. Most MSEs are self-financed, suggesting that owners' value is the same as enterprise value. However, in this thesis, I do not concentrate on the 'exchange value' obtained by MSEs for the exchanged 'use value' with customers. The study aims to analyse MSEs in the course of creating value for their customers through concentrating on how to conduct business within a particular form of entrepreneurship governance.

#### *1.2.11 Research significance*

In developing countries, numerous people live in rural areas and most face income poverty (Bruton *et al.*, 2013). A strong potential exists for rural entrepreneurship to reduce income poverty. Rural income largely depends on farming activities. Furthermore, a need exists for various stakeholders who are interested in rural development to be acquainted with the potential of non-farm IGAs for utilising other natural resources in rural areas (besides fertile land), such as forest resources, mineral resources (mining), and tourist attractions (tourism). This study embraces inclusive entrepreneurship, which considers the development of rural MSEs through the empowerment of rural dwellers who are owners or managers of MSEs in response to their economic challenges through the utilisation of rural resources. MSEs' development in rural areas may increase opportunities for employment and income generation through rural entrepreneurship, which, as a consequence, may contribute to the decrease of rural–urban migration, or may even reverse such migration.

Some formal and informal rural enterprises do not add value to their products or create sufficient value to stay competitive in the industry. I observed in the Mvomero district of Tanzania that the contribution of such MSEs to the economy is below expectations, and therefore, the need exists for alternative methods of developing rural enterprises that conduct various entrepreneurial activities to create value for customers. Customer value creation is linked to the performance of MSEs; the sustainable competitive performance of MSEs requires business enterprises to capture value after creating customer value.

In Tanzania, local enterprises are the major actors in the furniture industry. Remarkably few foreign companies operate in the industry, and thus, the possibility of knowledge transfer through foreign direct investment (FDI) is low. Furthermore, local enterprises compete with furniture imports. This necessitates initiatives for empowering local MSEs to improve their competitiveness through enhancing their customer value creation.

Currently, local MSEs conduct entrepreneurial activities that create little value for customers. They will not gain a sustainable competitive position in the market if they do not change their value-creation process and methods of enterprising. Most MSEs are said to be entrepreneurial more than strategic; this indicates a need for such enterprises to become strategic to increase the possibility of creating significantly more value for their customers and consequently enhancing their competitive position. A change in value-creating activities may encompass changing their manner of conducting business, which may occur within a different structure of organising rural enterprises.

Different settings may mean different business environments, and different business environments may imply different business models. A change in environmental forces creates challenges that may necessitate MSEs re-evaluating existing business models. Continuous changes in the business environment signify the need to reconsider existing business models because of the possibility of cognitive limitations in their design. In addition, rural areas of developing countries may require different entrepreneurial approaches that embrace the collective way of enterprising rather than individual forms of entrepreneurship to respond to entrepreneurial challenges related to customer value creation.

Methodologically speaking, the ‘action approach’ to research permits the empowerment of rural MSEs in the course of conducting research. It is a method that permits the implementation of desired changes by MSEs to enhance customer value creation. Finally, the current study contributes to the promotion of sustainable competitive advantage through the creation of customer value in a sustainable way for the sustainable utilisation of natural resources (i.e., forest resources).

#### 1.2.12 Research objectives and research questions

The main objective of the research for this thesis was to analyse how value is created for customers through entrepreneurial activities of rural MSEs in the wood furniture manufacturing industry in Tanzania. More specifically, this is a multi-stage analysis: I examine (1) why rural MSEs have poor performance in the creation of value to customers; (2) enterprise-level changes for rural MSEs to create customer value; and (3) the influencing factors in the adaptation of changes for the creation of customer value. Table 1.1 illustrates focus areas of the research objectives and questions. The research questions are as follows;

- Why are rural MSEs have poor performance in the creation of value for customers in the wood furniture manufacturing industry?
- In what ways are rural MSEs required to change for the creation of customer value in the wood furniture manufacturing industry?
- How are critical factors affecting rural MSEs in their adaptation of required changes for the creation of value for customers?

**Table 1.1: Research questions and objectives**

Research question	Specific objective	Foci
1. Why rural MSEs have poor performance in the creation of value to customers?	<i>Objective 1</i> Analysis of value creation challenges in rural MSEs	MSE-level challenges Industry-level challenges
	<i>Objective 2</i> Analysis of institution-level challenges on the value-	Formal institutions <ul style="list-style-type: none"> <li>• Government regulations</li> </ul>



	creation activities of MSEs in rural Tanzania.	
2. In what ways are rural MSEs required to change for the creation of customer value in the wood furniture manufacturing industry?	<p><i>Objective 3</i></p> <p>Analysis of enterprise-level changes for rural MSEs to create customer value.</p>	<p>Potential ways of changing in rural MSEs</p> <ul style="list-style-type: none"> <li>• Form of entrepreneurship</li> <li>• Business models</li> </ul>
3. How are critical factors affecting rural MSEs in their adaptation of required changes for the creation of value for customers?	<p><i>Objective 4</i></p> <p>Analysis of the determinants which influence the implementation of MSE-level changes for the creation of customer value.</p>	<p>Factors within rural MSEs that have an influence in the adaptation of collective form of entrepreneurship and business models</p>

### **1.3 Entrepreneurship synopsis in Tanzania**

Tanzania was declared a socialist country in 1967 – a few years after independence. Socialism was accompanied by state ownership of all sectors of the economy. Private business investments were discouraged. Entrepreneurship was therefore disfavoured and viewed as a non-socialist activity (Isaga, 2012). After the failure of socialism in the late 1990s, the involvement of the private sector was encouraged to spur economic growth through privatisation. Reforms were made to encourage private sector engagement in different economic activities and an entrepreneurship-nurturing platform was created. Among others, wood-related industries were privatised to increase cost efficiencies (Silayo, 2015).

As stated in The Tanzania development vision (TDV) 2025, the country aspires to become a semi- industrialised economy by 2025. Empowering MSEs is one of the approaches to strengthening their competitiveness. Similarly, a national five-year development plan (NFYDP; 2017-2021) is intended to support this vision. It aims to speed-up economic progress through the creation of employment opportunities that include all economic actors in wealth creation (URT, 2016).

As specified by URT (2003), SMEs are supported by various government entities such as the small industries development organisation (SIDO), vocational education training authority (VETA), Tanzania bureau of standards (TBS), Tanzania industrial research development organisation (TIRDO), and Tanzania engineering and manufacturing design organisation (TEMDO). Other organisations include the small and medium enterprises (SMEs) department in the ministry of industry, trade and marketing (MITM), universities and private organisations such as the Tanzania chamber of commerce industry and agriculture (TCCIA) (Isaga, 2012).

The country has recognised the possibilities for economic growth through the development of the manufacturing sector. Initiatives for nurturing the sector are in place. Such initiatives include the formulation of policies and strategies which are meant to establish a conducive environment for increasing the productivity of the manufacturing sector. These include a sustainable industrial development policy (SIDP) established in 1996 to improve the productivity of the manufacturing sector by 2020. An integrated industrial development strategy (IIDS) was also established in 2011 to support SIDP with the aim of improving the sectorial business environment. IIDS focuses on six subsectors: agro-processing; textiles; leather; fertiliser and chemicals, light machinery; and iron and steel.

#### **1.4 Theories and research concepts**

This section introduces theories and concepts that are used in this research. These theories are explained in detail in the Chapter 3, 4, 5 and 6 of the thesis. This study analyses rural MSEs from a strategic perspective to gain an understanding of the dynamics that are linked to their performance (value creation). The value creation ability of rural MSEs is studied by integrating strategic management and entrepreneurship disciplines. Hitt *et al.* (2011) state that value creation is at the core of both disciplines. In this regard, strategic management and entrepreneurship theories set the study foundations. Strategic management perspective is meant to provide the understanding of 'value creation' performance in rural MSEs by focusing on external and internal influences. Tools of strategic analysis at enterprise-level and context-level are employed in the study to include the resource-based theory (RBT), and institution-based view of strategy. Peng *et*

al. (2009) indicate that strategic decisions in firms are made after the incorporation of influences that are within the firm and context. Entrepreneurship perspective is relevant in the study to gain an insight on how decisions are made and implemented by rural MSEs in response to business challenges found in a rural context. More specifically, the study uses bricolage theories to explain the execution of entrepreneurial activities in business enterprises within a challenging business environment. The action nature of the research has compelled the researcher to consider entrepreneurial orientation (EO) theory to explain the behaviour of enterprises in the course of value creation for customers. Covin and Lumpkin (2011) insist that the performance of a business is determined by its entrepreneurial orientation. Therefore, this study has the following theoretical bases: resource-based theory; institutions theory; bricolage; entrepreneurial orientation and business model.

#### *1.4.1 Entrepreneurship, rural entrepreneurship, and rural enterprise*

Different disciplines have different views on entrepreneurship. From the psychology point of view, Rauch and Frese (2000) state that the focus of entrepreneurship is on the entrepreneurial characteristics that are used in the establishment of a business to exploit opportunities to achieve goals or objectives. Studying entrepreneurship implies focusing on the traits of entrepreneurs. With the consideration that human capital is the important resource, the trait approach to entrepreneurship concentrates on the importance of the personality of entrepreneurs, small business owners, and managers in entrepreneurial activities. The performance of businesses is engrained in the entrepreneurial characteristics such as a need for achievement, locus of control, risk-taking (Rauch and Frese, 2000), creativity, hard work, flexibility, alertness, new product innovation, new processes, new customers, and new supply of input (Bull and Willard, 1993).

Scholars such as Gartner (1989: 47) view entrepreneurship as 'the creation of organisations' and recognise the importance of entrepreneurs in the creation of businesses. He argues that the study of entrepreneurial activities should not concentrate on the traits approach, because similar traits are visible in entrepreneurs, small business owners, and managers. There is a limitation of the trait approach to entrepreneurship in describing entrepreneurs, small business

owners, and managers. Rauch and Frese (2000) and Gartner (1989) specify that entrepreneurship can be studied focusing on the entrepreneur or an enterprise. However, entrepreneurship should be understood by using a behavioural approach that is attentive to the actions of enterprises in the exploitation of opportunities for attaining goals (Gartner, 1989).

In this study, entrepreneurship is viewed as the establishment and management of business enterprises through the use of resources that are meant to exploit business opportunities for the purpose of obtaining a profit on investment. It is acknowledged that entrepreneurs, small business owners, and managers create and manage enterprises – but the study focuses on enterprises more than entrepreneurs. The central focus is on the actions of rural enterprises rather than their dispositions. Rural entrepreneurship is the creation and management of businesses in rural areas to exploit opportunities through the deployment of resources to obtain a return on investment. Rural enterprise is a business that is established and managed by the entrepreneur, or small business owner, or small business manager, in a rural area to exploit business opportunities through the use of resources in pursuit of return on investment and other goals.

#### *1.4.2 Rural areas*

Population density is one of the criteria for describing rural areas. According to the organisation for economic co-operation and development (OECD, 2011) a rural area is an area with less than 150 people per square kilometre. An area in which more than half the population reside in rural areas is referred to as a predominantly rural region, while an intermediate region has 15%-50% of its inhabitants living in rural areas. According to the Tanzania Rural Development Strategy, rural areas are 'geographical areas in which primary production takes place and where population are found in varying densities' p.1. This study adopts the OECD definition of rural area based on population density of 150 people per square kilometre.

Chapter 1 has shown that problems faced by entrepreneurs in rural areas in developing countries include inadequate infrastructure (such as roads, electricity, telecommunications); limited financial resources; and poor business skills

(Duncombe and Heeks, 2002). Tanzanian enterprises in rural areas face similar problems – including regulatory constraints and lack of access to business development services. Despite challenges, Olomi (2006) indicate that business opportunities in rural Tanzania lie within its resources (such as fertile land, ocean areas, lakes and rivers, forests, mining, and livestock).

#### *1.4.3 Rural MSEs*

According to united republic of Tanzania (URT, 2003), MSMEs include micro, small, and medium enterprises. These are businesses engaged in non-farming activities such as manufacturing, mining, commerce, and service. According to UNIDO (2012), approximately, 3 million MSMEs are in the Tanzania, and at least 50% of MSMEs are in rural areas. In addition, 22% of MSMEs are in manufacturing activities. Most MSMEs are informal, less than 5% are registered by government registration agency and documented by tax revenue authority (UNIDO, 2012). As shown in Table 1.2, Tanzania uses number of employees, total capital investment, and sales turnover as indicators for categorising MSMEs.

**Table 1.2: Categories of MSMEs in Tanzania**

Category	Employees	Capital investment in machinery (Tshs.)
Micro enterprise	1-4	Up to 5 million
Small enterprise	5-49	Above 5-200 million
Medium-sized enterprise	50-99	Above 200-800 million
Large enterprise	100+	Above 800 million

Adopted from URT (2003).

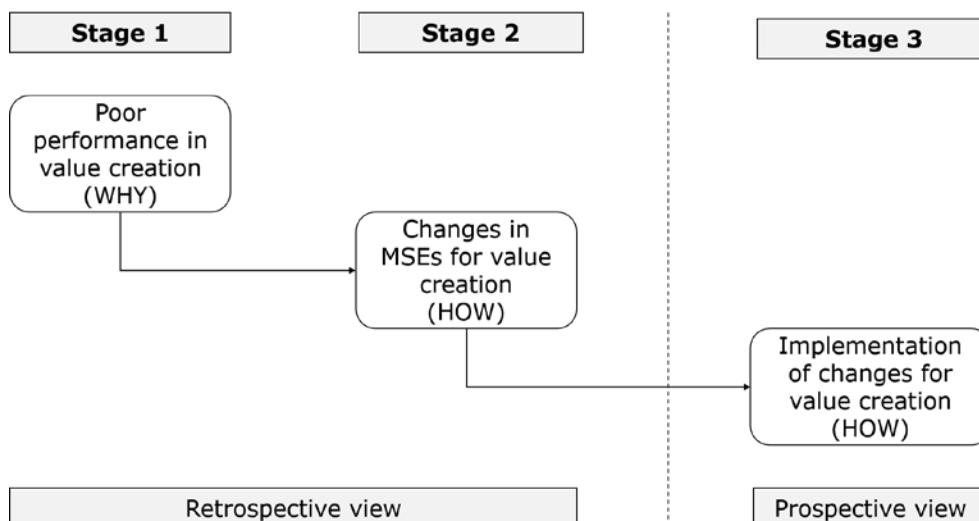
This study excludes medium-sized enterprises, it focuses on MSEs which refers to micro and small enterprises. Micro-sized enterprises include businesses with up to four employees or capital investments of five million Tanzanian shillings or less. Most micro enterprises which consist of at least 1.7 million businesses are informal (URT, 2003). Small-sized enterprises have more than 5 but less than 50 employees or investments of between 5 and 25 million Tanzanian shillings. In this study, rural MSEs refer to micro and small enterprises established and managed by entrepreneurs, or small business owners, or small business managers in a rural

area, to exploit business opportunities through the use of resources in pursuit of profit and other goals.

#### 1.4.4 Levels and stages of research

This research is divided into two levels (see Figure 1.2). The retrospective level captures the value creation performance of rural enterprises before the action research. The prospective level of research examines MSEs practices in the implementation of required changes for customers value creation during the action research. The retrospective view of research is anchored on the resource-based theory, institution-based theory, bricolage theory, entrepreneurship governance and the business model canvas. A prospective view of the study is supported by the business model canvas, entrepreneurship governance, and entrepreneurial orientation.

**Figure 1.2: Levels and stages of the research**



The research is divided in three stages. Retrospectively, an analysis of the reasons for the poor performance in creation of value to customers in rural MSEs is conducted. Resource-based theory and institution-based theory are used in Stage 1. In stage 2, an analysis of areas where changes are needed in rural MSEs is

conducted. The business model canvas, bricolage theory, and literature on individual forms of entrepreneurship governance are used in this stage. In the prospective view of the research (action research), analysis on the implementation of changes in MSEs is conducted. Similarly, business model canvas, literature on collective form of entrepreneurship governance and entrepreneurial orientation are used in Stage 3.

### ***1.5 Thesis outline***

The remainder of this thesis is organised as follows: Chapter 2 stipulates the research methodology. Chapter 3 consists of a study related to the first research question of the thesis, which analyses MSEs reasons for poor performance in the creation of value to customers in Tanzania. Chapter 4 consists of a study linked to the first research question as well, which investigates the influence of institutions on the value-creation activities of MSEs in rural Tanzania. Chapter 5 examines the second research question, which focuses on the possible ways for rural MSEs to change how they create customer value. Moreover, this chapter demonstrates the potential for changing the way of doing business within a changed format of how rural MSEs are organised for the purpose of creating customer value. Chapter 3, 4 and 5 are developed before action research. Chapter 6 focuses on the implementation of changes in MSEs; this is linked to the third research question of the thesis, which unveils the factors i.e. the determinants of influence in the adaptation of a collective form of entrepreneurship and business models. Chapter 6 is developed from action research experiences. Finally, Chapter 7 presents a discussion of the findings, conclusions, implications of this research, and the research limitations.





## **Chapter 2: Research methodology**

### ***2.1 Introduction***

This chapter provides the methodological accounts of the research, such as research participating units, data, and research processes. More specifically, it addresses methodological concerns which are related to research method, study area, research design, units of inquiry, sampling and sample size, data collection, data analysis, and research quality.

### ***2.2 Qualitative research method***

A qualitative research method is employed in this study. 'Qualitative methods are ways of studying people and their social worlds by going there, observing them closely, in their natural setting, and learning how they understand their situations and account for their behaviour' (Richards, 2015: 1). Qualitative research is more relevant for studies which intend to develop new insights from a great amount of data (Richards, 2015) in research areas which are unclear and or have current knowledge inconsistencies (Elliott and Timulak, 2005). A qualitative study contributes to knowledge generation by focusing on the participants' understanding of the studied phenomenon in a particular setting. It is subjective in nature as it allows interactions between researchers and participants in such a way that flexibility is encouraged in the discussions. Qualitative data are in the form of verbal and non-verbal accounts rather than numbers (Dana and Dana, 2005; Elliott and Timulak, 2005; Richards, 2015). However, the use of numbers is still applicable in qualitative research, although qualitative data are 'data that are not easily reducible immediately (or, perhaps ever) to numbers' (Richards, 2015: 2). In qualitative research, methodologies are guided by research questions: as a result, promotes the use of open-ended methods in data collection and data analysis. Open-endedness is more than clarifications of data, it 'means that inquiry is flexible and carefully adapted to the problem at hand and to the individual informant's particular experiences and abilities to communicate those experiences, making each interview unique' (Elliott and Timulak, 2005; 150).

### **2.3 Qualitative research method in entrepreneurship field**

Quantitative studies are employed in the field of entrepreneurship research. Many entrepreneurship studies published in top journals use quantitative studies (McDonald *et al.*, 2015). Although they are widely undertaken, quantitative studies may not be sufficient in the provision of enriched knowledge in the entrepreneurship field. Dana and Dana (2005) stress the importance of qualitative studies in entrepreneurship research. The use of qualitative methods is encouraged in order to obtain an enriched understanding of the field which aligns the studied subject with context. These authors propose that qualitative studies may be employed to validate quantitative studies in entrepreneurship research, while McDonald *et al.* (2015) insist on the use of qualitative studies as an additional method to a quantitative one in order to provide an enriched understanding of the studied phenomenon in the field. This suggests that qualitative and quantitative studies are of equal importance in that these two methods are complementary to each other in entrepreneurship research.

### **2.4 Study area**

A research location is determined by geography and social context (Richards, 2015). This research in rural entrepreneurship was carried out in the Mvomero district in the Morogoro region, a rural area in Tanzania. The district has 312,109 inhabitants, an area size of 6,632.9 square kilometres, and a population density of 47 inhabitants per square kilometre (URT, 2013). The district is in a peripheral location, with mountainous and non-mountainous settlements that has varied intensity of infrastructure such as roads, electricity supply, and telecommunication services. Manufacturing activities and flow of input as well as output are enabled or hindered by the conditions of these amenities. The absence of water bodies and minerals hamper fishing and mining income generating activities in the district. Apart from an abundance of agricultural land, the district is rich in natural and planted forests. Therefore, the income generated from activities arising from the utilisation of forest resources supplement the output from agricultural activities (URT, 2013) through entrepreneurial activities. Mvomero district is a pilot study area where initiatives for the promotion of rural entrepreneurship through integrated community-based activities are undertaken.

Project 4 which is funded by the Belgian programme (VLIRUOS) stimulates such promotion by creating a link between universities (through research), rural MSEs and government. The importance of bridging knowledge gap between universities and business enterprises is emphasised by Masurel and Nijkamp (2009).

### **2.5 Research design**

There are different types of qualitative studies: case study, grounded theory, action research, ethnography, historical research (Hlady-Rispar and Jouison-Laffitte, 2014), narrative phenomenological, life history and participant-observer (Yin, 2011). This study used an action research approach. In collaboration with research participants, action research is a suitable approach that permits the execution of practices in the course of doing research. The choice of action research is influenced by the need for empowering rural enterprises through research. Action research is not better than other types of qualitative research. Depending on the desired goal of the research, other types including grounded theory and ethnography may be relevant. It is not about which type of qualitative research is better than the other, Yin (2011) insist that transparency and credibility of the research is important in all types of qualitative research.

Action research is a 'highly collaborative, reflective, experiential and participatory mode of research in which all individuals involved in the study, researcher and subjects alike, are deliberate and contributing actors in the research enterprise' (Berg, 2007: 223). Action research is interpretative in nature and it allows participating units in the research to be actively involved in the generation of practice-related knowledge through a non-linear research process. The four steps of an action research process are: 1. Formulation of research questions. 2. Data collection, 3. Data analysis, 4. Findings dissemination to participants. Action research is systematic in nature in that knowledge is generated through methods and processes which capture different aspects of participants such as experience, practices, and culture. It stimulates and empowers participants to employ the knowledge developed in the course of the research because it encourages direct application of such knowledge by research participants (Berg, 2007). However, this study is limited to the experiences and practices of rural MSEs.

In addressing the term 'action' in other research approaches as compared to action research, it is argued that most researches encourage actions in participants as exhibited by changes in their ways of doing or understanding things; however, participants may or may not change their actions after being engaged in such studies. Explicitly, an action research 'seeks to study something in order to change or improve it' (Berg, 2007: 226).

The decision to implement an action research method for this study was influenced by various factors. First, it was influenced by the research funding organisation and the universities interested in promoting entrepreneurship development in rural areas through community-based activities. Such efforts are meant to contribute to poverty reduction, a social problem affecting rural communities in developing countries. The other factors influencing the decision include: 1. Rural enterprises are present in different regions of Tanzania, but they are excluded from research because of the remoteness of their locations; 2. It is common to find that research feedback is not provided to research participants in rural locations; 3. In other studies, research-related feedback is provided to research participants, but they are unable to act on the provided knowledge to address research issues.

Therefore, this action research involved participating units situated in rural, remote locations with mountainous and non-mountainous settlements with varied intensity of infrastructure such as roads, electricity supply, and telecommunication services. Action research allows the provision of feedback to participating units, but also induces and empowers them to take action regarding the issue addressed by the research. More importantly, the knowledge generated through this approach takes into account past experiences as well as current actions and situations influencing participants' reactions towards the issue.

Action research has been conducted in different sectors; examples of such studies in the education field include the work of Goodnough (2009) and Lebak and Tinsley (2010); health sector studies include works by Walsh et al. (2008) and Munten *et al.* (2010); and examples of studies in information technology (IT) include Baskerville and Wood-Harper (1996) and McKay and Marshall (2001).

Action research is usually carried out in developed countries, as exemplified by Rasmussen (2004) and Collie *et al.* (2010), specifically in rural areas of developed countries (Cueller-Padilla and Calle-Collado, 2011) within the agricultural sector. However, studies such as Rammelt (2014) show that action research is evident in rural areas of a developing country like Bangladesh. Action research is carried out in African countries as well, for example, a study by Mosavel *et al.* (2005), carried out in South Africa in the health sector, and another by Gladwin and Peterson (2002), conducted in Zambia. Examples of action studies in East Africa are those conducted by Smith, Barret, and Box (2000) and Hague, Thiara, and Turner (2011).

Therefore, action research as a qualitative study approach is conducted in different sectors and in urban and rural areas of both developed and developing economies. It is employed in different fields such as sociology and psychology (Berg, 2007), but it is also present in the field of entrepreneurship (Leitch, Hill and Harrison, 2010); for example, Tasker, Westberg, and Seymour (2010) conducted an action research study within the entrepreneurship field. The current action research study was carried out in the manufacturing industry by focusing on rural MSEs in a developing country that manufacture wood furniture.

A research design can have more than one standpoint in an action research (Holian and Coghlan, 2013). Vickers (2005) describes different phases of an action research plan which provide different perspectives of a study; such phases involve retrospective and prospective views. Such viewpoints are useful in establishing knowledge of the phenomenon at stake by taking into account past experiences and present actions of participating units. Yin (2011) adds that case study can be involved in other types of qualitative researches to provide initial insights on the studied phenomenon (Yin, 2011). Before action research, the current research used case study design to get the retrospective view of the studied phenomenon. Chapter 1 specifies that in the first level, a retrospective view of the studied phenomenon is developed, while a prospective view is established in a second level. A retrospective view involves respondents' perceptions regarding lived experiences related to the subject, while a prospective view entails the analysis of existing situations, practices, and actionable experience of respondents.

In this regard, this was a three-stage research. In the first stage, a retrospective view was developed through a descriptive case study which analysed the reasons for poor performance of rural MSEs in creating value to their offerings. Next, an analysis meant to acquire knowledge pinpointing areas within MSEs that needed changes and actions was conducted; it involved a descriptive examination of the potential ways in which value may be created by rural MSEs and stipulated the required changes. In the third stage of the research, a prospective view was established to analyse the factors influencing rural MSEs' implementation of changes which involve the way of doing business.

### ***2.6 Units of inquiry***

Entrepreneurs and business enterprises are common units of inquiry which are involved in entrepreneurship research (Dana and Dana, 2005). The participating units of inquiry in this study were rural MSEs involved in the manufacturing of wood furniture. Rural MSEs that employed two forms of entrepreneurship – individual and collective – were involved in the different stages of the research. This is because most of the participating MSEs had an individual form of entrepreneurship at the initial stage of the research, but later on they were engaged in a transition from an individual to a collective form of entrepreneurship. The shift in entrepreneurship form is part of the action research.

### ***2.7 Sampling and sample size***

Government offices such as the business registration and licensing agency (BRELA) and local government authorities – in this case, the Mvomero district office – were suitable places where lists of rural MSEs could be obtained. However, the information acquired from these offices was unsatisfactory because the lists contained only registered MSEs (formal MSEs); MSEs which were not registered with these offices were excluded. Moreover, the lists were not up to date. Reliance on such lists as a single source of information increased the likelihood of including MSEs which no longer existed and/or excluding those which were established in the study area. Therefore, the lists were inappropriate in providing necessary information such as the names and locations of MSEs engaged in wood furniture

manufacturing in the study area. A mapping of rural MSEs in the Mvomero district was carried out and a total of 54 MSEs were found.

Qualitative studies use small sample sizes (Elliott and Timulak, 2005; Dana and Dana, 2005) in order to obtain an in-depth understanding of the subject of the analysis. The focus is not on statistical generalisation but on theoretical replication or theory development (Eisenhardt, 1989).

This qualitative research employed a purposive sampling technique, also termed as judgemental sampling technique, which gives researcher the freedom to include units of inquiry which are deemed to fit best with the required characteristics of the study (Elliott and Timulak, 2005; Berg, 2007). For this study, the criteria for inclusion of participating units in the sample took into account characteristics such as age, size, type of individual form of entrepreneurship, and formal status: The age of MSEs refers to the number of years since the creation of the enterprise (Coad, Segarra, and Teruel, 2016); Size of rural MSEs refers to the number of workers in a rural MSE (URT, 2003); The type of individual form of entrepreneurship entails the nature of management that influence decisions of the business (Gedajlovic *et al.*, 2004) which can be owner-managed or manager managed; Finally, the formalisation of MSEs entails their registration with the formal authorities such as the local government office, BRELA, and tax revenue authority (UNIDO, 2012). In addition, this study defines age as the number of years since the MSE's establishment in the rural area. Size refers to the number of furniture manufacturers (carpenters) who works in a particular enterprise. The type of individual form of entrepreneurship refers to form of management in the MSE, that is, owner-managed MSE or manager-managed MSE. The formal status of MSE refers to the registration of the MSE with the local government authorities and regulatory bodies such as the district and tax payment authority.

Rural MSEs with less than 50 employees were involved in the study. Such enterprises are called MSEs because URT (2003) specifies that an MSE is an enterprise that has 1 to 49 employees. The study also included MSEs of different ages and with different formal status – formal and informal. In terms of management type, both owner-managed and manager-managed MSEs with individual forms of entrepreneurship were included in the first stage of the study

because a retrospective view of these MSEs was needed to establish past knowledge on the subject of the research. Such a perspective was relevant to set the foundation of the subsequent stage of the research. The second stage involved rural MSEs engaged in the transition from an individual to a collective form of entrepreneurship in order to establish a prospective view which generated knowledge on the subject based on the actionable experiences of the participating units. Rural MSEs had to get into collective entrepreneurship form and engage in the change of business models because of the need to become more professional.

The inclusion of units of inquiry in the qualitative study involves data saturation and theoretical saturation (Elliott and Timulak, 2005; Bowen, 2008). 'Data saturation entails bringing new participants continually into the study until the data set is complete, as indicated by data replication or redundancy. ... Theoretical saturation, in effect, is the point at which no new insights are obtained, no new themes are identified, and no issues arise regarding a category of data (Bowen, 2008: 140). This study employed data saturation, which accepts the inclusion of participating units in the inquiry until the attainment of data saturation; such saturation was exhibited by the absence of new information when new participating units were added.

Yin (2011) specify that 'most qualitative studies will, in contrast to the broader level, have more than a single instance of the narrower unit. The number of interviewees, practices, policies, or actions included in a study can easily fall in the range of 25–50 such units.' In the first stage of the research, 30 wood furniture manufacturing MSEs were involved in the analysis of value creation challenges. Mvomero district has 4 subdivisions namely Turiani, Mvomero, Mlali and Mgeta. Also, it has varied conditions of basic amenities. These 30 MSEs were obtained from all 4 subdivisions of the district and represented all conditions of basic amenities (Chapter 3 will explain this representation in detail). Next, an analysis was conducted regarding the ways in which value may be created by these MSEs as well as the required changes. In the second stage of the study, the sample of 30 rural MSEs was reduced to 12 in order to analyse the factors influencing rural MSEs' implementation of changes in the way of doing business. In both stages of the research, sample sizes were also distinguished by the form of entrepreneurship: individual rural MSEs were involved in the first stage, while



the second stage dealt with rural MSEs transitioning from an individual to a collective form of entrepreneurship.

Moreover, a purposive sampling technique was used to obtain data from buyers of products manufactured by rural MSEs. A sample size of 11 buyers was achieved, comprising 8 individual households and 3 organisations. These respondents represented individual and organisational buyers who are in the rural and urban locations. Buyers were involved in the first stage of the research in order to analyse the meaning of value creation by focusing on their perceptions.

## **2.8 Data collection**

In qualitative studies, the focus of data collection is guided by research questions without the existence of predefined answers so as to encourage participants' freedom in provision of data. Qualitative studies stimulate interactions between researcher and participants (Richards, 2015), such interactions inspire research participants to become co-researchers (Elliott and Timulak, 2005). Miles *et al.* (1994) add that there is no separation between researcher and participants as well as research contexts.

Data may be collected in different stages (Richards, 2015). In this research, the data were collected in two levels. The first phase of data collection took place from May 2014 to November 2014, with the second phase occurring from April 2015 to October 2017. In the first phase, the collected data were used to analyse value creation challenges in rural MSEs and ways in which value creation can be achieved. This was data collection stage before action research which is linked to Chapter 3, 4 and 5 of the thesis. The data collected in the second stage of action research were used to analyse factors which influence rural MSEs' implementation of changes relating to the way of doing business to achieve value creation. These data are linked to Chapter 6 of the thesis. By using an action research approach, data are obtained through unstructured approaches (Miles *et al.*, 1994). There are different ways of obtaining data in qualitative research (Elliott and Timulak, 2005), but most studies acquire data in the form of words, behaviours, body gestures, and documents by using observation and interview methods (Dana and

Dana, 2005). This study obtained primary data through interviews, observations, and discussions. Secondary data were obtained through documentary review.

Unstructured face-to-face interviews are required to obtain research data. For the purpose of maintaining focus on the inquiry, it is imperative for researchers to have a prepared list of interview questions (Elliott and Timulak, 2005). The interviews carried out by the researcher in this study were conducted using an established interview guide (see interview protocol in appendix 2.1). Data obtained through interviews are not one-way focused, meaning that such data are not gathered by the researcher from respondents, but are obtained through interactions between a researcher and her respondents (Miles *et al.*, 1994). Through such interactions, participants are stimulated to provide information which links their actions with contexts (Dana and Dana, 2005). After getting permission from respondents, all interviews were tape-recorded.

I obtained data by observing and registering elements such as visible objects, actions, and documents. In terms of 'discussions' as a way of obtaining research data, Flick (2009) specifies that discussions are among the most useful ways of obtaining qualitative data. More specifically, discussions can take place through formal and informal meetings in action research (Berg, 2007). In this regard, data were obtained from rural MSEs through formal and informal meetings. While some meetings involved one-on one discussion with individual MSEs, other meetings included all participating MSEs. Research data were collected after a data collection pilot which took place in 2014 and involved 4 rural MSEs. A pilot study was meant to assess the needs of rural MSEs in order to shape and reshape research focus and develop and improve research questions.

## **2.9 Data analysis**

There are two steps in data analysis: pre-analysis and analysis. In terms of pre-analysis, Elliott and Timulak (2005) insist that the preparation of data for analysis is a crucial step to remove information which may be duplicated or unrelated. After obtaining the data, the researcher prepared it for analysis. The pre-analysis stage involved preparation of transcripts and field notes. Regarding the preparation of interview transcripts, different recorded interviews may produce different transcripts (Miles *et al.*, 1994) because of the existence of different

transcription approaches. While achieving accuracy may be seen as the ideal way of transcribing, Flick (2009: 299) suggests that 'exactness' in transcription is not a necessary goal because this way of transcribing is time consuming and may cause a loss of sense-making in insights which may be developed in transcripts. After the interview transcription step, observations were developed into field notes. But again, Miles *et al.* (1994) insist that the development of field notes from observations is not a straightforward activity and care must be taken by researchers in the execution of such task. Therefore, the focus of interview transcription and field notes development as data preparation activities should take into account what is required by research questions. In this study, tape-recorded interviews were transcribed by the use of a transcription software called OTranscribe.

The data analysis stage followed the data analysis preparation. The interpretative data analysis technique was employed in this study. Interpretation enables researchers to obtain knowledge of participants' practices (Miles *et al.*, 1994) while allowing them to transform the data from their initial forms into research findings (Elliott and Timulak, 2005). There are different levels of interpretation, such as first-order interpretation level and second-order interpretation level (Miles *et al.*, 1994). Similarly, Saldana (2013) categorised such levels as first cycle coding and second cycle coding. The use of codes, categories, and themes is among the ways an interpretative technique generates research findings from research data. Coding is a type of data interpretation in which a researcher organises the data in a particular manner to establish certain groupings of the data representing certain aspects of the studied phenomenon (Saldana, 2013). There are different coding methods including in vivo coding, attribute coding, descriptive coding, and pattern coding, which were used in the study. The descriptive features of rural MSEs such as size, age, type of management, and formal status were coded using the attribute-coding method. The attribute-coding method is suitable in capturing descriptive features of the study units. The in-vivo coding method was also appropriate in this study as it enabled the capturing and processing of data containing enterprise practices among other things.

### ***2.10 Research quality and ethical concerns***

The quality of qualitative research has been examined from different aspects. Bazeley (2013) specifies research data, analysis process, research findings, and research outcomes as four areas of concerns when it comes to the assessment of research quality. Data quality is examined in light of data-related elements such as sampling and methods of obtaining data. Process quality is assessed through components such as research design and data analysis – Elliott and Timulak (2005) insist on a clear data analysis process which can be investigated. Research findings are examined by assessing their relevance to the studied subject and their ability to establish new insights. But again, findings are evaluated based on how they are organised and supported by evidence, which can be in terms of quotes, patterns, and frequencies. A research outcome is assessed based on the study's contribution to the respective field's literature and practice as well as on its influence on stimulating empowerment and social change.

In many studies research quality is examined from a validity and reliability point of view (Bazeley, 2013). Scholars insist that the quality of qualitative research should be analysed by considering aspects such as trustworthiness, credibility, dependability, confirmability, transferability, resonance, originality, and usefulness (Lincoln and Guba, 1985; Laws, 2010 cited in Bazeley 2013). Maxwell (1992) stresses that validity is an important aspect of research quality; however, its assessment differs in qualitative studies as compared to quantitative ones. By focusing on the validity and reliability factors of research quality, Yilmaz (2013: 319) states that validity 'means that the study findings are accurate or true not only from the standpoint of the researcher but also from that of the participants and the readers of the study' and specifies that credibility, trustworthiness, and authenticity are quality areas which examine the validity of qualitative research; whereas reliability 'means that the process of the study is consistent over time and across different researchers and different methods or projects' (Yilmaz, 2013: 319), and dependability and auditability are quality areas which assess the reliability of the research.

More specifically, 'truth, applicability, consistency and neutrality' (Lincoln and Guba, 1985 cited in Yilmaz, 2013: 320) are research quality issues which are assessed in any quantitative or qualitative research. With regard to qualitative

research, truth is reflected by credibility, consistency by dependability, applicability by transferability, and neutrality by confirmability. Such research quality elements are elaborated in the following part of methodology.

Credibility embodies the truth of the research as reflected by the research respondents' accepting the research results for the reason that such results represent the truth and are trustworthy (Yilmaz, 2013). Likewise, Elliott and Timulak (2005) insist on communication of research results to research participants in order to obtain feedback related to the findings. The research results were presented through workshops in January 2015 and December 2017 to the rural MSEs which participated in the study. They were also presented to academics through conference papers and other stakeholders such as the research funding organisation; MSE-supporting organisations like SIDO and VETA; as well as the Mvomero district office. In addition, buyers were involved in the research to validate MSEs' perception of the created value for customers. Elliott and Timulak (2005) suggest more credibility-checking approaches which involve the verification of data saturation through the inclusion of additional research participants in the study and the verification of the research results through the use of quantitative studies. However, these additional techniques of credibility assessment were not employed in this study.

Dependability indicates the consistency of the research process as reflected by the clarity of the researchers' decisions and actions from the data stage up to the research results stage in that such decisions are verifiable through editing (Yilmaz, 2013). In this research, the interview transcripts and field notes developed during the pre-analysis stage were verified by a research assistant. Additionally, the clarity of the data analysis in the research was emphasised by the use of coding as an interpretative analysis technique in that codes, categories, and themes were developed from research data into research findings.

Confirmability represents research neutrality as reflected by derivation of research findings and interpretations which are rooted in the research data (Yilmaz, 2013). In this research, the coding technique provided clarity in the way findings were derived from data through development of codes, categories, and themes by highlighting inherent frequencies and patterns.

Transferability signifies applicability of research results in comparable settings (Yilmaz, 2013). According to Elliott and Timulak (2005), research results from qualitative samples are not meant to be statistically generalised to the entire general population. Replication of research results from qualitative samples may be possible after specifications of conditions which permit such replication (Eisenhardt, 1989). In this regard, the results of this study may be applied to manufacturing rural MSEs which have similar challenges caused by deficient physical conditions, more precisely, inadequate infrastructure such as electricity supply, roads, and telecommunication services. These results may also be applied to resource-constrained manufacturing MSEs which consider business models and business model change as means of influencing business opportunities and problems through bricolage strategies. Bricolage approach advocate on unique combination of existing resources in response of business challenges by enterprises that have insufficiency of resources. Finally, these research results may be applicable to rural MSEs which have transitioned from an individual form of entrepreneurship to a collective one, such as CBO. Dana and Dana (2005: 84) suggest that qualitative research conducted in a specific geographical location and/or a particular cultural context may be worth in 'yielding local or regional theories'.

After the presentation of the aforementioned research quality elements, I find it important to address the triangulation strategy, as it is an important aspect of research quality. Triangulation is useful in qualitative research because it enhances the quality of research. Berg (2007) specifies different kinds of triangulation, such as data triangulation, researcher triangulation, and theory triangulation. Data triangulation refers to the use of different ways of obtaining data in a particular study; researcher triangulation refers to the use of more than one researcher in obtaining research data; while theory triangulation involves the use of more than one theory in a particular study. As stated by Elliott and Timulak (2005), data triangulation provides rich data for the study but is more useful in assessing research quality. The study employed the triangulation technique by using the insights and interpretation of three researchers, multiple data collection methods, and multiple theories.

As regards to research ethics, the researcher had a good communication of its aim and its potential value to the participating units. Also, I was attentive to the voluntary engagement of participants in the research. In the data collection process, permission was sought from participants before the recording of interviews. Additionally, the researcher guaranteed the protection of participants' anonymity. There are among the ethical concerns that were stipulated by DiCicco and Crabtree (2006) and Flick (2009).

To summarise, the purpose of this chapter was to present the methodology of research by addressing methodological aspects such as research design and research quality. More specifically, the research had two stages as a result of the action research design. A purposive sampling technique was used to establish a sample size of 41 research participants, out of which 30 respondents were rural MSEs, with another 11 respondents being buyers of rural MSEs' products. All 41 participants were involved in the first level of the research, with 12 MSEs being engaged in the second level of the study. Data were obtained through interviews, observations, and discussions. The obtained data were analysed interpretatively. Research quality issues related to credibility, applicability, dependability, and confirmability were addressed as well.





### **Chapter 3: Rural entrepreneurship in Tanzania: why are micro and small enterprises have poor performance in value creation in furniture industry?**

#### ***3.1 Introduction, background and research problem***

While rural entrepreneurship is essential to stimulate rural economies, MSEs have not fulfilled expectations in rural economies of developing countries, including Tanzania. Rural MSEs are recurrently unable to create and capture sufficient value. This chapter therefore aims to explain why rural MSEs in the wood furniture industry in the Mvomero region in Tanzania have low value creation ability to the customers. The chapter is divided into five sections: First, I define the research problem and objectives. Second, I provide an overview of the literature. The third section elaborates on the methodology used in this chapter. The fourth section presents the findings. Finally, in the last section, I discuss the findings and I provide the main conclusions and implications of this study for theory and for practitioners.

Chapter 1 described the link between entrepreneurship and rural economies in developing economies. This section of the chapter highlights the importance of entrepreneurship and rural economies as well. The growth of developed and transitional economies is associated with entrepreneurship (Keizer *et al.*, 2002; Li *et al.*, 2012), while the economic progress of rural areas in developed countries is linked with entrepreneurial activities (Henderson, 2002). Entrepreneurial activities in developing countries are similarly expected to improve the economy of rural areas (Paul and Sharma, 2013). The engagement of the private sector in which MSEs play a major role, have the potential to boost economic growth in developing economies (Hamisi, 2011; Isaga, 2012). In 2010 entrepreneurial activities contributed an estimated 27% of gross domestic product (GDP) in Tanzania (URT, 2013). In recognition of the potential of MSEs to increase economic activity, developing countries such as Tanzania continually seek feasible ways to develop the MSE sector. More than half of the world's population resides in rural areas, and most of the rural dwellers lives in poverty (Luca *et al.*, 2011). Studies also show that at least 80% of Tanzanians are employed in agriculture, while 90% of Tanzanians in rural areas live in poverty (IFAD, 2014). Poor farming

technologies and limited market access are among the factors which impede reliable agricultural productivity in Tanzania (URT, 2009). The contribution of agriculture to the national income was 45% in 2003 (Sarris, Savastano, and Christiaensen, 2006) while a study by Lokina, Nerman, and Sandefur (2011) indicated 27%. The variabilities in the agricultural output make Tanzanians who live in rural areas more vulnerable to poverty. Apart from the abundance of fertile land for agriculture, rural areas of Tanzania are also rich in other natural resources which have the potential for wealth creation if efficiently utilised. Economic activities related to such natural resources include tourism, fishing, mining, natural forests and so forth. The abundance of these resources provides the potential for rural inhabitants to create additional wealth to complement agricultural output (Aoudji *et al.*, 2012). This study focuses on entrepreneurial activities which emanate from the natural forests' abundance in rural areas of Tanzania.

About 40% of Tanzania comprises forests, 70% of which are used for productive activities while 30% are government-conserved forests which inhibits income generating activities that involves trees cutting (Dinh and Monga, 2013). Despite the abundance of the natural forests which serve as sources of input, the wood furniture industry has not been performing well in Tanzania. This is evidenced by, for instance, a trade deficit of some \$63 million US dollars in wood furniture in 2009. Imports far outstripped exports: some \$66 million worth of wood furniture was imported into Tanzania, while a paltry \$3 million of the same product was exported (Dinh and Monga, 2013). By concentrating on developing the furniture industry, 'there is potential to improve the performance of all segments of the value chain, creating many jobs and reduce poverty' (Dinh and Monga, 2013: 73).

As economies open up, competition is intensified and the furniture industry is no exception. Local players in developing economies are no longer competing against each other only; their products also compete against imported furniture from emerging and even developed economies (Patel and Chavda, 2013). As customers tend to buy the offerings which have more value, the competitive performances of MSEs in developing countries depend on their abilities to create more value to consumers (Gertner, 2013).

As in developed economies, it is assumed that entrepreneurship will bring substantial contributions to developing economies. To date, these assumptions have not been fulfilled and economic progress as a result of entrepreneurship in developing economies including Tanzania has been disappointing. Scholars such as Naude (2008: 33) argue that 'Entrepreneurship is not a binding constraint on the development of poor countries.' This suggests that there are factors which impede the effectiveness of entrepreneurship on the economies of poor countries. It is contended that entrepreneurship is positively related to a country's economic growth (Prieger *et al.*, 2016). Nevertheless, its contribution to economic growth is debatable when noticeably informal enterprises are the main players. These businesses contribute by 27.4% to the national income (UNIDO, 2013). While informal enterprises are important for economic development, the entrepreneurial activities of such enterprises do not benefit economic growth substantially (Naude, 2008). The existence of informal enterprises is viewed as an indicator of concealed impediments which limit the contribution of entrepreneurship in developing economies.

Rural areas are regarded as 'entrepreneurial laggards' (Vaillant and Lafuente, 2007: 316), but entrepreneurship serves as one of the potential means for increasing employment and income opportunities there. A comprehensive analysis of value creation as a result of rural entrepreneurship in the wood furniture manufacturing MSEs will shed light on the ability of one area of entrepreneurship to benefit rural areas.

Specifically, this study focuses on the reasons why rural MSEs have poor performance in the creation of value to customers in the wood furniture manufacturing MSEs. Wood furniture products considered in this study are office furniture, kitchen furniture, bedroom furniture, dining and living room furniture.

Accordingly, the main research objective here is to analyse the reasons for the poor performance of rural MSEs in wood furniture industry in value creation to customers. The study's research questions are:

1. How do MSE-level factors affect the ability of rural MSEs to create value?
2. How do industry-level factors affect the ability of rural MSEs to create value?

While the value creation focus of the study refers to the customer value, its perceptions can be obtained from customers and/or business enterprises. In this chapter, value creation perceptions are obtained by focusing on the perceptions of the MSE owners / entrepreneurs. Having presented the research problem and objectives in this section of the chapter, the next section reviews existing literature.

### **3.2 Literature**

This part of the chapter reviews relevant academic literature. More specifically, I explore a theory that is useful in constructing this study's arguments. Resource-based theory, is used in this study. The last section of the chapter outlines the empirical literature and the research gap.

#### *3.2.1 Theory*

Resource-based theory (RBT) is built on the premise that the profitability of the firm is determined by firm-level influences rather than industry-level factors. According to Peteraf and Barney (2003), RBT is a strategic framework asserting that the competitive performance of firms is related to their resources and capabilities. The variation in competitive performance between firms is linked to a varied 'resource and capabilities' base. 'From the strategic perspective, the RBV then suggests that a firm should identify its strategically relevant resources and capabilities which are valuable, rare, inimitable and non-substitutable' (Brahma and Chakraborty, 2011: 10). The competitive advantage of firms is determined by 'valuable and rare' resources and capabilities, but the sustainability of such a performance is attributed to 'inimitable and non-substitutable' resources and capabilities (Barney, Wright, and Ketchen, 2001; Peteraf and Barney, 2003). In RBT, strategies are formulated after a careful analysis of the strong-and-weak points of the firm in light of resources and capabilities (Brahma and Chakraborty, 2011).

While the performance of business entities can be described from industry-level analysis, RBT emphasises the importance of firm-level influences in the development of strategic decisions by firms. RBT is suitable in the analysis of performance of firms in a single industry or multiple industries. The framework is

pertinent in this study (firms in a single industry) on the premise that the value creation activities of rural enterprises may be subject to the influences of their resources and capabilities. The performance of enterprises in the creation of customer value (eventually linked to competitive advantage) is determined by resources and capabilities. Tangible resources and intangible resources include physical resources, human resources, financial resources and organisational resources; thus, the value creation by MSE is linked with its strategic resources which consequently influence its competitive advantage (Rangone, 1999). It can be suggested that rural MSEs may create value for customers and give them competitive advantages if they have valuable, rare, inimitable, and non-substitutable resources and capabilities. The need to increase the productivity and quality (as specified in Chapter 1) in the wood furniture businesses may imply that machines, skilled manufacturers and timber are important resources to rural MSEs. Hence, the MSEs strategic focus is meant to stimulate their competitive advantage (through creation of customer value) by capitalising on the resources.

Brahma and Chakraborty (2011) gathered criticisms of RBT. It is difficult to find with RBT the resources that are linked to the competitive performance of businesses. Moreover, there is no clear definition about what is a 'resource'. This lack of clarity raises questions about the validity of the concept. Another criticism is that RBT does not consider changes in the business environment hence making the framework 'static in nature'. Moreover, the framework has not provided a setting that is suitable for using the theory. Practically, the framework has shifted the focus on managers for building their resource base with a belief that the competitive advantage of their firms is dependent on an accumulation of resources. The quantity of resources is important, but the competitive performance of businesses is linked to how such resources are orchestrated (Teece, 2007). In comparison to Porter's five forces framework, Brahma and Chakraborty (2011: 8) stated that '...the question whether performance is driven by industry or firm specific factors remains the central issue in strategic management and the debate is still open'. Stonehouse and Snowdon (2007) specify that RBT is not in competition with Porter's framework of five-forces. These are complementary strategic tools for the analysis of the competitive performance of businesses. Therefore, RBT is useful to enhance the understanding of the

current situation of MSEs in Mvomero district. This theory is necessary to understand their situation because such MSEs can only survive if they have required assets and skills to create the right position in the industry and context that strengthen or protect their viability.

### *3.2.1.1 Value creation*

Value creation is a widely used concept in strategic management. There are different perspectives regarding what value creation entails. According to Porter (1979) the value chain consists of a number of activities in a business that are involved in creating and making products available to the market. Sources of competitive advantage are within value chain activities. The performance of the enterprise is related to the way it uses its resources in conducting value chain activities. In Porter's view: 'value is the amount buyers are willing to pay for what a firm provides them'. More specifically, the total sales of the firm are the indicator of the value. Value creation implies the creation of value to the firm. Thus, value chain analysis offers an understanding of sources and meaning of value. Scholars such as Lepak, *et al.* (2007); Hitt *et al.* (2011) and Lieberman *et al.* (2018) explain that value can be created for the firm or customer or society or all. Osterwalder and Pigneur (2010) made two classifications that are related to 'value creation' based on who the value is created for, namely, the value recipient. By focusing on customers and business enterprises as value recipients, the first classification (with customers as value recipients) involves value creation, while the second classification (with a firm as value recipient) entails value capture. Value creation means the creation of value for the customer, while value capture involves the creation of value for the business entity. I find that value creation through Porter's value chain model is appropriate when the study focus is on value creation to MSEs. As this study focuses on the creation of value for customers, the view of Osterwalder and Pigneur concerning value creation is more suitable. As clarified that 'values may be quantitative (e.g. price, speed of service) or qualitative (e.g. design, customer experience)' (Osterwalder and Pigneur, 2010: 23). Many of the indicators of customer value lie within a product's newness, performance, customisation, design, brand, price, cost reduction, risk reduction, accessibility and convenience.

### 3.2.2 Empirical literature

In order to understand the value creation challenges in rural MSEs, this section takes into account factors which influence the value creation activities of businesses. Different studies give more weight to different factors, which in turn are linked to the value creation activities of MSEs.

Factors which are internal to business enterprises but which influence the value creation activities of an enterprise include strategies and market orientation (Radas and Bozic, 2009); human resources in terms of education, experience and resilience of entrepreneurs (Temtime and Pansiri, 2004; Calvo and Garcia, 2010; Isaga, 2012; Talebi and Ghavamipour, 2012); investment in research and development, technological resources (Keizer *et al.*, 2002), financial resources (Chawla, Khanna, and Chen, 2010); location of the business (Cant and Wiid, 2013); physical distance between upstream and downstream actors and social capital (Lee and Phan, 2008) which includes membership in business associations (Goedhuys, Janz, and Mohnen, 2006). Social capital is viewed as one of the key strategic resources of rural enterprises. It is relevant in fostering rural entrepreneurship when established institutions are relatively less cognizant of entrepreneurship as a main driver of economic development (Lee and Phan, 2008). Social capital plays a greater role to the success of rural MSEs since it increases access to local resources and information that is essential for value creation. Scholars such as Jack and Anderson (2002) argue that social capital is not enough in itself for entrepreneurial success. As entrepreneurship is a socio-economic process, it is entrepreneurs' embeddedness in a social structure that contributes to the success of their respective MSEs. Value creation by rural MSEs rely largely on MSEs' social contexts in such a way that context may act as an enabler or an inhibitor of value creation activities. Value creation activities of rural enterprises in developing countries is therefore associated with the extent and depth of an entrepreneur's social connections and structures. Such links and supports allow them to create economic value from the environment, and it also allows them to deliver a social value to the respective localities as the result of a process known as 'circular process of embeddedness' (Jack and Anderson, 2002: 482)

At the industry level, relationships between business enterprises and stakeholders such as suppliers, customers, knowledge and research centers, technology centers and consultants (Keizer *et al.*, 2002) are of importance as such relationships are linked to the value creation abilities of a business. The intensity of competition (Talebi and Ghavamipour, 2012), the extent of imports (Bowen, Morara, and Mureithi, 2009) to developing countries, and the interaction of actors (Lee and Phan, 2008) through governance structures are all additional factors which affect the distribution of benefit across the rural economy (Aoudji *et al.*, 2012). These factors exist within the industries as well as within the supply chains in which commercial enterprises operate. To sum up, this section of the chapter provides factors, which influence the value creation activities of businesses. Some factors reside in businesses themselves, while other factors are found within the industry. Having presented the relevant theoretical and empirical literature for this study, lacunae in existing research is highlighted in the next section.

### *3.2.3 Research gap*

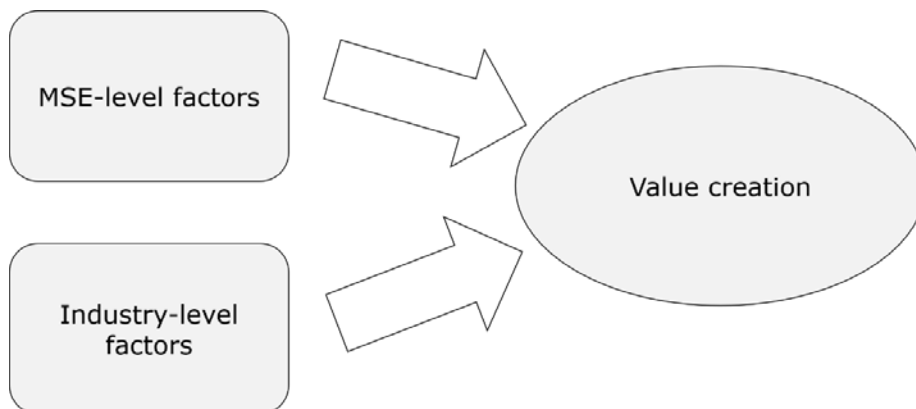
Galbreath and Galvin (2008) argue that, uniqueness of resources explains performance differences of MSEs better than the industry structure does. More specifically, high- and low-performing enterprises are influenced significantly by the factors that are internal to businesses (Hawawini, Subramanian, and Verdin, 2001); the performance of the remaining MSEs is largely shaped by factors-within the industry. Previously identified factors which affect value creation to customers and the importance of such factors are likely to differ in various settings (Chawla *et al.*, 2010; Moorthy *et al.*, 2012). While the reasons for the poor performance in value creation through entrepreneurship are often known, different studies arrive at sometimes contradictory findings (Rayner, 2006). There is 'no one fits-all' approach to entrepreneurial activities because performance is related to contextual forces (Dorado and Ventresca, 2013). Having entrepreneurial activities is one thing, but for desired ends to be attained by rural MSEs a closer look at the variables influencing an MSE's ability to create value should bear in mind the impact of their setting upon this. Therefore, understanding the reasons for the poor performance in value creation in rural MSEs within the context of developing countries is worthwhile.



#### *3.2.4 The research model*

In order to analyse the value creation challenges of rural MSEs it is imperative to recognise that their value creation activities are influenced by factors which are in different levels. Internal and external business environments influence the value creation abilities of rural MSEs. Internal environment is manifested by MSE-level influences while external environment is exhibited by industry-level influences. As stipulated by the research model, the analysis of value creation challenges takes into account aspects such as resources of rural MSEs and challenges within the industry which are playing a role in the wood furniture industry. Figure 3.1 depicts the research model.

**Figure 3.1: The research model**



### **3.3 Research methodology**

#### *3.3.1 The description of the study area and the research design*

Chapter 2 specified that this research study is centred on the rural district of Mvomero. The district has mountainous and non-mountainous physical environments. This results in rural MSEs having a varied level of access to basic amenities such as transport infrastructure, electricity supply and telecommunication services. Entrepreneurship-related studies are encouraged to use qualitative research approaches to enrich the knowledge of entrepreneurial

activities (McDonald *et al.*, 2015). This qualitative study employs multiple-case research design using a holistic approach. Cases have been purposively chosen where their external conditions differ and therefore their diverging results can be attributed to such conditions (Yin, 2009). The level of availability and accessibility of basic amenities in rural areas is the condition for the inclusion of cases in this study. Different value-creation challenges in rural MSEs can occur due to the varied availability of, and the accessibility to, electricity supply, telecommunication services and transport services.

It is anticipated that value creation ability may be different in rural MSEs based on electricity supply, which facilitates their use of modern technologies. The elements such as quality and productivity, meanwhile, are related to the use of modern furniture-making technologies. Furthermore, the value creation ability of rural MSEs may depend on MSEs access to telecommunication networks, which facilitate the communication and transactions between rural MSEs and other economic actors. The elements such as time and cost efficiencies are related to the availability of telecommunication services. Finally, the value creation ability of rural MSEs is expected to be different in rural MSEs which have varied access to transport services. The elements such as time and costs efficiencies are associated with availability of transport services.

Similarly, Chapter 2 indicate that there are 54 furniture manufacturing MSEs in Mvomero district. By using purposive sampling technique, rural MSEs with varied ages and sizes are included in the study. Additionally, it includes formal and informal furniture manufacturing MSEs which operate in the region.

By using the saturation criterion, new cases have been added to the study until data saturation has been attained. This study focuses on 30 rural MSEs engaged in furniture manufacturing. These MSEs are organised in different categories to capture value-creation challenges which are caused by varying conditions of basic amenities. Yin (2011) asserts, the engagement of different groups of cases allows reflections of similarities in such groups. Value-creation activities of rural MSEs may be influenced by varying conditions of roads, electricity supply and telecommunication services which facilitate the production and flow of input, output and information between MSEs and their stakeholders. Therefore, these

30 cases are further categorised into six groups based on the external conditions of the 'availability and accessibility of electricity supply, telecommunication services and transport services'. Such external conditions can result in different value-creation challenges in rural MSEs in the industry. The number of the study cases is considered sufficient to allow replication of the theory. '...in replication logic, cases which confirm emergent relationship enhance confidence in validity of relationships. Cases which disconfirm relationships often can provide opportunity to refine and extend theory' (Eisenhardt, 1989: 542). Table 3.1 shows the varied conditions of basic amenities of each group of the study cases.

### *3.3.2 Data collection and analysis*

Open-ended data collection strategies permit detailed clarifications about studied phenomenon by research participants (Elliott and Timulak, 2005). This study employed interviews and observations as a means of obtaining research data. The triangulation of data collection methods allows the collection of more information to provide a holistic view of the studied phenomenon (Elliott and Timulak, 2005). Also, such methods make collected data stronger as Yin (2006: 10) suggested, 'you always will be better off by using multiple rather than single sources of evidence'.

After transcribing the interviews and development of field notes, I conducted attribute data coding and in-vivo data coding. The attribute coding method is used to capture descriptive features of rural MSEs such as size, age, productivity, and formalisation status; it is a suitable coding method in capturing descriptive features of the study cases (Saldana, 2013). Appendix 3.1 indicates the coding summary of challenges which influence the value creation activities of rural MSEs, specifying the codes, categories and themes. The cross-case analysis follows. It uses derived themes from the codes; with such analysis, the coding themes are analysed in each group of cases. The analysis of six groups of cases is meant to find similarities in value creation challenges within each group of cases. Also, differences in value-creation challenges between six groups of cases is meant to be established from such analysis. With the research methodology outlined, the next section presents the research findings.

### **3.4 Findings**

This section is meant to provide the findings of research by presenting descriptive characteristics of wood furniture manufacturing MSEs which are in the Mvomero district. To begin with, the number of study cases with different basic amenities are presented here. The age and size of rural MSEs, MSE formalisation status as well as MSE products are also described. The explanation of value creation is articulated as well. In the later parts of this section, explanations for value creation challenges are provided, and followed by the cross-case analysis of the cases.

#### **3.4.1 Description of rural MSEs**

There are six categories of study cases which are established in light of the conditions of basic amenities. These amenities specify the conditions which influence rural MSEs. Presence and absence of electricity supply, transport services and telecommunication services set the foundation of such categories as depicted in Table 3.1.

**Table 3.1. The categories of study cases**

Number of cases in a group in relation to the existence of basic amenities in the rural area
First Group: eleven cases <ul style="list-style-type: none"><li>• Availability of electricity supply</li><li>• Availability of transport services</li><li>• Availability of telecommunication services</li></ul>
Second Group: six cases <ul style="list-style-type: none"><li>• Availability of electricity supply</li><li>• Lack of transport services</li><li>• Availability of telecommunication services</li></ul>

<p>Third group: three cases</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Availability of transport services</li> <li>• Availability of telecommunication services</li> </ul>
<p>Fourth group: one case</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Lack of transport services</li> <li>• Availability of telecommunication services</li> </ul>
<p>Fifth group: seven cases</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Availability of transport services</li> <li>• Lack of telecommunication services</li> </ul>
<p>Sixth group: two cases</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Lack of transport services</li> <li>• Lack of telecommunication services</li> </ul>

Source: Research findings (2019).

The characteristics of rural MSEs are provided in this section. They are: the age of rural MSEs; the size of rural MSEs; and the formalisation status of rural MSEs. Appendix 3.3 stipulates their characteristics. In terms of their age some have been established for more than 16 years, while others have been in existence for 4 years or less. Most of the rural MSEs (63%) have been established for at least four years. Rural MSEs also vary in size. There are many micro-sized rural MSEs (20 MSEs) with less than 5 furniture manufacturers compared to small-sized MSEs (10 MSEs). Most MSEs have 2–4 furniture manufacturers. In terms of the

formalisation status of rural MSEs, there are registered and unregistered furniture manufacturing MSEs in rural areas. Most of the MSEs in rural areas are not formalised business entities (27 MSEs) in comparison to formal MSEs (3 MSEs). As per the type of MSEs' management, most of MSEs are owner-managed (26 MSEs) while few of them (4 MSEs) are managed by managers. Table 3.2 summarises these findings.

**Table 3.2: Characteristics of rural MSEs**

MSE characteristic	Measuring factor	No of MSEs	Percentage
Size	≤ 4workforces	20	66.7
	5-49 workforces	10	33.3
Formalisation status	Registered	3	10
	Unregistered	27	90
Management	Owner-managed	26	86.7
	Not owner-managed	4	13.3
Age (years)	≤ 4	11	36.7
	5-8	11	36.7
	9-12	3	10
	13-16	1	3.3
	16+	4	13.3

Source: Research findings (2019).

Manufactured products include beds, cupboards, dining tables and chairs, coffee tables, stools, sitting room sofas, office tables and chairs, school desks and bookshelves. These products are related to dining, bedroom, living-room, kitchen and office furniture. In addition to wood-related furniture, the MSEs produce other wood-related products such as doors and windows for a variety of buildings such as houses, schools and hotels. Most frequently manufactured products are beds and doors.

#### *3.4.2 Value creation*

As perceived by furniture manufacturing MSEs in rural areas, the study indicates that they have three perceived elements of value creation. The first element is the quality of input which are used in furniture manufacturing. The second

element is the quality of the products' features. The third element is the quality of their delivery services.

As perceived by rural MSEs, the quality of input refers to the quality of the furniture manufacturing raw materials that they use. The quality of raw materials is described in terms of the types of timber used, with hardwoods and softwoods being the two types of timbers used. The study indicates that the quality of raw materials is also described in terms of the quality of timber which is used by furniture manufacturing MSEs. Quality of timber is denoted in terms of the timber's dryness and its durability. There are durable timbers which are used by furniture manufacturers as opposed to non-timber materials such as chipboards and fibreboards. As perceived by rural MSEs, 'features of products' as the element of value creation refers to the quality of furniture designs and styles used by the furniture manufacturing MSEs. The design and styling of furniture includes activities such as smoothing, vanishing, colouring and decorating the furniture. The study indicates that the quality of the delivered services is another element of value creation as perceived by rural MSEs. It refers to MSEs' reliability in terms of timely delivery of products to customers. In the section I provided the findings regarding the characteristics of rural MSEs, their products and their perceived elements of value creation. This next section explains their value creation challenges in the furniture industry. The cross-case analysis of the challenges in six groups of cases is presented in this part of the findings as well.

#### *3.4.3 Value creation challenges in rural MSEs*

To understand value creation challenges, one must understand the root causes of poor performance in value creation to customers in rural MSEs in the furniture industry. The reasons for failure to create value are found in the analysis of 30 cases. Such reasons are presented in forms of themes which originate from the developed codes and categories. As shown in the appendix, the coded data with similar features have been organised into sub-categories and later into categories. As indicated in the Appendix 3.1, the root causes of poor performance in value creation in rural MSEs are linked to the lack of financial capital, the lack of the use of modern technologies, lack of availability or high price of raw materials, lack of skills, lack of intangible assets, issues with suppliers, customers, competitors, the

use of middlemen, legal concerns and transport concerns. This thesis also indicates that production strategies of rural MSEs, seasonal engagement in furniture manufacturing activities and the involvement of rural MSEs in other income generating activities are value creation challenges as well.

#### *3.4.3.1 The firm-level challenges of value creation in rural MSEs*

This study indicates that value creation challenges which exist in rural MSEs are: lack of technology; lack of financial capital; lack of raw materials; lack of intangible resources; lack of skills and insufficient commitments of rural MSEs in furniture manufacturing businesses. Table 3.3 summarises these factors in light of resource-based theory.

**Table 3.3: The firm-level challenges of the value creation in rural MSEs in light of resource-based theory**

	<b>Resource-Based Theory</b>			
<b>Resources</b>	<b>Valuable</b>	<b>Rare</b>	<b>Inimitable</b>	<b>Non-substitutable</b>
Raw materials	Yes	Yes	Yes	No
Human resources	No	No	No	No
Machines	No	No	No	No
Social capital	Yes	Yes	No	No

Source: Research Findings (2019).

Furniture-making machines, financial resources, raw materials, human resources and social capital are the resources of rural MSEs.

The study suggests that most of the MSEs lack modern furniture making technologies. Low productivity and low quality of products are related to the use of traditional tools, such as the block plane and hand saw by rural MSEs. Installation of new electrical machineries would dramatically improve productivity and also the quality of the products. Keizer, Dijkstra, and Halman (2002)



emphasise the role of technology in the performance of business enterprises as well. All rural MSEs are found to have a lack of financial capital for their businesses. The study indicates that the required financial capital of rural MSEs ranges from 1 million Tanzanian shillings (approximately \$500USD) to 8 million Tanzanian shillings (approximately \$4000USD). The main reason for the need of financial capital by rural MSEs is to buy modern furniture making technologies which are more productive than the existing ones.

Acquisition of raw materials, specifically timber, for furniture production is another reason why rural MSEs need finance. Chawla *et al.* (2010) stress the importance of the access of financial resources to enterprises. The availability and affordability of raw materials is another factor which determines the value creation ability of rural MSEs. Some rural MSEs in the sector under discussion do not have access to the required timber, while others are compelled to buy timber at high prices. Understandably, the price and the quality of available raw materials, specifically timber, affects the price and quality of the manufactured furniture.

There is a lack of technical and enterprise management skills in rural MSEs. The provision of training related to enterprise activities, such as business management, records keeping, bookkeeping, customer care, may reduce this shortage. Vocational training is also needed by rural MSEs to improve the quality of furniture. The lack of social capital in most rural MSEs is another value creation challenge. The importance of social capital to value creation is also stressed by Lee and Phan (2008). There is insufficient commitment and dedication to furniture making among rural MSEs and this is a factor in their ability to create value. The study indicates that seasonal engagement of rural MSEs and involvement of MSEs in other income-generating activities such as agriculture and masonry are among the reasons for the low commitment of rural MSEs in this industry.

#### *3.4.3.2 The industry-level challenges of value creation in rural MSEs*

Supplier concerns, customer concerns, competition concerns, the use of middlemen and transport concerns are additional value creation challenges in rural MSEs. Timber is the core raw material which is needed by rural MSEs. The study shows that limited sources of supply of raw materials, high prices of supplied raw materials and unreliable suppliers; are the suppliers' concerns regarding poor

performance of MSEs in value creation as compared to imports of furniture based on cheap fibreboards. Availability of customers, types of customers and location of customers are the notable customers' concerns in this regard. Intensity of competition is another factor determining their value creation ability. Competition between furniture manufacturers within a business enterprise, competition between business enterprises within the local areas as well as the competition with imported furniture are the concerns of rural MSEs. As found by Talebi and Ghavamipour (2012), the intensity of competition influences the performance of SMEs. Indirect selling using middlemen is another reason for rural MSEs to have difficulty creating value. Finally, availability, reliability and affordability of the means of transport are concerns related to the ability of rural MSEs to create value.

In summary, this section of the findings indicates that value creation challenges can be categorised in two levels as follows: factors within rural MSEs and factors within the furniture industry. So far, I considered two levels separately but these two levels interact with each other and the factors on one level is aggravating the effect of factors at the other level. As a consequence, there is a non-linear dynamic that explains why these MSEs have difficulties to create and capture value in a satisfactory way. This will be explained later in the chapter.

#### *3.4.4 The cross-case analysis of cases*

By using the themes which have been previously developed, the cross-case analysis provides understanding of value creation challenges in different groups of cases. More precisely, the cross-case analysis provides an understanding of the similarities of value creation challenges within each group of cases. Differences of value creation challenges between groups of cases are unveiled as well. Appendix 3.2 provides a useful framework for conducting within-case and cross-case analyses.

##### *3.4.4.1. The cross-case analysis of the first group of cases*

As shown in Table 3.3, the first group, which has 11 cases, has access to all basic amenities. It is the competition, suppliers, legal concerns and raw materials which affect ability of the cases to create value. All forms of competition are faced by

cases, for example competition within the local area, competition within one workshop and competition with imported products. Price competition between competitors is common, as explained by the owner of one MSE;

'...when we say that 'market' is our problem, it means as furniture manufacturers we are currently fighting for the same buyers. We are competing against each other. For instance, for the standard bed which is made by using the same raw materials and the same design, the normal selling price of such bed is Tshs. 150,000. We may find some manufacturers who sell it for Tshs. 170,000 or Tshs. 200,000. Other manufacturers can offer to sell it for Tshs. 120,000 and even up to Tshs. 100,000.'

Source: Research findings (2019).

The lack of certified suppliers of raw materials is another reason. The costs of obtaining certified raw materials from certified suppliers are very high. The owner of one MSE explained;

'Although we are buying wood at very high prices, we cannot increase the prices of our furniture. The problem is on the types of buyers whom are we selling our furniture to. We mostly sell our products to the local people who have low buying abilities. If we increase the bed price from Tshs. 150,000 per bed to Tshs. 180,000 per bed, it will be difficult for us to get customers for such a bed from this area.'

Source: Research findings (2019).

MSEs in this group of cases have access to modern furniture-making technologies or availability of modern technologies is possible with less costs. The difference between this group of cases as compared to other groups is that raw materials are available to all MSEs, but the price of such raw materials is very high due to legal concerns. High cost of raw materials increases the price of product. Competition is very intense in MSEs of this group because of the availability of basic amenities (MSEs are located in concentrated areas). Such competition influences the quality of the products.

**Table 3.4. The cross-case analysis of cases**

Availability of basic amenities	The similarities in value creation challenges within each group of cases	The differences in value creation challenges between groups of cases
<p>First Group: eleven cases</p> <ul style="list-style-type: none"> <li>• Availability of electricity supply</li> <li>• Availability of transport services</li> <li>• Availability of telecommunication services</li> </ul>	<ul style="list-style-type: none"> <li>• Competition intensity</li> <li>• Lack of suppliers</li> <li>• Legal concerns in obtaining raw materials</li> </ul>	<ul style="list-style-type: none"> <li>• Higher prices of raw materials</li> </ul>
<p>Second Group: six cases</p> <ul style="list-style-type: none"> <li>• Availability of electricity supply</li> <li>• Lack of transport services</li> <li>• Availability of telecommunication services</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of market</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of transport services of products to the market</li> </ul>
<p>Third group: three cases</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Availability of transport services</li> <li>• Availability of telecommunication services</li> </ul>	<ul style="list-style-type: none"> <li>• Dependence on other income generating activities more than on furniture business</li> </ul>	<ul style="list-style-type: none"> <li>• Furniture production activity is outsourced</li> </ul>
<p>Fourth group: one case</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Lack of transport services</li> <li>• Availability of telecommunication services</li> </ul>	<ul style="list-style-type: none"> <li>• Trust</li> </ul>	<ul style="list-style-type: none"> <li>• Over-full demand</li> </ul>
<p>Fifth group: seven cases</p> <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Availability of transport services</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of modern machines</li> <li>• Middlemen concerns</li> </ul>	<ul style="list-style-type: none"> <li>• Legal concerns pertaining to market access</li> </ul>

<ul style="list-style-type: none"> <li>• Lack of telecommunication services</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of technical and business management skills</li> </ul>	
Sixth group: two cases <ul style="list-style-type: none"> <li>• Lack of electricity supply</li> <li>• Lack of transport services</li> <li>• Lack of telecommunication services</li> </ul>	<ul style="list-style-type: none"> <li>• Seasonal engagement in furniture business</li> </ul>	<ul style="list-style-type: none"> <li>• Make-to-order production strategy</li> </ul>

Source: Research findings (2019)

#### 3.4.4.2 The cross-case analysis of the second group of cases

The second group has six cases. These rural MSEs are located in very mountainous and isolated terrain. The lack of market is the principal reason for the poor performance in the creation of value to customers. Cases serve customers who are in the neighborhood but the bargaining power of such customers is high. The difference between these groups of cases as compared to other groups is that transport-related constraints limit the value creation activities of cases. The cost of serving customers who are beyond the local areas is very high due to the lack of, or expensive availability of, transportation services. One owner of a rural MSE observed;

'...if a customer who is not from this area wants to buy a bed from us, it will be difficult for us to transport such a bed from our office to the customer. If we are required to transport such a bed, we will need to have the bed transported from the workshop to the main road by the motorbike which will cost us Tshs. 3,000. We will also have to wait for the bus (if the bus will have a space to carry the bed) to transport such bed to the customer. If we will succeed to have the bed delivered to the customer, all transport costs will be incurred by the customer.... we can hire a truck to transport many furniture items for the customer who is from a very distant location. Hiring a truck may cost us about Tshs. 500,000. But it is not certain that such a truck may be available for hiring. Currently, the buyer himself/herself is the one who finds and pays for the hired truck from his/her location. So, he/she is required to find the transport means which is suitable to the size and quantity of the furniture items to be transported...'

Source: Research findings (2019).

#### *3.4.4.3 The cross-case analysis of the third group of cases*

The third group has three rural MSEs. There is a greater dependence on other income generating activities outside furniture by businesses in this particular group. Indeed, furniture manufacturing is not the main income-generating activity for these businesses. The owner of one furniture manufacturing MSEs reflected upon how he entered the business;

'...my brother invited me into the furniture business because he wanted us to work together in it. I agreed to work with him. To tell you the truth, I never liked furniture making activities as he did. I was not into the furniture business at all but my family wanted me to. My brother is still engaged in the furniture making business in another village, and he loves doing that. I like to be engaged in agricultural activities. At the moment, I am involved in paddy and maize farming. Agriculture is my main income generating activity...'

Source: Research findings (2019).

Another owner of one of the rural MSEs who is engaged in house-roofing activity observed how difficult he found it to find skilled workers;

'...history tells us that being in the carpentry business means the carpenter should love doing the carpentry activities. I can get people to work with me in other jobs, for example in house roofing activities, but I cannot get anyone to work with me when it comes to furniture making...'

Source: Research findings (2019).

As a consequence of their involvement in other income generating activities, rural MSEs become less committed to furniture making. This lack of commitment to their rural MSE limits their ability to tackle the problems which undermine their value creation activities.

The difference between this group of cases and other groups is that furniture production is an outsourced activity. Such outsourcing is dependent on changes in production costs, most especially transportation costs. Although the product's market exists, high transport costs can impede the incentive for rural MSEs to

engage in furniture manufacturing. Transport costs work in both directions: supplying the raw material to the factory, and supplying the finished product to the consumer. Transport inefficiencies compound these costs. Accordingly, the increase in costs require rural MSEs to increase prices of their furniture. For instance, one MSE owner explained his practice;

'I normally transport wood to Morogoro town to be processed into furniture. After making the furniture, such furniture is transported back to my office. I normally sell furniture items in this area...'

Source: Research findings (2019).

#### *3.4.4.4 The cross-case analysis of the fourth group of cases*

This category has one rural MSE. The main cause of poor performance in value creation rests in customers' distrust of a particular MSE. Consumer trust is undermined because MSEs are not delivering the products to their customers as promised. The owner of one MSE explained;

'When we tell the customer that his/her furniture will be ready in three days, then we should deliver the furniture to the buyer in three days as promised. We still have customers for our furniture even if there are other furniture manufacturers in the nearby areas. It is the trust our customers have in us that really matters.... we, carpenters, are not trustworthy. Customers no longer trust us. We are losing our customers because they don't trust us...'

Source: Research findings (2019).

The difference between this MSE and those from other groups is that a high demand for the furniture exists. However, the market is sensitive to the products' quality as well as to the quality of service. Customers have easy access to alternative furniture manufacturers in the nearby areas.

#### *3.4.4.5 The cross-case analysis of the fifth group of cases*

There are seven cases in this group. Technology, middlemen and skills are value creation challenges in these cases. Although rare raw materials specifically hardwood timber is obtained at less cost due to the low level of regulations

enforcement that controls timber harvesting activities of MSEs, the enterprises lack modern furniture-making machines that affects their productivity. Low-quality products are produced using poor furniture manufacturing technologies. The owner of one of the MSEs elaborated;

'...if for instance, we are required to supply a village school with school desks and chairs within a short period of time such as one week, we cannot make and supply such products within one week. We have low productivity because we are using traditional woodworking tools...'

Source: Research findings (2019).

The use of middlemen to sell their products to urban customers limit customer knowledge. As described by one MSE owner;

'...because we are located very far from most markets, middlemen are very useful to us. It is not easy for us to get customers who are in urban areas. We only get access to such customers through middlemen. Our middlemen are other furniture manufacturing businesses which are located in urban areas.... at some point, these middlemen are not helpful. It is happening a lot that these middlemen want to take part of our profits as their commissions. But all in all, they never force us to sell our products through them, so it is up to us to use them or not. It is just that these middlemen happened to have connections with many people including transporters...'

Source: Research findings (2019).

The lack of technical and business management skills is another cause of poor performance in value creation in MSEs. The owner of one MSE observed;

'Training are important to people like us. We need technical training. Technical training is needed mostly in how to use machines such as compressors. We also need training so as to manage our businesses in a right way. For example, we need to know how to deal with customers and even how to do proper recordings of our business activities...'

Source: Research findings (2019).



In comparison to other groups of cases, poor performance in value creation by MSEs in this group are also caused by legal obstacles to market access. The owner of one of the MSEs noted that;

'...if we have many furniture to be sold to a customer who is in Dar es Salaam, then we will be required to arrange for the transportation of such furniture by hiring truck. We will also be required to have necessary government documents such as business licenses and transport pass which are very difficult for us to get...'

Source: Research findings (2019).

#### *3.4.4.6 The cross-case analysis of the sixth group of cases*

There are two cases in this group. Here, MSEs do not have access to electricity supply or telecommunication services, and there are no reliable transport services. Rural MSEs sell their products to the customers who are only available in the local areas. A very limited market is available for their products. These MSEs are also seasonally engaged in furniture manufacturing. As clarified by the owner of one of the MSEs;

'...if we are given the loan of one million shillings, we can repay it within a period of three months. Our customers are farmers who have money to buy our products after harvesting seasons. Harvesting season is from the months of July to September. If we get a loan during harvesting season, we will make beds and repay the loan in such a time...'

Source: Research findings (2019).

As compared to other groups of cases, value creation challenges which affect MSEs in this group is a consequence of production strategy. Make-to-order is the dominant production strategy which requires customers to make advance payments of the ordered products. Such requirement of advance payments increases consumer inconvenience. The owner of one of the MSEs elaborated;

'...it is difficult to be engaged in the furniture making business in this village because it is so difficult to get advance payments from our customers so as to make their ordered furniture items...'

Source: Research findings (2019).

To summarise, different groups of cases have different value creation challenges. These challenges are both internal and external to the rural MSE. The existence and quality of available basic amenities provide a focus for rural MSEs to increase the value creation ability of their respective MSEs.

### ***3.5 Discussion, conclusion and study implication***

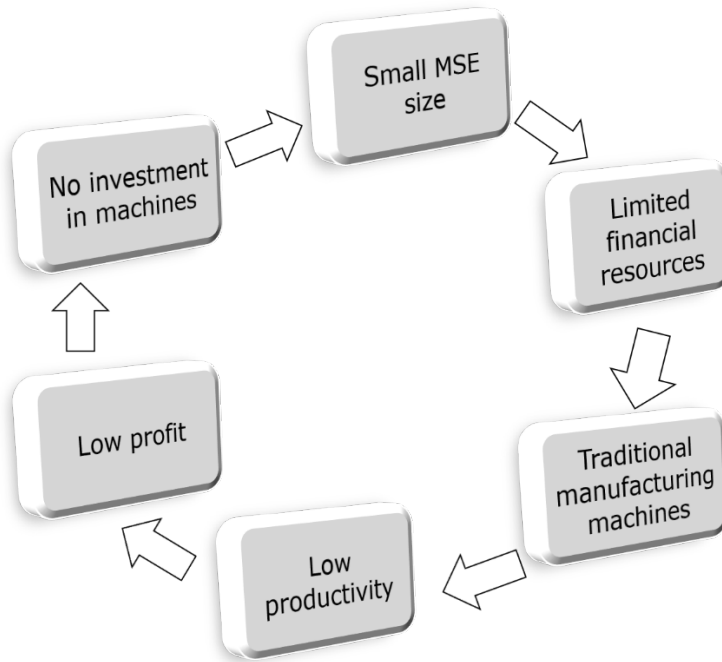
This chapter provides an analysis of value creation challenges in rural MSEs in the wood furniture industry. As indicated, factors which are within rural MSEs and in the industry are covered. This study shows that value creation performance is related to the internal and external conditions faced by rural MSEs.

The causes of poor performance in the creation of value to customers in rural MSEs are interdependent. They are also related to the characteristics of rural MSEs such as the size of the MSE and the formalisation status of rural MSEs. For rural MSEs to create value for their customers, it implies that a thorough analysis of the link between challenges which affect value creation in MSEs and MSEs characteristics be taken into consideration. Such combined analysis results in situations where the factors interact and jointly aggravate the value creation abilities of rural MSEs under study. Such situations are described in the next section in the form of vicious cycles leading to the poor economic performance of the MSEs.

#### ***3.5.1 Financial resources' driven vicious cycle***

Most of the rural MSEs are informal and small in size. They lack financial resources to acquire more productive technologies. As years pass, rural MSEs continue to use poor technologies which have low productivity. This low productivity results in low profitability, which in turn impedes their investment in new technologies. Consequently, the size of rural MSEs tends to remain stagnant over time. This cycle implies that the value creation ability also remains unchanged in rural MSEs. The following figure indicates the vicious cycle.

**Figure 3.2: Financial resources' driven vicious cycle**

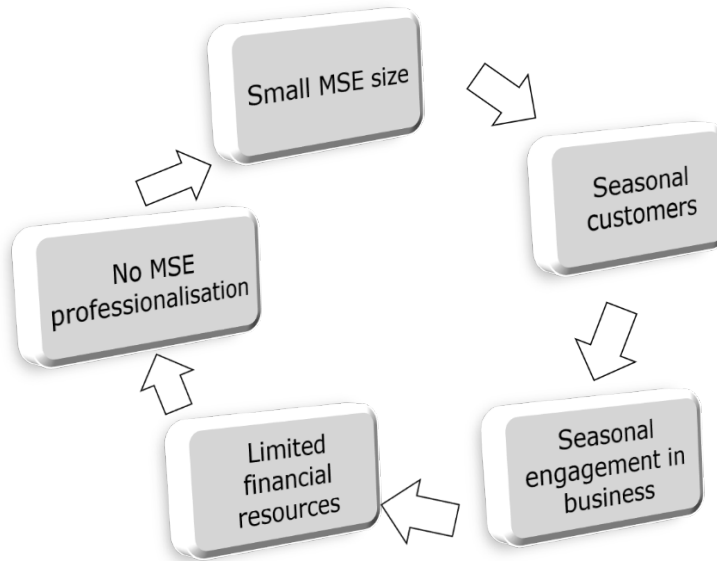


Source: Research findings (2019).

### *3.5.2 Market driven vicious cycle*

Most of the rural MSEs are small and serve seasonal customers. Accordingly, rural MSEs are seasonally engaged in furniture manufacturing. Limited financial capital is obtained by being seasonally engaged in the businesses. Insufficiency of financial capital limits the commercialisation of rural MSEs. As a result, the small size of rural MSEs remains the same over time. The situation denotes that the value creation ability also remains unchanged in rural MSEs. The following figure depicts the vicious cycle.

**Figure 3.3: Market driven vicious cycle**

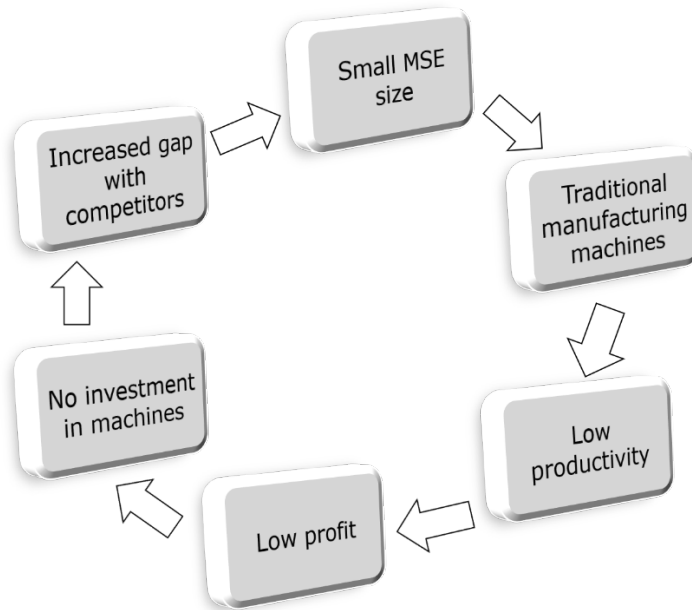


Source: Research findings (2019).

### *3.5.3 Technology driven vicious cycle of Rural MSEs*

Most of the rural MSEs are small and use traditional technologies. The use of traditional technologies results in low productivity, which results in low profits for the rural MSE. Low profits restrict the ability of these MSEs to invest in more productive technologies. Accordingly, the inability of rural MSEs to invest in more productive technologies increases the gap between these MSEs and their competitors. Consequently, rural MSEs remain small over time. It suggests that their value creation ability remains unchanged. The next figure depicts the vicious cycle.

**Figure 3.4: Technology driven vicious cycle**



Source: Research findings (2019).

The study indicates that many vicious cycles can be developed to represent the 'restraining conditions' which limit the ability of rural MSEs to create value in the furniture industry. It also shows that the main difference in value creation challenges between rural MSEs can be found in the availability and accessibility of basic amenities to the business.

The combined analysis of firm-level challenges- industry-level challenges, and MSE characteristics provides a clear understanding of the reasons rural MSEs are unable to create sufficient value in furniture manufacturing in the broader perspective. It is therefore emphasised that value creation challenges should not be considered in isolation. The combination of such challenges with the characteristics of rural MSEs elucidates critical areas worthy of the attention of different stakeholders. This combination of challenges, when accompanied with an appropriate value creation strategy, has the potential to improve value creation abilities of rural MSEs. This study implies that the RBT is a useful tool for analysing

value creation challenges in rural MSEs such that the conditions of resources - valuable, rare, inimitable and non-substitutable, are the aspects where resources are analysed. Also, it signifies that MSEs performance in value creation is reliant on strategies to acquire resources such as electrical machine and skilled manufacturers while capitalising on existing resources such as raw materials (timber) and social capital. Another implication is that focusing on one level or one factor will not result in any success. Rural MSEs and organisations which support them should work at two levels while focusing on different factors in order to attain desired results. That also implies the need of collaboration across such organisations that are meant to empower rural MSEs in order to be able to create customer value. The findings of this study are useful to policy makers engaged in SME development policy, national forestry policy, and rural development policy. The conclusions are also useful to furniture manufacturing MSEs in the rural areas of Tanzania. Lastly, they should be beneficial to different organisations that support the development of entrepreneurship in rural areas and rural development more generally.

In summary, the analysis of reasons for the poor performance in the creation of value to customers in rural MSEs is the purpose of this chapter. The analysis takes into account factors which are within the control of business enterprises as well as factors external to their control. More specifically, MSE-level factors, industry-level factors are presented in the chapter. In the final section of the chapter, I illustrated how different factors limit value creation and professionalisation of rural MSEs by considering the interplay of value creation influencing factors and the characteristics of rural MSEs. As presented through the vicious cycles, the illustrations are of importance in widening awareness of factors which not only affect value creation, but which affect the professionalisation and development of the rural MSEs. A research article which was published in the *Transnational Corporations Review* was developed from this chapter. This chapter sets the foundation of the next chapter, which aims to analyse the way rural MSEs may be influenced by institutions. The next chapter analyses the influence of institution of value-creation activities of rural MSEs.







## **Chapter 4: Influence of institutions on value creation activities of micro and small enterprises in rural Tanzania**

### ***4.1 Introduction, background of the research problem***

This chapter analyses the influence of institutions on the value creation activities of rural MSEs in Tanzania. The institution theory is its theoretical base. The chapter uncovers institutional issues that are of influence to value creation activities of enterprises. The interrelationships between institutional concerns is established as well. The chapter has five sections. Research problem is the first section followed by literature review. Research methodology that is used in the chapter is provided in the third section. Results are presented in the fourth section. Discussions of the findings, study conclusions, implications and limitations are presented in the last section.

I begin with an introduction to the research topic, the research question, and research objectives. Chapter 1 and 3 specified that economic development initiatives in Tanzania recognise the importance of the private sector in which MSEs play the dominant role (Isaga, 2015). The performance of such enterprises in the country's economy is below expectations. The existence of informal enterprises is one of the reasons for this outcome (UNIDO, 2013). Informal business entities have a limited impact on the economy. Naude (2008) states that the presence of informal enterprises in the economy is an indicator of insufficient institutional support for business enterprises. Currently, the Tanzanian government is putting more effort into promoting economic growth through the establishment of a conducive business environment for various economic actors – including MSEs.

The promotion of the contribution of entrepreneurship to the economy requires a thorough understanding of the influence of the institutional environment on the activities of MSEs. Chapter 1 and 3 indicate that Tanzania has many inhabitants who live in rural areas. The rural population of Tanzania is prone to poverty. Rural entrepreneurship has the potential to stimulate the rural economy through the exploitation of natural resources. In the bid to meet that potential the promotion of entrepreneurship in rural areas is an important activity. World Bank (2011) states that Tanzania has 35 million hectares of forests (of which 99.8% are

government-owned). Forest resources contribute about 2% to 3% to the national income. Furniture manufacturing and construction industries use forest resources for the supply of timber and poles. Forests provide fuelwood as a source of energy and about 95% of fuel energy comes from forest resources (Wizara ya Maliasili na Utalii, 2016). Tanzanian forests are decreasing by approximately 1% a year because of activities such as agriculture, mining, urbanisation, animal grazing, and unplanned logging (Wizara ya Maliasili na Utalii, 2016). A discrepancy exists between production and consumption of forest resources in Tanzania; for example, in 2013, 84 million cubic meters of tree timber were produced while 103.5 million cubic meters were consumed (Wizara ya Maliasili na Utalii, 2016). This raises the attention of various stakeholders regarding the sustainability of such natural resources. Therefore, the sustainable utilisation of resources requires supportive institutions – but such sustainability is in question when ‘right’ and ‘functioning’ institutions are not in place. Forest resources do not at present provide a sufficient contribution to the Tanzanian economy. A mismatch exists between the abundance of forest resources and the socioeconomic gains from such resources. The country imports more timber and timber-related products than it exports. In Chapter 1, Dinh and Monga (2013) indicate a trade deficit of \$63m in wood-related furniture for the year 2009. Wood furniture imports may suggest that MSEs are needed to create value for their customers. Value creation and subsequent value capture relates to an uplift in the competitive advantages of business enterprises. Institutions govern the value creation activities of economic actors, and act as enablers or barriers to entrepreneurial activities. Initiatives in entrepreneurship development in rural areas require a thorough understanding of the institutions influencing the value creation activities of MSEs to stimulate sustainable exploitation of rural forests.

This chapter analyses the influence of institutions on the value creation activities of MSEs in rural Tanzania. More specifically, it analyses the influence of institutions on the value creation activities of rural MSEs in the acquisition of input, in the processing of input into output, and, in making output available to the market. The study’s research questions are:

1. In what ways institutions affect input acquisition activities in rural MSEs?
2. In what ways institutions affect input processing activities in rural MSEs?

3. In what ways institutions affect MSEs activities of making output available to customers?

## **4.2 Literature**

This section provides the theories and empirical research that forms the basis of this study. Arguments in this study are built from institution theory. The section describes the study concepts and research model.

### *4.2.1 Institutions theory*

Institutions administer the interactions of economic actors – including business enterprises. According to institution theory, the performance of a business enterprise is influenced by institutional boundaries that may be formal or informal. Formal institutions are more amendable than informal institutions (North, 1992). Institutions provide opportunities to, but can also hinder business enterprises. Institutional concerns may be examined through various lenses; one way to analyse institutions is by focusing on the governing actors of the institutions. In this regard, such institutions can be economic institutions, political institutions, or legal institutions. Economic institutions are related to the actors who are linked to the supply of financial resources, quality and quantity of human resources, and technological resources such as financial institutions (example banks or micro finance institutions) and research institutions (example universities). Political institutions are linked to the actors who are associated with the availability of basic amenities and economic systems such as government and international organisations such as the world bank (WB) and international monetary fund (IMF). Legal institutions include actors who are involved with decisions that relate to the legislation and regulations of a particular country example government bodies such as parliament (Sobel, 2008). Another way of analysing institutions is by focusing on the forms of institutions to reveal their cognitive, normative, and regulatory aspects (Palthe, 2014). Regulatory institutions consist of policies and laws example Tanzania Forest Policy 1998, The Forest Act, 2002, and guidelines for harvesting in village land forest reserves. Cognitive institutions involve values and beliefs, for instance, Tanzania has at least 120 tribes which exhibit different beliefs and values. Normative institutions

comprise of ethical concerns. Sine and David (2010) examine the institutional limits on business enterprises by focusing on cognitive, normative, and regulatory institutions. They show that the outcomes of entrepreneurial activities, such as the establishment of new business enterprises and the launch of new products are influenced by institutions. The existence, adequacy, and functioning of institutions play a vital role in the value creation activities of business enterprises. With a focus on formal institutions compliance, this study analyses the influence of legal institutions, that is, regulative institutions on value creation activities of MSEs in rural areas of a developing country. Specifically, it focuses on the guidelines for harvesting in village land forest reserves which were developed from Tanzania Forest Policy 1998 by Tanzanian ministry of natural resources and tourism. In the study area, natural forests and forests plantations are largely owned by the public, that is government and villages. Rural MSEs in furniture business are required to comply with formal institutions when publicly-owned and privately-owned forests as their source of timber. However, the procedure for regulations compliance may be difficult in publicly-owned forests more than privately-owned forests.

Business enterprises in rural areas of developing economies are prone to a deficiency of favourable economic, political, and legal institutions (Vaillant and Lafuente, 2007). The promotion of rural entrepreneurship is linked to the existence of entrepreneurship nurturing institutions in rural areas. Naude (2008) claims that the desired performance of MSEs for the economy may be realised without the nurturing institutions in place, but the sustainability of such an outcome is linked to the existence of the 'right' institutions. Therefore, institutions are important to rural MSEs in the creation of customer value; and, the sustainability of their value creation activities.

#### *4.2.2 Empirical review*

It is acknowledged that MSEs play an important role in the stimulation of socio-economic outcomes in economies. The desired outcomes are not produced by MSEs alone because MSE 'settings' play a vital role (Naude, 2008; Muller and Korsgaard, 2018); institutions may differ according to the context. The desired performance of MSEs requires the alignment of entrepreneurship-fostering

institutions with the settings and industries in which the MSEs operate (Dorado and Ventresca, 2013). At the institutional level, studies show that the activities of MSEs are influenced by legislation, regulations, policies, government strategies (Chawla *et al.*, 2010; Talebi and Ghavamipour, 2012; Patel and Chavda, 2013), corruption (Naqvi, 2011), and the existence of basic amenities such as energy, transport, telecommunication services, and information technologies (Vaillant and Lafuente, 2007; Lee and Phan, 2008; Patel and Chavda, 2013). Chapter 3 and different authors including Keizer *et al.* (2002), Chawla *et al.* (2010), Calvo and Garcia (2010) and Cant and Wiid (2013) specify that the value creation activities of enterprises are not only influenced by institutions, but also firm-specific factors, including the quality and quantity of human resources, technological resources, financial resources, business locations, and social capital affects such activities. MSE activities are also influenced by industry-related factors. These activities are associated with competitors, suppliers, and customers (Talebi and Ghavamipour, 2012; Keizer *et al.*, 2002). While I recognise that firm-level influences and industry-level influences are related to the value creation activities of MSEs, they also point out that favourable forces at MSE-level and industry-level are insufficient if institutions are not in support of such forces. The focus of Chapter 3 is on MSE-level and industry-level influences, this chapter is limited to the institution-level influences on the value creation activities of rural MSEs.

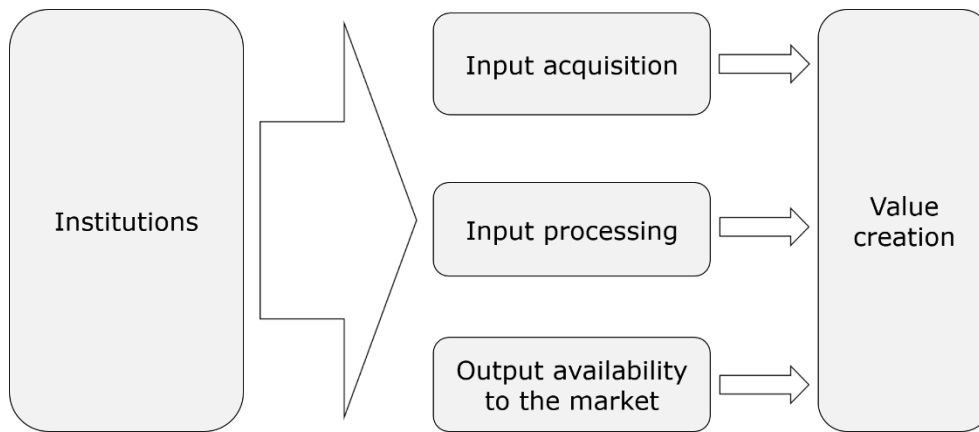
Value creation encompasses more than the involvement of businesses in the series of value-adding activities. It requires enterprises to create governing institutions between themselves and other actors in their value systems (Normann and Ramirez, 1993). Among others, this can be achieved through strategies and business logics. As a result, value creation activities may be influenced by institutions or such activities may affect institutions. However, this research focuses on the influence of institutions on value creation activities in rural enterprises.

Rayner (2006) discusses the interrelationships between the various constraints in the business environment that occur at various levels. The challenge is how to find the right restraints that influence business entities. In this regard, I claim that the institutional perspective on the value creation activities of rural MSEs is deemed proper if rural enterprises are not problematic in themselves. Research

on MSE practices through institutional lenses in one industry may place MSEs in other industries in unfavourable situations (Rayner, 2006). To be more specific, this study's outcomes may require institutional improvements to improve the activities of timber-related industries. An improvement of timber-related institutions may be unfavourable to other forest-related industries such as beekeeping. This dilemma is related to the unbalanced approach of using institutions to address the differing concerns of MSEs. The sustainable use of forest resources requires a holistic approach to resource governance. Hence, a broad analysis of institutional concerns on rural MSE activities in the timber-related industry is one of the foundations for the design of a balanced approach to resource management between sectors and sub-sectors.

Kaplinsky and Morris (2001) show that institutions govern the inter-relationships between business enterprises in a specific supply chain. The supply-chain actors comprise of suppliers, manufacturers, and customers who are engaged in the exchange of products, as well as information (Lambert and Cooper, 2000). The supply-chain in wood furniture manufacturing consists of forestry, sawmills, furniture manufacturers, buyers, consumers, and recyclers. As one of the tiers of such a supply chain, furniture manufacturing involves design, production, marketing, logistics and consumption activities. Specifically, the value-adding activities in the furniture manufacturing are purchasing, transport, design, production, marketing, distribution, and retailing. Abonyi (2006) indicates that wood furniture manufacturing MSEs in developing economies exhibit underperformance in the compliance of the required standards. The 'standards' requirement on the quality of wood furniture such as design standards are still being developed by the Tanzanian Bureau of Standards. For this reason, I do not include the 'design' aspect of the value creation activities in this study, but focus on analysing the influence of institutions on the value creation activities of rural MSEs. MSEs resources are used to carryout business activities Porter (1985). Value-creation activities consume the resources of rural MSEs. The core activities of MSEs include the acquisition of input, the processing of input, and making output available to the market. Therefore, value creation activities of businesses are prone to the influence of institutions. This study investigates value creation activities and regulatory institutions as indicated in Figure 4.1.

**Figure 4.1: Research model**



#### *4.2.3 Forest categories*

Forests are described differently. The types of forest ownership and the nature of forests set two categories of forests. According to the type of forest ownership, the URT (2002) stipulates 4 groups of forests. These are, national forest reserves, community forest reserves, village forest reserves and private forests. This study classifies types of forest ownership as publicly-owned forests and privately-owned forests. The publicly-owned forests include forests which are owned by the government, local community and villages while the privately-owned forests refer to the forests which are owned by individual households or private organisations. I argue that the institutional requirements for publicly-owned forests differ from the institutional requirements for privately-owned forests. Therefore, the institutional influence on the value creation activities is expected to differ between rural enterprises that use timber from privately-owned forests and publicly-owned forests. With respect to the nature of forests, there are two groups, natural forests and forest plantations. Natural forests refer to 'forests with natural species and ecological processes and for which there has been continuity of ecological processes over a very long period. The time of continuity is more than 200 years, but this may not be relevant for all types of forests' (food and agriculture organisation (FAO, 2004). A plantation is 'a forest of not less than five hectares which has been planted and is developed and managed by human agency' (URT,

2002). I argue that the institutional requirements for the use of natural forests differ from the institutional needs that relate to exploitation of forest plantations. Therefore, the institutional influence on the value creation activities is expected to be different between rural MSEs that use timber from the natural forests and MSEs that use plantations.

### ***4.3 Research methodology***

The methodological aspects of the research are presented in this section of the chapter, covering the study area, units of inquiry, research design, sampling technique, data collection methods, and data analysis technique.

#### ***4.3.1 The research design***

The Mvomero district as the study area has an abundance of forests that offer various opportunities for rural enterprises that use forest resources, including rural MSEs that exploit forests for making furniture. In the study location, natural forests and forest plantations are available as sources of timber. Such forests are either publicly or privately owned. This qualitative study employs a descriptive case study design, with the nature of the forests and types of forest ownership forming the foundation for categorising cases. This foundation provides the conditions for the inclusion of cases in this research. Such conditions set the basis for different findings between study cases (Yin, 2009). Chapter 2 indicate the study area has 54 MSEs. By using a purposeful sampling technique, a total of 14 individual cases are engaged in this holistic multiple case research design. Each MSE is considered as an individual case. Study includes MSEs of varying size, age, formalisation status, management and commitment. Age, size and formalisation status are explained in Chapter 3, the management of the businesses refers to the form of individual form of entrepreneurship that is used in MSEs i.e. MSEs can be owner-managed or manager managed. The commitment refers to a number of months an enterprise is engaged in furniture businesses.

Figure 4.2 indicates 12 cases that are classified into four categories based on the nature of the forest and type of forest ownership. 2 rural MSEs that are not near 'natural forests and forest plantations' nor 'publicly-owned forests and privately-owned forests' are also included in the research but not shown in Figure 4.2. As



in Chapter 3, these cases are included to capture similarities in multiple cases that are attributed by the nature of forests and types of forests' ownership. The involvement of these rural MSEs is expected to provide an enriched perspective on the influence of institutions in the value creation activities of rural MSEs. Hence, there are 5 categories that indicate the nature and ownership of forests in the vicinities of rural MSEs.

Out of 30 MSEs which were involved in study of the reasons of value creation ability in rural MSEs, 14 MSEs only were involved in the study of influence of institutions on value creation activities. These 14 MSEs (cases) are located near 'natural forests and forest plantations' nor 'publicly-owned forests and privately-owned forests'. They use hardwood timber from publicly-owned forests but do not have access to timber suppliers who comply with regulations. Value-creation activities of MSEs are affected by the way input have been acquired. Other 16 MSEs were not involved in this study because they are not located near 'natural forests and forest plantations' nor 'publicly-owned forests and privately-owned forests'. These 16 MSEs have access to buy hardwood and softwood timber from regulation-compliant suppliers. Value-creation activities are not affected by the way raw materials (timber) have been acquired in MSEs.

**Figure 4.2: Categories of study cases based on the nature and types of forests**

		Type of forests' ownership	
		<i>Public-owned forests</i>	<i>Private-owned forests</i>
The nature of forests	<i>Natural forests</i>	6 cases	1 case
	<i>Forests plantations</i>	4 cases	1 case

Source: Research findings (2019).

The first category has 6 cases. Businesses that are in this category are located near publicly-owned natural forests. The second category has 4 cases. Enterprises that are in this category are located near publicly-owned forest plantations. The third category consists of 1 case; it is an enterprise that is located in an area with privately-owned natural forests. The fourth category has 1 case; it is the business situated in a location near privately-owned forest plantations. The fifth category has 2 cases; these MSEs are in locations where there are no publicly-owned forests nor privately-owned forests, and neither access to natural forests nor forest plantations. These 2 MSEs use hardwood timber but they do not have access to suppliers of hardwood who comply with regulations.

#### 4.3.2 Data collection and analysis

Primary and secondary data are used in this study. Primary data is collected through interviews and discussions. The data collection methods consist of 8

interviews and 6 discussions. Secondary data is gathered through a documentary review. The guidelines for harvesting forest resources were developed by TFS (2015) and this is the leading document used in the study. After transcribing the collected data, NVivo software was used for coding. An analysis of each group of cases is conducted. Furthermore, researchers employ the interpretative analysis technique to investigate the influence of institutions on the value creation activities of rural MSEs. After explaining the methodology of the study, the next section of the chapter presents the research findings.

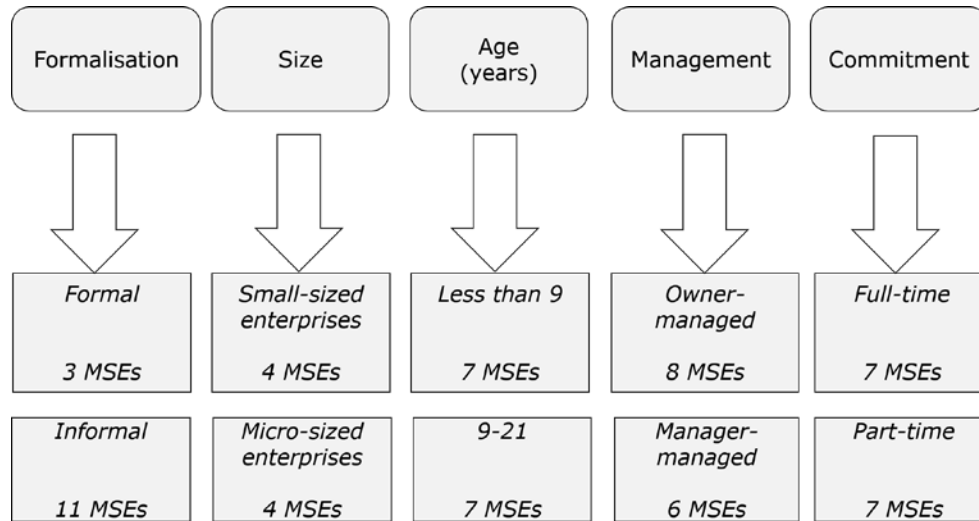
#### **4.4 Findings**

This section presents descriptions of rural MSEs in light of aspects such as age, size, formalisation status, management, commitment, products and markets. Findings regarding the influence of institutions on value creation activities are then presented.

##### *4.4.1 Description of rural MSEs*

Rural MSEs are described by their characteristics such as age, size and formalisation. The description also includes 'individual form of entrepreneurship' and 'level of commitment' of rural MSEs. Figure 4.3 indicates the summary of descriptions of the rural MSEs.

**Figure 4.3: Characteristics of rural MSEs**



Source: Research findings (2019).

Regarding the age of rural MSEs, the study shows 3 rural MSEs are less than 4 years old, and 11 rural MSEs are from 4 to more than 20 years. Therefore, this study includes rural MSEs with a wide range of ages. 10 rural MSEs include between 2 and 4 furniture manufacturers. 4 rural MSEs have at least 5 furniture manufacturers. Therefore, this study includes 10 micro businesses and 4 small businesses. In terms of the formalisation of the enterprises, the findings indicate that 3 MSEs are registered with the regulatory authorities – including the local government authority (district office) and tax revenue authority (Tanzania Revenue Authority). 11 businesses are not registered with regulatory authorities. Therefore, this study includes more informal rural MSEs than formal ones. Findings indicate that 8 enterprises are managed by the owners while 6 are not managed by the owners. The study indicates that 7 rural MSEs are committed full-time to wood furniture manufacturing; while 7 rural MSEs are not committed full-time. Therefore, this study involves rural MSEs that are engaged in furniture-manufacturing throughout the year, and MSEs that are seasonally engaged for an average period of three months. The next part of findings outlines product and markets of the enterprises. Rural businesses manufacture furniture for bedrooms, kitchens, living rooms, dining rooms, and offices (specifically: beds, doors, door

panels, tables, chairs, stools, wardrobes and cupboards). The enterprises serve organisations and individual customers. Organisational customers include schools and hotels; and such buyers are located in both rural and urban areas. MSEs usually serve rural rather than urban markets. The rural market is mostly seasonal.

#### *4.4.2 Institutions and value creation activities*

The objective of this chapter is to analyse the influence of institutions on the value creation activities of rural MSEs. It includes value creation activities that involve input acquisition, input processing, and output availability to the market. The study includes five value creation activities (input purchasing, input transportation, production, output distribution and output transportation). By 'input' I refer 'timber' which is a key raw material of the enterprises while manufactured furniture items are referred to as the 'output'.

Findings show that institutional concerns linked to value creation activities are exhibited in the compliance of enterprises with regulations, the level of regulation enforcement, knowledge of the regulations possessed rural enterprises, regulatory costs, and regulations complexities are institutional aspects that influence the value creation activities of such MSEs. The next part of the findings further articulates these institutional aspects. Regulations compliance involves the conformity of enterprises with regulations in the activities of input purchases and transportation; production; and output distribution and transportation. Findings show varied levels of regulations compliance that affect value creation activities. There are fully-compliant rural MSEs, partially-compliant MSEs, and non-compliant MSEs. Fewer businesses conform with the required regulations while most of the businesses exhibit less conformity. Regulations enforcement refers to the level of enactment of the government actors towards regulations which guides the activities of input purchasing and transportation; production; and, output distribution and transportation. findings show a varied level of regulation enforcement by government actors in rural areas. Active and passive levels of regulation enforcement exist. Some of the enterprises are situated in locations where strict regulation enforcement exists – while others are in locations where regulations are passively enforced. Regulation knowledge refers to the level of

MSEs' knowledge regarding regulations which guide the activities of input purchasing and transportation, production, and output distribution and transportation. As shown by the findings, many MSEs have little knowledge of such regulations and only a few have a good level of knowledge of such regulations. However, most of the enterprises have little or no knowledge of regulations on input acquisition, production, and output distribution. The regulations complexities refer to the perceptions within enterprises of the input acquisition regulations. Some of the MSEs perceive compliance with regulations as difficult because of bureaucratic procedures. Enterprises incur various costs that are linked to the activities of input purchasing and transportation, production, and, output distribution and transportation. Regulatory costs include the costs of regulation compliance and costs related to a lack of regulation compliance. The costs that are linked to enterprise formalisation including business registration, the attainment of licenses, permits and transit passes are among the costs of regulation compliance. Penalties and fines are costs connected to a lack of regulation compliance. The value creation activities of rural MSEs are influenced by these regulation-related costs. Having presented the institutional aspects which are of influence to value creation activities of business enterprises, the next part of the findings presents the influence of institutions on value creation activities in the categories of study cases.

#### *4.4.3 Influence of institutions on value creation activities in the categories of cases*

As described in the previous sections, this study includes 5 categories of cases. This part of the findings presents the institutional influences on value creation activities of enterprises in the various categories of study cases. It presents regulatory concerns which affect various activities. The compliance, knowledge, enforcement, complexities and costs that are linked to regulations are presented in light of 3 sets of business activities which are input acquisition, input processing and output availability to the market. However, this explanation is provided in terms of quotes from respondents – rural businesses. More specifically, institutional aspects in each category of cases are outlined in the following part of the findings. With regard to regulation compliance, the study shows that enterprises in category 1 and 3, are not complying with regulations. Businesses

in category 2 have partial compliance while MSEs which in category 4 and 5 tend to comply with such regulations. Table 4.2 indicate quotes which relate to regulations compliance.

**Table 4.2: Influence of institutions on value creation activities in each category of cases**

Forests category	Regulations compliance
Publicly-owned natural forests (Category 1)	'...we are in a location which is surrounded by natural forests that are conserved by the government. Besides, we do not have a government permit or even machines for cutting trees and processing logs. But the villagers know that we are making wood-related products. Therefore, local loggers sell timbers to us...' (INPUT ACQUISITION)
Publicly-owned forests plantations (Category 2)	<p>'...as for now we are buying hardwood timber from different loggers. Such timber may be legally or illegally obtained by loggers, but we never go further to find out more about that. We mostly use hardwood from natural forests, but we do not have a permit to harvest such timber...' (INPUT ACQUISITION)</p> <p>'... At the moment we are only selling to buyers in the Madizini area. We would like to sell in Morogoro town, or in Dar es Salaam, but since we do not have necessary documents we cannot sell outside of this area. There are several controls we must pass if we are to transport our products from here.' (MAKING OUTPUT AVAILABLE TO THE MARKET)</p>
Privately-owned natural forests (Category 4)	'...currently, the buyer finds and pays for the hired truck from here. So he/she will find the transport that suits the size of the furniture to be transported...' (MAKING OUTPUT AVAILABLE TO THE MARKET)
Neither publicly-owned nor Privately-owned natural forests and	'...as you know, this area has no timber. Therefore, the customer buys timber for the item they want made, or the customer may collect timber in small quantities until enough is found for the furniture to be made...' (INPUT ACQUISITION)

forests plantations (Category 5)	
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Source: Research findings (2019).

Concerning the knowledge of regulations, the enterprises in category 1 and 3 have insufficient regulations knowledge which guides all value creation activities. However, other businesses which are in these categories do not have such knowledge. On the other hand, category 4 and 5 have MSEs which possess good levels of knowledge. However, while some businesses in category 2 do have a good level of knowledge of regulations other enterprises in the same category appears to be poorly informed with respect to regulations. Table 4.3 has quotes which are linked to regulations knowledge.

**Table 4.3: Influence of institutions on value creation activities in each category of cases**

Forests category	Regulations knowledge
Publicly-owned natural forests (Category 1)	<p>‘...we tried to sell our furniture in Dar es Salaam ourselves but there is a lot of hassle and lot of money is lost – and this has demotivated us from doing it anymore... Let’s say we have 15 door-frames to sell to a customer in Dar es Salaam, we are required to hire a truck, but again need government documents which are difficult for us to get... selling to Dar es Salaam means paying 15,000Tshs in government charges at checkpoints...’ (MAKING OUTPUT AVAILABLE TO THE MARKET)</p> <p>‘...this area is famous for its natural hardwood species, but it is no longer easy to get such wood. It is difficult for us to even get wood from other tree species too. It is difficult to legally obtain wood for furniture. We know we should start with our village office to get the permit, but the process is unclear to us, especially because it is a new thing.’ (INPUT ACQUISITION)</p>
Publicly-owned forests plantations	‘...the price for one unit of wood is 14,000 TShs, but one unit contains two pieces of wood that are seven feet long. If we did the logging ourselves instead of buying, then one unit would be 7000



(Category 2)	<p>and transport costs would add 3000 – giving a total price per unit of 10,000TShs. However, there are difficulties legally transporting wood. Permits are needed for moving wood from the forest to the working area...' (INPUT ACQUISITION)</p> <p>'I have not yet started the registration process for this business, and I do not know how much it will cost to complete the process... I am aware it is one of the reasons why the furniture business is so complicated...' (INPUT PROCESSING)</p>
Neither publicly-owned nor Privately-owned natural forests and forests plantations (Category 5)	<p>'We can go to Morogoro town to buy timber from sellers who have permits to sell timber. However, we have noticed that the timber that we buy from Morogoro is very expensive, while most of us have little money – and so we only make furniture for the timber we can afford to buy...' (INPUT ACQUISITION)</p>

Source: Research findings (2019).

Regarding regulatory cost, the cost that are linked to value creation activities of businesses in category 1 and 4 tend to be high, but such costs tend to be low in enterprises in category 3 and 4. Some of the businesses in category 1 incur high costs while others in the same category incur low costs. Table 4.4 has quotes that relate to regulatory cost.

**Table 4.4: Influence of institutions on value creation activities in each category of cases**

Forests category	Regulatory cost
Publicly-owned natural forests (Category 1)	<p>Government officials wanted us to pay 500,000 TShs to release our doors, but we did not have that amount of money. So, we lost the doors (the doors could have been sold for about 300,000 each). That was the beginning of the end of the furniture-making business...' (INPUT PROCESSING AND MAKING OUTPUT AVAILABLE TO THE MARKET)</p>
Publicly-owned forests plantations	<p>'...there is a government office (teak forest office) in this area. The office sells teak trees. But the price that is often given to us is the same price that applies to teak importers from China, India, and other</p>

(Category 2)	<p>countries. Our capital cannot match their prices. With our limited capital of 300,000 or 500,000 TShs, it is almost impossible for us to buy teak trees from the government teak forests...' (INPUT ACQUISITION)</p> <p>'...we found it strange that when the forest resource officers came to our offices, they wanted us to pay a fine of 120,000TShillings per bed and 15,000T shillings per stool...' (INPUT PROCESSING AND MAKING OUTPUT AVAILABLE TO THE MARKET)</p>
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Source: Research findings (2019).

On the concern of regulations complexities, businesses which are in category 1, 2 and 5 perceive regulatory procedures that are linked to the input acquisition activity as difficult. Table 4.5 indicates a quote that is connected to regulations complexity.

**Table 4.5: Influence of institutions on value creation activities in each category of cases**

Forests category	Regulations complexity
Publicly-owned forests plantations (Category 2)	'...The complexities of the legal system apply to both natural forest timber and timber from planted trees. For example, if I plant a teak tree in my land then there are a lot of procedures, I have to follow to harvest that tree. If I do not follow those procedures, I will be in trouble. They might think I stole the tree from the government's teak forests...' (INPUT ACQUISITION)

Source: Research findings (2019).

Regarding regulation enforcement, enterprises in category 2, 4 and 5 experience active enforcement of regulations by government actors which affects their value creation activities. Passive enforcement occurs in the MSE in category 3. However, in category 1 some MSEs experience active enforcement of regulations while others experience passive enforcement. Table 4.6 has quotes that are linked to regulations enforcement.

**Table 4.6: Influence of institutions on value creation activities in each category of cases**

Forests category	Regulations enforcement
Publicly-owned natural forests (Category 1)	<p>'...in previous years, we were selling our furniture in Morogoro town, but after we were told by forest officers that we can no longer transport wood and wood products without permits, we now obtain permits to harvest timber for construction of various buildings. However, such timber is used for furniture making by targeting local customers only...' (MAKING OUTPUT AVAILABLE TO THE MARKET AND INPUT ACQUISITION)</p> <p>'...in the past three weeks (sometime in July 2014), I along with another carpenter, received an order for 13 doors from a buyer in Dar es Salaam, we made the doors but three days before transporting the doors, the government officials responsible for forest products came to the workshop and seized the doors because we did not have licenses and other necessary permits...' (INPUT PROCESSING AND MAKING OUTPUT AVAILABLE TO THE MARKET)</p>
Publicly-owned forests plantations (Category 2)	<p>'...in this area, we are not allowed to use wood from teak trees and rare hardwood tree species. If officers from the forest office find me selling a chair made from such a tree species, I will either pay 10,000 fine, or they will seize the chair...' (INPUT PROCESSING AND MAKING OUTPUT AVAILABLE TO THE MARKET)</p>
Privately-owned forests plantations (Category 3)	<p>'...we are using planted trees from the surrounding areas to obtain timber. But, I often buy timber. The price is 10,000 TShs per piece of timber (size: 1inchx12inchx12 feet). If I were to buy trees and process them into timber, the price of timber would be about 8000 TShs per piece for the same amount of timber. However, we do not buy trees and process logs because such activities consume time...' (INPUT ACQUISITION)</p>

Source: Research findings (2019).

These institutional aspects are summarised in Table 4.7.

**Table 4.7: Influence of institutions on the value creation activities in each category of cases**

	Category 1 (6 MSEs)	Category 2 (4 MSEs)	Category 3 (1 MSE)	Category 4 (1 MSE)	Category 5 (2 MSEs)
	Publicly-owned natural forests	Publicly-owned forests plantations	Privately-owned forests plantations	Privately-owned natural forests	Absence of forests
Regulations compliance	No compliance	Partial compliance	No compliance	Full compliance	Partial or full compliance
Regulations enforcement	Active and passive enforcement	Active enforcement	Passive enforcement	Active enforcement	Active enforcement
Regulations knowledge	No or insufficient knowledge	Good or insufficient knowledge	No or insufficient knowledge	Good knowledge	Good knowledge
Regulations complexities	Difficult procedures	Difficult procedures			Difficult procedures
Regulatory costs	High or low costs	High costs	Low costs	Low costs	High costs

Source: Research findings (2019).

The findings section of the chapter has provided a description of business enterprises as well as their products and markets. Institutional concerns which influence activities of input purchasing and transportation, production, output distribution and transportation are also presented. The next section discusses the findings.

#### **4.5 Discussion**

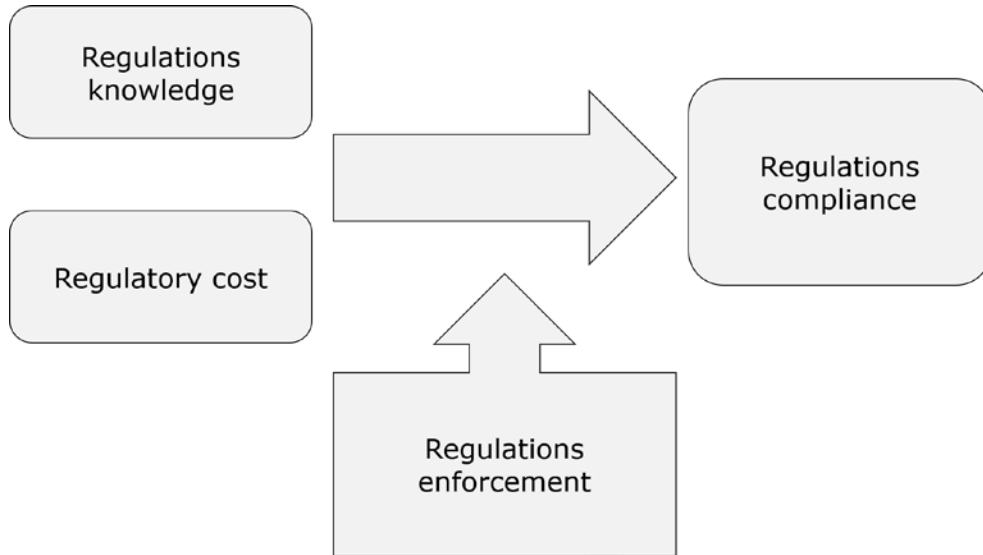
This section of the chapter discusses the research findings. The discussion is centred on the institutional concerns that influence the value creation activities of MSEs. The interrelationship of such concerns is also discussed. Further, it

provides the conclusion of the study, its implication and limitation as well as the areas for further studies.

#### *4.5.1 The interrelationship between aspects of regulations that are of influence in value creation activities*

There are interrelationships between aspects of regulation that are of influence in value creation activities. This connection is discussed with a focus on regulation compliance, regulation knowledge, regulation enforcement, and regulatory costs. This study shows that various regulations are required to be complied with by rural MSEs for value creation activities such as input acquisition, input processing, and making output available to the market. These include regulations linked to input purchasing and transportation, production, and output distribution and transportation. However, regulation compliance begins with knowledge of the regulations. Rural MSEs that have little or no knowledge repository of the regulations have less chance of complying with regulations. MSEs with a good knowledge of regulations are likely to comply with regulations. A good level of knowledge of regulations may increase the possibility of regulation compliance. However, such a relationship may be affected by the level of regulation enforcement. Rural businesses in locations that experience passive enforcement of regulations are less likely to comply with regulations, while enterprises situated in the areas with active enforcement of regulations are more likely to comply with regulations. Additionally, the level of regulation enforcement is linked to the risks and costs. While passive enforcement of regulations is related to a decrease in compliance costs, such a level of enforcement is also associated with the risk of MSEs losing input, output, and invested capital through fines and penalties that may arise from a lack of compliance. The active enforcement of regulations is related to an increase in compliance costs for the MSEs but with no risks. The interrelationship between compliance, knowledge, costs, and regulation enforcement is shown in Figure 4.4.

**Figure 4.4: The interrelationship between aspects of regulations that are of influence in value creation activities**



Source: Research findings (2019).

As shown in Figure 4.4, compliance with regulations is affected by knowledge of regulations and regulatory costs. However, such compliance depends on the level of regulation enforcement by government institutions. The study suggests that an increased level of enforcement may push rural MSEs to seek regulation knowledge and incur regulatory costs, and thus increase MSE compliance.

#### *4.5.2 Conclusion and study implication*

Government institutions affect the activities of rural MSEs in terms of input purchasing, input transportation, production, output distribution, and output transportation. Regulation compliance, enforcement, knowledge, and regulatory costs are linked to the value creation activities of rural MSEs. While value creation activities are affected by government regulations, most rural MSEs do not comply with such regulations. Therefore, value creation activities that involve the acquisition of input, input processing, and output availability are restrained by these formal institutions. The results suggest that if MSEs do not comply with regulations, institutions may have a negative effect on the value creation activities. The compliance of MSEs with regulations is related to the level of

enforcement by government authorities. Compliance is also linked to MSE knowledge of the regulations and this influences value creation activities. Regulatory cost is a visible element that is likely to push MSEs to comply with institutions or discontinue the business.

Wood furniture businesses which utilises forests are prone to formal institutions which facilitate their value-creation activities. This chapter implies that the institutions theory is appropriate for the analysis of the contextual influences i.e. formal institutions (government regulations) in the analysis of value-creation activities in rural MSEs. This research implies that MSEs performance in value creation (and value capture as a consequence) is reliant on compliance with government regulations. It suggests that it is imperative for rural MSEs to conform with regulatory institutions if they are to survive and prosper in the wood furniture industry.

Formal institutions are amendable. Study imply that the compliance of MSEs with regulations may be improved through training MSEs on regulations knowledge i.e. regulatory requirements stipulated in 'The guidelines for harvesting forest resources' which were developed by TFS (2015). The training can be provided by government entities such as Tanzania forests services or other stakeholders. Similarly, the compliance of MSEs with regulations may be enhanced by reduction in regulatory costs which are attributed by bureaucratic procedures that are linked to the facilitation of regulations compliance. Adjustment in regulations to simplify procedures for regulations compliance (e.g. formalisation MSEs, obtaining business license and permits) is suggested, to stimulate the compliance.

The research in this chapter involved informal and micro MSEs more than formal MSEs. Based on MSEs characteristics, the research suggests that micro MSEs causes them to be informal because they are unable to afford cost of complying with regulations. Lack of financial resources to facilitate cost of regulations compliance causes them to remain informal. Similarly, study imply that informal MSEs causes MSEs to remain micro-sized. The informality suggests such MSEs are not complying with regulations. The informality limits the chances of rural MSEs to have access to resources such as financial resources example from micro finance institutions that could facilitate regulations compliance.

However, the compliance of rural MSEs with regulatory institutions need 'nurturing institutions' because the sustainable use of forests resources through entrepreneurship requires a collective approach that involves regulatory authorities, economic institutions, and political institutions. The findings of this study will be of interest to stakeholders such as the ministry of natural resources and tourism, Tanzania forests services (TFS), Tanzania forests research institute (TAFORI) and Tanzania association of foresters. Other actors include ministry of industry, trade and marketing, local government authorities, Tanzania revenue authority (TRA) and small industries development organisation. The study may be beneficial to policy-makers, lawmakers, development stakeholders, researchers – as well as rural MSEs. A research article which was published in *Africa Focus* was developed from this chapter.

#### *4.5.3 Limitation and areas for further studies*

It is important to acknowledge that not including informal institutions in this study is a limitation. This study includes five value creation activities which are fundamental to wood furniture manufacturing MSEs. Therefore, future studies may consider the integration of the social structures that are embedded in the informal systems of rural MSEs to provide an enhanced understanding of the influence of institutions in the value creation activities. Furthermore, future studies may assimilate more value creation activities to provide a richer understanding of the influence of institutions on value creation activities.



## **Chapter 5: Rural entrepreneurship and value creation in Tanzania: A business model perspective**

### ***5.1 Introduction, background and research problem***

This chapter analyses value creation through rural entrepreneurship by focusing on the business models and collective entrepreneurship forms of micro and small enterprises in Tanzania. It is anchored on bricolage theory (Baker and Nelson, 2005), and the business model canvas (Osterwalder and Pigneur, 2010). The chapter shows how rural enterprises through the existing business models create customer value, but I also show how the current situation prevents these firms to create a lot more value for customers. It specifies the environmental forces that influence the business models of rural enterprises. The potential of community-based organisations and team entrepreneurship as the collective entrepreneurship forms for value creation is unveiled. The chapter is divided into five sections: First, I define the research problem and objectives. Second, I provide an overview of the literature. Literature is stipulated in section 2, section 3 clarifies the methodology, and section 4 provides the research results. Section 5 presents the discussion, conclusion, and study implication.

In developing economies, about 25% of the rural workforce is employed in non-agricultural industries (Haggblade, Hazell and Reardon, 2010). Chapter 1, 3, 4 stipulate that rural workforces engage in rural entrepreneurship by exploiting the business opportunities that emanate from natural resources. Therefore, rural entrepreneurship is one of the non-agricultural initiatives that has the potential to elevate rural economies in developing countries. MSEs in rural areas are not performing well in developing countries. Among the reasons is that the market offerings of rural MSEs are not competitive. The competitiveness of rural MSEs is affected by the lack of suitable resources, including human resources, financial resources, and physical resources such as technology. In addition, their performance is influenced by the opportunities and problems that reside in industries as well as institutions. Environmental forces—including the market, competition, supply, intermediaries, and government regulation—are among the foundations in which opportunities or challenges are rooted. The business environment plays a vital role in the performance of the business enterprises in

rural areas (Nichter and Goldmark, 2009). Entrepreneurship development initiatives are needed in the rural areas of developing economies. The development of rural entrepreneurship has the potential to amplify the rural economy, and rural entrepreneurship may be developed by improving the performance of rural MSEs. Therefore, this area is worth the attention of many stakeholders, including academics. However, the performance of rural MSEs is manifested by the creation of competitive offerings or the competitiveness of rural MSEs in a particular industry. In this study, the performance of rural MSEs is confined to their potential to create customer value which is the foundation of their competitiveness. Business enterprises' performance may be improved through cost efficiency and/or provision of unique offerings (Porter, 1985; Pitelis, 2009). Thus, value creation by rural MSEs is related to the provision of offerings at low cost and/or provision of differentiated offerings in the market. There are different bases of value creation. These include the resources of the enterprise, specifically, human capital in combination with other resources (Bowman and Ambrosini, 2003), 'innovation; ... unit cost economies/returns to scale; firm infrastructure and strategy' (Pitelis, 2009: 14); and the business model (Amit and Zott, 2001; Chesbrough and Rosenbloom, 2002; Vanhaverbeke, 2017).

Chapter 3 and 4 stipulate challenges which influence value-creation activities of rural MSEs. The MSEs use owner-managed and manager-managed form of individual form of entrepreneurship governance. The current chapter focuses on MSE-level changes which have the potential to increase MSEs ability to respond to business challenges for the creation of customer value. This study is confined to the potential of enterprise-level changes that involve entrepreneurship governance and business logic. It analyses value creation through the business models of rural enterprises. In addition, it analyses value creation through the MSEs' collective entrepreneurship forms. Therefore, the primary objective of the research in this chapter is to analyse value creation through the business models and collective entrepreneurship forms of rural MSEs. To be more specific, this multistage study analyses value creation through the existing business models of rural MSEs that operate within the individual form of entrepreneurship. Then, it analyses environmental forces that influence the business models of rural MSEs that operate within the individual form of entrepreneurship. Further, it analyses

value creation potential through the collective entrepreneurship forms in the MSEs. The research questions of this chapter are; How do rural MSEs influence value creation through the existing business models that operate within the individual forms of entrepreneurship? How do environmental forces influence the existing business models of rural MSEs that operate within the individual form of entrepreneurship? And how do rural MSEs influence value creation through collective entrepreneurship forms?

## **5.2 Literature**

I selected bricolage theory to explain behaviours of business enterprises in rural Tanzania. The literature on value creation, business model, strategy, and business environment is provided as well in order to understand how MSEs in the wood furniture industry in the Mvomero district create value for their customers. Finally, the literature on governance through collective entrepreneurship is provided.

### *5.2.1 Entrepreneurial behaviours through bricolage approach*

Bricolage theory explain the entrepreneurial behaviour of businesses in the exploitation of business opportunities (Welter, Mauer, and Wuebker, 2016). It is a suitable approach in entrepreneurship as it enables a unique way of carrying-out entrepreneurial activities. Unlike traditional approaches of making entrepreneurial decisions (e.g. causation), entrepreneurial decisions are not pre-planned. Bricolage is a flexible approach that enables adjustments of entrepreneurial undertakings in response to changes in a business environment. 'Bricoleurs engage in a different activity entirely. They use resources on hand to solve the problem in a new way or combine existing resources to potentially unlock a new source of value. The combinations that result from bricolage may come from an individual actor or a collective group of actors' (Welter *et al.*, 2016: 8).

In explaining how business enterprises make entrepreneurial decisions, bricolage approach focuses on the business context to articulate business enterprises' behaviours (Baker and Nelson, 2005). Business context describes the business environment and categorises the favourable and unfavourable business

environments that enterprises encounter. In the bricolage approach, it is argued that a favourable business environment is an important condition for businesses to be engaged in entrepreneurial activities but it is not a necessary condition. Business challenges, which consist of business opportunities and business problems, are embedded in the business environment. These challenges are at the disposal of both resource-rich businesses and resource-constrained businesses. Therefore, the bricolage approach explains the behaviours of resource-constrained business enterprises in dealing with their business challenges in a specific business setting. Entrepreneurial behaviour is viewed through actions of an enterprise in a particular context. With an assumption of resource scarcity in a particular setting, bricolage approach suggests that actions of enterprises are geared towards 'making do by applying combinations of resources at hand to new problems and opportunities' (Baker and Nelson, 2005: 333). The bricolage approach requires business enterprises to exploit business opportunities by using the available resources. The attainment of the maximum contribution of the available resources to business enterprises relies on the possession and application of suitable means to blend the available resources appropriately. It is essential for business enterprises to reconfigure themselves in order to establish a suitable mix of resources for the exploitation of business opportunities or tackling of business problems in a resource-constrained environment. Bricolage is a learning approach that involves the testing of alternative combinations of resources in response to business challenges (Baker and Nelson, 2005; Senyard, Baker, and Steffens, 2010). Bricolage is shown when studies are conducted through trialling of possible combinations (Welter *et al.*, 2016). The bricolage approach is appropriate for businesses with progress aspirations but very limited resources. In this regard, decisions about rural MSEs' practices can be shaped through the bricolage approach. Enterprises are required to utilise available resources with unique configurations to respond to business challenges. In this study, bricolage approach is relevant for resource-constrained MSEs that may capitalise on the available resources to tackle value-creation challenges which reside in the rural context.

The bricolage approach emphasises that rural MSEs' decisions are determined after a thorough analysis of the resources at their disposals. The approach

advocates that both resource-rich and resource-constrained MSEs qualify to be engaged in entrepreneurial activities to utilise their business opportunities and/or tackle their business problems. For the reason that most rural MSEs in the manufacturing industries have insufficient resources such as machines and financial resources, the bricolage approach is suitable, as it is applicable to enterprises that intend to tackle their business challenges regardless of resource insufficiency. Through unique configurations, business enterprises have the potential to maximise the contribution of the available resources in order to attain the desired ends. By using business models, businesses can create value through the effective utilisation of what is available to them (Chesbrough and Rosenbloom, 2002) which occur within a particular form of entrepreneurship governance. Hence, customer value creation may be attained by resource-constrained MSEs in rural areas through the development of the appropriate configuration and by implementing structures such as business models and collective entrepreneurship forms.

#### *5.2.2 Value creation, business models, and collective entrepreneurship*

Before embarking on value creation, it is vital to provide the meaning of the term 'value'. In explaining the meaning of value, Bowman and Ambrosini (2003) provided two kinds of 'value': 'use value' and 'exchange value'. Use value is the perceived satisfaction of the customer with the market offering. On the other hand, the exchange value refers to the financial gains to the business enterprise that are achieved after transacting the use value in a particular market. Created value denotes the creation of 'new use value'. Value is created by human resources in combination with physical resources as well as other resources available to the business. Physical resources contribute to the value of the particular product but do not create new use value. The creation of new use value is related to the competence and capabilities of human resources in creating and utilizing intangible resources and business systems (Bowman and Ambrosini, 2003). Hitt *et al.* (2011) described value creation by comparing the obtained benefits with the cost of obtaining such benefits, where the attained benefits could be monetary, individual, or social. The next part of the literature enunciates the sources of value to enrich the conversation about value creation.

As Amit and Zott (2001) indicated, there is no single theory in the existing literature of entrepreneurship and strategic management that can articulate all sources of value creation. Sources of value creation include novelty, efficiency, complementarities and lock-in (Amit and Zott, 2001), and appropriateness (Lepak *et al.*, 2007). Although different industries have different sources of value, the sources of value are manifested by 'cost reduction to customers, increase in time efficiency, solving customer problems, increasing the attractiveness of market offerings, provision of new functionalities and increasing emotional value' (Vanhaverbeke, 2017: 53). Hitt *et al.* (2011) explained that value is created through identification and exploitation of opportunities to create competitive advantage. Value is created for individuals, business enterprises, and members of society. In addition to value creation, Lepak *et al.* (2007) and Lieberman *et al.* (2018) clarified the value capture aspect while considering stakeholders such as owners, users, employees, local communities and nations at large. This research has been confined to the aspect of value creation by focusing on the customers of the business enterprises.

In explaining how value is created, Amit and Zott (2001) emphasised the exploitation of business opportunities through business models of business enterprises. The current chapter focuses on value creation through the business models and collective entrepreneurship forms of business enterprises. Therefore, the next part of the literature concentrates on the business model. Business models are used to implement business enterprises' ideas. The same business idea will have different outcomes if different business models are used to pursue that idea (Chesbrough, 2010). According to Teece (2010: 173), 'a business model articulates the logic and provides data and other evidence that demonstrates how a business creates and delivers value to customers. It also outlines the architecture of revenues, cost and profits associated with the business enterprise delivering that value'. The business model approach is suitable when businesses seek to create a new need or fulfil the unmet need for existing customers; or serve existing customers in a better way (Osterwalder and Pigneur, 2010); adapt to new knowledge (Chesbrough, 2010); respond to business challenges (McGrath, 2010); strengthen competitive position in terms of value creation and value

capture (Shafer *et al.*, 2005; Teece, 2010; Priem *et al.* 2018); and serve new customers (Thomson and McMillan, 2010).

Osterwalder and Pigneur (2010) clarify on the need for a new business model in a business entity when the existing business model is not working, or when it needs to adjust in response to changes in the business environment. The desire for extension/development of the business through the incorporation of new goods justifies the need for a new business model. The changing of an existing business model in response to anticipated changes in the business environment also necessitates new business models. The reasons behind the change in business models are termed by Osterwalder and Pigneur (2010) as reactive, adaptive, expansive, and respectively proactive. The decrease in the value captured in the firm and a decreased market share in a particular industry (Chesbrough, 2010), as well as changes in customer preferences (McGrath, 2010) are among the indicators signifying the need for a new business model. After an analysis of business challenges that exist in a business environment, a new business model – which assimilates business model elements in view of such challenges – is developed, experimented, and adapted (Osterwalder and Pigneur, 2010). Business models involve the ongoing analysis of the business practices for attaining a specific end (Mason and Spring, 2011).

Business model design is achieved through mapping its elements to establish their interrelationships and evaluate potential configurations for achieving a desired end (Chesbrough, 2010). The business model canvas is one of the platforms that articulate the business model's elements. It is a mapping tool that articulates a 'shared language for describing, visualising, assessing, and changing business model' (Osterwalder and Pigneur, 2010: 12) and includes nine elements: 'customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships and cost structure' (Osterwalder and Pigneur, 2010: 16–17). These interrelated elements describe the way value is created and captured by a particular business enterprise. These nine elements explain four key aspects of the business enterprise: market segments, market offerings, infrastructure, and monetary feasibility (Osterwalder and Pigneur, 2010).

Description of these elements is adopted and adapted from the work by Osterwalder and Pigneur (2010) as follows: customer segments refers to different groups of customers that require distinct offerings from the business to meet their needs (market segments can be mass markets, segmented markets, niche market, and diversified markets). Value proposition is the bundle of attributes offered to a particular customer group to cater to their needs (aspects of created value include the creation of a new need, performance, customisation, effectiveness, design, price, brand, cost reduction, risk reduction, accessibility, and convenience). Channels consist of means of communication and ways of offering the product to customers (direct and indirect channels exist). Customer relationships involve the establishment of ties with customers for the purpose of keeping them or obtaining more customers (such ties may be personal or not, and customer assistance and co-creation are examples of ways of building and maintaining relationships between a business and its customers). Revenue stream consists of sources of revenue generation and means of setting product prices. Revenue may be obtained from customers through one-time payment (transaction-based) or repeated payment (recurring). There are fixed and flexible price approaches. List price, feature-based price, volume-based price, and customer-based price are examples of a fixed pricing approach. Auctions, negotiations, and market-based price are examples of a flexible pricing method. Key resources refer to intangible assets, tangible assets, money, and expertise that are accessed and utilised by the business in the creation and delivery of value. Key activities are undertaking that are central to the business in the attainment of a desired end. An example is production activity in manufacturing business entities. Key partnerships involve the establishment of collaborations for cost and risk reduction, as well as access to strategic resources and activities to achieve certain goals/objectives. Collaborations may be between competing and non-competing business entities. Cost structure refers to the standpoint of the business as linked to cost of operations. Businesses can decide to focus on cost efficiency or value maximisation. While there are various fixed and variable cost in a business, cost-related advantages emanating from economies of scale and economies of scope are included as attributes of the cost structure. These nine elements of the business model answer these key questions: who is served by the



business; what is served; how they are served; and what is the monetary gain to the business.

The study of the business model can be enriched when it incorporates business strategy as there is a relationship between business model and business strategy. Chapter 1 specifies that strategy entails the choice of a course of action by the business in order to attain a specific outcome (Shafer *et al.*, 2005), specifically, competitive advantage. Hence, the competitive advantage of the firm is the focus of the low-cost strategy for standard offerings or differentiated offerings at a premium price (Porter, 1985) or a combination of the two (Pitelis, 2009). The link between strategy and business model is explained differently. The first explanation is that business models are used to analyse business strategies. In this case, business models are used to question different strategic alternatives or the objectives of business enterprises. Since strategic analysis is an ongoing process, the analysis of such alternatives by the use of business models is an ongoing process as well (Magretta, 2002; Shafer *et al.*, 2005; Vanhaverbeke, 2017). The second explanation is that businesses use business models to formulate business strategies so as to attain a competitive advantage in their particular industry (Chesbrough, 2010; Chesbrough and Rosenbloom, 2002). Further, scholars including Casadesus-Masanell and Ricart (2011) have emphasised that business strategies are reflected by business models to create a sustainable competitive advantage. Therefore, for the purpose of strategy formulation, evaluation, or reflection, business enterprises are required to align business strategies with business models in order to develop the competitive advantages in different industries. After providing an explanation of value creation, the business model, and the relationship between the business model and the strategy, it is imperative to explain the relationship between collective entrepreneurship, business models, and value creation. The next part of the literature section provides explanations of collective entrepreneurship, business models, and value creation.

In order to implement business ideas, business enterprises are required to operate professionally.

According to Sandu (2019), professionalisation entails a change of business from informal to formal enterprise for its survival or growth through the assimilation of a certain business knowledge. Among others, it consists of specification of the professionalisation purpose, the management team, structures and systems as well as strategic direction. Professionalisation is relevant when businesses are required to respond to challenges (opportunities or problems) which are linked to business environment. Collective entrepreneurship as a form of entrepreneurship is one of the ways of improving the professionalisation of business enterprises. While entrepreneurship form is 'concerned with the practice of making collective decisions' (Chhotray and Stoker, 2009: 214) in the business enterprise, collective entrepreneurship entails the entrepreneurial activities of individual business enterprises that operate in formalised groups, where such groups employ a specific governance structure in order to attain specific goals in a collective manner (Cook and Plunket, 2006). MSEs in developing economies are characterised by the individual form of entrepreneurship consisting of owner-managed enterprises or manager-managed enterprises (Gedajlovic *et al.*, 2004). Chapter 3 and 4 indicate similar results in Tanzania. Through individual forms of enterprise, business decisions are confined more to the values, norms, and beliefs of the owners and managers. Hence, the contribution of other human resources to the business enterprises is limited due to lack of incentives and legitimacy norms. In this regard, among other concerns, the performance of business enterprises is limited by skills and expertise insufficiencies. When the existing forms of entrepreneurship constrain the performance of business enterprises, the professionalisation of such enterprises may require different approaches. Governance-related challenges require governance-related solutions (Chhotray and Stoker, 2009). This implies that rural MSEs are needed to consider new forms of enterprising in order to create value for their customers. In addition, the change in the form of enterprising may permit business enterprises to address different challenges that originate from the business environment, including competition, market, supply, and regulatory requirements. Rural MSEs require a collective effort to tackle business challenges collectively, thus collective entrepreneurship approaches have the potential to nurture business enterprises in rural areas through their professionalisation (Chen *et al.*, 2006; Peredo and Chrisman, 2006). The professionalisation of businesses through the collective governance of

entrepreneurship may permit the establishment of the management structures and systems for their survival or growth aspirations (Sandu, 2019). Different forms that foster collective entrepreneurship include: community-based organisations, cooperatives (Chen *et al.*, 2006; Cook and Plunket, 2006), team entrepreneurship (Cooney, 2005), and business associations. These forms of enterprising are allied with member-based entrepreneurship or team-based entrepreneurship.

Therefore, individual forms of rural entrepreneurship limit the professionalisation of MSEs in the rural areas of developing economies. The lack of professionalisation limit the possibilities of value creation in rural MSEs. The collective approach to entrepreneurship is one of the mechanisms that may confront the challenges of the individual forms of rural entrepreneurship. Through collective entrepreneurship, it is possible for rural MSEs to acquire financial and physical resources and to share business skills as well as business risks (Cooney, 2005). Additionally, the collective form of governing businesses may contribute to cost minimisation or enhance value creation ability of enterprises to various stakeholders including customers. Hence, a collective form of entrepreneurship can be one of the means of achieving the desired ends of business enterprises.

Notable studies such as Osterwalder and Pigneur (2010) have emphasised that business models are executed through business structures and business systems established by a particular business. Amit and Zott (2001) stressed the use of business models and business governance for value creation. In order to deepen the discussion on the business model and the organisational forms of business enterprises, it is imperative to narrate different views on such core aspects of the study. The next part of the literature articulates scholars' arguments on business models and organisational designs. Teece (2017) suggested that the organisational forms play a vital role in various aspects of business enterprises, including business models. The concerns of the business enterprise—which involve employees' commitment, motivations, and communication (Teece, 2007) such as business culture, incentive mechanisms, and the structure of information flow (Teece, 2017)—influence the business models and value creation activities of the business. In addition, such organisational elements are vital to business

enterprises that intend to respond to the forces in the business environment. In order to enrich such concern, Provan and Kenis (2008) stipulated that there is a demand for studies that concentrate on collective businesses by focusing on how involved enterprises are organised, of which facets such as legitimacy, productivity, and adaptability of the business enterprises are influenced by the organisational forms. At the strategy level, Bock *et al.* (2012) specified that business structures appear to have a link with the elasticity of the business strategy. Hence, enterprise structures are essential for the flexibility of the enterprise strategy. A change in strategy requires changes in the business model (Doz and Kosonen, 2010), but the change in strategy also requires changes in business structures (Bock *et al.*, 2012) implying that changes in the business model need changes in the business structures.

The relationship between business model and organisational forms was stressed by Saebi, Lien, and Foss (2016) when they suggested that businesses seek a fit between business models and organisational design in order to respond to the business challenges in the business environment. Foss and Saebi (2017) added that business models and organisational forms are the apparent concerns when the business entity considers a change in its focus—for example, in becoming a service-oriented business. Finally, in relation to value creation, Mezger (2014) stated that businesses are required to incur changes in their value-creation practices as well as organisational forms, specifically business structures. As articulated in the literature, it is visible that business models operate in a particular organisational or structural framework to influence different aspects of business enterprises. The organisational form of enterprising—individual or collective—provides a framework for the operations of the business models so as to influence business enterprises' value-creation activities. In this regard, value creation is related to the business model and structure of the business enterprise. Therefore, consideration of the business models and the collective forms of entrepreneurship among rural MSEs is worthwhile in order to create customer value professionally.

Dottore (2009) indicated the need for empirical studies more than theory-based studies that involve the business models of businesses enterprises. In addition,

Dottore (2009) specified that the distance between business model researchers and practitioners of business models is noticeable thus calling for more empirical studies of business models. Therefore, with this study I intend to reduce this research gap. For the purpose of MSEs' response to environmental challenges, this study focuses on business models and collective form of enterprising in studying the creation of value for customers. The collective entrepreneurship form implicates the new form of enterprising while business models encompass the new ways of carrying out entrepreneurial activities. Both means are alternatives to rural enterprises that permits new ways of combining the existing resources to achieve the desired ends differently. This study complements the existing studies by providing empirical research on how resource-constrained rural MSEs contemplate the strategic focus to address environmental forces through business models and collective forms of enterprising in the developing economy. It is restrained to two forms of collective entrepreneurship that have the potential to address the challenges of the existing business models: community-based organisation and team entrepreneurship. Community-based organisation also termed 'community-based entrepreneurship' (CBE), entails the establishment and management of the business enterprise by individual entrepreneurs who are 'acting corporately' in order to attain a joint objective (Peredo and Chrisman, 2006). In this study, CBO entails the creation and management of the business enterprise by two or more individual business enterprises that are 'acting corporately' in order to attain certain objectives jointly. Team entrepreneurship entails the joining of two or more individual entrepreneurs to establish a business enterprise for the purpose of attaining substantial monetary benefits. Team entrepreneurship requires extensive contribution from individual entrepreneurs through active involvement in order to improve performance of the business enterprise (Cooney, 2005).

The business environment is included in the analysis because business models and collective forms of enterprising are influenced by environmental forces (Gedajlovic *et al.*, 2004). Previous chapters stipulate that the business environment consists of varied forces such as customers, suppliers, competition, regulations, technology, and socioeconomic and economic conditions. While environmental forces can be opportunities or threats to the business, they can be

the strong or weak points of the business entity as well. Different environmental forces result in different business models (Saebi, 2014). Therefore, environmental forces are analysed to determine opportunities, strengths, threats, and weaknesses that influence business models. Additionally, this chapter includes characteristics of rural MSEs such as age, size, type of individual form of entrepreneurship, and formalisation status.

### **5.3 Research methodology**

This section describes the study area, research design, units of inquiry, sample, data collection method, and data analysis techniques. Chapter 2 specifies that this qualitative study was carried out in the rural areas of Tanzania, specifically, Mvomero district in Morogoro region. The qualitative approach within entrepreneurship field is meant to create a subjective knowledge in unclear research areas through the incorporation of participants' familiarity of the studied phenomenon with their setting (Dana and Dana, 2005; Elliott and Timulak, 2005). In this study, the participating units are established rural MSEs engaged in the wood furniture manufacturing industry. For theory replication or development rather than statistical generalisation (Eisenhardt, 1989), this descriptive study used a sample size of 30 enterprises drawn from a population of 54 enterprises. To involve participating units that are considered suitable in the provision of information in the research (Elliott and Timulak, 2005; Berg, 2007), this study used a purposive sampling technique. The study included young and old rural MSEs which are formal or informal that employed the individual form of entrepreneurship. A saturation criterion was used in the study; it permitted the addition of participating units in the research to the point of achieving data redundancy (Elliott and Timulak, 2005; Bowen, 2008). Primary data were used, and data were gathered through open-ended method with a focus on the perceptions of research participants. The perception-based method relies on open-ended data gathering approaches that permit variation in responses between research participants- and subjectivity in determining priorities of participants regarding the studied phenomenon (Smith *et al.*, 2000). In this study, perception-based data were collected to obtain preferences of rural MSEs regarding ways of conducting entrepreneurial activities differently to uplift their performances in the creation of customer value. Unstructured face-to-face

interviews were used to get data. The absence of pre-established responses in such interviews is found suitable in research to nurture the flexibility of participants in the collection of data (Richards, 2015).

After data collection, the researcher transcribed the data by using Otranscribe software that included relevant information as guided by research questions. Further, the researcher utilised the interpretative data analysis approach to analyse MSEs' perceptions of value creation through the business models and collective entrepreneurship forms. Interpretation technique permits the conversion of data into research results through various stages (Miles *et al.*, 1994; Elliott and Timulak, 2005). In this regard, data were coded by using the first- and second-cycle coding methods. Chapter 2 stipulate that coding is a way of interpreting data through the creation of sets that explain the particular aspects of the study (Saldana, 2013). Further Saldana (2013) indicated that attribute and descriptive coding methods are among the first-cycle coding methods while pattern coding is the second-cycle coding method. Attribute coding was used to code the features of rural MSEs, such as age, size, type of individual form of entrepreneurship, and formalisation status. With the guidance of the elements of the business model canvas, descriptive coding was used to code the activities of rural MSEs. Regarding the second-cycle coding method, the pattern coding method was used to establish common features of the existing business models of rural MSEs. In addition, it was used to find the common and less common environmental forces that influenced the existing business models of rural MSEs. As in line with ethical concerns by DiCicco and Crabtree (2006) and Flick (2009), I communicated well research purpose to participants, respected their voluntary engagement in research, sought permission for recorded interviews, safeguarded their anonymity, and communicated that the research is beneficial to participants.

#### **5.4 Findings**

The research findings are presented in this section. First, the descriptive features of rural MSEs are provided, including their products and characteristics. Second, the rural MSEs' existing business models are described in light of the elements of the business model, namely, customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key

partnerships, and cost structure. This part of results is meant to show how rural MSEs influence value creation through the existing business models by using individual forms of entrepreneurship. Third, the environmental drivers influencing the existing business models of rural MSEs are elucidated. Further, the proposed forms of collective entrepreneurship are clarified to show how they influence value creation in rural MSEs.

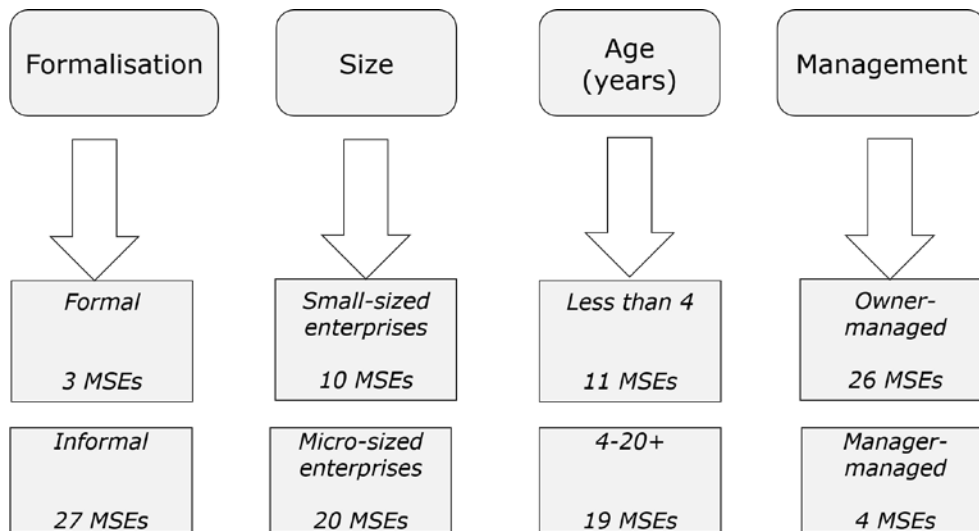
#### *5.4.1 The products and characteristics of rural MSEs*

Rural MSEs produce varieties of wood furniture including beds, chairs, stools, tables, school desks, cupboards, and wardrobes, as well as wooden doors and windows. However, beds and doors are the products produced most regularly by rural MSEs. These manufactured furniture items are suitable for the kitchen, bedroom, dining room, and living room.

The MSEs' size, age, type of individual form of entrepreneurship, and formalisation status constitute the characteristics of rural MSEs. Appendix 3.3 indicates the characteristics of rural MSEs. Rural MSEs vary in terms of size, age, form of individual entrepreneurship, and formalisation as follows: This study includes micro business enterprises more than small business enterprises as it has involved 20 MSEs (66.7%) that are micro enterprises and 10 MSEs (33.3%) which are small enterprises. There are more informal businesses (27 MSEs, 90%) than formal ones (3 MSEs, 10%). Regarding the type of individual form of entrepreneurship in rural MSEs, there were more owner-managed business enterprises (26 MSEs, 86.7%) than business enterprises that were not owner-managed (4 MSEs, 13.3%). However, there were variations regarding the age of involved rural MSEs. 11 MSEs (36.7%) had less than four years since their establishment, while 19 MSEs (63.3%) had at least 4 years up to more than 20 years of age. The summary of characteristics of rural MSEs is indicated in Figure 5.1.



**Figure 5.1: Characteristics of rural MSEs**



Source: Research findings (2019).

#### 5.4.2 The elements of existing business models of rural MSEs and value creation

This part of the research results illuminate the existing business models of rural MSEs. The elements of the existing business models are established after mapping the activities of rural MSEs onto the business model canvas as illustrated by Osterwalder and Pigneur (2010).

##### 5.4.2.1 Customer segments

The customers of rural MSEs are individual households and organisational buyers such as schools and hotels located in rural and urban areas. The following are quotes from representatives of MSEs;

'This is a village area, and as you know in villages there are no employed people. Villagers are dependent on agriculture. So, they come here to buy furniture after getting money from their agricultural output.'  
(CUSTOMERS ARE VILLAGERS)

'We have been selling our products around the village but the market is very seasonal. We mostly sell furniture in July August and September months. The market becomes

unpredictable beyond such months. Besides, customers buy in small quantity example if someone may request for one door only or 2 windows only...'  
(VILLAGERS, INDIVIDUAL BUYERS)

'So far, we are still selling to villagers. We often make and sell beds and doors and windows. We also make school chairs and desks but very rarely. In short, customers we depend on are villagers.'  
(ORGANISATIONAL BUYERS IN VILLAGES)

'Most of customers are the travellers. Our business is in a location that is very close to a very important road in a country. This is highway. But most customers are those who are going to Morogoro and Dar es Salaam...'  
(BUYERS IN URBAN AREAS)

'I have been selling my furniture to customers who are located in Morogoro town few times. As we are speaking now, I have an order to make 16 doors from a customer who is in Morogoro town.'  
(BUYERS IN URBAN AREAS)

'We believe that we can change the way we work with those furniture making SMEs which are in urban areas such as Morogoro town or Dar es Salaam. Because at the moment we are selling semi-finished products to other furniture enterprises which are located in Dar Es Salaam and Morogoro.' (BUYERS IN URBAN AREAS)

Source: Research findings (2019).

#### 5.4.2.2 Channels

Product distribution channels and product promotion channels are clarified herein. Both direct and indirect distribution channels are used by rural MSEs. The MSEs or customers are engaged in the direct distribution of products for most of the rural MSEs. In a few MSEs, middlemen are used in distributing MSEs' products to the market, hence reducing customers' risks of purchasing the products. Regarding the promotion of MSEs' offerings, rural MSEs use displays to promote their offerings to customers. Most MSEs' products are displayed on owned or rented business premises. Middlemen display the products of other MSEs.

Customers' word of mouth is another way of promoting MSEs' products. The following are quotes from representatives of MSEs;

'...due to the fact that our business is located very far from most customers (about 150km to Morogoro town and 300km to Dar es Salaam), middlemen are very useful to us. It is not easy for us to get customers who are located in urban areas. We only get access to these customers through middlemen...' (INDIRECT DISTRIBUTION)

'We are depending on customers who are in this area. But also, we transport our products to customers who are in Dar es Salaam.' (DIRECT DISTRIBUTION)

'When we make a bed and have it displayed in front of our workshop, it gets sold very quickly. You did not find displayed beds now because we made about 6 beds and there were all bought at once by people who works in mining...' (DISPLAYS)

'I have rented this place for my workshop. This is a very good location where customers can see what we make. But the space is so small, I mean there is no enough working area for us. However, we will stay here for now.' (DISPLAYS)

'In our village and nearby villages, there are special 'market days'. It is every Sunday in Pemba village and every Tuesday in Magunga village. Often, we use such markets to sell our products.' (PROMOTION)

'Most of customers come to us directly because their friends or relatives have recommended to them to use us in making their furniture. Some customers are using our business to make furniture for their friends and families who are located outside this village.' (WORD OF MOUTH)

Source: Research findings (2019).

#### 5.4.2.3 Customer relationships

The involvement of customers in product design is a way of building the relationship between MSEs and their customers; it permits the customization of the produced products. The creation of informal ties with customers is another

way of managing the relationship between rural MSEs and customers. There are rural MSEs that serve the segmented market by using the make-to-order (MTO) production approach, which allows the customisation of MSEs' products. There are also MSEs that serve the unsegmented market by using the make-to-stock (MTS) production approach, which permits the availability of ready-made products to customers. For most MSEs, there are no formal records of the served customers. The following are quotes from representatives of MSEs;

'Sometimes I get orders from customers, so I take advance payments (any amount that customer has at that moment, can be example 20,000) and make the furniture as per customer specifications...' (CO-CREATION)

'...our father has a lot of friends and people he knows who are also among our customers.' (TIES)

'Sometimes we get orders to supply furniture such as beds. Example we supplied beds at schools such as Ilonga and Kigurunyembe. We also supplied beds to a hospital.'  
(MAKE-TO-ORDER, ORGANISATIONAL BUYERS IN URBAN AREAS)

'Currently we sell our beds within the village on order-based basis. Customer makes an order for a bed and make advance payments we then make a bed. So, having financial capital and machines is what we need. We do not have capital to buy raw materials so as to make and sell furniture in desired market.' (MAKE-TO-ORDER, VILLAGE)

'Customers are be people from here or they may come from different areas. Currently, I make and sell ready-made beds. So far, those who have seen the beds I display here, are the ones who buys them. They may come from this place or other places. I cannot be certain with where they are from.' (MAKE-TO-STOCK)

'In most cases, it is by 'luck' that customers buy our products because we make our beds in the same way as compared to what is in the market. So, customers can even not notice that our beds are different from others.'  
(STANDARD PRODUCTS FOR UNSEGMENTED MARKET)

Source: Research findings (2019).

#### 5.4.2.4 Revenue streams

Revenue of MSEs are obtained through a transaction cost method that involves the set price for the number of products sold. The products of rural MSEs are sold using fixed or negotiated prices. The price of MSEs' products is determined by various factors, including the product size, design, raw materials, and quantity. In addition, due to a lack of capital, most rural MSEs require customers to make all or part of the payment in advance. The following are quotes from representatives of MSEs;

'...the cost of making a bed includes 11 pieces of wood @6000 is 66,000. The cost of bed parts (4 bed legs is 30,000) ie, grooving charges, transport charges, government levy charges during transporting them to machines in Madizini area. Other cost includes polish is 5,000, angle is 6,000, labour charge/day/worker is 15,000 up to 20,000/bed, machine usage charges for smoothing is 1,000/bed. Total cost for one bed is 123,000 to 128,000...' 'Normally, selling price is 250,000 per bed in the village, and if we should lower it down as per our negotiations with a customer, then the price can go down to 200,000 or 210,000.'

(NEGOTIATION)

'...when we say 'lack of market' is a problem, it means our businesses are currently fighting for the 'same' customers. For instance, a standard 5/6 feet-bed that should be sold at a normal price of 150,000; you may find some businesses selling it for 170,000 or 200,000 while other carpenters can sell it for 120,000 and up to 100,000. I am talking about selling that particular bed in the same area, with the same type of wood used to make it and at the same design. When some carpenters get urgent need for money let's say paying for their house rent, they lower prices for their beds.'

(NEGOTIATION)

'We are about 30 entrepreneurs; we are all working in one area. But we have different workshops which are closely together but every carpenter works by himself...' '...If a customer come, he/she is free to go to any workshop but also he/she can walk to any bed that is displayed in this area. The owner of such bed or any one of us may sell that bed to him/her because we all know price of a bed is 150,000.'

(FIXED PRICE)

'We make furniture of different features for different customers. Wood we use and styles of our furniture causes different selling prices.'  
(PRICE DETERMINANTS)

'We have different types of customers. There are customers who are only looking at the price of a bed but others are attentive to the raw materials used and even its design. Talking about the cost for one bed, it depends with the materials that will be used for that bed but also depends on the size and design of the bed. We have beds that are made with total cost of 95,000 and others cost 100,000. Other beds are even made at a total cost of 130,000.'  
(PRICE DETERMINANTS)

We get wood through customers and I mean that they make an order by providing advance payment. At the moment, our office is not having enough capital to do things differently.'  
(ADVANCE PAYMENT)

We mostly make 'ordered furniture' because we do not have enough capital to make ready-made furniture for sale. So, if I get an order to make a bed a bed that uses 7 pieces of wood, I then take advance payment and buy such wood.'  
(ADVANCE PAYMENT)

Source: Research findings (2019).

#### 5.4.2.5 Key resources

Raw materials (hardwood timber) are the key resource to most rural MSEs. Such raw materials permit the production of durable products. Timber is obtained by MSEs in rural or urban areas. In few MSEs, customers are required to supply timber for the items to be produced. A few MSEs have mechanical furniture-making machines as their key resources. The machines influence productivity and the quality of the products. Such machines permit time efficiency in making the products available to customers. The following are quotes from representatives of MSEs;

'...this area is surrounded by trees from natural forests, I decided to be fully-engaged in furniture-making business by using hardwood that we have in this area.'  
(TIMBER)

'We see that furniture making SMEs in urban areas have an advantage of getting access to electricity and good woodworking machines, but it is difficult for them to get rare raw materials than we do (I mean hardwood which preferred by many customers).'

(TIMBER)

'...the type of furniture we sell are durable because they are made by using hardwood which is not available in other areas.' '...do not forget that customers want products from good hardwood which we have.' (TIMBER)

'Customers from Morogoro town are buying our products because of wood quality. At the moment, we are using wood from teak tree.'

(TIMBER)

'...as you know, this area has no timber. Therefore, the customer himself or herself buys timbers for the item he/she wants to make; or, he/she may collect such input in small quantities until he/she finds it enough for the furniture to be made...'

(TIMBER)

'...machines are owned by this church. In general, the workshop is operated by the priest of this parish but supervised by the manager.'

(MACHINES)

Source: Research findings (2019).

#### 5.4.2.6 Key activities

The key activity of most of the rural MSEs is furniture production. Products' parts or finished products are manufactured in rural or urban areas. A few MSEs are engaged in an additional activity, which involves timber acquisition through trees cutting and log processing. The following are quotes from representatives of MSEs;

'Our workshop has been existing for years, it has been producing furniture within the village for a long time. With the presence of our father as our trainer, we say that we

have acquired a lot of skills in making good furniture, our furniture designs are different. But of course, that is also because we have been making furniture for a long time.'

(PRODUCTION)

'...we are making beds, doors, sofa, cupboards and all types of furniture.'

(PRODUCTION)

'We make all types of furniture. But mostly sell beds. However, products with higher profit margins are doors and windows because customers often request more 3 or more doors/windows.'

(PRODUCTION)

'When middlemen get orders from customers in Dar es Salaam, example beds for a hotel, we produce semi-finished beds. And sell to them a price of 150,000 per bed.'

(PRODUCTION, SEMI-FINISHED)

'...timber is available within the village. We harvest forests ourselves. First, we ask for a permission to harvest from village office then we do the harvesting.'

(TIMBER ACQUISITION)

'...cost depend with type of wood, for soft wood, it is 10,000 per piece (1inch/12ft or 2inches/6ft). But for hardwood, the price is 15,000 to 20,000/piece. We own a chainsaw. Often, we hire some people to cut trees from our forest plantations.'

(TIMBER ACQUISITION)

Source: Research findings (2019).

#### 5.4.2.7 Key partnerships

Most rural MSEs do not have business partners. However, a few MSEs partner with middlemen to make their products available in urban areas. In addition, one of the rural MSEs partners with an MSE in an urban area in its furniture production activity, hence offering different product designs to the customers. The following are quotes from representatives of MSEs;

'...at some point, these middlemen are not helpful when they want to take part of our profit as their commission, and this is happening a lot. But all in all, they never forced us to sell our furniture through them. It is up to us to use them or not. We should not forget that these middlemen have connections with many people including transporters, so it is relatively cheaper for them to transport products than us.'

(MIDDLEMEN)



'Sometimes, we bring beds and doors to be sold in Dar es Salaam. There is an office in Dar es Salaam that we bring our products to. When they are sold, the owner of that office sends money to us. In most cases, we do not have knowledge of how much our products are sold for. That is one of the challenges we are face because a bed can be sold for 240,000.' (MIDDLEMEN)

'I do not have a workshop but I sell beds here. Normally, I make sure timber is transported to Morogoro town from here. There is a furniture business in Morogoro which makes my products. Beds are made there and then brought here to be sold.'

(A PARTNER)

Source: Research findings (2019).

#### 5.4.2.8 Cost structure

Most of the rural MSEs have not invested in fixed assets such as mechanical furniture-making machines. The variable cost incurred by such MSEs include machine usage charges, transportation cost, rent, and labour charges. For most MSEs, the unit cost of production is high because of low productivity that is linked to the low level of mechanisation. The following are quotes from representatives of MSEs;

'Doing furniture business in rural areas has a lot of difficulties. Giving an example of the activity of 'wood smoothing', our hand- manual- woodworking tools are difficult to work with in hardwood. I am telling you it is so difficult'. ...'.. we are so limited in our productivity and miss a lot of customers because we do not have capital to buy good machines. Our inability to produce many beds is pushing villagers to go to Madizini area to buy ready-made beds.' (INVESTMENT IN MACHINES)

'...the cost of making a bed include 6 pieces of wood (excluding wood for bed slat) @8000is48,000. Cost of bed parts (4 bed legs) is 12,000, grooving cost of bed legs is 6000, transport charges on bus for bed legs (return trip) is 6000, transport charges for logs on a bus is 2000, government levy charges is 2000, transport charges (from bus stop to the location with a processing machine is 4000, other cost include labor, varnish, wax etc. Total cost for one bed is about 100000. In this area, such be is sold at 130,000 up to 160,000. Processing of bed parts (bed legs) takes a lot of money because it

includes transport cost to rural towns.'  
(PROFIT)

'While total production cost/bed is 92,000 if I should make the bed at my workshop, beds that comes from Maskati village to this area are sold at 90,000 to 120,000/bed. Besides, it is difficult for me to have bed parts (bed legs) processed because I have to travel to go in Turiani to have them processed. But, carpenters in Maskati are not getting such kind of trouble because their businesses are located closer to the machines that makes bed legs for their beds. So, the main limitation that I face in making furniture is on machines. ...'the selling price/bed in this village is 100,000.'  
(LOW PROFIT)

'...in making one standard bed of 5/6ft, cost of labor is 10,000 /day. It takes 2 days to make a bed. Total labor cost is 20,000/bed. 7 ft wood size is used. 9 pieces of wood are used. It cost 8000 to buy 1 piece of wood. Cost of getting 4 bed legs is 15,000. Cost of wood smoothing is 5000, varnish is 8000, glue is 1500 and nails 1500. The total al cost of making a bed is 113,000. The profit is 37,000/bed when cost and sales calculations are made. But that will not be the actual profit because there are other expenses such as those cost related to electricity, rent and labor charge. I pay 15,000/per month as rent.'  
(LOW PROFIT)

'...the price of wood sized 12ft/1ft, for a bed is 7000/piece and wood size of 2ft/5ft for a door is 5000/piece. A door uses 3 pieces @7000is21,000 and a bed (5/6ft) uses 5 pieces @7000is35,000. Bed legs if bought are priced at 20000. The cost of a single bed can range from 60,000 to 75,000 up to 85,000 when using hardwood from natural forests. Other cost include cost of labor, varnish and transport'  
(LOW COST)

'We hire a 5tons' truck to transport our furniture to customers. The cost of hiring a truck is 250,000 per trip...' (TRANSPORT COST TO CUSTOMERS)

'So far, I have leased the land and I pay the owner 10,000/month...'  
(LAND LEASE)

'We use 150,000 to 160,000 to make a bed with a size of 5/6feet.'  
(HIGH COST)

'A standard bed uses 7 pieces of wood. It cost 120,000 to 130,000 to make it if softwood is used. It cost 180,000 to make it using hardwood. The cost of a bed increases up to 200,000 if a good designed bed is made by using hardwood...'  
(HIGH COST)

Source: Research findings (2019).

After unfolding the elements of business models of MSEs by focusing on the individual element for all business models, the next part of the section provides four existing business models that demonstrate the way different components of a particular business model are integrated.

#### *5.4.3 Existing business models of rural MSEs and value creation*

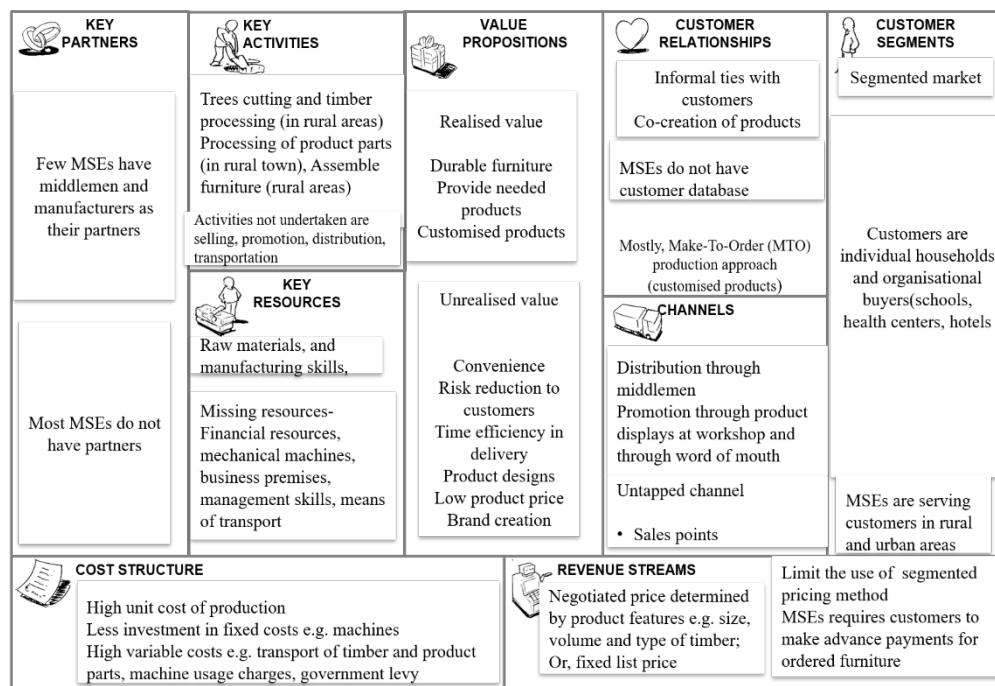
There are four existing business models which are categorised based on customer segments and key activities. These two business model elements are differentiators because have more influence on existing business models of rural MSEs and mostly affect other elements of business models. Business challenges that are of influence to the business models as specified as well. Realised and unrealised customer value is demonstrated in all business model canvases of the existing business models.

Regarding customers of MSEs, the business model involves the types of customers (individual or organisational) and their locations (rural areas and/or urban areas). As a consequence, segments affect channels (direct and indirect distribution) and partners; customer relationships (creation of ties and co-creation); and revenue (varying customer preferences on price determinants such as design, raw materials and quantity). As regard to key activities; the business model includes types of key activities of MSEs. Furniture production is the key activity in all MSEs. The location (rural areas and/or urban areas) of implementation of such activities is influenced by the need for resources (machines or raw materials). As a result, the location affects cost of furniture production for instance in transportation of input and output, and payment of machine usage charges. Figure 5.2-5.5 indicate business model canvases of four business models in rural MSEs.

#### 5.4.3.1 Existing business model 1 of rural MSEs

This is a business model for 16 MSEs, and these MSEs serve segmented customers who are in rural and urban areas. These customers are served by MSEs by the use of MTO production modality. Raw materials acquisition and furniture production are the key activities that take place in rural areas and/or rural towns. Making products available to customers, product performance and customisation are the realised value attributes in MSEs which are using this business model. This business model is meant to respond to business challenges namely, lack of machines and government regulations. Its business model canvas is depicted in Figure 5.2.

**Figure 5.2: Existing business model I for 16 rural MSEs**



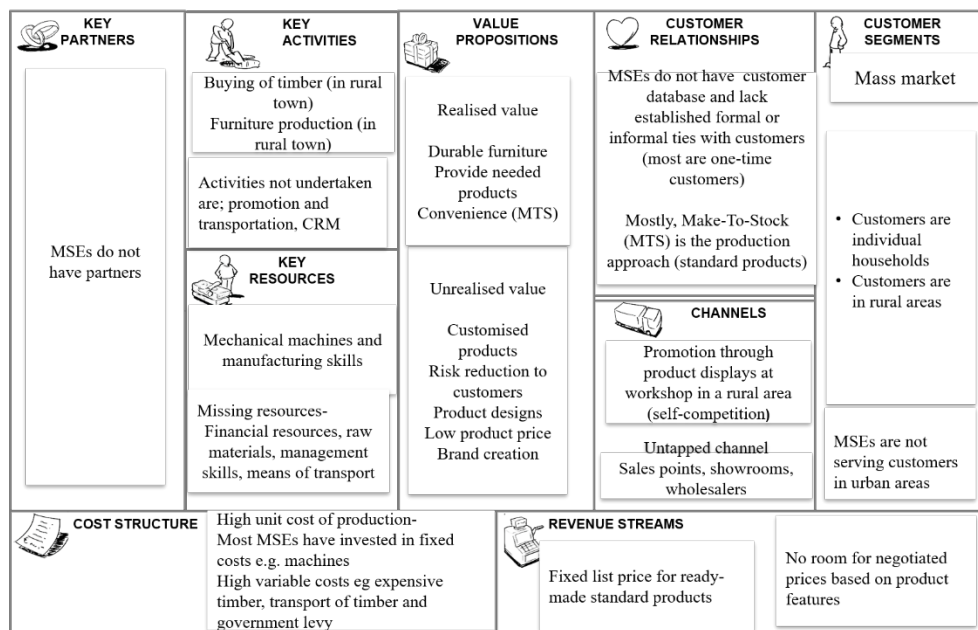
Source: Research findings (2019).

#### 5.4.3.2 Existing business model II of rural MSEs

This is a business model for 7 MSEs, and these MSEs serve mass market in rural areas through MTS production approach. Raw materials acquisition and furniture

production are the key activities which takes place in rural towns. Convenience, making products available to customers and product performance are the realised value attributes in MSEs that are using this business model. The business model is meant to respond to lack of suppliers of raw materials as its primary business challenge. Its business model canvas is depicted in Figure 5.3.

**Figure 5.3: Existing business model II for 7 rural MSEs**



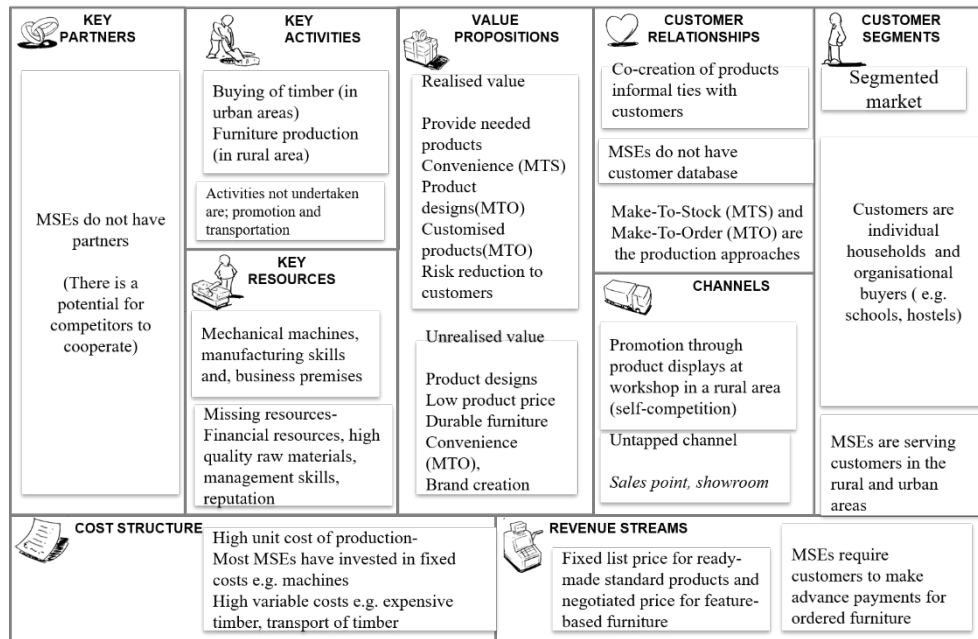
Source: Research findings (2019).

#### 5.4.3.3 Existing business model III of rural MSEs

This is a business model for 5 MSEs, and these MSEs serve the segmented market in rural and urban areas by using both MTO and MTS production approaches. Raw materials acquisition and furniture production are the key activities which takes place in urban areas and rural towns. Risk reduction to customers, product design, convenience, customisation and making products available to customers are the realised value attributes in MSEs which are using this business model. This

business model is meant to respond to the competition challenge. Its business model canvas is depicted in Figure 5.4.

**Figure 5.4: Existing business model III for 5 rural MSEs**

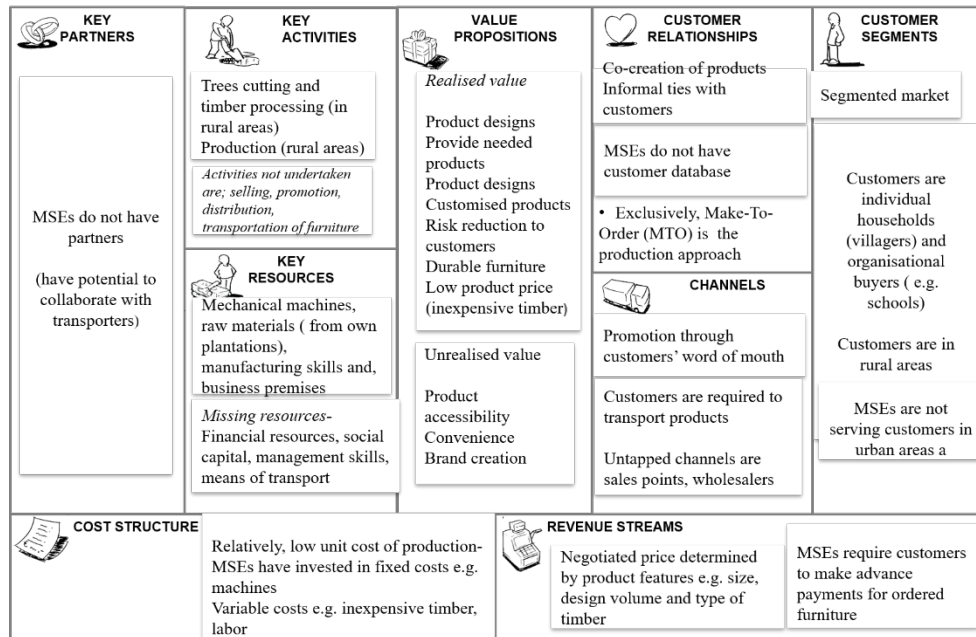


Source: Research findings (2019).

#### 5.4.3.4 Existing business model IV of rural MSEs

This is a business model for 2 MSEs, and these MSEs serve the segmented market in rural areas by using MTO production approach. Raw materials acquisition and furniture production are the key activities which takes place in rural areas. Low product price, risk reduction to customers, product design, product performance, customisation and making products available to customers are the realised value attributes in MSEs which are using this business model. This business model is meant to respond to the challenge of lack of customers. Its business model canvas is depicted in Figure 5.5.

**Figure 5.5: Existing business model IV for 2 rural MSEs**



Source: Research findings (2019).

To summarise, the value created through the existing business models of most rural MSEs that are using the individual forms of entrepreneurship involve furniture durability, product availability to customers, and product customisation. Thus, product performance, product accessibility, and customisation are the value creation attributes of most of the rural MSEs for their customers. Product designs and lower product price are additional values created by a few of the existing business models of rural MSEs. However, the existing business models of most rural MSEs cannot be considered as an optimal way of creating value for the customer, this suggests for the need of changes in MSEs in order to increase their value creation potential. Below I mention some of the major elements that should be considerably improved to increase the value creation potential of rural wood furniture manufacturers: time efficiency in product delivery, lower price through increased production efficiency, customer convenience and risk reduction for customers, lack of fashionable designs (creativity), poor finishing of the furniture, expensive timber and inaccessibility of fibreboard and other materials, inability to

reach (richer) customers in cities due to lack of transport facilities and access to retailers. Therefore, cost reduction for customers, product design, and product accessibility are the major problems in creating more value for customers in rural MSEs through the existing business models in the wood furniture business.

#### *5.4.4 The environmental forces that influence the existing business models of rural MSEs*

In this section, environmental forces that affect the business models of rural MSEs are provided. These forces are the sources of opportunities or areas of strengths that are responded by business models of some MSEs. On the other hand, the forces are the sources of threats or the weak- points that are reacted by business models of the enterprises. In addition, driving forces of different business models are clarified.

##### *5.4.4.1 The environmental forces that influence the existing business models of rural MSEs*

Research results indicate that, raw materials, wood working machine, manufacturing and management skills, financial resources, social capital, MSE reputation, MSE location, access to customers, competition, supply, regulations, middlemen and transportation are the forces which influence value creation through the business models and form of entrepreneurship. These forces are the sources of opportunities or areas of strengths that are responded by business models of some MSEs. On the other hand, the forces are the sources of threats or the weak- points that are responded by business models of other enterprises. These forces are shown in Table 5.1.



**Table 5.1: The environmental forces that influence the existing business models of rural MSEs**

Environmental force	Number of affected MSEs		Total number of MSEs
	Favourable condition	Barrier	
Raw materials	27 MSEs	3 MSEs	30
Machines	12 MSEs	18 MSEs	30
Manufacturing and management skills	2 MSEs	28 MSEs	30
Financial resources		30 MSEs	30
Social capital		2 MSEs	2
MSE reputation		8 MSEs	8
Location		10 MSEs	10
Access to customers	14 MSEs	16 MSEs	30
Competition		9 MSEs	9
Supply of wood	13 MSEs	17 MSEs	30
Regulations	13 MSEs	17 MSEs	30
Transportation		28 MSEs	28
Middlemen		9 MSEs	9

Source: Research Findings (2019).

From the research results, the common environmental forces, that is forces with an influence in all or most of business models of rural MSEs are raw materials, furniture-making machines, manufacturing and management skills, access to customers, financial resources, the supply of wood, transport services and government regulations. This suggests, for the purpose of creation of customer value, most business models of rural MSEs are required to pay more attention to these environmental forces as they create favourable business conditions that can be tapped or unfavourable business conditions that need to be responded through business models of the MSEs.

Less common environmental forces to all MSEs, that is forces which affects few business models of MSEs are competition, middlemen, social capital, MSE reputation, and MSE location. However, these forces only act as barriers that create unfavourable business conditions that may require to be responded

through business models of MSEs. This suggests, in order for MSEs to create value, few business models of rural MSEs are needed to be attentive to these environmental forces to react to threats and weaknesses which are associated by them. Further, results have shown that financial resource is a barrier to all business models of rural MSEs. As shown in the results, few forces create opportunities while all forces produce barriers to business models of MSEs. This suggests some forces creates opportunities to some MSEs while others or similar forces creates problems to other MSEs. In order for MSEs to create value to customers, all business models and entrepreneurship forms are required to focus on forces which offers more opportunities and strengths to some MSEs while respond to problems that are embedded in the forces to other MSEs.

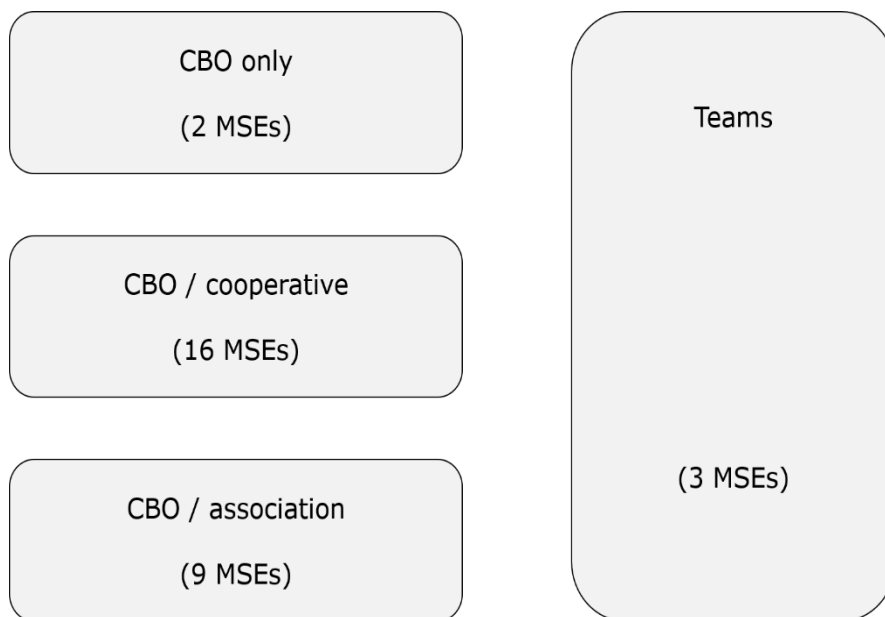
#### *5.4.4.2 The key driving forces that influence the existing business models of rural MSEs*

As stipulated in the earlier section of the results, few forces create opportunities that are exploited by business models of rural MSEs; while, all forces create barriers to all businesses. This indicates that existing business models are meant to tap opportunities that are brought by few forces in some MSEs while respond to problems that are brought by all forces in all MSEs. While a root problem which influences business model of a particular enterprise that creates other barriers is termed as a driving force/main barrier; a problem of influence in a business model of particular enterprise that is caused by an unfavorable business condition which is created by another barrier is designated as a subsequent barrier. There are driving forces and subsequent barriers to existing business models of rural MSEs. Subsequent barriers are transport services, middlemen, location, reputation and social capital, these are not driving forces in existing business models of MSEs but are influenced by the changes of driving forces of the business models. The driving forces in MSEs are raw materials, manufacturing and management skills, access to the market, competition, supply of wood, government regulations, and furniture-making machines. The study suggests that in order to create value to the customers, business models and entrepreneurship forms of MSEs are required to react on a driving force of each business model, such reaction is expected to affect the subsequent barriers. The summary of these driving environmental forces is presented in Appendix 5.1.

#### 5.4.5 The proposed forms of rural MSEs' governance

The results indicate that rural MSEs proposed different forms of collective entrepreneurship: the establishment of a community-based organisation, engagement of rural MSEs in team entrepreneurship, the establishment of business cooperatives, and formation of business associations. Figure 5.6 illustrates forms of collective entrepreneurship that were proposed by rural MSEs.

**Figure 5.6: The proposed forms of collective entrepreneurship**



Source: Research Findings (2019).

Most of these MSEs that were using individual forms of entrepreneurship proposed CBO as a suitable form of a collective entrepreneurship. The proposed forms of collective entrepreneurship considered in this study are community-based organisations and entrepreneurial teams because these are the basic forms of collective entrepreneurship that may be more suitable for rural MSEs (Chen *et al.*, 2006). The next section of the chapter articulates the proposed forms of collective entrepreneurship and link such forms to the elements of the existing business models which need to be improved for MSEs to create customer value. In comparison to enterprises which employ the individual form of entrepreneurship,

the additional value which may be created to customers through the proposed forms of collective entrepreneurship is highlighted as well. In summary, Table 5.2 provides a comparison of business models of rural MSEs between individual and collective forms of entrepreneurship.

**Table 5.2: Comparison of business model elements between individual and collective forms of entrepreneurship**

	Business model element	Form of entrepreneurship	
		Individual forms of entrepreneurship	Collective forms of entrepreneurship
		Owner-managed and Manager-managed MSEs	Community-based organisation and Team entrepreneurship
1	Customer segments	Mostly individual households in rural areas	Individual households and organisational buyers in rural and urban areas
		Mostly customers in rural areas	Customers in rural and urban areas
2	Channels	Mostly own channels	Own channels
			Partner channels
3	Customer relationship management	Social ties	Customer database
			Social ties
4	Revenues	Fixed list price	Fixed list price
			Segmented pricing
5	Key resources	Negotiated price	Negotiated price
		Raw materials in few MSEs	Raw materials
		Furniture-making machine in few MSEs	Furniture-making machine

		Manufacturing skills in few MSEs	Manufacturing and business management skills
		Business premises in few MSEs	Business premises
6	Key activities	Production	Production
		Sourcing of input	Sourcing of input e.g. trees cutting and timber stocking
			Customer relationship management
			Product promotion and distribution
7	Partners	Few MSEs are partnering with middlemen and manufacturers	Suppliers
			Manufacturers
			Distributors
			Transporters
8	Cost structure	Less investment in fixed assets High variable cost (Relatively high unit cost)	More investment in fixed assets Less variable cost (Relatively low unit cost)
9	Value proposition	Realised value Furniture durability, product availability to customers, and product customisation. <ul style="list-style-type: none"> <li>Product designs and lower product price for few MSEs.</li> </ul>	Potential value to be realised Furniture durability, product availability to customers, product customisation, time efficiency, lower product prices, customer convenience, risk reduction, cost reduction for customers, more product designs, and more accessible products
		Unrealised value Time efficiency, customer convenience, risk reduction to customers, cost reduction for customers, product price reduction, fashionable designs and product accessibility	

Source: Research findings (2019).

#### *5.4.5.1 Community-Based Organisation*

CBO as a collective form of entrepreneurship is potential to rural MSEs in accessing or building resources such as financial resources, human resources, raw materials, machines, and reputation. Similarly, this entrepreneurship form has the potential to tackle to environmental challenges that relates to regulations, competition, market and suppliers. The next section illustrates the link between environmental forces and value creation potential of MSEs that are within CBO as a collective form of entrepreneurship.

With the establishment of CBO as the governance form, it is possible for MSEs to qualify for acquisition of financial resources for the business from various sources. Financial resources may permit MSEs to invest in mechanical wood-furniture machines; and, manufacturing and management skills. Productivity and quality of products may be increased; more furniture designs are probable. MSEs may not have to incur transport cost to access mechanical furniture-making machine elsewhere. Therefore, ownership of such machines in MSEs locations may reduce unit cost of furniture production due to the decrease in variable cost that are associated with various cost such as transport cost and machine usage charges. Consequently, MSEs may be able to sell furniture at relatively low prices. The mechanical machine may increase time efficiency of MSEs as a result of increased productivity. In addition, MSEs may produce customised products by using make-to-order modality of furniture production for their customers.

Similarly, financial resources may enable MSEs to buy timber in large quantities. MSEs may have the reliable supply of high-quality timber, also the quantity advantage of obtaining timber may be reflected in the reduced price of timber. Among others, the decrease in the price of raw materials may reduce cost of production hence increases the possibility of furniture price reduction by the MSEs. Therefore, CBO form of entrepreneurship may permit MSEs to obtain resources such as financial resources, machines, human resources, and raw materials.

In addition, legally compliant business activities are possible when financial resources are invested in the formalisation of business and in getting business permit as well as business license. Compliance of MSEs with government regulations may increase access of customers who are in various locations without regulatory constraints thus reduce risks of product purchase to customers. The conformity with government regulations increases MSEs reliability in the provision of products to customers. The conformity increases timely availability of products to customers because of reliable supply of timber, timely transportation of furniture to customers.

The CBO form of entrepreneurship may be suitable for MSEs to overcome self-competition between MSEs in a particular workshop or in the local area. Also, rural MSEs may establish common values and standards which are useful in guiding their performances. For the reason that the reputation of one MSE means reputation of all MSEs in the CBO, the reputation of the CBO may be nurtured with the creation of CBO brand.

With the CBO, MSEs may access more customers to include both individual households and organisational buyers who are located in rural and urban areas. It is possible for MSEs to establish own channels or use partner channels in making their products available to various customers. MSEs can partner with retail outlets or owners of means of transport for the purpose of making their products available in distant locations such as urban areas.

Similarly, this form of entrepreneurship increases MSEs ability to establish and maintain customer records for the purpose of retaining them. Maintenance of close relationships with customers example through products repairs, fixing or assembling of the products are possible. Therefore, CBO form of enterprising may permit MSEs to internalize activities of distribution, promotion and customer relationship management along with other activities such as furniture production and raw materials stocking. Beside the variable cost, MSEs may invest in fixed cost which are related to modern mechanical machines thus reduce cost per each produced unit and increase profitability. MSEs may be able to use pricing methods such as segment pricing method or negotiated pricing method, and list price\_ for the ready-made standard products which involve the make-to-stock

modality of furniture manufacturing. In this regard, the establishment of a CBO increases the possibility of rural MSEs to have additional elements of value proposition such as low price of products due to reduced unit cost of production, more product designs which are more attractive to customers, risk reduction to customers, creation of own brand, customer convenience because of removal of pre-payment of products, timely availability of products to customers, and enhanced accessibility of products to various customers. Additionally, the CBO form of entrepreneurship has the potential to respond to environmental forces which affects business models of rural MSEs such as financial resources, skills, furniture-making machines, reputation, raw materials supply, regulations, competition, and access to customers.

#### *5.4.5.2 Team entrepreneurship*

Team entrepreneurship as a collective form of entrepreneurship is potential to rural MSEs in accessing or acquiring resources such as machines and raw materials. Similarly, this entrepreneurship form has the potential to tackle to environmental challenges that relates to regulations, competition, access to customers and suppliers. The next section explains the link between environmental forces and value creation potential of MSEs that are within team entrepreneurship as a collective form of governance. There are two approaches MSEs may be engaged in team entrepreneurship. Team entrepreneurship may involve complementary MSEs or competing MSEs.

The involvement of two or more complementary MSEs in a team to utilise possible advantages from each other is one of the approaches. For instance, one MSE in a local area which has a reliable source of raw materials that are obtained at relatively lower cost- but lacks mechanical wood-working machines; may form entrepreneurial teams with another MSE which own mechanical machines but lacks supply of raw materials. In this regard, their complementarity which increases access of modern machines and supply of raw materials to both MSEs, may increase productivity and quality of products and reduce unit cost of furniture due to reduction of variable cost such as transport cost, machine usage charges, lower cost of raw materials. With this form of enterprising, it is possible for MSEs to set relatively lower prices of their products, enhance the attractiveness of



products through production of different product designs, produce customised products and achieve timely delivery of products to customers. Formal entrepreneurship teams are encouraged as they reduce customers' risks in products purchase when MSEs comply with regulations. However, the commitment of MSE in team entrepreneurship is recommended if the target market is substantial to result the desired profitability level in MSEs.

The engagement of two or more competing MSEs in a team to utilise possible benefits from each other is another approach of team entrepreneurship. For instance, one MSE in a local area which is in a location where overfull demand exists but lacks resources, -may engage in entrepreneurial team with a competing MSE that has resource-advantage by becoming the distributor of such competitor. This may be the case when unit cost of production of furniture of the former MSE is high due to higher variable cost such as raw materials, transport and machines usage charges than later MSE. With this approach of team entrepreneurship, it is possible to increase access of products to various customers and convenience of customers through availability of ready-made products that are facilitated through make-to-stock approach production modality. Through team entrepreneurship, involved MSEs may capitalise on their advantages while minimising their disadvantages for the mutual gain.

Therefore, through CBOs and team entrepreneurship forms of collective entrepreneurship, rural MSEs may create additional values to customers: timely delivery of products to customers, low product price, customer convenience, risk reduction to customers, cost reduction for customers, more product designs, and more accessible products to serve rural and urban markets. This section of the chapter has articulated the proposed forms of entrepreneurship by concentrating on the way collective entrepreneurship forms may exploit the opportunities and strengths while tackling the threats or weaknesses which originate from the business environment through business models.

### ***5.5 Discussion, conclusion, and study implication***

It is the intention of this research to analyse the existing business models and governance forms of rural MSEs related to the creation of customer value.

Therefore, the elements of business models of rural MSEs were analysed. The value created for customers through the existing business models of rural MSEs was articulated. I also paid attention to the fact that a lot of potential value for customers is not created through these existing business models.

Environmental forces that are of influence in the business models and collective entrepreneurship forms of MSEs were analysed. Study stipulates that environmental forces affected all business models of enterprises but such forces were not driving forces to all business models. The forces that affected most MSEs (raw materials, furniture-making machines, manufacturing and management skills, access to customers, financial resources, the supply of wood, transport services and government regulations) were the driving forces in at least one business model of MSEs. The forces that affected few MSEs (competition, middlemen, social capital, MSE reputation, and MSE location) were not driving the existing business models of enterprises. However, this is not true to one environmental force: competition. Therefore, study imply that business models of rural MSEs should be attentive to regulations, access to customers, manufacturing and management skills, the supply of wood and competition because these environmental forces have an influence on other forces including transport, the use of middlemen and a business location. In addition, the financial resource as a driving force which affects all business models of MSEs suggests the need for the increase in access to finance in MSEs to respond to other driving forces as well as subsequent forces. In this regard, study suggest that resource-scarce MSEs in a rural area should consider new ways of combining existing resources which encompasses business models and collective forms of entrepreneurship in response to such value-creation challenges.

Two forms of collective entrepreneurship, specifically, community-based organisations and team entrepreneurship, were found to have the potential to address most of the value-creating limitations of the existing business models. The potential success of the proposed forms of enterprising relies on the abilities of the involved MSEs to utilise what is available so as to create value (Baker and Nelson, 2005) because the creation of value relies more on the human and other resources available to the MSEs (Bowman and Ambrosini, 2003). Study imply that the Tanzanian government and other stakeholders should support rural MSEs to

change their business models and entrepreneurship forms through training and increase their access financial resources (example through loans) to enhance MSEs' response to other value creation challenges.

In this chapter I focused on how customer value creation is influenced by rural MSEs through business models and collective form of enterprising. The potentials for nurturing customer value creation through new ways of conducting entrepreneurial activities is the indication that rural MSEs employs the bricolage approach in decision making. MSEs decisions are shaped through exploration of alternative means that focus on creation of new ways of combining resources through collective entrepreneurship and business models. The study suggests that bricolage approach of making decisions is vital to MSEs that are affected by contextual forces which creates favourable and unfavourable business conditions. Value creation ability of MSEs require their response to opportunities through new business models that operate within a collective form of governance- this is a shred of evidence that bricolage approach to decision making is applicable in rural MSEs of a developing country. Similarly, the perceptions from representatives of rural MSEs regarding the potential of business models to respond to business challenges and enhance value creation to customers, is another indication that business model approach is pertinent in entrepreneurial activities in rural areas of a developing country.

This chapter provides more insights into how business models and collective entrepreneurship forms may be valuable in amplifying the performance of rural MSEs in a developing country. Further, I have shown that rural development stakeholders may improve the performance of rural MSEs by considering collective forms of entrepreneurship while integrating market segments, market offerings, business infrastructure, and the financial feasibility of business enterprises, which are articulated in the business logics of rural MSEs. Therefore, this study offers some insights on how to improve the situation of rural MSEs by using business logic and entrepreneurship governance, and is consequently useful for managers and owners of these MSEs, researchers, and stakeholders who are interested in the economic and social well-being of rural people. These stakeholders include the government as well as local and international development partners.

The current study has a number of limitations. The research involves ongoing business enterprises in a rural area but excludes new business enterprises. However, business models exist in both ongoing and new business enterprises (Magretta, 2002). Future studies should include new business enterprises to give out a richer understanding of customer value creation through business models and entrepreneurship forms. The study is confined to the creation of value for customers; it does not involve value creation elements for other stakeholders, such as the enterprises' suppliers, and employees. Thus, future studies should include stakeholders other than customers. The study has a theoretical limitation; it focused on business model literature, bricolage theory and entrepreneurship governance that is important but may not be sufficient. Other theories including dynamic capabilities (Teece, 2007) should be incorporated in future studies because the change of ways of enterprising may be considered as a capability of the enterprise (Dottore, 2009). Additionally, the study focused on perceptions of enterprises' managers regarding their entrepreneurial activities. Covin and Lumpkin (2011) argued that entrepreneurial orientation of enterprises manifests in their actions. Future studies should include the behaviours of enterprises with a focus on entrepreneurial practices. Finally, this study is limited to wood furniture manufacturing MSEs. Hence, the business models, environmental forces, and created value may be relevant only to the studied industry. Further studies should incorporate other industries to obtain an enriched understanding of value creation through the business models and entrepreneurship forms of rural MSEs.

## **Chapter 6: Rural entrepreneurship in Tanzania: Adaptation to collective entrepreneurship and new business models**

### ***6.1 Introduction, background and research problem***

The success and sustainability of entrepreneurship development initiatives are among the important concerns of different stakeholders who are interested in the promotion of entrepreneurship development. Such concerns are also relevant to initiatives meant to promote entrepreneurship development in the rural areas of developing countries. Therefore, the freedom of engagement of the economic agents is a vital aspect in entrepreneurship development interventions. Likewise, the use of self-sustaining approaches in such engagement may increase the chances of the involved actors' attaining the desired results. This chapter aims to articulate how business enterprises find business models and how they govern themselves as self-sustaining approaches of conducting entrepreneurial activities. I consider rural business enterprises that were engaged in enterprise-level change through adaptation of their business models and governance form of enterprising. More specifically, the chapter analyses the determinants for the adaptation of collective forms of entrepreneurship and business models by rural MSEs in Tanzania.

As stipulated in the earlier chapters, the majority of people in Tanzania are living in rural areas (Hobohm, 2001). Approximately 80% of the population are rural dwellers (Olomi, 2006). Most of such rural population is prone to income poverty. There are many more poor people in rural areas than urban areas in Sub-Saharan Africa, including Tanzania (Bruton *et al.*, 2013). Local and international development stakeholders have focused on stimulating the rural economies of developing countries, and different intervention programmes are in place to empower the rural populations of developing countries. Such empowerment initiatives include charitable programmes (Peredo and Chrisman, 2006) through corporate social responsibility. Another approach of empowerment is through grant provision by development stakeholders to various areas including health services, human rights, water access, agriculture, and non-agricultural activities. However, grant-based empowerment initiatives exhibit varied degrees of success in rural economies. Unsuccessful projects are characterised by lack of

commitment by rural dwellers, which manifests in the projects' abandonment or diversion of project resources. The sustainability of changes brought by rural-empowerment stakeholders through different initiatives is affected by rural economic agents' insufficient commitment. Hence, the sustainability of these intervening initiatives is a visible challenge to rural dwellers and development stakeholders. The intervention programmes meant to uplift rural economies have not succeeded in tackling the core problems (Peredo and Chrisman, 2006) to bring the desired changes in rural economies. This suggests that self-sustaining approaches are needed to empower rural populations to generate the desired changes in the rural economies of developing countries such as Tanzania. By focusing on non-agricultural economic activity, wood furniture in particular, this study concentrates on the initiatives meant to stimulate the development of rural entrepreneurship.

In its quest to become an emerging economy by 2025, Tanzania is currently working towards the creation of a friendly business environment for enterprises operating in different sectors such as manufacturing. The inclusion of such initiatives in rural Tanzania has the potential to stimulate and transform the rural economy through rural entrepreneurship. While rural enterprises are regarded as the latent stimulants of rural development through the utilisation of endowed natural resources, such enterprises exploit business opportunities in a challenging business environment. Chapter 4 and 5 of the thesis identified and clarified business challenges that are faced by rural MSEs in value-creation activities. These challenges are related to government regulations and the lack of financial resources, a skilled workforce, and training services. More specifically, environmental factors that affect Tanzanian furniture manufacturers include lack of customers, competition, suppliers, and middlemen. These challenges differ with conditions of infrastructure such as roads, electricity supply and telecommunication services in rural areas. Uneven distribution of these basic amenities causes dissimilarities in value-creation challenges in rural MSEs. Business challenges, which comprise opportunities and problems, influence rural enterprises in such a way that the existence of non-growth MSEs and growth-oriented MSEs is visible in rural areas. According to Duncombe and Heeks (2002), both subsistence-based and opportunity-based MSEs exist in the rural areas of

developing countries. Subsistence-based MSEs generate income merely to meet the basic needs of entrepreneurs while income from opportunity-based MSEs meets the basic needs of entrepreneurs and permits their growth.

As Baker and Nelson (2005) postulated, rural enterprises have three options to respond to such challenges: to exit the business, search for more resources, or capitalise on the available resources in different ways to attain the desired performance. Therefore, when the rural MSE's decision is neither to exit the entrepreneurial business nor to seek more resources, redefinition of its objectives and the reconfiguration of existing resources are deemed valuable—that is, it needs to change its way of doing business. In chapter 5, I concluded that the adaptation of business models and forms of enterprising are among the approaches to changing the way entrepreneurial activities are executed. This chapter focuses on the changes that involve form of entrepreneurship and business models. More specifically, it focuses on the change of entrepreneurship form from the individual form of entrepreneurship (owner-managed and manager-managed MSEs) to the collective form of entrepreneurship: the community-based organisation. As shown in chapter 5, CBO is a form of collective entrepreneurship that was proposed by many MSEs in the rural areas. It is a form of entrepreneurship that may improve professionalisation of rural MSEs that permit the implementation of their entrepreneurial activities in a different way. As per Chen *et al.* (2006), it is one of the basic forms of collective entrepreneurship that is more appropriate for rural MSEs that intend to achieve a common goal. The change in business models involves modifications of the ways MSEs create and capture value. Such changes are beneficial to the MSEs in their responses to the business opportunities and problems that reside in the business environments of rural areas (Peredo and Chrisman, 2006; Chen *et al.*, 2006; Osterwalder and Pigneur, 2010).

With the same focus on the wood furniture manufacturing industry, the main objective of the current research is to analyse the determinants influencing the adaptation of new forms of enterprising in MSEs. While Chapter 5 analysed the potential of the collective forms of entrepreneurship and new business models in rural MSEs, this chapter investigates the determinants that influence the adaptation of the collective form of entrepreneurship and business models. Its

emphasis is on adaptation practices of rural MSEs and to answer the following research questions: (1) In what ways are rural MSEs influenced by different determinants in their adaptation of a collective form of entrepreneurship? (2) In what ways are rural MSEs influenced by different determinants in their adaptation of business models?

The scope of the study is described in terms of the nature of the influence of different determinants towards adaptation of their business model and the involved form of collective entrepreneurship. Regarding the nature of the influence, the current study describes two categories of determinants of influence in the adaptation of a collective form of entrepreneurship and business models based on the direction of the influence. The first category consists of the determinants that enable adaptation, while the second category contains determinants that hinder it. This study includes factors which enable and/or hinder rural MSEs adaptation of collective form of entrepreneurship and business models. Regarding the form of collective entrepreneurship, various forms are at the disposal of rural MSEs, including CBOs, business associations, producers' cooperatives, and entrepreneurial teams. This chapter is confined to one form of collective entrepreneurship: CBO. The research problem having been presented in this section. The next section provides the literature review. The chapter is structured in the following way. The next section explores the relevant literature. In section 3, I illuminate the research methodology while section 4 presents the findings. The last section provides a discussion of the findings, the conclusions, and the implications for practitioners and academics.

## **6.2 Literature**

This section of the chapter provides the theories used in this chapter. It introduces the literature about collective entrepreneurship, business models, and entrepreneurial orientation. The research model is presented as well.

### ***6.2.1 Collective entrepreneurship and business models***

This chapter analyses determinants of influence in the adaptation of a new structure through which MSEs respond to business challenges. Collective entrepreneurship exhibits a new structure in rural MSEs in order to react to



business opportunities and problems that are related to the business environment. A new structure in MSEs permit a new way of organising and conducting business activities. As opposed to the owner-managed and manager-managed forms of individual entrepreneurship, the collective form of entrepreneurship involves the establishment of a formal group or team that consists of independent enterprises with an intention of undertaking entrepreneurial activities in order to achieve a common goal (Cook and Plunket, 2006). Collective entrepreneurship is one of the approaches of doing business by producers of a particular product that can be member-based. A member-based organisation is a voluntary organisation that is established by poor people; it employs well-defined structures of decision-making toward the attainment of a common objective of its members. Different kinds of member-based organisations exist; among them are trade unions, cooperatives, self-help groups, CBOs, and associations (Chen *et al.*, 2006). Member-based organisations are applicable in different fields, including entrepreneurship, to promote entrepreneurship development within a particular industry in a collective manner. CBO is one of the forms of member-based organisation that is employed by rural MSEs in developing countries (Peredo and Chrisman, 2006).

Like the structure of MSEs, business models change is another way for MSEs to exploit business opportunities differently. Chapter 5 clarified that business model entails the interactions of value creation and value capture elements, which are customer segments, value proposition, channels, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure; it involves the interplay of target market, product value, the monetary viability of the business, and the organisation of business activities (Osterwalder and Pigneur, 2010). In this chapter, the focus of MSEs is to respond to business challenges (that were identified in chapter 4 and 5) through their business models which operate within a new organisational structure i.e. CBO as a form of collective entrepreneurship. The researcher acknowledges the importance of the collective form of entrepreneurship as one of the forms of organising activities of business enterprises. While a change in business model may require a change of the organisational form of the enterprise (Mezger, 2014), Teece (2010) insisted that the change in the form of business organisation is not the same as a change in a

business model, but a change in business organisational form is part of a business model change. The change in an enterprise's organisational form is the same as the change of a business model if such changes involve business model attributes that stipulate changes of the way the enterprise creates and captures value. Hence, the change in a business model can occur within a new form of organising entrepreneurial activities.

While change of business models involves changes of separable elements of business models, Mezger (2014) specified that business enterprises need certain skills to undertake the changes, but there is a lack of clarity about the needed conditions that foster business model changes because changing business models 'requires firms to adapt, renew, acquire, or build up new resources and competences and (re)combine these in novel ways' (p. 430). Achtenhagen, Melin, and Naldi (2013) asserted that it is unclear how changes of business models are established, so there is a need for research on business model changes through studying business practices. It is imperative to provide an understanding of what constitutes business model changes before the provision of arguments related to changes of business models. Scholars describe business models changes in different ways. Saebi *et al.* (2016) specified that business model changes include business model evolution, business model renewal, business model replication, business model learning, business model erosion, business model lifecycle, business model transformation, business model innovation, or business model adaptation. Business model changes refer to business model transformation and renewal (Doz and Kosonen, 2010) or business model innovation (Achtenhagen *et al.*, 2013; Schneider and Spieth, 2013; Mezger, 2014; Teece, 2017). By concentrating on business model changes that constitute business model adaptation and business model innovation, Saebi *et al.* (2017) indicate that business model adaptation is 'the process by which management actively aligns the firm's business model to a changing environment,' while business model innovation refers to 'the process by which management actively innovates the business model to disrupt market conditions.' Business model innovation is innovation intended to shape the business environment through disruption. On the other hand, business model adaptation can be but is not necessarily associated with innovation; its intention is to find a fit between business

enterprises and their business environment (Saebi *et al.*, 2017). In this chapter, business model changes refer to business model adaptation. Teece (2017) indicated that the success of business model change is rare, signifying a need for more empirical studies on business model changes. Additionally, Dottore (2009) stipulated a need for studies of business model adaptation that concentrate on the determinants of such adaptation in order to reduce the existing gap between business model researchers and business model practitioners.

In this chapter, business model reconfiguration is one of the potential MSE-level changes that is attentive to business models because of poor performance of rural MSEs that was identified in the research. Poor performance of MSEs is a direct consequence of their existing business models. Therefore, changing the elements of business models of MSEs can generate a lot more value for customers and more profits for such enterprises. The adaptation of a collective form of entrepreneurship and business models is meant to increase MSEs' response to business challenges for the creation of value to customers (and capture value as a consequence).

As shown in Appendix 6.1, some scholars indicate that enterprise-level changes such as adaptation of a collective form of entrepreneurship and business models are facilitated by development of mechanisms which promote; collective decision-making, collective involvement of manufacturers within MSEs, appreciation of the contribution of some workers to the enterprise; and, the creation of enterprise rules and norms. In this regard, enterprise culture, decision making, interpersonal relationships and incentives are the areas of attention in the facilitation of adaptation.

#### *6.2.2 Determinants of influence in the adaptation of business models and collective form of entrepreneurship*

There are different determinants that influence the adaptation of business models and collective form of entrepreneurship. These determinants include willingness, readiness, flexibility, commitment, trust motivation, information collection, communication, risk, tolerance of mistakes, timeliness, leadership, experience and coordination. The description of these determinants is shown in Table 6.1.

**Table 6.1: Determinants of influence in the adaptation of business models and collective form of entrepreneurship**

Determinant	Meaning	Source
Willingness	The 'willingness to adapt'. It involves voluntary acceptance of management team in an enterprise to be flexible when building their resources for the adaptation, and carryout experiments that encourage new practices while discouraging old ones. Also, it is the willingness of management team to encourage willingness of workers in order to accept new practices.	(Teece, 2007; Dottore, 2009; Doz and Kosonen, 2010)
Readiness	The preparedness of an enterprise for ongoing changes that manifests through the creation of a roadmap for implementation of desired changes	(Teece, 2007; Dottore, 2009)
Flexibility	It refers to the ability of an enterprise to make changes as exhibited by the occurrence of actions that are linked to new routines and patterns; also, occurrence of actions that are linked to avoiding old routines and patterns.  It is the ability of a business to change its actions as guided by management team; and, ability of the management to align internal and external environment in facilitation of changes.	(Teece, 2007; Dottore, 2009)
Commitment	The dedication of workers; and, dedication of management team that promote collective obligation in taking risk. It involves the commitment of resources of an enterprise to investments that are involved in a change, and in the stimulation of workers' loyalty.	(Teece, 2007; Doz and Kosonen, 2010; Achtenhagen <i>et al.</i> , 2013)
Trust	It is the confidence of an enterprise on various adaptation decisions. Trust between members of management team is important. Also, trust is exhibited in an enterprise through specification of adaptation goals in a more transparent manner.	(Provan and Kenis, 2008; Doz and Kosonen, 2010)
Motivation	The motives for the involvement of management team and employees of particular business in the	(Zahra <i>et al.</i> , 2006; Teece,

	<p>adaptation. It is about actions of an enterprise in relation to the specification of its purpose for adaptation example it can be reduction of cost, profit increase, access to customers or strengthening its competitiveness. Also, motivation involves the development of incentives for the adaptation; and, management's effort to increase worker's motivation in order to stimulate their commitment towards recognition of opportunities.</p> <p>It includes existence of common interests in individuals and clarification of the desired future of the business, that is, entrepreneurial vision.</p>	<p>2007; Doz and Kosonen, 2010; Achtenhagen <i>et al.</i>, 2013; Foss and Saebi, 2016; Foss and Saebi, 2017; Teece, 2017)</p>
Communication	<p>The exchange of information between various actors in an enterprise. It is required that there should be open communication between management and employees on the way value is created through a timely flow of information in the course of adaptation. It involves creation of channels and procedures that facilitate the exchange of information.</p>	<p>(Dottore, 2009; Achtenhagen <i>et al.</i>, 2013)</p>
Information collection	<p>Continuous gathering and evaluation of up to date and valuable information in an enterprise example about market, technology competition so as to take necessary actions. It involves specification of type of information and searching for information sources.</p>	<p>(Teece, 2007; Dottore, 2009; (Achtenhagen <i>et al.</i>, 2013</p>
Timeliness	<p>The promptness in decisions and actions of a business that are involved in the adaptation. More specifically, it refers to the timing of making decisions regarding the adaptation, timing of commitment of resources in adaptation process and timely recognition of misconceptions or dishonesty that occurs during the adaptation.</p>	<p>Teece, 2007; Dottore, 2009)</p>
Risk	<p>Decisions and actions that involves the exposure of the enterprise to uncertain results, they are uncertainties that are linked to the changes that are carried out in the business. Therefore, it involves the decision in an enterprise whether to take risk and</p>	<p>Teece, 2007</p>

	when to do it; and, enterprise behaviours in taking risk or being risk averse. Also, it includes the way enterprise are valuing adaptation-related risk because risk can be undervalued or overvalued.	
Tolerance of mistakes	The willingness of an enterprise to permit divergence from 'normal' approaches. It includes the encouragement of learning culture in a business by creation of learning space to employees in order to develop new ideas and, learn from associated mistakes.	Achtenhagen <i>et al.</i> , 2013
Leadership	The ability of management team of an enterprise to guide it towards the adaptation. It refers to their decisions and actions that are of influence in the behaviours of workers for the desired change. It involves the activeness and strengths of a leader, his/her leadership skills and professionalism in leading the change. Example leadership in overcoming misunderstanding in the process of change, in decision making, information flow, motivation, building enterprise culture and stimulating workers' commitment and loyalty. Also, it involves management's decision on organisational structure and procedures that facilitate activities of an enterprise in the course of adaptation.	Zahra <i>et al.</i> , 2006; Teece, 2007; Dottore, 2009; Achtenhagen <i>et al.</i> , 2013;)
Experience	The knowledge that is gained in an enterprise because of its prior exposure regarding the actions or decisions that are linked to the adaptation. It involves enterprise experience; experience of management team for example in the use of specific resources such as technology. Also, it includes the way experiences are gained in an enterprise for instance through experiments.	(Zahra <i>et al.</i> , 2006; Provan and Kenis, 2008)
Coordination	It is 'a better way of putting things together', it is about effective organisation in an enterprise with a focus on coordination skills and coordination timing of internal resources and activities in the process of adaptation.	(Teece, 2007)

Source: Own construct from the literature (2019).

In addition, stakeholders in the value chain (Dottore, 2009; Saebi *et al.*, 2016) as well as adaptation-supporting entities (Dottore, 2009; Teece, 2017) may influence the facilitation of the adaptation.

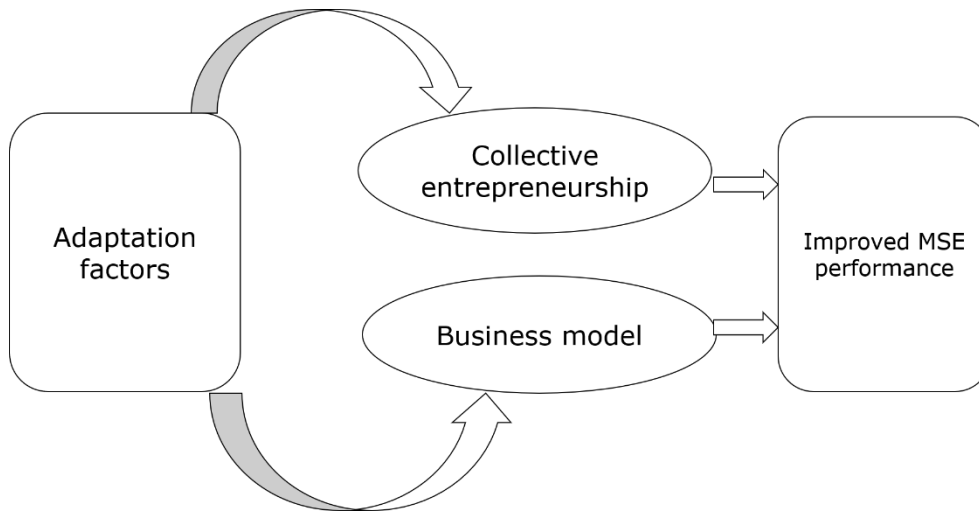
#### *6.2.3. Entrepreneurial Orientation*

Lumpkin and Dess (1996) state that entrepreneurial orientation determines the performance of enterprises. Anderson *et al.* (2015) question if EO is in actions or attitude. Covin and Lumpkin (2011) specify that the EO of businesses is in actions (rather than possessions) that involve risk taking, innovativeness, proactiveness, autonomy and competitive aggressiveness. In the course of value creation, the response of rural enterprises towards industry-enterprise-institutional challenges requires such enterprises to be entrepreneurially oriented. In this study, the EO of business enterprises refers to actions that facilitate enterprise-level changes through the creation of capabilities for value creation. More specifically, the EO is indicated in rural MSEs by risk-taking actions that facilitate enterprises-level changes for creation of customer value through bricolage approach. In this study, EO manifests in rural MSEs through their actions that involve adaptation of the collective form of entrepreneurship and business models.

#### *6.2.4 The research model*

This study focuses on enterprise-level changes in rural MSEs for the creation of customer value. The emphasis is on various determinants including MSEs' motivation, willingness, readiness, leadership, commitment, coordination, timeliness, communication, flexibility, trust, experience, tolerance of mistakes, and risk as determinants for the adaptation of collective form of entrepreneurship and business models in rural MSEs. Figure 6.1 depicts the research model.

**Figure 6.1 The research model**



In this study, adaptation of the collective form of entrepreneurship is exhibited by MSEs' fulfilment of mandatory requirements that facilitate production activities as well as the input and output. Such requirements are investment in the business premises and registration of the business such that the constitutions of registered businesses specify the CBO's members and membership requirements; its purposes, leadership, principles, and financial management plans; and the conditions of its dissolution.

Full adaptation, partial adaptation, and no adaptation are three levels of adaptation of the collective form of entrepreneurship. Full adaptation means the rural MSE has organised and obtained members of a CBO, registered such CBO, and invested in its business premises. Partial adaptation means the rural MSE has organised and obtained CBO members but has not registered such CBO and/or has not invested in its business premises. A rural MSE is considered to have no adaptation of a collective form of entrepreneurship if it has no established members of its CBO and has neither registered the business nor invested in its premises. As adopted from Osterwalder and Pigneur (2010), the adaptation of a business model is achieved through modification of the elements of the business models of rural MSEs. This decision is supported by Mezger (2014), who specified that business model changes may be examined through the changes that a



particular business makes to individual elements of its business model. Full adaptation, partial adaptation, and no adaptation are three adaptation categories for business model adaptation. Full adaptation means the rural MSE has modified seven elements of its business model: customer segment, value proposition, customer relationship management, channels, key resources, key activities, and partners. Partial adaptation means the rural MSE has modified some of these business model elements, while no adaptation means the MSE has not modified any business model element. Although business model elements include cost and revenue structures, such value capture elements are not included in the study because the intention of this study is to focus on value creation elements more than value capture elements. Regarding the timing of MSEs' capture of value, Hitt *et al.* (2011) specified that value may be captured before or during value creation, but it can be captured after value creation as well.

### **6.3 Research methodology**

Using the action-research method, this study involves wood furniture-manufacturing MSEs in rural Tanzania (namely, Mvomero district, Morogoro) as participating units. 'Action research is an orientation to knowledge creation that arises in a context of practice and requires researchers to work with practitioner. . . . qualitative research is research about practice...' (Huang, 2010: 93–94). It stimulates learning with a focus on the ongoing practices of participating units. As one of the types of action research, emancipatory action research is used to enable action-related learning that is guided by theories related to the research in such a way that participants' decisions are determined by both researchers and participants. In this study, action research took place from January 2015 to October 2017 with the intention to establish a good understanding of the determinants that influence the adaptation of collective entrepreneurship forms and business models of rural MSEs with the intention to improve their value creation and profitability (as a consequence). While rural enterprises are acknowledged to be informal, it is important to support these business enterprises in becoming formal and expanding their resource base example through training and access to productive machines (Olomi, 2006; Dinh *et al.*, 2012). In the course of doing this action research, rural MSEs were empowered through training and linkage. Trainings on team business and other business management skills such

as business planning and financial management were provided. Linkage to stakeholders through stakeholders' forum was facilitated. More specifically, MSEs were connected to the local government authority (district office) to simplify their adaptation. For instance, rural MSEs were working closely with community development office in Mvomero district. Further, MSEs were connected to various customers e.g. through exhibitions. More importantly, the project (P4 project which facilitated this research) supported MSEs with resources such as mechanical wood-working machines and raw materials (timber). Purposive sampling was employed to obtain 12 participating rural MSEs that were engaged in the adaptation of a collective form of entrepreneurship, and 5 CBOs that were engaged in the adaptation of business models. The adaptation of entrepreneurship form can be a voluntary or involuntary endeavour (Provan and Kenis, 2008). However, this emancipatory action research encouraged the voluntary adaptation of a collective form of entrepreneurship and business models, so rural MSEs made their own decisions regarding such adaptation based on their perceived risk, costs, and benefits linked to the adaptation. Rural MSEs were required to adapt a form of entrepreneurship within a period of 3 months from January 2015 to March 2015. After analysis of the rural MSEs' business plans, they were required to adapt their business models from April 2015 to October 2017. The primary data used in the study were obtained through interviews and field notes. The gathered data are interpretatively analysed.

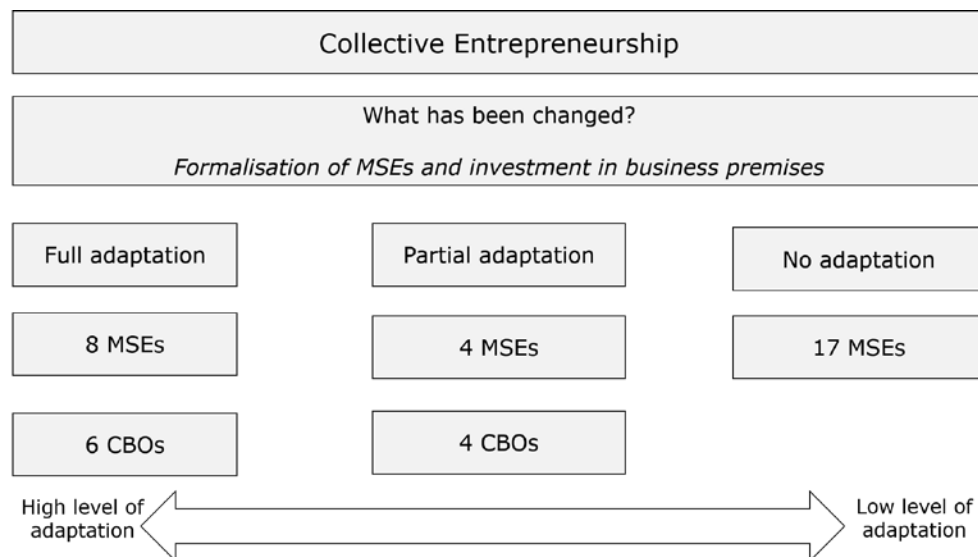
#### **6.4 Findings**

This section presents the research findings. First, it articulates the descriptive characteristics of MSEs engaged in adaptation of the collective form of entrepreneurship. Then, it analyses the observational and analytical determinants for the adaptation of a collective form of entrepreneurship. Later, it presents the descriptive characteristics of MSEs engaged in adaptation of business models, and analyses the observational and analytical determinants for the adaptation of business models.

#### 6.4.1 Description of rural MSEs engaged in adaptation of the collective form of entrepreneurship

Before the description of the 12 MSEs involved in this research, it is vital to show how these 12 MSEs were selected from the 30 MSEs engaged in the stages of the research. Out of the 30 MSEs involved in the study, as stipulated earlier in Chapter 4, eight MSEs changed their form of enterprising from an individual form of entrepreneurship to the collective form. These eight MSEs established six community-based organisations as shown in Figure 6.2. Twenty-one MSEs did not change their form of enterprising; of these, four MSEs attempted to adapt to the collective form of enterprising but they got stuck and ended up with a partial adaptation. One MSE had an established CBO before the study.

**Figure 6.2: The status of adaptation of the collective form of entrepreneurship**



Source: Research findings (2019).

Seventeen MSEs did not attempt to adapt to the collective form of enterprising. Therefore, this research analyses the determinants for the adaptation of the collective form of entrepreneurship, focusing on 12 rural MSEs that adapted or attempted to adapt to a community-based organisation. As shown in Appendix 6.2, a total of 112 individual furniture manufacturers were involved in the

adaptation of the collective form of entrepreneurship, out of which 55 individual manufacturers established six CBOs, while 57 individual manufacturers had ended up in the establishment of four incomplete CBOs. Therefore, there are MSEs which had low level of adaptation of collective form of entrepreneurship. Other MSEs had high level of such adaptation as shown in Figure 6.3. These results suggest, adaptation of a collective form of entrepreneurship is possible in rural MSEs but may take longer time in other MSEs.

#### *6.4.2 Observational determinants for the adaptation of the collective form of entrepreneurship*

This section presents the observational determinants for the adaptation of the collective form of entrepreneurship and business models. These are the determinants that are found to have influence on adaptation based on their occurrence- that is- the number of times such determinants are mentioned by the rural MSE to have an influence in adaptation. The determinants that influence the adaptation of the collective form of entrepreneurship in MSEs are motivation, willingness, readiness, leadership, commitment, coordination, timeliness, communication, flexibility, trust, and experience. Table 6.2 indicates the determinants.

**Table 6.2: Determinants for the adaptation of the collective form of entrepreneurship**

Adaptation of the collective form of entrepreneurship		
Determinant	Full adaptation (6 CBOs)	Partial adaptation (4 CBOs)
Motivation	Motivation to adapt in all CBOs. Common interests were specified in all CBOs i.e. the need to acquire financial resources to buy raw materials and machines; and get linked (market and stakeholders).	Motivation to adapt in 2 CBOs.  <i>Lack of motivation because of conflicts of interest in 2 CBOs and unclear purpose of the adaptation.</i>

Willingness and readiness	<p>Willingness to adapt in 4 CBOs.</p> <p><i>Lack of willingness and readiness of all MSEs in a CBO to adapt in 2 CBOs because of; bad experience from existing but informal CBO, lack of leaders' transparency to CBO members, and leader is more willing and ready than members.</i></p>	<p>Willingness to adapt in all 4 CBOs</p> <p>Readiness to adapt in 3 CBOs.</p> <p><i>Lack of readiness to adapt in 1 CBO because members are more willing and ready than leader; and conflicts of interest (motivation).</i></p>
Leadership, commitment, coordination and timeliness	<p>Timeliness in adaptation in all CBOs.</p> <p>Leadership, commitment, coordination in adaptation in 4 CBOs.</p> <p><i>Lack of leadership, poor coordination, insufficient commitment in adaptation in 2 CBOs because; members had bad experience with existing but informal CBO, lack of transparency in adaptation procedures, and lack interest in adaptation (motivation).</i></p>	<p>Leadership, commitment, coordination, and timeliness in adaptation in 1 CBO.</p> <p><i>Poor leadership, insufficient commitment, poor coordination and lack of timeliness in adaptation in 3 CBOs because of; conflicts of interest, and members were not interested with a formal CBO (motivation).</i></p>
Communication	<p>Effective communication in adaptation in 4 CBOs.</p> <p><i>Poor communication in adaptation in 2 CBOs because of; lack of motivation due to bad experience with existing informal CBO, and information was shared by facilitators with few members in a CBO.</i></p>	<p>Effective communication in adaptation in 2 CBOs.</p> <p><i>Poor communication in adaptation in 2 CBOs because of; conflicts of interest (motivation) and lack of interest in adaptation (motivation).</i></p>
Flexibility	<p>Flexibility in adaptation in 4 CBOs.</p> <p><i>Lack of flexibility in adaptation in 2 CBOs due to; conflicts of interest (motivation), lack of members'</i></p>	<p>Flexibility in adaptation in 2 CBOs.</p> <p><i>Lack of flexibility in adaptation in 2 CBOs due to; inflexibility in</i></p>

	<i>commitment, and lack of leaders' transparency.</i>	<i>MSE ownership, and conflicts of interest (motivation).</i>
Trust	Trust in adaptation in 5 CBOs.  <i>Lack of trust in adaptation in 1 CBO due to lack of transparency.</i>	<i>Lack of trust in adaptation in 2 CBO due to funds mismanagement by CBO leader.</i>
Experience	Experience in adaptation in 3 CBOs.  <i>Lack of experience in adaptation in 3 CBOs.</i>	<i>Lack of experience in adaptation in 4 CBOs.</i>

Source: Research findings (2019).

#### 6.4.2.1 Motivation

The results show that the management teams and members of all MSEs that fully adapted the collective form of entrepreneurship were motivated to be engaged in adaptation. Motivation was manifested as common interests such as the need to acquire financial capital to buy raw materials and furniture-making machines and the need to get linked to the market and to external actors such as universities and local government authorities that influence the adaptation. In the rural MSEs that had partial adaptation of the collective form of entrepreneurship, some MSEs were motivated to facilitate adaptation. Other MSEs had no motivation to adapt because of the conflicts of interest between the leaders of such MSEs and their members. The scenarios regarding conflicts of interest are shown in Table 6.3.

**Table 6.3: Illustration of conflicts of interest in adaptation of the collective form of entrepreneurship in rural MSEs**

Conflicts of interest scenarios in rural MSEs	
Adaptation of a collective form of entrepreneurship	
CBO 8	The enterprise had few mechanical machines. Its owner was the manager of the establishment and works together with other individual MSEs who used his machines in exchange of machine-usage charges. Working within a CBO structure increased a possibility for them to get more productive machines than existing ones. However, such machines were to be owned by CBO and

	operated in a manner that was guided in a constitution of CBO. As a result, some members were interested to work within CBO structure while others (including the owner of machines) were not. CBO members did not agree on how to work together; the CBO was not established.
CBO 10	The enterprise had a business premise which had various mechanical machines. The manager was not the owner of the establishment but works with several employees. Working within a CBO increased the possibility for the manager to lose his decision-making power. That was a possible situation because CBO operation are guided by a constitution which indicates new leadership and other management issues. Even though employees were in favor of a CBO structure of running their entrepreneurial activities (through collective decision making), the manager was not. The CBO was not established.

Source: Research findings (2019).

#### *6.4.2.2 Willingness and readiness*

For the adaptation of the collective form of entrepreneurship, I find that MSEs that fully adapted the collective form of entrepreneurship, management teams and members of four CBOs had the willingness and readiness to facilitate such adaptation. But the management team and/or members of other CBOs did not have the willingness and readiness to adapt because of bad prior experience gained from their existing CBO, which had a focus on social rather than economic issues. Another reason was a lack of leaders' transparency in facilitating the adaptation of the collective form of entrepreneurship. Additionally, the leader of a CBO was more willing and ready to engage in adaptation than most of the members. In MSEs with partial adaptation of the collective form of entrepreneurship, the management teams of some CBOs had the willingness and the readiness to facilitate such adaptation. In one CBO, the members showed a stronger willingness and readiness to adapt than their leaders. A conflict of interest limited the readiness of one of the CBOs. Weak motivation and lack of entrepreneurial vision impaired the ability of some MSEs to facilitate the adaptation.

#### *6.4.2.3 Leadership, commitment, coordination, and timeliness*

Among the rural MSEs that fully adapted the collective form of entrepreneurship, the management teams or facilitators of some CBOs had strict leadership, showed commitment, and were well coordinated in the facilitation of such adaptation. The leadership, commitment, and coordination within a few CBOs affected the development of such adaptation because members had bad experiences with the CBO as an entrepreneurship form to run a business, and because of lack of transparency in the adaptation procedures by the leaders of adaptation. Management teams or facilitators of all CBOs had timely specification of the form of collective entrepreneurship to be adapted by MSEs and timely facilitation of the adaptation of the collective form of entrepreneurship. Decisions were made in a timely manner with or without the involvement of all members. Additionally, the leadership, commitment, coordination, and timeliness of all CBOs permitted to engage external actors in adopting collective entrepreneurship. In the rural MSEs with partial adaptation of the collective form of entrepreneurship, the management team of one CBO had strict leadership, it was committed, it coordinated well, and it was timely in the facilitation of such adaptation. On the other hand, in one of the CBOs the management team did not lead the adaptation to the collective form of entrepreneurship— members were interested in the adaptation of the collective form of entrepreneurship, but facilitators were not.

The facilitator of one CBO attempted to lead it to adapt but was unable to get commitment from others and he did not coordinate the activities that had the potential to promote the adaptation of the collective form of entrepreneurship in a timely way. Such leadership was constrained by the conflict of interest on the part of the adaptation facilitator.

The facilitators of one MSE tried to initiate the adaption, but they could not get the commitment from all potential members of the CBO; this in turn made it impossible to timely coordinate the activities that were instrumental to adapt to the collective form of entrepreneurship. The potential members of the CBO had no commitment or interest in a formalised CBO because they were members of the existing but informal economic CBO, which required them to work together rarely. These manufacturers did not see the relevance of working in a formal CBO throughout the year.



#### *6.4.2.4 Communication*

In the rural MSEs that fully adapted the collective form of entrepreneurship, management teams and members of all CBOs collected the required information, but some CBOs encouraged open communication on how to facilitate such adaptation. All CBOs established and maintained a link with the university because for all MSEs interested in the adaptation of the collective form of entrepreneurship, information collection was supported by external actors, specifically, the university. However, adaptation efforts were affected by lack of communication openness in two CBOs because members had no interest in the adaptation of the collective form of entrepreneurship.

In the CBOs with partial adaptation of the collective form of entrepreneurship, the management teams and members of few MSEs collected the required information and had communication openness on how to facilitate such adaptation, but unable to complete adaptation. One of the CBOs did not engage itself in information collection or communication on how to foster the adaptation because its leader was not interested in the establishment of the collective form of entrepreneurship, regardless of the members' interests. Additionally, the facilitator of one of the CBOs was able to collect the needed information but did not communicate to members how to engage in activities that foster the collective form of entrepreneurship.

#### *6.4.2.5 Flexibility*

Among the rural MSEs that fully adapted the collective form of entrepreneurship, management teams and members of some CBOs were flexible in facilitating adaptation of the collective form of entrepreneurship. Flexibility was a challenge in some CBOs because of conflicts of interest among facilitators, lack of members' commitment to the adaptation, and the adaptation facilitators' lack of transparency. In the rural MSEs with partial adaptation of the collective form of entrepreneurship, the management and members of some MSEs were flexible to foster such adaptation. However, other CBOs were not flexible enough to due to the facilitator's conflict of interest and the owner's inflexibility to permit the shift from the individual to the collective form of entrepreneurship.

#### *6.4.2.6 Trust*

In the CBOs that fully adapted the collective form of entrepreneurship, the management team of most CBOs were trusted by their members to facilitate such adaptation. However, members of one CBO did not trust the leaders to facilitate the adaptation because of their lack of transparency, but such leaders managed to establish a CBO. In the MSEs that had partial adaptation of the collective form of entrepreneurship, the management team of one of the CBOs was trusted to facilitate such adaptation. However, one of management team members mismanaged the CBO's funds, which were contributed by all members; such lack of trust made the efforts to adapt to a CBO come to an end. In another situation, one CBO did not trust that external actors—specifically, the university—would be interested in working with their enterprise for a longer period of time because of its remoteness, it did not establish the CBO.

#### *6.4.2.7 Experience*

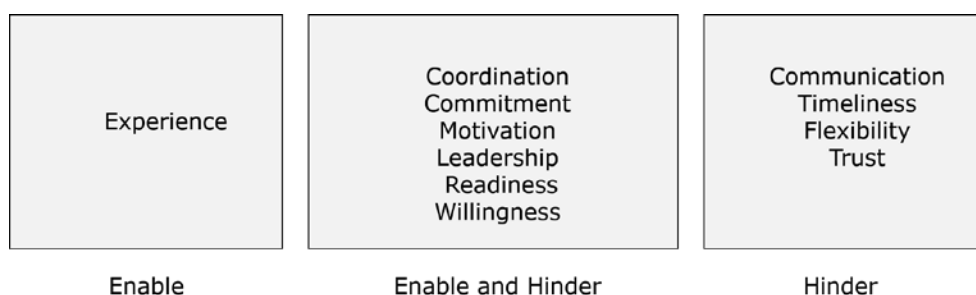
In the rural MSEs that had full adaptation of the collective form of entrepreneurship, the management team and members of some CBOs had no experience to foster such adaptation, while some CBOs had such experience. In the CBOs that had partial adaptation of the collective form of entrepreneurship, the management team and members of all CBOs did not have experience to facilitate such adaptation. Experience of members with CBO benefits is valuable in facilitation of adaptation. Similarly, CBOs may not adapt the form of enterprising because of bad experience in the past.

#### *6.4.3 Observational determinants for the adaptation of the collective form of entrepreneurship*

The findings are based on 12 rural MSEs that were involved in adaptation of a CBO as a collective form of entrepreneurship. Eight MSEs had a full adaptation and four MSEs had a partial adaptation of the collective form of entrepreneurship. Therefore, these findings are based on six established CBOs and 4 incomplete CBOs which were described earlier in this chapter. The results indicate that willingness, readiness, commitment, coordination, flexibility, communication, timeliness, leadership, motivation, trust, and experience play a role as

determinants in the adaptation of the collective form of entrepreneurship. These determinants are shown in Figure 6.3 and Appendix 6.3. The figure is incorporating the determinants that enabled and hindered such adaptation.

**Figure 6.3: Observational determinants for the adaptation of the collective entrepreneurship form**



Source: Research findings (2019).

A determinant that enable adaptation means it is found to have occurrence in various MSEs with a nurturing influence in the adaptation. A determinant that hinder the adaptation means it is found to have occurrence in various MSEs but has a constraining influence in the adaptation. Presence of a determinant in MSEs means it has an enabling or hindering influence. Absence of a determinant does not mean it has a hindering influence in MSE unless specified. Based on the direction of the influence some determinants (leadership, motivation, commitment, readiness, coordination, willingness) enabled or hindered the adaptation of the collective form of entrepreneurship. Experience is the determinant that only enabled adaptation of collective entrepreneurship while flexibility, trust, communication and timeliness only hindered such adaptation. In summary, the results indicate that willingness, readiness, commitment, coordination, ability, communication, timeliness, leadership, motivation, trust, and experience are the determinants for the adaptation of the collective form of entrepreneurship in rural MSEs.

#### 6.4.4 Analytical determinants for the adaptation of the collective form of entrepreneurship

While the previous section presents observational determinants of the collective form of entrepreneurship, this section stipulates analytical findings that are in more depth by showing the relationships between different adaptation determinants. Analytical determinants are determinants that are found to have influence on adaptation based on their importance in MSEs, that is, have influence on other determinants in driving the adaptation.

Determinants for the adaptation of the collective entrepreneurship form differ with motivation of MSEs to become part of a CBO or to change the existing business model. The determinants of the adaptation of new forms of collective entrepreneurship are different for MSEs which are interested in establishing a CBO compared to those that lack such interest. I therefore discuss the determinants for the adaptation of the collective form of entrepreneurship using two categories: the first category focuses on adaptation determinants when all MSEs in a CBO have common interests, while the second category focuses on the determinants when MSEs in a CBO do not have such common interests.

**Table 6.4: Analytical determinants for the adaptation of the collective form of entrepreneurship when MSEs have common interests**

Motivation	Adaptation of a collective form of entrepreneurship
Existence of common interests (CBO1, CBO 3 and CBO5)	QUOTE
Existence of a strong motivation of CBO leaders and their members to be empowered with machines, management skills, raw	'...this area has been off-grid for a long time, we did not have access to electricity. Although we are closely located to timber plantations, the cost of furniture production was very high because we had to travel to Madizini area (rural town) to manufacture furniture parts at workshops that had mechanical machines. We incurred additional costs that were linked to the usage of

<p>materials and access to market.</p> <p>Leaders and members were willing, ready, flexible and committed to the change the form of entrepreneurship. Strong leadership in a CBO facilitated timely coordination of the adaptation, through a good flow of information within CBO.</p>	<p>their machines and transportation of timber. Then, electricity was made available in our area but we needed mechanical machines that we did not have the money for. Furniture-making machines are very expensive compared to the amount of money that we had. We had no idea on how to solve such problem. Fortunately, you came at a right time, we were enthused with the coming of your project in this area. So, we organised ourselves to have members of a group, we conducted several meetings and made monetary contributions when necessary to facilitate the registration of a CBO (after having the constitution developed) at district's office. We are thankful to our group's chairperson because he worked so hard to have everything organised that resulted into the establishment of a CBO on time.'</p> <p>'...we have been selling beds and doors in this village, it was our dream to get linked with customers who were in other areas, example in the cities because we are using rare hardwood that produces durable furniture. The project helped us to realise that...'</p> <p>'... we have been working together as a group for a long time. We heard about CBO's way of working a year before arrival of this project in this area. We established our group and developed a constitution. We did not finalise the formalisation of a group because its costs and procedures were unclear to us. Your project helped in making costs and procedures familiar to us, it assisted on the reformulation of the constitution...'. '...we registered our group...'</p>
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Source: Research findings (2019).

When CBO members had agreement on common interests regarding the new form of collective entrepreneurship then willingness, readiness, leadership, communication, commitment, coordination, timeliness, experience, flexibility and trust were the determinants that influence the adaptation. In this case, all MSEs/manufacturers in a CBO were active in the activities that facilitated the

adaptation. The reasons for the engagement of MSEs in the adaptation are related to motivation as a main determinant. In other words, motivation is the determinant that has main influence in the adaptation of the collective form of entrepreneurship in rural MSEs. Motivation as determinant is furthermore supported by other determinants such as willingness, readiness, leadership, communication, commitment, coordination, timeliness, experience, flexibility and trust. Table 6.4 presents quotes that relate to the analytical determinants for the adaptation of the collective form of entrepreneurship when MSEs have common interests.

**Table 6.5: Analytical determinants for the adaptation of the collective form of entrepreneurship when MSEs have not established common interests**

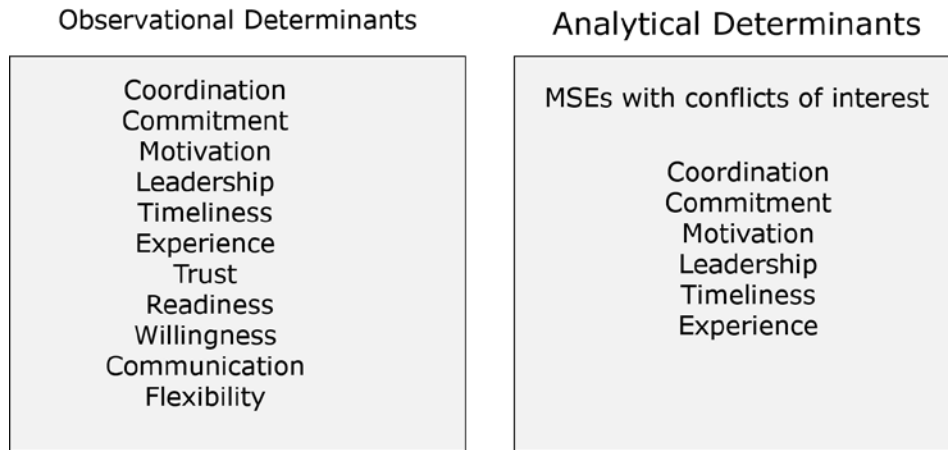
Motivation	Adaptation of a collective form of entrepreneurship
Lack of common interests (CBO 2, CBO 6 and CBO 4)	QUOTE
The motivation of leaders was strong regardless of motivation of some members- financial capital, raw materials or mechanical machines. Committed leaders coordinated the adaptation activities in a timely manner.	<p>'...it was eye-opening to us by your first visit when you educated us on a different way of working together. We had a meeting on how to go through the formation and registration of a group. During that meeting, I was selected as a secretary of a group and had a responsibility of making follow-ups on procedures for registration of a group at the district's office. Then, we had other meetings and agreed that each member was required to contribute some money for opening of group's bank account and its registration. Not every member made his/her contribution but I worked so hard to make sure the CBO was established in time though sometimes I had to use my own money...'</p> <p>'...the moment the project came into our area, we knew it would unlock us from challenges we had which were the lack of good furniture-making machines and timber. I was not a carpenter but I understood how a CBO is formed and how it works. Carpenters themselves did not have a good understanding of a way of working</p>

	<p>in the group. We decided to have a meeting and agreed on the establishment of a constitution and registration of a group. '... I was the secretary of the group. '...in the end, the group was registered but it was me, the treasurer and the owner of this place (chairman of the group) who worked hard for its formation. We did not get a good support from other members.'</p> <p>'...we had a constitution of unregistered CBO that focused on social issues. It was a group that was meant to help one-another in times of need....' '... we needed a CBO that concentrates on our entrepreneurial activities within furniture business but registration process was not known to us. Your project simplified the registration process of our entrepreneurs' group because it connected us to community development officer of the district who educated us on the process and cost of its registration. Some of us contributed some money that assisted in the registration of the CBO within a specified time.'</p>
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Source: Research findings (2019).

When CBO members fail to agree on reasons to form a CBO then leadership, commitment, coordination, timeliness and/or experience are important determinants for such adaptation. Lack of agreement on the reasons for engagement in the adaptation of a CBO, as characterised by the conflicts of interest between MSEs, implies that motivation is the determinant that has major influence in such adaptation. However, in this case, few people in a CBO being leaders or members who saw an opportunity that was linked to a new form of collective entrepreneurship were engaged actively in activities that facilitated such adaptation. Such adaptation is thus strengthened by leadership, but also by commitment, coordination, timeliness and/or experience. Lack of willingness, readiness, flexibility, communication, and trust leads to a poor adaptation of a CBO. Table 6.5 presents quotes that relate to the analytical determinants for the adaptation of the collective form of entrepreneurship when MSEs have not established common interests.

**Figure 6.4: Observational and analytical determinants for the adaptation of the collective form of entrepreneurship**



Source: Research findings (2019).

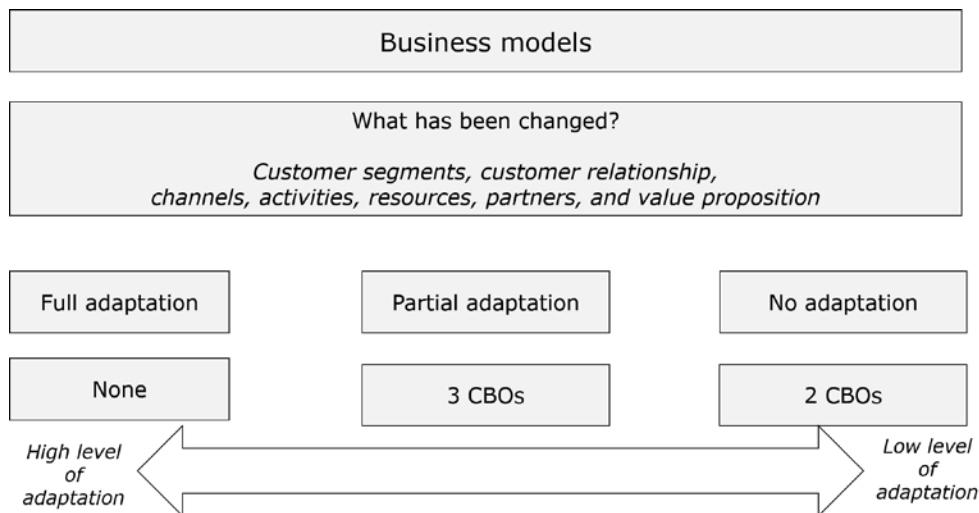
As shown in Figure 6.4, rural MSEs considers 11 determinants to have influence in the adaptation of the collective form of entrepreneurship. All identified determinants have an influence in the adaptation when members in a CBO are motivated. The analysis show that motivation, leadership, coordination, timeliness, experience, and commitment are the determinants of adaptation when conflicts of interest occur between members in a CBO. Having presented the findings that are linked to the adaptation of the collective form of entrepreneurship, the next section of this chapter articulates findings that are connected to the second research question that focus on the determinants of the adaptation of business models in rural MSEs.

#### *6.4.5 Description of rural MSEs engaged in adaptation of business models*

I examine the determinants influencing the adaptation of business models by focusing on five CBOs that succeeded in fully adapting the collective form of entrepreneurship. Five established CBOs (see Figure 6.5) with a total of 31 wood-furniture manufacturers (see Appendix 6.4) were involved in the adaptation of their business models.



**Figure 6.5: The status of adaptation of business models**



Source: Research findings (2019).

Rural MSEs had low and moderate levels of adaptation of business model. There are no MSEs that had high level of adaptation of business models as shown in Figure 6.5. Results signify that adaptation of business models takes longer time in MSEs; or it is not possible for rural enterprises to adapt business models because a lot more time is needed to create capabilities; or MSEs are not entrepreneurial enough to be able to make such change.

#### 6.4.6 Observational determinants for the adaptation of business models

This section presents the observational determinants for the adaptation of business models. As in collective entrepreneurship, these are the determinants that are found to have influence on adaptation based on their occurrence. The determinants that influence the adaptation of the adaptation of business models are risk, tolerance of mistakes, leadership, commitment, coordination, timeliness, communication, flexibility, and trust. Table 6.6 indicates the determinants.

**Table 6.6: Determinants for the adaptation of business models**

Adaptation of business models		
Determinant	Partial adaptation (3 CBOs)	No adaptation (2 CBOs)
Motivation	Motivation to adapt in 2 CBOs. Common interests were specified i.e. desire for growth, acquisition of resources, and access to customers.	Lack of motivation to adapt because of conflicts of interest in 3 CBO of which 2 CBOs lack the entrepreneurial vision.
Leadership, commitment, coordination and timeliness	Leadership, commitment, coordination, and timeliness in adaptation in 2 CBOs.	Poor leadership, insufficient commitment, poor coordination, and lack of timeliness in adaptation in 3 CBOs because of; conflicts of interest (motivation), lack of entrepreneurial vision, and lack of trust.
Communication	Effective communication in adaptation in 3 CBOs.	Poor communication in adaptation in 2 CBOs because of; conflicts of interest (motivation), and lack of commitment.
Flexibility	Flexibility in adaptation in 2 CBOs.	Lack of flexibility in adaptation in 2 CBOs due to; pPoor leadership and insufficient commitment.
Trust	Trust in adaptation in 2 CBOs.	Lack of trust in adaptation in 2 CBO because of; CBO funds mismanagement, and lack of transparency in funds management.
Risk	Risk to adapt in 3 CBOs.	
Tolerance of mistakes	Tolerance of mistakes in adaptation in 2 CBOs.	Intolerance of mistakes in adaptation in 1 CBO.

Source: Research findings (2019).

#### *6.4.6.1 Motivation*

The findings show that management teams and members of some CBOs were motivated to facilitate adaptation of business models. This motivation was apparent as members showed common interests, such as their desire for growth.

The motivation to change the business model of one CBO was limited by the absence of an entrepreneurial vision despite the fact that its members had common interests. All MSEs in a CBO had a desire to acquire additional resources and develop market linkages. However, the absence of a clear future direction in the CBO impaired its members' motivation and affected their collective efforts to facilitate the adaptation of a business model.

One of the CBOs was partially motivated to promote business model adaptation: Only a few members (three of nine members) were in favour of the established economic CBO. A few CBO members believed in the CBO's functioning, but most were demotivated by the poor performance of their existing social CBO. Economic CBO focuses on collective entrepreneurial activities of MSEs with a purpose of achieving economic benefits such as profits and enterprise growth in a collective manner while social CBO is the establishment that is developed collectively by its members with intentions of making contributions (monetary or in kind) that are utilised when its members encounter social problems example during illness. Hence, the desire to acquire more resources—specifically, raw materials such as wood—motivated a few CBO' members to be engaged in the business model adaptation, but such members had conflicts of interest that limited their motivation to facilitate the adaptation of a business model.

In another situation, one CBO had members who had conflicts of interest, and a lack of entrepreneurial vision. The motivation of the CBO was not strong enough to facilitate the adaptation of a business model. The scenarios regarding conflicts of interest in the adaptation of business models are shown in Table 6.7.

**Table 6.7: Illustration of conflicts of interest in adaptation of business models in rural MSEs**

Conflicts of interest scenarios in rural MSEs	
Adaptation of business models	
CBO 1	While the obtained mechanical machines and raw materials were the main motivation for the CBO establishment, conflicts of interest emerged regarding to who (among CBO members) could become the owner of such machines. The desire for machines ownership was stimulated by a need for a CBO member to raise income through the collection of machines-usage charges from other members as well as other carpenters in a local area. As a result, most CBO members were working individually to raise some money in order to pay others and become the owner of such machines. The CBO made few changes in a business model.
CBO 2	After the establishment of a CBO, the management team had disagreement on how to conduct the business activities. Some members of management team were in favor of letting other carpenters in a local area use their machines in order to raise income from machine-usage charges-as the main source of their income. This was a favorable approach to such leaders because they were full-time employees in another factory which was located in a local area. Other leaders were not in favor of that approach which was against their business plan because they believed in a growth potential of a CBO if it is engaged in the activities of furniture manufacturing. Such disagreement between the leaders of a CBO led to unchanged business model.
CBO 4	The enterprise had a business premise and some mechanical machines. Manager was not the owner of the establishment; he welcomed other individual MSEs (carpenters) who used the machines in exchange for machine-usage charges. These individual carpenters manufactured and displayed their products at the premise. The manger and few members facilitated the establishment of a CBO. The manager who was also one of the leaders of a CBO recognised other carpenters as part of a CBO that permitted them to get raw materials. However, such CBO members were excluded when it came to the use of the existing furniture-making machines. The CBO did not take any initiative for the business model change.

Source: Research findings (2019).

#### *6.4.6.2 Leadership, commitment, coordination, and timeliness*

In the adaptation of business models, the management team of one CBO had strict leadership which adhered to the business plan. Such leadership enabled the CBO to engage in activities that foster such adaptation. One of the CBOs had a paternalistic style of leadership, which was exercised by the chairman of the CBO, a senior furniture manufacturer. That type of leadership enabled the MSE to engage in activities that foster adaptation of business models. However, the CBO ceased to exist after 6 months of operation because the CBO chairman mismanaged CBO funds, thus betraying members' trust. The practices that were meant to foster adaptation of the business model thus functioned only for short period of time. In another situation, one CBO had a laissez-faire style of leading the CBO. Such leadership style hindered its ability to facilitate business model adaptation. Initially, one of the CBOs had strict leadership, which enabled it to collect information and communicate such information in a CBO. The leadership of such CBO was strict but not for long to foster the adaptation of business models. In case of a lack of strict leadership within the CBO, business approaches were developed and applied by individual MSEs, but such approaches were not implemented at the CBO level. Therefore, the CBO had partial adaptation of the business model. In another MSE, the management team had weak leadership because of conflicts of interest among its leaders. The leadership managed to adhere to some elements of the business plan but failed to be strict on the requirements of the CBO constitution. The leadership was challenged by poor commitment of the members, which prevented the facilitation of the adaptation of business models. The management teams of few CBOs were committed, organised, and well timed in the facilitation of the adaptation of business models. the management in other CBOs was not committed and organised enough to nurture the adaptation.

#### *6.4.6.3 Communication*

The management teams and members of all CBOs collected the needed information, but not all of them openly communicated to their members how to facilitate the adaptation of business models. All CBOs established links with the university to obtain information for shaping adaptation decisions. The facilitation

of the adaptation of business models was constrained by the lack of open communication in two CBOs because there was insufficient interest of the CBO members to adapt the business model. In another CBO, only few members were committed to engage in activities that foster the adaptation of business models.

#### *6.4.6.4 Flexibility*

The management and members of some CBOs were flexible in their practices to facilitate the adaption business models. However, one of the CBOs had limited flexibility because members were not working collectively in a CBO. Such members were able to facilitate the adaptation of the business model at the individual level rather than the CBO level. In another situation, CBOs were not flexible in their practices to nurture the adaptation of business models.

#### *6.4.6.5 Trust*

The management team of some CBOs were trusted by their members to adapt the business model. However, members of one CBO lost trust because its chairman mismanaged its funds. As a result, the CBO's activities came to an end. On the other hand, members of the management team of one of the CBOs did not trust one another because of a lack of transparency in the management of financial resources. This CBO did not engage in practices for business model adaptation.

#### *6.4.6.6 Risk*

The management teams and members of some CBOs took risk to engage in the adaptation of business models. However, one CBO tried to take risk to facilitate such adaptation for a limited period of time. These CBOs had partial adaptation of business models. Some CBOs did not take risk to facilitate the adaptation, they were unable to change business models. In another situation, members of one CBO took risk to foster business model adaptation at an individual firm level, but they could not apply this at the CBO level because of conflicts of interest.

#### *6.4.6.7 Tolerance of mistakes*

One of the CBOs created freedom for its members to explore changes in the business models. However, the changes were not executed or tested at the CBO level example trying to sell furniture through new channels. In the implementation of new business approach, one CBO was able to tolerate mistakes related to funds mismanagement by one of the management team members. In another situation, one of the CBOs showed zero tolerance of mistake in managing CBO funds, they decided to dissolve the CBO when one of the members of the management team mismanaged the MSE's funds.

#### *6.4.7 Observational determinants for the adaptation of business models*

The findings are based on 5 established CBOs and were involved in adaptation of business models. Full adaptation means CBOs adapted all studied elements of business models as specified in a business model canvas by Osterwalder and Pigneur (2010), whilst partial adaptation means CBOs adapted some of the elements. As described earlier in this chapter, the research findings indicate that rural MSEs had no or partial adaptation of the same, of which three CBOs had partial adaptation, while two CBOs had no adaptation of its business models. As shown in Figure 6.6 and Appendix 6.5, commitment, flexibility, communication, coordination, timeliness, leadership, motivation, trust, risk, and tolerance for mistakes determine the adaptation of business models in rural MSEs. The determinants are based on their occurrence in rural CBOs. As in the collective entrepreneurship adaptation, there are determinants that enable the adaptation of business models and determinants that hinder such adaptation.

**Figure 6.6: Observational determinants for the adaptation of business models**



Source: Research findings (2019).

Based on the direction of the influence, all the determinants (motivation, coordination, communication, commitment, flexibility, timeliness, leadership, trust, risk and tolerance of mistakes) enabled and hindered the adaptation of business models in rural MSEs.

#### *6.4.8 Analytical determinants for adaptation of business models*

This section articulates analytical findings that show the relationships between different adaptation determinants. As explained earlier, they are determinants that are found to have influence on adaptation based on their importance in MSEs. The adaptation of each business model of MSEs is influenced by a driving determinant. A driving determinant is a determinant that influences other determinants in the course of adaptation. Commitment, flexibility, leadership, motivation, and trust were the driving determinants of each business model of rural MSEs. These were the foremost determinants for the adaptation of business models.



#### 6.4.8.1 Motivation

The motivation of MSEs was compromised when a CBO specify short-term plans but not its entrepreneurial vision. Upon achieving short term goals, MSEs lacked motivation to have their commitment in activities that facilitated business model adaptation for long-term entrepreneurial results. These affected risk-taking behaviors and flexibility of CBO in adaptation of business model in a timely manner. In this CBO, the motives for the change of form of entrepreneurship were clear to CBO leaders and members. The purpose for the business model change was not clear. Therefore, weak motivation contributed to poor leadership that led to insufficient commitment to the flexibility of MSEs in a CBO for a business model change.

Scenario	Quote
A driving determinant	
CBO 1 - Motivation	
CBO had 12 members. CBO had a focus on short term business needs (machines and raw materials), which they acquired after its establishment. The CBO did not have clear long- term plans. CBO activities were distracted by the desire of its members to struggle for the ownership of CBO machines- so as to get income from machine-usage charges. The constitution neither the business plan was obeyed. Members in a CBO worked in a furniture business, but were competing against each other. Some members managed to change some elements of business model example one MSE changed their channels, segments and partners, the business model was partially changed as a consequence.	'...we never recognised the business opportunity that was in front of us because everyone of us was too selfish. After sometime of working together in a group, we found out that we were very different and could not work together. In the end we decided that any group member who is capable of paying for these machines, will be the owner of the workshop, the rest of will use the machines and pay usage charges.'

Source: Research findings (2019).

#### 6.4.8.2 Leadership

Conflicts of interest between MSEs regarding the adaptation of a business model weakened their motivation. Leadership was weakened by lack of motivation of CBO members hence led the leaders to have ineffective coordination of adaptation activities. Therefore, commitment of members towards the adaptation was affected by poor coordination. In this CBO, poor guidance of group members, inability of a leader to make decisions and take actions based on the rules that were specified in the constitution and business plan activities, inability of a leader to communicate in a transparent manner to members about CBO benefits affected behaviors of CBO members. Therefore, poor leadership, the distracted motivation of leaders, distrust in a CBO, poor commitment and poor coordination led the business model being unchanged.

Scenario	Quote
A driving determinant	
CBO 2- Leadership	
CBO had 12 members but business model adaptation was facilitated by 6 members. 6 members were not members of the CBO after its establishment. The leaders claimed that such members were too busy to be engaged in activities of the CBO and not committed to offer financial contributions that facilitated activities of the CBO. CBO leaders were not transparent to their members	<p>'...we were reminding members to make financial contributions to help in the CBO registration, but they didn't and were not devoted even activities that involved the formalisation of a group.'</p> <p>'...our group leaders were not open to us on how we were going to work together in a group. I was simply a supplier of timber not a furniture manufacturer, I did not understand how the group could be beneficial to me, so I decided to leave the group.'</p>
This CBO had its leaders who were tied up in other jobs (they were full-time employees at a local factory), it was the preference of these leaders not to engage the CBO in furniture manufacturing activities but instead let	'...I could not leave my job at the factory to devote my time in leading a CBO because I knew that I will retire in few years. I didn't want to lose my pension. These projects come and go, as a chairperson of the CBO, I didn't see the need to fight/create problems

<p>other carpenters in a village use the machines so as to collect CBO's income from machine-usage charges. Other members were not in favor of that option. They wanted to have the CBO manufacture its furniture. However, the chairperson of the CBO did not stick to their original idea of CBO commitment towards furniture manufacturing activities as indicated in their business plan, he let everyone in a group do as wishes. The business model was not changed.</p> <p>There was distrust in financial management of CBO by one of CBO leaders. Specifically, regarding the collected money from machine-usage charges paid by other carpenters who used the machines.</p>	<p>with CBO members over project activities. They are all grow-ups; they did what they wanted to do...'</p> <p>'...Our treasurer was in charge of the income that was raised from machine-usage charges. But it seems he was raising a lot more money than what he declared to us...'</p>
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Source: Research findings (2019).

#### 6.4.8.3 Trust

Leadership in taking risk that were associated with adaption of a business model was affected by trust CBO members had to their leaders. Activities that facilitated the adaptation came to an end when a leader was no longer trusted by CBO members; and, members of CBO had low level of tolerance of mistakes. Consequently, lack of trust affected motivation, commitment, communication, coordination, flexibility and timeliness of a CBO. Subsequently, it deteriorated CBO's efforts in leading its activities that required it to take necessary risk when such CBO was intolerant of mistakes. Therefore, CBO members had motivation (market access, raw materials access); were committed with timely coordination of adaptation that was facilitated by good communication in a group; but they lost confidence in CBO's leadership.

Scenario	Quote
A driving determinant	
CBO 3- Trust	
CBO had 4 members. CBO worked collectively as per CBO's constitution. They changed some elements of their business model example served customers and channels. But distrust in leadership that was shown through mismanagement of CBO's funds caused a CBO to cease its existence. The business model was not fully adapted.	'...we gave CBO's funds to our chairman in order to deposit such money into CBO's account, surprisingly, he did not deposit the money. He left with the money, he never came back to this village. That was the beginning of the end of this group because another member moved to the city while two of us decided to work here but independently...'

Source: Research findings (2019).

#### 6.4.8.4 Flexibility

The existence of conflicts of interest among MSEs regarding the adaptation of a business model, affected their motivation. Lack of motivation of leaders and members of a CBO affected their leadership as well their commitment in the facilitation of such adaptation. These determinants led to inflexibility of CBO members in adapting business models. This CBO was not flexible to change the business model. The CBO leaders and members did not change their actions to respond to self-competition challenge they were facing. Varied level of motivation due to conflicts of interest in a CBO affected the leadership of business model change. CBO did not change the business model.

Scenario	Quote
A driving determinant	
CBO 4- Flexibility	
CBO had 9 members but adaptation of business models was facilitated by 3 members. 9 carpenters worked independently in a furniture business within a single business premise owned by someone who is not carpenter, it had a manager. The manager is one of CBO's leaders. These individual carpenters manufactured and	'...lack of customers is our main problem, and each customer wants

displayed their products at the premise thus create self-competition within a workshop.	a lower price than existing one...'. '... we are continuing to compete against each other...'
CBO leaders had a strong motivation (desire to obtain raw materials-timber) and facilitated the establishment of a CBO regardless of weak motivation of 6 members. The CBO was able to get financial capital thus acquired raw materials (timber). The manager of the enterprise was tied up in a managerial structure that considered those 6 members as 'outsiders' i.e. not part of machines he is managing hence required them to pay for machine-usage charges. As a result, 6 members became inactive when it came to their engagement in the adaptation of a business model. Constitution as guiding tool in a CBO was not adhered by leaders. CBO leaders did not terminate membership of 6 members as required in a constitution. The leaders needed such carpenters to continue use machines at a premise in order to continue obtaining income from carpenters through machine-usage charges. Therefore, CBO leaders had other carpenters as members in a CBO thus were able to get timber for the CBO, but the manager (one of the CBO leaders), collected money/income from machine-usage charges used by CBO members.	

Source: Research findings (2019).

#### 6.4.8.5 Commitment

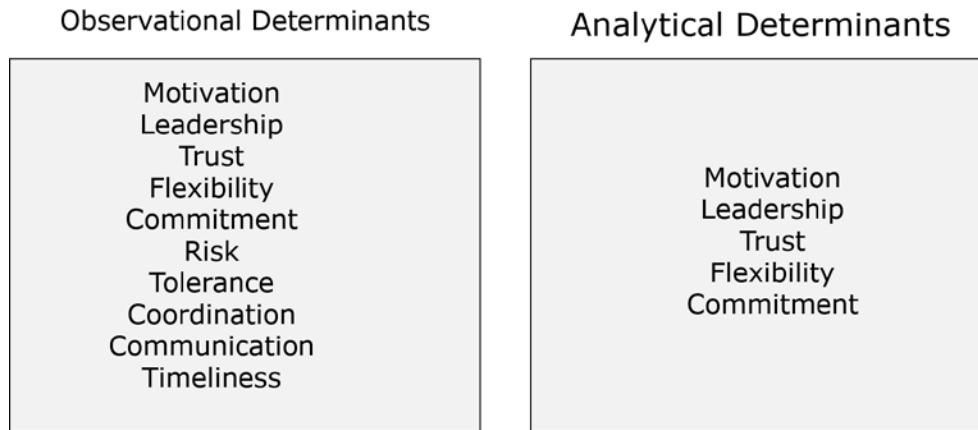
When motivation was specified, MSEs established the leadership that coordinated the CBO to take risk in adapting the business model in a timely manner. However, the adaptation of business model was reliant on the flexibility of MSEs; and, it was influenced more by the commitment of all people who are in the CBO. In this CBO, the dedication of members to change the business model was affected by the divergence of resources' commitment from furniture business to other income generating activities.

Scenario	Quote
A driving determinant	
CBO 5- Commitment	
CBO had 7 members but adaptation of a business model was facilitated by 6 members. One member	'...we are involved in different projects such as furniture making,

<p>stopped activities of furniture manufacturing due to illness. CBO's constitution was adhered. MSEs had commitment in projects that they considered beneficial to them. It is a CBO which its members were mostly family members who were involved in various projects which took place in a local area. Insufficiency of capital and technical skills were among the main problems in a CBO. While the scarcity of resources required the CBO to have a focus and a priority, it was not a case. The engagement of CBO in multiple entrepreneurial projects and diversion CBO's commitment to such projects made it unable to have sufficient focus on furniture manufacturing business. The CBO lacked a priority on areas to focus on furniture business and on projects to focus on.</p> <p>CBO developed a collective way of working by focusing on expertise of each of its member. For instance, some members were responsible for timber acquisition, others were making furniture while the rest were responsible for furniture selling furniture. The CBO made few changes in its business models because it committed its labor and financial resources into other entrepreneurial activities.</p>	<p>beekeeping, bricks making, horticulture, maize farming, poultry and animal projects such as keeping cows and rabbits. Also, we have a maize flour milling machine...'</p> <p>'...all projects are important to us, for example if we need money to support cows' project, we can take money from furniture business to support it.'</p>
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Source: Research findings (2019).

**Figure 6.7: Observational and analytical determinants of the adaptation of business models**



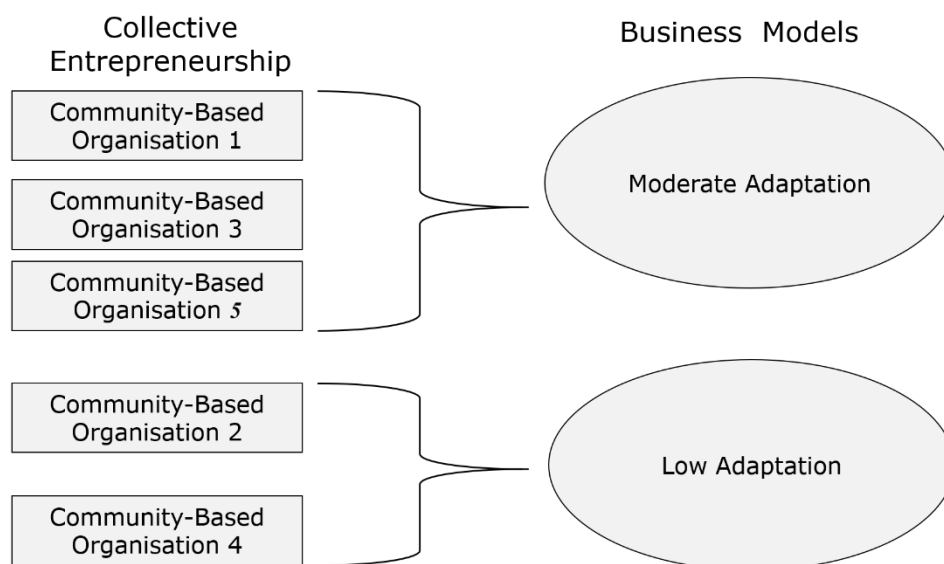
Source: Research findings (2019).

Figure 6.7 indicate 10 observational determinants which imply that rural MSEs considers such determinants to have the influence in the adaptation of business models. However, analysis show that more attention should be paid to motivation, leadership, trust, flexibility and commitment because these determinants had a major influence in the adaptation of business models.

#### *6.4.9 The status of adaptation of the collective form of entrepreneurship and business models*

The previous sections specified that the adaptation of business models was performed by rural MSEs which had full adaptation of the collective form of entrepreneurship i.e. they established CBOs. This section indicates the status of adaptation of business models by those CBOs (see Figure 6.8).

**Figure 6.8: The status of adaptation of business models by MSEs which fully-adapted the collective form of entrepreneurship**



Source: Research findings (2019).

5 CBOs which changed their form of entrepreneurship, were engaged in activities which were meant to facilitate the adaptation of business models. The findings indicate that MSEs that succeeded to change their form of entrepreneurship had low to moderate level of adaptation of business models. CBO 1, CBO 3 and CBO 5 had common interests (motivation) for the establishment of CBO i.e. adaptation to the form of entrepreneurship. Commitment, trust and motivation are key determinants which affected their activities which facilitated business model adaptation. This finding signifies that existence of common interest for establishment of a CBO as a change in entrepreneurship form may have contributed to a moderate level of adaptation of business models. However, MSEs activities may be nurtured by commitment, trust and motivation for business models adaptation. CBO 2 and CBO 4 had conflicts of interest in the adaptation of the collective form of entrepreneurship. Results show that leadership and flexibility are major determinants which affected their decisions for the adaptation of business models. This finding suggests, lack of motivation of all members in the adaptation of collective form of entrepreneurship may have affected the flexibility and leadership of rural MSEs of business models adaptation. To



summarise, the determinants that influence the adaptation of the collective form of entrepreneurship and business models are motivation, leadership, coordination, commitment, timeliness, trust, flexibility, communication, willingness, readiness, experience, risk and tolerance. Figure 6.9 presents the summary of these adaptation determinants.

**Figure 6.9: The determinants for the adaptation of a form of entrepreneurship and business models**

	Collective Entrepreneurship (CE)	CE & BM	Business Models (BM)
Observational Determinants	Experience Readiness Willingness	Motivation Leadership Coordination Commitment Timeliness Trust Flexibility Communication	Risks Tolerance
Analytical Determinants	Coordination Timeliness Experience	Motivation Leadership Commitment	Trust Flexibility

Source: Research findings (2019).

In the next part I discuss the findings, I draw some conclusions and I look into the implications for theory as well as for practitioners.

### ***6.5 Discussion, conclusion, study implication, and limitation and areas for further research***

Having provided the determinants of adaption of collective form of entrepreneurship and business models, in the following section I discuss such determinants, present a conclusion, study implication, and limitation and areas for further research.

#### 6.5.1 Discussion

Motivation is a determinant that influences most rural MSEs but also influences other determinants in order to enable the adaptation of collective entrepreneurship and change in business models. Although they focused on the adaptation of business models only, the role of motivation has been studied by Saebi *et al.* (2016), Achtenhagen *et al.* (2013), and Zahra, Sapienza, and Davidsson (2006). Leadership is a determinant that enables or hinders the adaptation of collective entrepreneurship and business models in rural MSEs. In line with Achtenhagen *et al.* (2013), Teece (2007) and Dottore (2009), I emphasise the importance of leadership when it comes to the engagement of SMEs in the two forms of adaptation. Commitment is a determinant with an influence in the adaptation of collective entrepreneurship and business models in rural MSEs. Similarly, Teece (2017), Achtenhagen *et al.* (2013), and Teece (2007) stressed the role of commitment in the adaptation.

With a focus on adaptation of business model, Dottore (2009) indicated the importance of timeliness in the adaptation but the current study has found that timeliness determines the adaptation of a form of entrepreneurship more than business models adaptation. Similarly, coordination has influence in adaptation of collective form of entrepreneurship more than adaptation of business models. The role of coordination in adaptation was also specified by Teece (2007).

Experience is an influential determinant in the adaptation of collective entrepreneurship by rural MSEs. Provan and Kenis (2008) provided a similar insight on the influence of experience on the change of the governance form of the business. Although Provan and Kenis (2008) indicated trust is an important determinant in the adaptation of the form of entrepreneurship, the current study indicates that trust in an enterprise is more important in the adaptation of the business models than for the adaptation of a form of collective entrepreneurship. Dottore (2009) considers enterprise flexibility as an important determinant in the adaptation of the business model. Similarly, this study shows that flexibility is more influential for the adaptation of business models than for the adaptation of collective entrepreneurship. Therefore, in rural MSEs, timeliness, coordination and experience are important in adaptation of the form of entrepreneurship while flexibility and trust are important in business models adaptation. Also, motivation,

leadership and commitment are important in the adaptation of both business models and a form of entrepreneurship.

#### *6.5.2 Conclusion*

The analysis of the determinants for the adaptation of the collective form of entrepreneurship and business models was the focus of this chapter. The determinants for these adaptations have been provided focusing on their influence on the facilitation of such adaptations. Observational and analytical determinants are two categories of determinants that influence the adaptation of the collective form of entrepreneurship and business models.

Commitment, coordination, flexibility, communication, timeliness, leadership, motivation, and trust are the determinants for the adaptation of a collective form of entrepreneurship and for the change in business models. Experience, willingness, and readiness, are additional determinants which influence the adaptation of collective form of entrepreneurship, while risk and mistake tolerance are additional determinants that influence the adaptation of business models. Out of these, motivation, leadership, and commitment have the strongest influence on the adaptation of the collective form of entrepreneurship and business models. Experience, coordination and timeliness have a strong influence on the adaptation of the entrepreneurship form while trust and flexibility are influential determinants for the adaptation of business models.

#### *6.5.3 Study implication*

This study provides empirical evidence from a rural context of a developing country by focusing on how the adaptation of the collective form of entrepreneurship and business models is affected by different determinants. However, some determinants foster the adaptation in many MSEs based on their occurrence, but it cannot be concluded that the adaptation is exclusively affected by such determinants because they may be of less importance to the adaptation process. It is vital to pay attention to the occurrence as well as the importance of adaptation-influencing determinants. The occurrence of a determinant indicates the influence it has in MSEs such that a larger number of occurrences of a determinant indicates that it affects the adaptation in many MSEs. The importance

of a determinant indicates the influence of a particular determinant on other determinants in driving the adaptation. The study implies that a determinant in many MSEs may be less important in the adaptation when such determinant is driven by other determinants. Therefore, the broad analysis of determinants that considers the occurrence and importance of determinants provides an enriched understanding of determinants influencing the adaptation of the collective form of entrepreneurship and business models. The analysis of determinants by occurrence is useful in indicating determinants that need attention from MSEs after understanding their inherent driving determinants.

The current study focuses on the implementation of MSE-level changes for the creation of customer value. These changes were facilitated through new combinations of existing resources which involve adaptation of the collective form of entrepreneurship and business models. Some MSEs were able change the governance of their activities but had low- to-moderate level of adapting business logics; this suggest rural MSEs have low to moderate level of entrepreneurial orientation. This is an evidence that EO theory is less applicable in rural MSEs of a developing country. This research results are of importance to business enterprises and stakeholders who support entrepreneurship development initiatives such as governments, private companies, NGOs, and international actors. It indicates determinants of importance these stakeholders should take into consideration in the improvement of professionalisation and performance of rural MSEs. Such determinants affect the professionalisation of MSEs that is nurtured through the change of business models that takes place within a changed form of entrepreneurship. The current study is also of importance to academics as it provides empirical insight into the implementation of business model changes which occurs within a collective form of entrepreneurship. Study has shown that emancipatory action research is useful but it is not enough in rural MSEs because the effective management of rural MSEs require intervention from external actors, this has been suggested by Provan and Kenis (2008). Further, it is recognised that the change in the elements of business models should not necessarily involve the change of all elements, MSEs are required to make changes that are enough to address value-creation challenges.

#### *6.5.4 Limitation and areas for further research*

Although there are different forms of collective entrepreneurship, this study is limited to one form of collective entrepreneurship, i.e. CBO. Moreover, it is limited to the wood furniture manufacturing industry in Mvomero, Tanzania. Future studies that include other forms of collective entrepreneurship and business enterprises in various industries may enrich the understanding of the adaptation of collective entrepreneurship forms. As Osterwalder and Pigneur (2010) stipulated, customer segments, value proposition, customer relationship, channels, key activities, key resources, partners, cost structure, and revenue streams are nine business model elements that have value-creation and value-capture roles. This study involves seven elements linked to the value-creation aspect. A similar study that involves both value-creation and value-capture elements may provide a richer understanding of business model changes in MSEs.

Regarding the direction of influence, there are determinants that have both enabling and hindering roles in the adaptation of the collective form of entrepreneurship and business models. Such determinants may enable or hinder the adaptation in different MSEs. Those determinants may also have a different effect at different points in time for the same MSE. This study includes determinants that enable and hinder adaptation in different MSEs, but it has not focused on a dynamic perspective showing the influence of determinants in MSEs at different points in time. Future studies that incorporate such focus may enrich our understanding of the area of study.



## **Chapter 7: Thesis Discussion, conclusion, implication, and limitation**

### ***7.1 Thesis discussion***

This research was meant to analyse how value is created for customers through the entrepreneurial activities of rural MSEs in the wood furniture manufacturing industry. The research questions were as follows: (1) why rural MSEs have poor performance in the creation of value to customers? (2) In what ways rural MSEs required to change to increase the creation of customer value in the wood furniture industry? (3) How are critical factors affecting rural MSEs in their adaptation of required changes for the creation of value for customers?

In this chapter, I discuss the research findings that are related to the reasons behind the poor performance in the creation of value to customers in rural MSEs, the creation of customer value through MSEs changing their way of enterprising, and the factors i.e. the determinants that influence rural MSEs in the adaptation of MSE-level changes. Furthermore, this chapter provides a classification of the types of rural MSEs. Finally, I draw the main conclusions from the thesis and focus on implications for MSE managers and government entities. In addition, I outline the limitations of the study and areas for future research.

#### *7.1.1 Value creation challenges in rural MSEs*

##### *7.1.1.1 Challenges linked to the condition of basic amenities*

This thesis examined the reasons for the poor performance of rural MSEs in value creation. These reasons are the factors of influence in the value creation activities. Challenges that were identified are; insufficient financial capital, furniture-making machines, raw materials, manufacturing and management skills, competition, middlemen, suppliers, transport services, access to customers, and government regulations. These challenges reside within rural MSEs, the industry in which MSEs operate, and their institutional environments. These factors are in line with relevant studies, such as Keizer *et al.* (2002), Temtime and Pansiri (2004), Calvo and Garcia (2010), Chawla *et al.* (2010), Islam *et al.* (2011), Isaga (2012) and Talebi and Ghavamipour (2012).

Rural areas are known for their peripheral locations, which are characterised by different conditions of basic amenities such as roads, telecommunication services, and electricity supply (Olomi, 2006; Lee and Phan, 2008; Vaillant and Lafuente, 2008; Patel and Chavda, 2013). Factors that affect value-creating activities were not the same for all MSEs, although all MSEs were in a rural area. Such factors vary with the conditions of basic amenities based on a physical location of an enterprise in a rural area. Different conditions of basic amenities indicated different factors of influence in value-creating activities. It is vital for stakeholders such as government, NGOs, and development partners to recognise that different factors affected the value-creating activities of different MSEs because of dissimilarities in the conditions of the available infrastructure. Value-creation challenges differ in MSEs because of varying conditions of roads, electricity supply and telecommunication services which facilitate the production process and the flow of input, output and information between MSEs and their stakeholders.

#### *7.1.1.2 Challenges linked to MSE characteristics*

The discussion on the factors affecting value creation activities of MSEs is deepened when it integrates characteristics of rural enterprises such as age, size, and formalisation. Although limited to the combination of features of studied firms, scholars such as Cirillo (2010) and Serrasqueiro, Nunes, and Silva (2016) combined age and size of the firms in their studies. Hence, I found it crucial to incorporate MSE characteristics to gain an understanding of factors that affect rural MSEs' value creation activities. As demonstrated in Chapter 3, this was a useful approach that demonstrated possible reasons for the continued value-creation performance of rural enterprises. It clarified MSEs' performance through linking factors that affect value creation activities to MSE characteristics. Through vicious cycles, the connection between 'factors' and 'characteristics' explained the limitation of the professionalisation of enterprises as their age increases. Therefore, various cycles were established to stipulate possible reasons for continued value-creation performance of businesses as their age increased. The cycles showed the factors of influence in value-creation activities and how they are linked to each other, which altogether affects the size, formalisation status, and age of MSEs that operate within the individual form of entrepreneurship. Similarly, cycles indicated the influence of MSEs' characteristics, such as their



informal nature and size, on the value-creating factors of rural MSEs. Vicious cycles were areas worthy of rural enterprises' attention; the cycles could be broken for the improved performance (value creation) through professionalisation. Therefore, it is imperative for MSEs, NGOs, donors and government entities such as ministry of industry, trade and marketing, and SIDO to have a strong understanding of the reasons for poor performance in value creation, which incorporate MSE characteristics and value-creation factors, because different factors of influence in their value-creating activities may have an influence on their characteristics. Similarly, MSEs' characteristics may have an influence on factors that affect their value-creation activities.

#### *7.1.1.3 MSE-, industry-, and institution-level challenges that influence value creation*

Value creation challenges were situated at different levels: enterprise, industry, and institutions. These levels suggest the possibility of a variety of responses of MSEs towards such factors because they have control over internal factors (factors within MSEs) more than external factors, which are part of the industry and institutional environment (Sorensen, 2012).

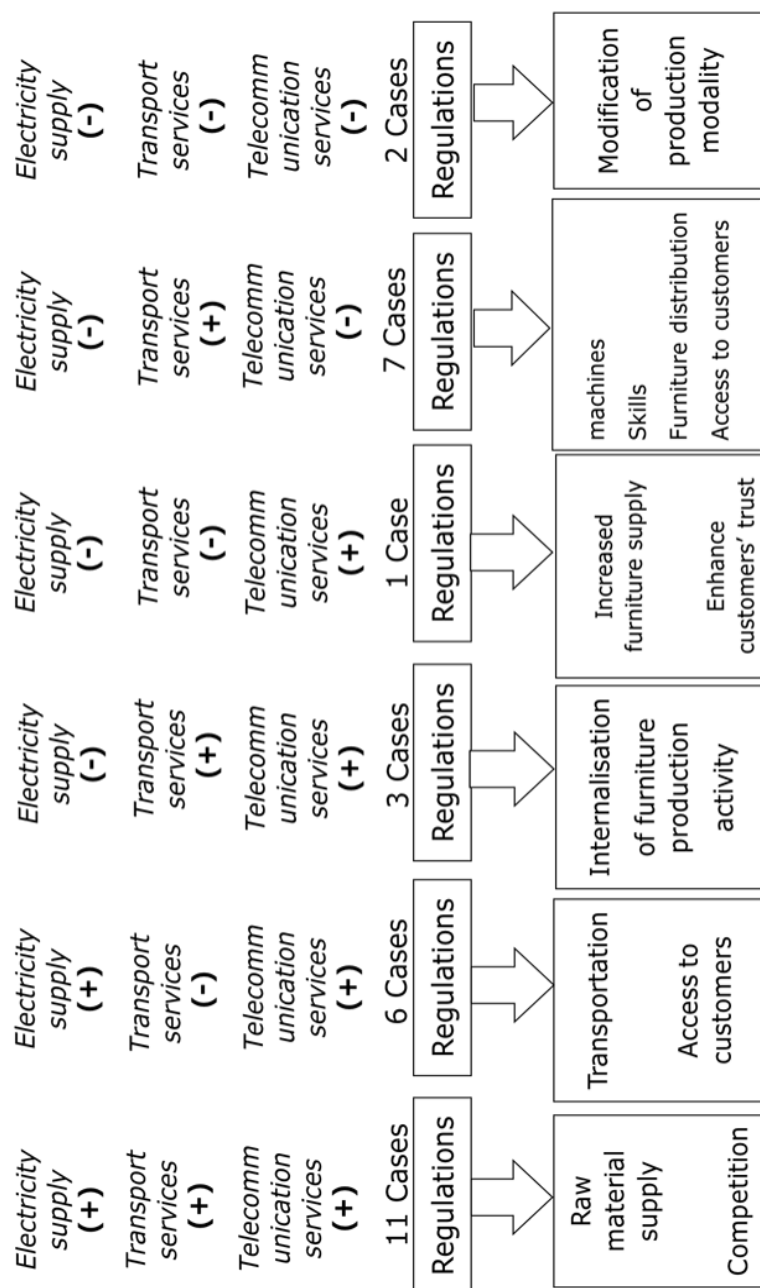
As shown in Chapter 3, different categories of factors influence the performance of business enterprises. Galbreath and Galvin (2008) focused on enterprise-level factors, whereas Hawawini *et al.* (2001) emphasised the impact of industry-level factors. These arguments were useful for determining priority factors to be fixed first by rural enterprises. The identification of first-priority factors is valuable because such factors are related to other sets of factors, which may be second or third in preference to rural MSEs. In this regard, the current study showed that both formal and informal businesses were engaged in the wood furniture business, and most were informal. These informal businesses were legitimate but illegal (Webb et al, 2009) and were operating in the industry, which required them to comply with government regulations for the sustainable utilisation of forest resources. These informal MSEs were not complying with regulations that required them to be registered at a local government office (the district office or business registration and licensing agency), possess business licences and permits, and be recognised by the local authority responsible for tax collection through their tax

identification numbers. Hence, they could not invest in the acquisition of resources such as raw materials (timber), nor could they seek access to customers who were not located in rural areas. Informal enterprises were unable to obtain raw materials, process input into output, and make output available to the market in a legally compliant manner. Penalties linked to illicit furniture businesses include confiscation of input and output. Fines as well as jail time are other consequences that may result from unlawful value-creation activities of enterprises (TFS, 2015). Therefore, I argue that it is vital for enterprises to operate as formalised entities and conform with other regulatory requirements before investing in resources or acting upon challenges in the industry linked to supply, competition, and access to customers. In contrast to enterprise-level factors by Galbreath and Galvin (2008) and industry-level factors by Hawawini *et al.* (2001), the current study indicated that institution-level factors have high priority for enterprises in rural areas. Therefore, the need exists to solve institution-level problems first before tackling enterprise- and industry-level factors. This implies that the compliance of enterprises with government regulations is the top priority and should be dealt with first by rural MSEs. Regulations compliance includes; formalisation of a business enterprise and get it registered at tax revenue authority to obtain tax identification number, and acquire a business licence and permit.

In sum, value creation challenges vary with locations of enterprises in a rural area. Different locations manifest varied conditions of infrastructure that imply different factors of influence in MSEs' value creation activities. Knowledge of these factors can be enhanced by attempting to understand how such factors relate to each other as well as how they are interconnected with different MSE characteristics. Hence, the professionalisation of MSEs in value creation is affected by their characteristics as well as by firm-, industry-, and institution-level factors that influence their value creation activities. Although factors that have an impact on the value creation ability of MSEs can be found at different levels, the institution-level factor i.e, government regulations, is of the highest priority to rural MSEs in the furniture business. MSE- and industry-level factors should only be tackled once MSEs comply with government regulations. Chapter 3 indicated six categories which exhibit varying conditions of basic amenities i.e. electricity supply, roads and telecommunication services that facilitate the production

process and the flow of goods as well as information in the studied cases (rural MSEs). In the similar manner, Figure 7.1 indicate the response to various value-creation challenges which differs with the conditions of infrastructure. More specifically, the Figure illustrates that MSEs can respond to value-creation challenges once they have dealt with government regulations as a high-priority factor.

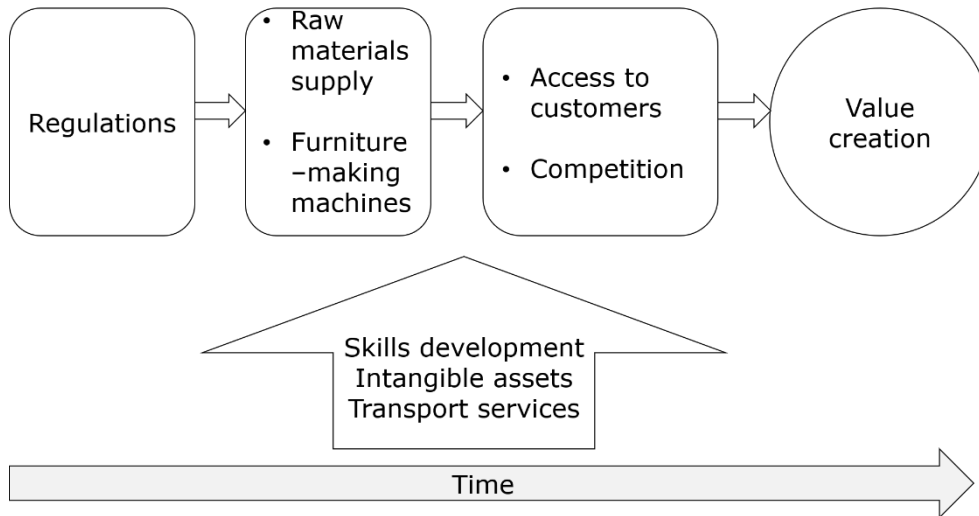
**Figure 7.1: Possible responses of rural MSEs to value creation challenges**



Source: Research findings (2019).

Rural MSEs' value creation activities were affected by various challenges that are linked to different conditions of basic amenities. 'Government regulations' was the foremost challenge, which sets a foundation for solving other value-creation challenges for MSEs. Rural MSEs may respond to value creation challenges through employing a 'first-things-first' approach. This is a stage-wise approach that may be suitable in the formation of value-creation priorities in MSEs within a certain time framework. Through this approach, enterprises are required to respond to the first-priority concern (i.e., compliance with regulatory requirements) of influence in value creation activities in the furniture business. Because customer value is affected by quality and MSE's productivity, I found that the availability of mechanical furniture-making machines and an increased supply of raw materials (i.e. timber) in rural MSEs are second-priority concerns that have the potential to amplify value-creation ability. The third-priority concerns involve the enhanced competitiveness of MSEs to serve local customers in rural areas, rural towns, and cities. MSEs' competitiveness may be strengthened by legally compliant business activities integrated with a reliable supply of raw materials and productive machines. Furthermore, the relationship between regulation compliance, investment in resources, access to customers, and MSEs' competitiveness may be nurtured through the development of management and technical skills, the utilisation of intangible assets, and the management of transport services for input and output. With this approach, the value-creation challenges faced by rural MSEs that are linked to raw materials, furniture-making machines, access to markets, regulations, competition, and suppliers may be addressed. Figure 7.2 presents the value creation priorities of rural MSEs.

**Figure 7.2: Value-creation path in rural MSEs**



Source: Research findings (2019).

In summary, through a ‘first-things-first’ approach, this study suggested a stage-wise approach that may be beneficial for rural MSEs; it was intended to act upon their value creation challenges. More crucially, it stipulated factors of priority to such enterprises, among which first-, second-, and third-priority factors were classified. In this regard, this study classified government regulations as the first-priority factor, raw materials supply and furniture-making machines as the second-priority factors, and market access and competition as the third-priority factors. I expect that when this order is followed, rural MSEs will have a higher probability of creating greater value for their customers. Furthermore, neglecting this priority order may lead to the continuation or worsening of their inability to create sufficient value. Although scholars in developing countries such as Abdallah (2017) indicate that performance (growth) is much more in informal than formal enterprises, this study imply that rural MSEs have to become formal to create value for customers (and capture value for their growth). The informal nature of MSEs hinder their activities because of MSEs utilisation of opportunities from forests that are prone to the strict enforcement of formal institutions (government regulations).

### *7.1.2 Creation of customer value through MSEs changing their way of enterprising*

In this section, I describe possible methods for MSEs to respond to factors influencing their value-creation activities. Rural MSEs may engage in value creation activities through utilising what is available to them in different ways (Sarasvathy, 2001; Chesbrough and Rosenbloom, 2002; Baker and Nelson, 2005). In this regard, they may change how they enterprise in response to challenges and opportunities that are interconnected to the business environment. These changes may involve business logic that may occur in a certain organisational framework. As shown in Chapter 5, the change of the way of doing business (business model) as well as the form of entrepreneurship (collective form of enterprising) were different methods of enterprising considered in the current study. These are possible ways for resource-scarce MSEs may combine existing resources such as raw materials in response to value-creation challenges. They are beneficial because they provide enterprises with the potential to act on value-creation challenges in a professional manner.

Although the challenges that influence the value-creation activities of rural MSEs were already specified, the logical concern was how such MSEs may acquire capital to cope with such challenges. The responses of rural MSEs to the identified challenges require them to possess resources, and more critically, financial resources. The importance of financial capital to rural MSEs was stressed by Olomi (2006) and Chawla *et al.* (2010). Hence, 'financial resources' may facilitate MSEs' compliance with regulations and acquisition of other resources such as furniture-making machines, skilled human resources, and raw materials. Therefore, obtaining the financial resources is a crucial step for rural MSEs that intend to respond to value-creation challenges. As shown in this study, most MSEs were in need of similar resources such as furniture-making machines and raw materials. Among other factors, the existing business models of most enterprises were aimed at raising financial capital through savings. These MSEs had been in a process of raising the desired capital for several years, ranging from 1 to more than 20. However, most MSEs (at least 50%) had struggled for 5 or more years with capital acquisition. Alternatively, MSEs may take loans from various providers to finance their value-creation activities. Rural MSEs encountered some difficulties in

obtaining the financial capital from most financial institutions because of their informal status, as well as the lack of suitable collateral for the desired loans. If they did qualify for the desired loans, most MSEs came across complex loan conditions such as high interest rates and shorter grace periods. For these reasons, I found that business models of rural MSEs that operate within collective entrepreneurship governance forms have greater potential for addressing resource limitations as well as other constraints linked to government regulations, supply, access to customers, competition, and distribution of products. Scholars such as Cook and Plunket (2006), Chen *et al.* (2006) and Peredo and Chrisman (2006) have specified that resources (including financial) can be raised by businesses that employ the collective form of entrepreneurship. Therefore, MSEs have the potential to acquire more resources and perform entrepreneurial activities in different ways while responding to value creation challenges through business model adaptation and collective forms of enterprising. As indicated by Osterwalder and Pigneur (2013), enterprises can respond to challenges that exist in the business environment through business models. Different challenges may result in different business models in business enterprises (Saebi and Foss, 2014).

In response to business challenges, a particular business model of a rural MSE is crafted for the purpose of customer value creation. Different business models that operate within a collective form of enterprising are meant to react to different challenges that influence the value-creation activities of rural MSEs. As shown in this study, the supply of raw materials, furniture-making machines, manufacturing and management skills, financial resources, social capital, MSE reputation, MSE location, access to customers, competition, regulations, transportation, and middlemen affected the value-creation activities of MSEs. However, such factors were not all equally important in each existing business model of the rural MSEs. The supply of raw materials, furniture-making machines, manufacturing and management skills, access to customers, competition, and government regulations had major influences on the existing business models of MSEs operating with individual governance forms. This study suggested that it is crucial for rural MSEs to recognise the factors influencing their value-creation activities; however, when changes in such MSEs are realised through business model adaptation and collective forms of entrepreneurship, then more attention



should be paid to factors with a major influence. Thus, I came to the conclusion that changing the way SMEs conduct enterprising through adaptation of business model and the collective forms of enterprising has the potential to create a great deal more value for customers.

Peredo and Chrisman (2006) and Chen *et al.* (2006) indicated that the collective form of entrepreneurship is more appropriate for business enterprises in developing countries, whereas Dottore (2009), Achtenhagen *et al.* (2013), Mizger (2013), and Saebi *et al.* (2016) insisted on the usefulness of business models for value creation and value capture in various businesses. In the current study, I demonstrated the potential of combining business model adaptation and shifting to forms of collective enterprising as a suitable approach for rural MSEs to respond to value-creation challenges. In this section of the chapter, I have discussed the changes required in rural MSEs for the creation of sufficient customer value to guarantee their competitive position. Such changes focus on how these businesses conduct entrepreneurial activities with the purpose of tackling value-creation challenges. The next part of the discussion focuses on the implementation of such changes.

### *7.1.3 Determinants of influence in changing how rural MSEs conduct entrepreneurial activities*

This section discusses the critical issues when rural enterprises implement changes related to their way of enterprising. More specifically, I discuss the determinants of influence in the adaptation of business models and collective form of enterprising in rural MSEs.

Chapter 5 show that adaptation of the way of enterprising must follow a step-wise process. It begins with MSEs' adapting a CBO as a collective form of enterprising that involves the formalisation of such enterprises and investment on business premises. This is followed by adaptation of business models, which consists of modifications of seven business model elements. As specified by Mizger (2013), a change in business model involves a change in the elements of those business models. In this regard, rural MSEs' adaptation of their way of enterprising encompasses the adaptation of business models that occurred within CBOs as a collective form of entrepreneurship governance.

As shown in Chapter 6, there were varying levels of adaptation. Most MSEs were able to adapt to the collective form of entrepreneurship but others made few changes or were unable to change business models. There were diverse determinants of influence in the adaptation of enterprising. Motivation, leadership, and commitment were the determinants of the influence for the adaptation of both the collective form of entrepreneurship and business models. In addition, timeliness, experience, and coordination influenced the adaptation of the collective form of entrepreneurship whereas trust and flexibility determined the adaptation of business models. Therefore, before engaging in adaptation processes, the strength of motivation should be examined because it plays a vital role in the success of adaptations. Once the adaptation decision is made in an enterprise, the leadership coordinating the development of capabilities in a timely manner becomes the most influential factor in the acceleration of this adaptation. Success in adaptation not only depends on the commitment and flexibility of the management team and its members but also on their experience and how they trust each other. Having discussed the determinants of influence in the implementation of the changes that were connected to enterprising, the next part of the discussion focuses on the types of rural MSEs.

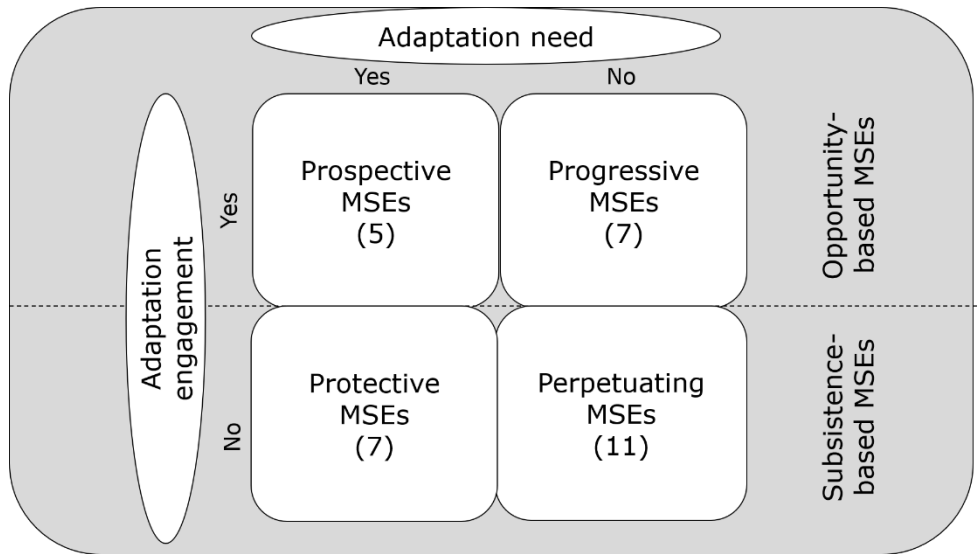
#### *7.1.4 Types of rural MSEs*

The current study involved rural MSEs that were using the individual form of entrepreneurship to identify the factors of influence in the creation of customer value. It specified the potential changes that were deemed relevant for MSEs to respond to such challenges. Furthermore, it indicated the determinants of influence in the implementation of changes in the way of doing business and form of entrepreneurship. These changes indicated a shift in micro and small entrepreneurial entities to becoming more strategic by concentrating on their business logics. Hitt *et al.* (2011) claimed that the creation of customer value requires small enterprises to become more strategic. However, there were varied responses of rural MSEs towards such changes in this study. This part of the chapter articulates the types of rural MSEs that are rooted in two aspects, namely the need to adapt the way of enterprising and the engagement of MSEs in that adaptation. Figure 7.3 and Appendix 7.1 represent the different types of rural MSEs.

In Figure 7.3, the adaptation actions of rural MSEs must express; a need to adapt how they conduct entrepreneurial activities; their engagement in such adaptation. The adaptation need refers to MSEs' desire to modify their way of enterprising; such a desire is characterised by the motivation, willingness, and readiness of such MSEs. By contrast, the adaptation engagement refers to the change of the MSEs' practice that facilitate the adaptation of their way of enterprising. Engagement in adaptation is characterised by MSEs' management traits, including leadership, which coordinate the adaptation of aspects such as information collection, communication, and timeliness of decision making. Therefore, different types of rural MSEs can be distinguished based on the two dimensions of adaptation behaviour, 'the adaptation need' and 'the adaptation engagement'. This study classified four types of rural MSE: prospective MSEs, progressive MSEs, protective MSEs, and perpetuating MSEs.

- Prospective MSEs are rural MSEs that have a strong adaptation need and are engaged in the adaptation.
- Progressive MSEs are rural MSEs that do not have an adaptation need but are engaged in the adaptation.
- Protective MSEs are rural MSEs that have the adaptation need but are not engaged in the adaptation.
- Perpetuating MSEs are rural MSEs that do not have the adaptation need and are not engaged in the adaptation.

**Figure 7.3: Types of rural MSEs**



Source: Research findings (2019).

Entrepreneurial orientation in enterprises comprises the aspects including risk taking which is exhibited in what MSEs do rather than what they possess (Covin and Lumpkin, 2011). Changing the way of conducting entrepreneurial activities was an alternative entrepreneurial approach for rural MSEs to change their entrepreneurial orientation (changed practices/actions) in response to challenges (problems/opportunities) related to value-creation activities. The action research approach provided a chance/opportunity for MSEs to take risk in order to strengthen their competitive positions through the creation of more customer value. The change in the way of enterprising provides a pathway for MSEs to progress, grow, or change their performance in terms of customer value creation, which sets a foundation for their ability to capture value. Pitelis (2009) contended that MSEs can capture value without creating it, but it can capture value in a sustainable manner if it creates enough value for customers. The essence of strategic entrepreneurship is for MSEs to capture value when or after creating sufficient value (Hitt *et al.*, 2011; Priem *et al.*, 2018).

Therefore, these types of rural MSEs indicated behaviours of rural MSEs towards the changes that were deemed relevant in responses to value-creation challenges. However, MSEs had different responses towards changing their manner of

enterprising, which had the potential to enhance the creation of customer value. Such responses suggest two categories of MSEs: (1) MSEs that saw an opportunity for professionalisation of their businesses (40%) through a change in a way of conducting entrepreneurial activities for value creation; and (2) MSEs that did not see an opportunity for professionalisation of their businesses (60%) for value creation, and consequently were not in favour of such an approach. Similarly, some scholars have indicated different types of business enterprises based on their potentials to progress. For example, Duncombe and Heeks (2002) drew a distinction between survivalists and trundlers as non-growth oriented MSEs and flyers as growth-oriented MSEs. Fuentelsaz *et al.* (2015) and Angulo-Guerrero, Perez-Moreno, and Abad-Guerrero (2017) drew a distinction between opportunity and necessity enterprises, whereas Schoar (2010) categorised them as transformational and subsistence enterprises.

## **7.2 Conclusion, implication, limitation and areas for future research**

### **7.2.1 Conclusion**

Through this thesis, I intended to study the performance of rural MSEs, and more specifically the creation of customer value, because of its connection to the competitiveness of MSEs in the industry. I made a distinction between two settings: before the action research and during action research with furniture manufacturing MSEs in the Mvomero district of Tanzania. Before the action research, I analysed the factors influencing value-creation activities in rural MSEs that were using the individual form of entrepreneurship. Then, I conducted an analysis of the potential methods for MSEs to create value through their responses to such factors. Business model changes that occurred within a collective form of entrepreneurship were a potential way of enterprising that was found to be relevant for rural MSEs to react to value-creation challenges. Business model changes that occur within a collective entrepreneurship form i.e. CBO had a potential to enhance the ability of rural MSEs to deal with value-creation challenges. Hence, the challenges of priorities that had influence on value creation activities were identified as well. The need for MSEs to comply with

government regulations was a first-priority challenge in all MSEs. This was followed by other challenges that were determined by rural conditions of basic amenities. A value-creation priority path was suggested to indicate primacy areas that were in need of MSEs reacting the creation of customer value. Furthermore, forces of influence in each MSE business model were identified because they were areas of attention in business model changes that occurred in MSEs organised within a CBO or a collective form of entrepreneurship.

During action research, the implementation of changes by rural MSEs was at the core of this emancipatory action research. In this step, MSEs were empowered through access to capital for assets such as furniture-making machines and raw materials and by obtaining business management manufacturing and management skills through training. Moreover, MSEs were linked to customers, suppliers, and various stakeholders such as SIDO and VETA, which are responsible for elevating their technical skills. The empowerment occurred before and during the adaptation of enterprising for the creation of customer value in a sustainable manner. During this stage, the essential determinants of influence in the adaptation were investigated. The major determinants were the motivation, leadership and commitment of MSEs in the change of business model that took place within the CBO as a collective form of entrepreneurship. In addition, trust and flexibility influenced the business model adaptation, while coordination, timeliness, and experience influenced the adaptation of a collective form of entrepreneurship. This suggested that such determinants must be strengthened for the successful implementation of business models changes and the adaptation of collective entrepreneurship forms. Furthermore, I identified four types of rural MSEs based on their actions with respect to the change in the way of enterprising. These four categories were prospective, progressive, protective, and perpetuating MSEs. Thus, two categories of MSEs were based on their ability to change their business models and entrepreneurship governance. The current research suggests that the first category of MSEs that had this ability consists of prospective and progressive MSEs, and they can be considered opportunity-based MSEs, whereas protective and perpetuating MSEs constituted the other category, which can be considered subsistence MSEs.

### *7.2.2 Implication and contribution*

The current research has several implications for both MSE managers as well as government, NGOs, and donors. The current study shows that rural enterprises were able to make changes to their form of enterprising but were unable to change the way they conduct business. This suggested that changes in the way of doing business require much more time and skills than changes in the form of enterprising. Despite the empowerment initiatives of MSEs through training, access to resources such as furniture-making machines and raw materials, and linkage with stakeholders, this study implied that such empowerment was a necessary but not sufficient condition for rural MSEs to create customer value.

This study implied that the factors influencing the activities of value creation in rural MSEs are determined by the condition of basic amenities. Empirically, these factors were financial capital, furniture-making machines, raw materials, manufacturing and management skills, competition, middlemen, suppliers, transport services, access to customers, and government regulations. Although the studied MSEs were located in a rural area, the factors influencing their value-creation activities differed. In addition, the factors of influence were identified but such factors differed in terms of their importance in various MSEs. The current study implied that these factors are not all critical to all MSEs in terms of influencing their value-creation activities; the importance of a factor in the course of value creation in a rural MSE is determined by the conditions of social amenities such as electricity supply, telecommunication services, and transport services. Differences in the availability and reliability of electricity supply, roads, and telecommunication services imply that different factors affect the value creation ability of enterprises. Hence, it is the condition of basic amenities in a rural location that determines business challenges in the rural context of a developing country. Practically, rural MSEs should consider these factors as being determined by conditions of basic amenities. Similarly, stakeholders who are in support of MSEs' empowerment such as government entities such as ministry of industry, trade and marketing; ministry of natural resources and tourism; SIDO and local government authorities example community development offices; and donors should consider that differences in availability of basic amenities in rural areas implies that different factors will affect their value-creation abilities. Initiatives

that intend to empower these MSEs should consider crucial factors that are determined by the conditions of basic amenities. Thus, this study implied that more attention should be paid to the conditions of basic amenities when identifying value-creation challenges in rural areas. The Tanzanian government, private companies and donors should invest in basic amenities of rural areas to improve the supply of electricity, transport services and telecommunication services.

A greater understanding of the value-creation performance of MSEs can be obtained when factors influencing value-creation activities are connected to the characteristics of rural MSEs. This study showed that these factors were explained well when they were linked with MSEs' characteristics. This study implied that factors influencing value-creation activities affect MSEs' characteristics, whereas MSEs' characteristics affect such factors in the course of value creation. Empirically, this research shows that financial capital, furniture-making machines, raw materials, manufacturing and management skills, competition, middlemen, suppliers, transport services, access to customers, and government regulations affect MSEs' size and formalisation more as the age of MSEs increases. Similarly, MSEs' size and formalisation statuses affect access to such resources as well as forces within the industry and institutional environment of MSEs as their age increases. Practically, the study suggested that MSEs and their supporting entities must take a step back in deepening their understanding of their value creation performance. I came to the conclusion in this thesis that not only do MSEs' factors influencing value-creation activities affect the characteristics of MSEs, but also such characteristics affect the respective value-creation factors in rural MSEs. This perspective is crucial for establishing a starting point for MSEs to correctly respond to value-creation challenges. Aforementioned stakeholders who have interests in MSEs development may consider MSEs characteristics or value-creation challenges when supporting initiatives that are meant to develop rural MSEs.

In addition, the current study showed that the factors of influence can be categorised into three levels: MSE, industry, and institution. Empirically, this research implied that the influence of the institution-level factor (government regulations) should precede industry- and MSE-level factors in the course of value creation in rural MSEs. Practically, the current study implied that initiatives of



rural MSEs and their supporting entities (including the government, private companies, NGOs and donors) that are meant to improve their performance in customer value creation in rural areas are required to address institution-level challenges before MSE- and industry-level challenges. This study proposed that compliance with government regulations is of the utmost importance for MSEs to be able to react to challenges related to resource challenges as well as to forces within the industry, such as competition, middlemen, suppliers, transport services, and access to customers. More specifically, such stakeholders should empower rural MSEs to access financial resources (example through loans) to facilitate their access to business development skills through training and regulations compliance. Such empowerment may enhance MSEs ability to access more resources such as furniture-making machines, raw materials and means of transport which may increase their access to customers in rural and urban areas, and as a consequence reduce the influence of middlemen and competition against each other.

In response to value-creation challenges, changing the way of doing business was found to be a potential approach for rural MSEs. This study showed that such adjustments should not occur within the individual form of entrepreneurship because it limits the professionalisation of MSEs. It is imperative for MSEs, government entities, NGOs, and donors to comprehend that less value is created when rural-MSE business models occur within individual forms of entrepreneurship. Much more value can be created by rural MSEs when they are organised into a collective form of entrepreneurship. The findings in this study implied that the collective form of enterprising (i.e., CBO) may support the change in the way of doing business because it has the capacity to nurture the professionalisation of MSEs through collective decision-making. Practically, this research implied that the potential of the way of enterprising in terms of value creation could be realised through MSEs' ability to address value-creation challenges linked to the supply of raw materials, access to productive furniture-making machines, manufacturing and management skills, customer access, competition, and government regulations. MSEs can respond to these challenges through business model changes that take place within CBOs as a collective form of entrepreneurship.

In terms of the implementation of the required changes, different determinants were found to influence rural MSEs' adaptation of business models and collective forms of entrepreneurship. Such determinants enabled or hindered the adaptation of collective forms of entrepreneurship, business models, or both. These determinants varied in their impact on the adaptation of the way of enterprising. The empirical analysis of this study showed that the determinants of influence in rural MSEs' change of the way of enterprising were motivation, leadership, commitment, timeliness, experience, coordination, trust, and flexibility. Practically, the current study implied that rural enterprises must strengthen their motivation, leadership, and commitment to changing their way of conducting entrepreneurial activities. Furthermore, timeliness, experience, and coordination are required to reinforce the facilitation of the adaptation of the collective form of entrepreneurship, whereas trust and flexibility are required to nurture the adaptation of business models.

This study identified different types of MSEs based on their actions towards value-creation challenges. It showed that rural MSEs are either subsistence- or opportunity-based, but there are more subsistence MSEs than opportunity MSEs. Furthermore, the opportunity-based MSEs signify entrepreneurial orientation as exhibited through their actions to take risk by changing their way of conducting entrepreneurial activities.

As shown in this study, only opportunity-based MSEs succeeded in changing their way of enterprising with the purpose of improving their customer value creation. The practical implication of this study was that entrepreneurial orientation is exhibited in rural MSEs that are opportunity-based rather than subsistence-based, thereby suggesting that the initiatives of supporting entities will have different effects when empowering subsistence-based MSEs and opportunity-based MSEs in rural areas of developing countries.

Theoretically, this study implies that the resource-based and institutions theories can be replicated in the analysis of value creation challenges in rural MSEs of a developing country. Similarly, some MSEs were able change the governance of their activities. This is an evidence that collective entrepreneurship form of governance is relevant to rural MSEs in a developing country. On the other hand,

some MSEs were able to take risk to change their entrepreneurship governance with low- to-moderate level of adapting business logics. This is an evidence that business model approach, bricolage and EO theories are less applicable in rural MSEs of a developing country. Motivation, leadership and commitment in MSEs are vital in the facilitation of MSEs engagement in bricolage through enterprise-level changes which involve entrepreneurship governance and business logics.

In summary, different factors influencing the value-creation activities of rural MSEs were determined by varying conditions of infrastructure in rural areas. A broader picture of these factors was obtained when the analysis showed how they affected each other, as well as how they were related to the characteristics of MSEs. Despite the resources and competencies of enterprises as well as favourable industry-related factors, this study suggested that government regulations are the most factor influencing the value-creation activities of rural MSEs. This factor has an influence in input acquisition, processing of input to output, and making the output available to customers. Changing the way of conducting entrepreneurial activities, including changing the form of entrepreneurship and the way of doing business, is an essential approach in rural MSEs' response towards value-creation challenges. Such changes are determined by various factors. Finally, the entrepreneurial orientation is different in rural MSEs of a developing country as exhibited by 4 types of rural MSEs.

Therefore, this study has the following practical and empirical contributions; the major value creation challenges in rural MSEs are different due to differences in the conditions of basic amenities. Value creation challenges affect the characteristics of rural MSEs, and in converse, the characteristics of rural MSEs affect value creation challenges. Institutions (government regulations) are the priority value-creation challenges that need to be addressed in rural MSEs before firm-level and industry level challenges. The engagement in bricolage (through business models change which operate within a collective form of entrepreneurship) is a potential way for resource-constrained MSEs to address value-creation challenges in a rural area of a developing country. Community-based organisation is a preferred form of collective governance in such MSEs. Rural MSEs have high level of changing entrepreneurship governance (change from individual form of entrepreneurship to collective form of entrepreneurship)

but low level of business model change. MSEs were able to professionalise their businesses through CBOs, of which their constitutions stipulated CBO's purpose and vision, the leadership, management of finances, rules or entry and exit, management structures and procedures. However, these CBOs were unable to change their business logics. Motivation, leadership and commitment in rural MSEs affect the implementation of change in business models and entrepreneurship governance. Timeliness, experience and coordination affect the implementation of change in entrepreneurship governance while trust and flexibility affected the change in business models. The empowerment of rural MSEs through training, linkage and access to resources (machines and raw materials) is necessary but not sufficient for rural MSEs to create value for customers through changing the way of conducting entrepreneurial activities. In response to the opportunity of implementing changes (business models change within a collective form of entrepreneurship) for value creation, rural MSEs can be prospective, progressive, protective and perpetuating. Theoretically, resource-based theory, institution-based view and bricolage theory can be replicated to rural MSEs in a context of a developing country. Business model approach and entrepreneurship orientation through risk taking behaviour are less applicable in rural MSEs. Methodologically, action research consumes money and time but capture the knowledge based on the reality of the phenomenon which is exhibited in participants' practices that are shown beyond what is said by research participants.

### *7.2.3 Limitation and areas for future research*

The current study had several limitations. First, it was confined to wood furniture manufacturing MSEs in rural areas of Tanzania that are largely informal and small in size. A similar study that involves formal enterprises from various industries may strengthen the understanding of value creation in rural enterprises. Furthermore, a study that involves other actors beyond furniture manufacturers in a value chain or value system/ecosystem may strengthen the results.

Both enterprises that are subsistence-based and opportunity-based were included in this study, but entrepreneurial orientation in such MSEs was different. Future studies should take care of the selection criteria of MSEs that are involved in the

research. With regards for whom the value is created, this research focused on value creation for customers rather than for other stakeholders such as suppliers and employees. Similarly, its attention was on value creation more than on value capture. Future studies that incorporate the value creation of other stakeholders or include value capture aspects may enrich the understanding on the studied phenomenon.

Dana and Dana (2005) insisted on the importance of culture in entrepreneurship studies. Although culture has an influence on the practices of rural MSEs, this study did not include cultural aspects; instead, it included formal institutions. Further studies should include cultural aspects which consist of informal institutions to obtain a deepened perspective on value creation through rural entrepreneurship in developing countries.

As Dana and Dana (2005) specified, the generalisation of a qualitative study to a larger population from a small sample size is limited in qualitative studies. This study was based on a small sample size, which limits its statistical generalisation. Future research should employ or add quantitative research approaches to address such limitations, and hence increase the external validity of the research.

In addition, the current study exhibited the limitations of 'action research' that facilitated the adaptation of the collective form of entrepreneurship and business model through provision of MSEs access to resources is not a guarantee for success. The professionalisation of MSEs was only substantiated when the internal and external conditions were right: internal conditions were related to factors such as the motivation in the CBO, leadership, and commitment to collaborate, whereas the external conditions were related to challenges which vary with the available infrastructure such as electricity supply, access to transport services and telecommunication services. This led to a wide variety of outcomes, ranging from MSEs that did not change at all to a few enterprises that succeeded in a full transformation into a CBO as well as moderate-to-low business model changes. Because of this large variance in outcomes, it has been decided that a more active approach is suitable in the following VLIR-UOS PhD project; for beekeepers in Tanzania's Mvomero district. An action research will be conducted with the

objective of changing the entire industry architecture through a more active stance.

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## Appendix 2 (a): Interview protocol I- before action research

<b>Interview to rural MSE which operate in individual forms of entrepreneurship</b>	
Introduction	Interview purpose and ethical concerns
<b>Lead-in question</b>	<b>Follow-up question</b>
<b>A) MSE description</b>	
What is the name of this MSE?	
When was this MSE established?	Probe: How long is it operational?
How many furniture manufacturers are in this MSE?	Probe: working relationship, skills, needed training
Who owns this MSE?	Probe: ownership structure, its manager, manager's activities
Is this MSE registered in district office or BRELA?	If yes; when, why If no; why, plans
How many months is this MSE operational within a year?	Probe: why
Apart from furniture manufacturing, which income generating activities are engaged by carpenters of this MSE?	Probe: main IGA, why
Which furniture are produced in this MSE?	Probe: furniture not produced (why), other wood products, frequently produced furniture/products (why), Probe: the production modality of furniture
<b>B) Main questions</b>	
Who are customers of this MSE?	Probe: types, location, example
Why customers buy furniture from this MSE?	Probe: what customers are looking for in MSE's furniture? Probe: which furniture and services are offered to customers by MSE? and how are they offered? Describe the uniqueness of furniture and services offered to customers Probe: which furniture and services are not offered to customers currently? (why) Probe: which furniture and services are planned to be offered by this MSE to customers? (why, when) Probe: what does 'the delivery of needed furniture and services to customers' mean to this business?
How does this MSE conduct its activities?	Probe: its activities, main business activities, who is doing such activities, where such activities are conducted Probe: which activities are not conducted (why)
Which resources are used in MSE to conduct its activities?	Probe: resources, key resources, owned resources, not-owned resources, cost of resources
What does this MSE do to get its furniture known to customers?	Probe: who does it? And how does the MSE promote itself and its furniture?
What does this MSE do to have its furniture available to customers?	Probe: who does it? And how are MSE's furniture distributed to customers?

How does this MSE maintain its customers?	Probe: ways MSE establish the continuous connection with customers
What is the price of selling a 5/6feet- sized bed?	Probe: How is the price of a bed determined? Number of beds that are sold in a week/month
What is the cost of making a 5/6feet- sized bed?	Probe: Cost incurred in making a bed (and operating the MSE) Probe: Number of beds that are produced in a week/month (why)
What is the purpose for the existence of this MSE?	Probe: MSE objectives
Where will this MSE be in 5 years from now?	Probe: why Probe: How will this MSE get there?
What challenges does this MSE face?	Probe: more challenges (example raw materials, money, machines, competition, government, middlemen, transport, location, reputation, skills, suppliers) Probe: which challenges are problems in MSE (how) Probe: which challenges are opportunities in MSE (how) Probe: How does such challenges affect the furniture and services that are offered to customers by MSE?
In what ways are the challenges of MSE be solved?	Probe: How is this MSE planning to solve the challenges? (when)
Is the manager of this MSE aware of the way of operating this MSE in a group?	If yes (how). Have carpenters in this MSE been working in a group? If yes (why, when, how often, was it a formalised group?
How is the operation of this MSE in a group may help in solving challenges?	Probe: how is the operation of MSE in a group increase the delivery of needed furniture and services to customers?
Do you see this MSE be organised as a 'group MSE' in the future?	No (why) Yes (why, when, how)
Are furniture manufacturers (in this MSE) trained about 'working in a group'?	If yes (when, who trained them)
<b>C) Additional questions Regulation-specific questions</b>	
How is timber obtained in MSE?	Probe: In what ways timber is obtained in accordance to district or village requirement? Probe: Cost of timber? Probe: What should be done for this MSE to acquire timber as required by district or village office?
How are the furniture produced?	Probe: In what ways are furniture required to be produced in accordance to district or village requirement? Probe: cost of production Probe: What should be done for this MSE to produce furniture as required by district or village office?
How are furniture delivered to customers?	Probe: In what ways are furniture required to be delivered in accordance to district or village requirement? Probe: cost of distribution

	Probe: What should be done for this MSE to deliver furniture as required by district or village office?
<i>Anything else you would like to add?</i>	Probe: <i>Anything else you would like to know from us?</i>

## Appendix 2 (b): Interview protocol II – during action research

Interview to rural MSE which operate in a CBO as a collective form of entrepreneurship	
Introduction	Interview purpose and ethical concerns
<b>Lead-in question</b>	<b>Follow-up question</b>
<b>A) CBO description</b>	
What is the name of this CBO?	
When was this CBO established?	Probe: when was it decided to be established? How long did it take(time) to establish it? Who was responsible for its establishment? (how) Probe: Challenges of formation of a CBO Probe: what facilitated the establishment of a CBO (how) what delayed the establishment of a CBO (how) In what ways CBO decisions, relationship of CBO members, incentives, CBO rules and values were affected in the formation of a CBO.
How many furniture manufacturers are in this CBO?	Probe: gender, economic activities of a CBO, skills,
Is this CBO registered in district office or BRELA?	Probe: If yes (when, how, why) what facilitated the registration of a CBO, how much was used, how was money for registration raised? Probe: If no (why, plans) what delayed the registration of a CBO? Is this CBO having a constitution?
Do you have a CBO workshop	Probe: how did you get a CBO workshop? What is the cost of CBO workshop? If no (why)
How many months is this CBO operational within a year?	Why
Which furniture are produced in this MSE?	Probe: furniture not produced (why), other wood products, frequently produced furniture/products (why), Probe: the production modality of furniture
<b>B) Main questions</b>	
How did you start to work in a CBO?	Probe: when did this CBO became operational?
What is the purpose for the existence of this CBO?	Probe: vision of a CBO where will this CBO be in 5 years from now?
What kind of support has this CBO received?	Probe: How, why (from where) Probe: How do you describe the relevance of such support in the CBO Probe: what kind of support did you wish to get?
Who are the customers of this CBO?	Probe: types and location, (why), example
How does this CBO conduct its activities?	Probe: its activities, main business activities, who is doing such activities, where such activities are conducted (why)

	Probe: which activities are not conducted (why) In what ways CBO decisions, relationship of CBO members, incentives, CBO rules and values were affected in the operation of a CBO.
Which resources are used in CBO to conduct its activities?	Probe: resources, key resources, owned resources, not-owned resources, cost of resources
What does this CBO do to get its furniture known to customers?	Probe: who does it? And how does the CBO promote its furniture?
What does this CBO do to have its furniture available to customers?	Probe: who does it? And how are CBO's furniture distributed to customers?
How does this CBO maintain its customers?	Probe: ways CBO establish the continuous connection with customers
Why customers buy furniture from this CBO?	Probe: which furniture and services are offered to customers by CBO? and how are they offered? Describe the uniqueness of furniture and services offered to customers
	Probe: which furniture and services are not offered to customers currently? (why)
What are the challenges of a CBO?	Probe: Challenges which affect the CBO In what ways, such challenges affected furniture and services that were delivered to customers by a CBO?
	Probe: Factors which affect CBO operations (example leadership, motivation, coordination, communication, readiness, willingness, trust, commitment, risk, flexibility, tolerance, experience) Probe: which factors simplified CBO operations (how)
	Probe: which factors hindered CBO operations (how)
In what ways the constitution has affected operations of a CBO?	Probe: how has the constitution simplified CBO operations Probe: how has the constitution hindered CBO operations
How are CBOs relevant to furniture manufacturers?	Probe: The advantages of a CBO form of running a business Probe: The disadvantages of a CBO form of running a business
<b>C) Additional question</b>	
Based on your experience, what should be improved for MSEs which use a CBO form of running a business to operate effectively?	Probe: key issues in a CBO form of running an MSE
Anything else you would like to add?	Probe: Anything else you would like to know from us?

**Appendix 3.1. Factors which influence value creation activities of rural MSEs**

In vivo code	Subcategory	Category	Theme
CAPITAL 'getting capital is what I think will improve this business'			
we are using many days to make furniture because we do not have modern machines	Need of modern machines	Machines	Technology
Modern wood working machines and electricity generating machines are needed	Types of machines		
We need 3 phase machines			
I am saving to buy grooving and smoothing machines	Saving	sources of finance	Financial capital
If we will get a loan, we will buy modern furniture making machines	Loan		
RAW MATERIALS 'wood'			
Planted trees and natural forests wood	Nature of timber	Qualities of input	Raw materials
Hardwood and softwood	Types of timber		
We are forced to use non-dry wood	Quality of timber		
SKILLS 'training'			

I went for carpentry training at VETA	Forms of training	Skills	Human resources
I was trained by my father for some time. Later, I went for a short technical training at VETA			
I went for carpentry training in Morogoro at VETA but I did not finish the training course			
I did not attend a formal carpentry training course			
If we get training on records keeping and bookkeeping, it will be helpful to us. In addition, training about customer care is also needed.	Desired training		
Technical training is needed mostly on how to do the finishing by using modern machines such as compressors for vanish spraying to furniture.			
We also need training for good management of our businesses			
Vocational training and entrepreneurship training may help us as well.			
'we have been engaging ourselves in the furniture business for so long'			
We have been engaging ourselves in the furniture business for so long	Furniture making experience	Experience	Intangible assets
I started this office in the year 1999			
I used to be engaged in wood logging activities so as to obtain wood for business	Timber harvesting experience		
We were selling furniture in Dar es Salaam.	Market experience		
Since I have only been two months working in this new area, I am not sure if I know how well my business is doing at the moment			
I have only two months working in this new area			

We are known to villagers as furniture manufacturers therefore local suppliers sell wood to us	Recognition by suppliers	Reputation	
We are already known as carpenters by our customers	Recognition by customers		
Previous customers often come back to us because they know the quality of our work.	Repeated customers		
Our father has a lot of friends and people he knows who are also part of our market	Social capital in getting customers	Social capita	
Other carpenters who are not as well-known as us are sometimes getting in troubles with government officials	Social capital in getting raw materials		
We make good furniture with good finishing but customer trust is very important in the furniture business	Trust from customers	Trust	
Customers do not trust furniture manufacturers			
SUPPLIERS 'we do not have a place to buy wood'			
We buy wood from Morogoro town	Sources of supply	Supply of input	Suppliers
Customers bring their own wood			
We also cut and process wood by ourselves			
We do not have a place to buy wood	Absence of suppliers		
We buy expensive certified wood	Prices of timber		
Prices of our products are high because wood is expensive			
MARKET 'Most buyers are villagers'			



We sell our beds to villagers such as school teachers and people who work in health centers	Types of buyers	Buyers of output	Market
We also sell beds and doors to hotel owners who are in Morogoro town and Dar es salaam			
We mostly sell our products to buyers who are in this village	Location of buyers		
We sell our products to customers who are in nearby villages			
COMPETITION 'I am not the only carpenter who is in this area'			
Our sample furniture cupboards are more expensive than Chinese furniture	Competition with imports from China	Forms of competition	Competition
We are not alone; there are other carpenters in this area	Competition within the local area		
There are different carpenters who are working in this workshop. Each carpenter has his own furniture	Competition within one MSE		
MIDDLEMEN 'the one who sells a bed for me'			
We are making unfinished doors and beds. Some agents buy our products and sell them in Dar es salaam	Resellers who are transporting furniture to market	Indirect selling	Middlemen

We are selling our doors and beds through other furniture businesses which are in Dar es salaam	Resellers who are not transporting furniture to market		
Payment of commission to selling agents reduces our profits	Costs of middlemen		
LEGAL CONCERNS 'the problem nowadays is how to harvest and transport wood legally'			
We do not know the procedures for getting natural wood legally	Procedures for obtaining permits in getting timber	Procedures and charges	Legal concerns
I could not afford to pay the fine for transporting furniture without documents	Procedures for transporting furniture		
We pay levy fees on our working benches	Fees related to processing of furniture		
TRANSPORTATION 'Transport charges'			
We hire a truck for Tshs. 250,000 to transport our furniture to our customers	Transport costs in selling furniture	Costs of moving input and output	Transport concerns
It is difficult to transport our furniture from this area	Transport availability		

	for selling furniture		
Transport cost of bed legs is 2000 if taken to and from machines in Madizini	Transport costs to furniture processing machines		
Costs of wood harvesting increases because we have to transport wood from forests to this area	Transport costs in obtaining raw materials		
SEASONALITY 'we have high and low furniture selling seasons'			
We do not have customers in the farming seasons because our customers are farmers from this village	Seasonal sales because of seasonal customers	Seasonal and non-seasonal engagement in business	Seasonality
Our customers who are from this village. They buy furniture after selling their crops			
There are two months of heavy rains where we have low sales, hence we close the workshop and go farming	Seasonal furniture making activities		
We have customers throughout the year because our buyers are people who are working in mining areas	Non seasonal furniture activities		
Other Income Generating Activities (IGAs)  'when farmers are at their farms, we also go to our farms'			

Our buyers are farmers, when farmers are at their farms, we also go to our farms	Farming activities	Income generating activities	Other IGAs
My achievements are not related to the furniture business but to agricultural activities			
I will buy furniture-making machines by using the income from agricultural activities			
The retail shop, not furniture, is the main business	Retail shop with household appliance		
If I do not succeed with furniture making, I will do other jobs such as roofing activities	House roofing activities		
We do not work together in furniture manufacturing. We work together in house roofing activities			
We do not have a license for a furniture business but we have a license for milling machines	Maize flour milling machines		
PRODUCTION STRATEGY 'We make furniture that is ordered by customers, but we also make ready-made furniture'			
I only make furniture which is ordered by the customers	Make-to-order strategy	Forms of production modality	Production modality
At the moment, we are selling semi-finished products to furniture SMEs which are in urban areas	Assemble-to-order strategy		
Currently, I make and sell ready-made beds	Make-to-stock strategy		

We are making furniture that is ordered by customers but we also make ready-made furniture	Make-to-order and make-to-stock production		
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Source: Research findings (2019).

**Appendix 3.2: Within case and cross-case analysis of factors which influence value creation activities of rural MSEs**

	Value creation challenges													Electricity supply	Road transport	Telecommunication services
MSE	Financial capital	Technology	Raw materials	Intangible resources	Skills	Suppliers	Customers	Competition	Middlemen	Legal concerns	Transport	Seasonality	Other IGAs	Production strategy		
MSE 005	*	*	*			*	*	*		*	*	*	*		✓	
MSE 010	*	*				*	*	*		*						
MSE 011	*	*				*	*	*		*						
MSE 012	*	*				*	*	*		*						
MSE 013	*	*				*	*		*	*	*		*			
MSE 016	*	*	*			*	*						*	*		
MSE 017	*	*	*			*	*	*				*		*		

MSE 024	*	*	*			*		*					*	*			
MSE 025	*	*	*	*		*	*	*		*	*			*			
MSE 026	*	*	*	*	*	*	*	*			*		*	*			
MSE 027	*		*	*		*		*			*			*			
																✓	X
MSE 014	*	*	*	*			*	*			*			*			
MSE 015	*	*	*	*	*		*	*		*		*	*	*	*		
MSE 020	*	*		*		*	*	*			*			*			
MSE 021	*	*	*	*		*	*	*			*		*	*	*		
MSE 022	*	*			*	*	*				*		*	*			
MSE 023	*	*				*	*	*						*			
																X	✓
MSE 009			*	*		*	*	*		*	*	*	*	*	*		
MSE 029							*				*		*				

MSE 030	*	*				*	*	*	*		*	*	*	*			
	Financial Capital	Technology	Raw materials	Intangible resources	Skills	Suppliers	Customers	Competition	Middlemen	Legal concerns	Transport	Seasonality	Other IGAs	Production strategy	Electricity availability	Accessible by roads	Telecommunication services
MSE 028	*	*	*	*		*					*		*	*	X	X	✓
MSE 001	*	*	*		*		*		*	*	*				X	✓	X
MSE 002		*	*	*	*		*				*						
MSE 003	*	*	*		*	*	*	*		*	*		*				
MSE 004	*	*			*	*	*	*	*	*	*		*	*			
MSE 006	*	*			*	*	*			*	*		*	*			
MSE 007	*	*				*	*			*	*			*			
MSE 008	*	*	*		*	*	*	*			*			*			
															X	X	X



MSE 018	*	*				*	*		*	*	*		*	*			
MSE 019	*	*				*		*			*		*				

Source: Research findings (2019).

### Appendix 3.3: Characteristics of rural MSEs

Rural MSE	Age (Years)	Size (manuf cturers)	Formalisation (Registration)	Individual form of entrepreneurship
MSE 1	At least 10	2	Informal	Owner-managed
MSE 2	At least 20	5	Informal	Owner-managed
MSE 3	2	2	Informal	Owner-managed
MSE 4	2	3	Informal	Owner-managed
MSE 5	2	3	Informal	Owner-managed
MSE 6	5	2	Informal	Owner-managed
MSE 7	15	4	Informal	Owner-managed
MSE 8	At least 7	3	Informal	Owner-managed
MSE 9	9	1	Informal	Owner-managed
MSE 10	At least 10	5	Informal	Owner-managed
MSE 11	10	32	Formal	Not owner-managed
MSE 12	2	3	Informal	Owner managed
MSE 13	2	8	Informal	Owner-managed
MSE 14	At least 10	13	Formal	Not owner-managed
MSE 15	6	10	Informal	Owner-managed
MSE 16	At least 10	3	Informal	Owner-managed
MSE 17	1	1	Informal	Owner-managed
MSE 18	At least 20	8	Informal	Owner-managed
MSE 19	At least 20	2	Informal	Owner-managed
MSE 20	6	2	Informal	Owner-managed
MSE 21	At least 4	4	Informal	Owner-managed
MSE 22	2	2	Informal	Owner-managed
MSE 23	At least 2	5	Informal	Owner-managed

MSE 24	2	6	Informal	Not owner-managed
MSE 25	At least 20	3	Informal	Owner managed
MSE 26	9	9	Formal	Not owner-managed
MSE 27	At least 10	2	Informal	Owner-managed
MSE 28	6	2	Informal	Owner-managed
MSE 29	At least 1	2	Informal	Owner-managed
MSE 30	2	1	Informal	Owner-managed

Source: Research findings (2019).

**Appendix 5.1: The environmental forces which are of influence to business models of rural MSEs**

	Environmental factor	Existing business model (I) 16 MSEs	Existing business model (II) 7 MSEs	Existing business model (III) 5 MSEs	Existing business model (IV) 2 MSEs	
1	Raw materials	(+)	(-) Key factor	(+/-)	(+)	(+) Strength (-) Weakness
2	Furniture-making machines	(-) Key factor	(+)	(+)	(+)	
3	Manufacturing and management skills	(+/-)	(+/-)	(+/-)	(+/-)	
4	Financial resources	(-) Key factor	(-) Key factor	(-) Key factor	(-) Key factor	
5	Social capital	(+)	(+)		(-)	
6	MSE Reputation			(-)		
7	Location	(+/-)	(+/-)	(+/-)	(+/-)	
8	Access to customers	(+/-)	(+)	(+)	(-) Key factor	(+) Opportunity (-) Threat
9	Competition			(-) Key factor		
10	Supply	(+-)	(-) Key factor	(+)	(+)	
11	Regulations	(-) Key factor	(-)		(+)	
12	Transport services	(-)	(+)	(+)	(-)	
13	Middlemen	(-)				

Source: Research findings (2019).

### Appendix 6.1: Mechanisms for facilitation of adaptation decisions

Mechanisms	Indicators	Source
Decision making	<ul style="list-style-type: none"> <li>• Encouragement of open discussion</li> <li>• Involvement of majority in decision making</li> </ul>	(Teece, 2007; Dottore, 2009; Doz and Kosonen, 2010; Achtenhagen <i>et al.</i> , 2013)
Interpersonal relationships	<ul style="list-style-type: none"> <li>• Nurturing of the collective involvement</li> <li>• Nurturing of individuals' interactions</li> <li>• Specification of interdependence between units within the enterprise</li> </ul>	(Doz and Kosonen, 2010; Achtenhagen <i>et al.</i> , 2013)
Incentives	<ul style="list-style-type: none"> <li>• Incentive system to refer mode of payment to entrepreneurs for instance hourly based or per generated sales</li> <li>• Rewarding workers for gathering and dissemination of knowledge in the enterprise</li> <li>• Granting rights to workers to make decisions</li> </ul>	(Teece, 2017; Foss and Saebi, 2016; Achtenhagen <i>et al.</i> , 2013; Teece, 2007)

Enterprise culture	<ul style="list-style-type: none"> <li>• Clarity of business rules, values and norms that are created within an enterprise.</li> <li>• Flexibility of rules, values and norms in guiding the interactions of actors in an enterprise.</li> </ul>	(Teece, 2017; Foss and Saebi, 2016; Achtenhagen <i>et al.</i> , 2013; Teece, 2007)
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Source: Own construct from the literature (2019).

**Appendix 6.2: Age and size of CBOs that participated in the adaptation of the collective form of entrepreneurship**

Collective Entrepreneurship Adaptation				
All CBOs were established on March 2015	Full Adaptation		Partial Adaptation	
	CBO 1	12 Entrepreneurs	CBO 7	10 Entrepreneurs
	CBO 2	12 Entrepreneurs	CBO 8	10 Entrepreneurs
	CBO 3	4 Entrepreneurs	CBO 9	28 Entrepreneurs
	CBO 4	4 Entrepreneurs	CBO 10	9 Entrepreneurs
	CBO 5	7 Entrepreneurs		
	CBO 6	16 Entrepreneurs		
Total		55 Entrepreneurs	Total	57 Entrepreneurs

Source: Research findings (2019).

**Appendix 6.3: The determinants of influence in the adaptation of the collective form of entrepreneurship**

Determinant	Determinants									
	Full adaptation						Partial adaptation			
	CBO 6	CBO 5	CBO 4	CBO 1	CBO 2	CBO 3	CBO 7	CBO 10	CBO 8	CBO 9
Willingness	(+)	(+)	* (-)	(+)		(+)	(+)		(+)	* (+)
Readiness	(+)	* (+)		* (+)		* (+)	* (-)		*	* (+)
Commitment	* (+)	* (+)		* (+)	(-)	* (+)	* (-)	* (-)		* (+)
Ability	(+)	(+)	* (-)	(+)	(-)	(+)		* (-)	(-)	(+)
Information		(+)		(+)		(+)	(-)	(+)	(+)	(+)



Communication	(+)	(+)	(+)	(+)	*	(+)		* (-)		(+)
Coordination	(+)	* (+)		(+)	* (-)	* (+)	* (-)	* (-)	* (-)	* (+)
Timeliness	(+)	(+)	(+)	(+)	(+)	(+)	* (-)	* (-)	* (-)	(+)
Leadership	* (+)	* (+)	*	* (+)	*	* (+)	* (+)	* (-)	* (-)	*
Motivation	* (+)	* (+)	*	* (+)	* (+)	* (+)	*	* (-)	*	* (+)
Trust	(+)	(+)	(+)	(+)	* (-)	(+)	* (-)	(+)		* (-)
Experience	(+)	* (+)	* (+)	* (+)		*	*	(+)	(+)	(+)

Source: Research findings (2019).

#### Key

- 
- \* It denotes the driving determinant in the adaptation
  - (+) It denotes the direction of the influence of a determinant i.e. determinant that enable the adaptation in the MSE

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(-) It denotes the direction of the influence of a determinant i.e. the determinant that hinder the adaptation in the MSE

**Appendix 6.4: Age and size of CBOs that participated in the adaptation of the business models**

Business Models Adaptation		
All CBOs were established on March 2015	CBO 1	12 Entrepreneurs
	CBO 2	6 Entrepreneurs
	CBO 3	4 Entrepreneurs
	CBO 4	3 Entrepreneurs
	CBO 5	6 Entrepreneurs
	Total	31 Entrepreneurs

Source: Research findings (2019).

**Appendix 6.5: The determinants of influence in the adaptation of business models**

	Rural MSEs that have full adaptation of the collective form of entrepreneurship				
Determinant	CBO 5	CBO 4	CBO 1	CBO 2	CBO 3
Willingness	(+)	*	(+)	(+)	(+)
Readiness	(+)	*	(+)	(+)	(+)
Commitment	* (+)		*	* (-)	* (+)
Ability	* (+)	* (-)	*	(-)	* (+)
Communication	* (+)			* (-)	* (+)
Coordination	* (+)		* (-)	* (-)	* (+)
Timeliness	* (+)	(-)		(-)	*

Leadership	* (+)	* (-)	* (-)	* (-)	* 
Motivation	* (+)	* (-)	* 	* (+)	* (+)
Trust	* (+)			* (-)	* (-)
Risk	(+)	(+)	* (+)	* (-)	(-)
Tolerance of mistakes			(+)	(+)	* (+)

Source: Research findings (2019).

#### Key

- 
- \* It denotes the driving determinant in the adaptation
  - (+) It denotes the direction of the influence of a determinant i.e. determinant that enable the adaptation in the MSE
  - (-) It denotes the direction of the influence of a determinant i.e. the determinant that hinder the adaptation in the MSE

## Appendix 7.1 Types of rural MSEs

Adaptation engagement		Adaptation need	
No	Yes	No	Yes
<p>Progressive MSEs (7)</p> <p>(MSE 10, MSE 11, MSE 15, MSE 18, MSE 20, MSE 24, and MSE 26)</p> <ul style="list-style-type: none"> <li>Unclear long-term plans</li> <li>Action research project created expectations for example access to training</li> </ul>	<p>Prospective MSEs (5)</p> <p>(MSE 8, MSE 5, MSE 6, MSE 22, and MSE 23)</p> <ul style="list-style-type: none"> <li>Continued interests in the furniture business</li> <li>The desire for entrepreneurial growth through acquisition of resources such as machines and raw materials.</li> <li>Consideration of a potential of governance and business logics for performance improvement</li> </ul>	<p>Perpetuating MSEs (11)</p> <p>(MSE 2, MSE 9, MSE 12, MSE 13, MSE 16, MSE 17, MSE 19, MSE 25, MSE 27, MSE 28, MSE 29)</p> <ul style="list-style-type: none"> <li>Satisfaction with existing performance</li> <li>Furniture manufacturing was not the main income generating activity</li> <li>Bad experience with CBO or have seen bad examples of CBOs</li> </ul>	<p>Protective MSEs (7)</p> <p>(MSE 1, MSE 3, MSE 4, MSE 7, MSE 14, MSE 21, MSE 30)</p> <ul style="list-style-type: none"> <li>Hesitation with the potential of governance and business logics for performance improvement</li> <li>Preference of other approaches such as 'grants' from government or donors to finance value-creation activities</li> <li>Conflict of interests between members example managers were in fear of losing power</li> </ul>

Source: Research findings (2019).



2019 | Faculty of Business Economics



**UHASSELT**

KNOWLEDGE IN ACTION

Doctoral dissertation submitted to obtain the degree of  
Doctor of Business Economics, to be defended by

**Jasinta Msamula**

**DOCTORAL DISSERTATION**

Rural Entrepreneurship and  
Value Creation in Furniture  
Manufacturing Industry in  
Tanzania

**Promoter:** Prof. Dr Wim Vanhaverbeke | UHasselt

**Co-promoter:** Dr Hawa Tundui | Mzumbe University

D/2019/2451/90