

**IMPACT OF MULTINATIONAL COMPANIES ON THE GROWTH OF  
SMALL AND MEDIUM ENTERPRISES IN TANZANIA: A CASE STUDY OF  
SELECTED SMALL AND MEDIUM ENTERPRISES IN ILALA  
DAR ES SALAAM**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE  
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**2023**

**CERTIFICATION**

The undersigned certify that the has read and hereby recommends for acceptance by the Open University of Tanzania, a dissertation titled; “*Impact of Multinational Companies on the Growth of Small and Medium Enterprises in Tanzania: A Case of Ilala Small Medium Enterprises*” in partial fulfillment of the requirements for the Degree of Master of Arts in International Cooperation and Development

.....

Prof. Deus Ngaruko

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.....

Date

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Date

**DEDICATION**

I want to dedicate this dissertation to my family for their undying support and immense sacrifices they have made to make sure that I completed this entire course. Much of my dedication to this dissertation should be directed toward my lovely wife and my children; I hope they will be inspired to learn and acquire knowledge for their future success and in the hereafter.

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## ABSTRACT

Using the case of Ilala district, the study aimed to investigate the impacts of Multinational Corporations (MNCs) on Tanzania's small- and medium-sized business (SME) growth. The researcher employed a case study research design based on both a qualitative and quantitative approach. The sample size was 99 respondents and both document reviews and questionnaires were used to gather the data from the field. The data was collected from the employees and owners of the SMEs. Questionnaires were as the data collection tools. The data were analyzed through SPSS with the aid of MS Excel. The results showed that MNCs' FDI has both positive and negative effects on the expansion of SMEs in the Ilala district and the whole city of Dar es Salaam, whereby those positive impacts include managerial knowledge transfer, technical knowledge transfer, the creation of new entrepreneurial opportunities, and advanced stages of monetary growth. While, those negative impacts include the displacement of local investment by FDI in the human capital sector, a decline in the market share held by SMEs, and a widening technology gap that hinders the expansion of regional SMEs. In order to build a favorable business environment that will enable them to compete with MNEs in the market, the study suggests that the Tanzanian government should promote SMEs by coming up with a clear legal framework and favorable financing scheme. Additionally, the nation must create an atmosphere that makes it simple for SME owners without collateral to get loans and adopt export promotion strategies. Furthermore, government negotiators should demand the same open doors for our own locally produced goods rather than giving up the chance for MNCs only.

**Keywords:** SMEs, MNCs, Knowledge Transfer, Employment Opportunities, FDI.

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**LIST OF ABBREVIATIONS**

EPZA	-	Export Processing Zones Authority
FDI	-	Foreign Direct Investment
GDP	-	Growth Domestic Product
GMM	-	Generalized Method of Moments
MNC	-	Multi-National Corporation
MNE	-	Multi-National Enterprise
MVA	-	Manufacturing Value-added
NBS	-	National Bureau Statistics
OECD	-	Organization for economic cooperation and Development
SIDO	-	Small Industries Development Organization
SMEs	-	Small and Medium Enterprises
SPSS	-	Statistical Package for Social Science
UNCTAD	-	United Nations Conference on Trade and Development
WTO	-	World Trade Organizations

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.0 Chapter overview**

In this chapter, introduction, the background of the study, the problem statement, the study's objective, the research questions, the study's significance, and the study's organization are explained.

#### **1.1 Introduction**

Foreign Direct Investment (FDI), according to Dunning (1970), involves value possession that is dispersed across national borders and that is coupled with a crucial level of administrative control. The role of FDIs in the monetary advancement of countries has been acknowledged on a global scale, along with their significance as a source of money and innovation that have grown rapidly over time. Both the speculators and the host country receive benefits from FDI, which encourages both groups to participate in and approve FDI. As a result, FDI promotes market expansion, charge incentives, reduced labor costs, and unique tasks.

The advantages of FDI in the host country encompass market sources, an avenue of venture, capital, creative exchange, and monetary stimulation, human capital development, business expansion, and access to board abilities, aptitudes, and innovation. According to the Organization for Economic Cooperation and Development (OECD), the general advantages of FDI for developing nation economies are well documented given the appropriate host nation strategies and critical level of development. Most studies indicates that FDI triggers innovation

overflows, helps human capital arrangement, adds to universal exchange joining, helps with making an increasingly serious business condition, and upgrades undertaking.

## **1.2 Background of the study**

Multinational corporations (MNCs) have attracted the attention of many scholars nowadays. This overarching pattern is driven by the global economic and political changes we are currently witnessing (WTO, 2019). In all industries, there have been changes in how and why multinational corporations (MNCs) participate in FDI to manufacture and distribute goods and services globally. These changes are a result of advancements in communications and transportation technologies. Prior to the middle of 1990, MNCs' primary FDI goals were to gather natural resources or get around trade restrictions. However, as the number of MNCs decentralized their production across nations to take advantage of cheaper production costs, this trend began to change (Blancu and Bibu, 2013).

For more than two decades, multinational enterprises (MNEs) have been the primary driving force behind global economic integration. The volume of FDI transactions has increased rapidly. Using the period 1995–2000 as an example, global FDI increased seven-fold, growing the total quantity of all other cross-border capital flows over the course of many years (UNCTAD, 2012).

Particularly noteworthy is the fact that FDI has increased industrialized countries' share of the global economy. Despite previously attracting little investment, these nations generated 55% of the world's FDI flows in 2014 (UNCTAD, 2015).



Foreign Direct Investment (FDI) has historically been one of the largest investments over the last two centuries. It has grown at an unprecedented rate for more than a decade, with only a slight interruption during the recession of the early 1990s (Saddimbah, 2014). More firms in industrialized countries are expanding abroad through direct investment than ever before, and virtually all economies now compete to attract multinational enterprises (MNEs). FDI is mostly done by MNEs (Pandya and Sisombat, 2017).

These are also referred to as transnational corporations (TNCs) or simply multinationals. The people who developed the concept of FDI improved the underdeveloped countries and their business transition (UNCTAD, 2015). The contribution of FDI includes an expansion of employment possibilities, an increase in government revenue, and the transfer of technology, capital formation, the introduction of sophisticated managerial and organizational skills, and the introduction of cutting-edge state-of-the-art technologies (UNCTAD, 2015).

Tanzania is one of the most preferred destinations for multinational enterprises in Africa; it counts among the 10 biggest recipients of FDI in Africa. According to UNCTAD's 2020 World Investment Report, the FDI inflow in Tanzania reached USD 1 billion in 2019 and showed an increase compared to the previous year (USD 1 billion). The current FDI stock was estimated at USD 21.8 billion in 2019. The mining sector, the oil and gas industry, as well as the primary agricultural products sector (coffee, cashew nuts, and tobacco) draw the most FDI. The country's primary

investors are China, India, Kenya, the United Kingdom, Mauritius, Oman, the United Arab Emirates, Canada, the United States, the Netherlands, South Africa, and Germany.

According to the Doing Business 2020 report published by the World Bank, Tanzania ranked 141st out of 190 countries. Investors are drawn to the country's commitment to implement sound macroeconomic policies, its efficient privatization program, and its abundant natural resources. Tanzania enjoys an abundance of natural wealth, which offers tremendous investment opportunities, particularly in agriculture, mining, energy, and tourism. The country has 44 million hectares of arable land, with only about 5% currently under cultivation (BoT, 2018). Resources include diamonds, gemstones, gold, coal, iron, nickel, forest products, domesticated livestock, wildlife, fisheries, marine products, natural gas, and possibly oil. Primary exports in terms of value include tobacco and gold, while key imports are capital and consumer goods. The Government of Tanzania (GOT) generally has a favorable attitude toward foreign direct investment (FDI) and has had considerable success in attracting FDI (OECD, 2013).

Tanzania has two investment promotion agencies: the Tanzania Investment Center (TIC) and the Export Processing Zones Authority (EPZA). Tanzania has attracted investment for major capital projects in recent years, but COVID-19 is likely to make its long-term FDI targets hard to achieve. The government of Tanzania is prioritizing an increase in foreign direct investment (FDI) inflows to the East African country. In late 2020, the government will separate its investment portfolio from trade and

industry, creating a new stand-alone ministry under the president's office (BoT, 2018).

Tanzania's GDP has been growing since the early 1990s and rose by 5.8% in 2019, but progress has been slowed by COVID-19 (African Development Bank, 2021). The World Bank said in October 2020 that Tanzania's GDP growth was expected to fall to 2.5% for the full year 2020 (World Bank, 2020). The government lowered the income tax for new investors in the pharmaceutical industry from 30% to 20% in 2018, and in 2019 it relaxed foreign ownership limitations in the mining sector that have proved a block on investment (UNCTAD, 2018). The World Bank changed its categorization of Tanzania from a low-income to a middle-income country in July 2020 (World Bank, 2020). The multilateral bank noted that the country's gross national income per capita had risen from \$1,020 in 2018 to \$1,080 in 2019, but said further economic, educational, and quality of life advances were needed if the Tanzania Development Vision 2025 goals were to be achieved (WTO, 2019).

However, aggressive revenue-raising measures and unfriendly investor legislation have made investment less attractive in recent years. Labor regulations make it difficult to hire foreign employees, even when the required skills are not available within the local labor force (Paul and Milanzi, 2016). Corruption, especially in government procurement, privatization, taxation, and customs clearance, remains a concern for foreign investors, though the government has prioritized efforts to combat the practice. Government of Tanzania-funded infrastructure development offers investment opportunities in rail, real estate development, and construction (BoT, 2018).

Multinational corporations (MNCs) have been proven to have a significant role in the economic growth of host countries and the expansion of local businesses in developing nations through FDI (Mjema, 2017). In the mid-1980s, the government launched and pursued purposeful economic liberalization initiatives. These led to an increase in FDI in Tanzania (BoT, NBS, and TIC, 2004: 23–24). A vivid example is the rise in FDI inflows, which went from USD 2,418.7 million in 1999 to USD 3,776.6 million in 2001 (Mjema, 2017). These investments were primarily made in the manufacturing (33.4%), mining and quarrying (28%), and agricultural (6.7%) sectors (BoT, 2018). Therefore, the research intends to explore how multinational corporations in Tanzania affects the growth of small and medium-sized enterprises (SMES).

### **1.3 Statement of the problem**

The role that multinational corporations (MNCs) play in supporting local small and medium-sized businesses has been a topic of contention (Vernom, 2013). Due to the high expectations that macroeconomic decision-makers and society at large had for the restoration of the local manufacturing sector, which ultimately helped boost small and medium-sized businesses and economic growth. This issue is significant since Tanzania has seen a shift in its production structures beginning with the change of the political regime, which resulted in the discharge of a significant portion of their workforce (Wangwe and Mmari, 2016). In these circumstances, one may ask to what extent MNCs have contributed to the development of SMEs in Tanzania.

In Tanzania there has been a tendency of increased inflow of foreign companies from developed countries like the USA, China, Italy, and Germany create

employment opportunities and improve technological capabilities for local firms (BoT, 2019). A vivid example is the telephone companies like Techno and Apple from China and the USA, which mostly reside at Kariakoo Market within Ilala District, where their products have employed many young people in supermarkets, especially in the local market. Also, many young people have learned the art of making those phones, something that has increased their income and boosted their economy (*Ibid.*). Moreover, there are foreign companies that bring clothes and other products that the traders buy in bulk and go to put in their stores and sell at retail. Therefore, this study used the case of the Ilala district to evaluate how multinational companies (MNCs) affected the growth of small and medium-sized enterprises (SMES) in Tanzania.

#### **1.4 Objective of the study**

##### **1.4.1 Main objective**

To determine how multinational corporations in Tanzania have an impact on the growth of small and medium-sized enterprises (SMES).

##### **1.4.2 Specific objectives**

- i. To explore the impact of Multinational Corporation (MNCs) on the creation of SMEs in Ilala
- ii. To determine the contribution of Multinational Corporation (MNCs) on the business growth among SMEs in Ilala
- iii. To investigate the impact of Multinational Corporation (MNCs) to SMEs technological transfer in Ilala

### **1.5 Research questions**

- i. What effects does Multinational Corporation (MNCs) have on the creation of SMEs?
- ii. What is the relationship between MNCs and business growth?
- iii. To what extent does the presence of Multinational Corporation (MNCs) in the country contribute to SMEs technological transfer?

### **1.6 Significance of the study**

The findings of the study could assist the ministry of investment as well as Tanzania Investment Center in making decisions on how to come up with some mechanisms for attracting foreign investors to the country. This research will also assist policymakers in developing appropriate policies that may influence multinational corporations through foreign investors to invest in businesses that benefit local small and medium-sized businesses. In addition, other researchers and scholars may use the study findings to add knowledge to the whole concept of the impacts of FDI on the growth of SMEs, which may also expand the area for inquiry regarding the subject matter.

### **1.7 Organization of the study**

There are five chapters in this dissertation. Chapter One includes the study's background, problem description, study objectives, research questions, and significance. In Chapter two, related research on the relationship between the expansion of small and medium-sized enterprises (SMES) in Tanzania and multinational corporations was reviewed. The conceptual definitions, empirical

review, theoretical framework, conceptual framework, and research gap are also highlighted in this chapter. The third chapter described the techniques and research methodologies used throughout the data collection and analysis. Chapter four explained the study's results and analysis. Chapter five highlights the discussion of the study findings discovered in Chapter four. In chapter six, the study is briefly summarized along with the study's conclusion and recommendations based on its findings.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Chapter overview**

The chapter examined studies done by various academicians in relation to the effect of multinational corporations (MNCs) on the development of small and medium-sized enterprises (SMES). The chapter specifically explores theoretical and empirical reviews in order to determine what has been done and what is missing. In so doing, the study identifies the knowledge gap and what is required to be filled. The conceptual framework underpinnings of the study are also presented in this chapter.

#### **2.1 Definition of key terms**

##### **2.2.1 Multinational Corporations (MNCs)**

According to Dinning's (1993), an MNC is a company with operations spread across more than two nations. A foreign direct investment (FDI) business that manages or operates value-added operations in more than one country is referred to as a multinational company.

Cihelková (2010) stated that operate in networks with the goal of producing structural and organizational. According to him, MNCs are a very important and critical part of globalization, and their influence on the world economy is escalating. MNCs gain from manufacturing transfer to nations with cheaper labor prices and other production expenses as well as from large material capital, superior research and development, economies of scale, and complex corporate internal structures (Cihelková, 2010).



### **2.1.2 Foreign direct investment**

This is an investment made by a firm or individual in one country into business interests located in another country; the term "foreign" means foreign (Bhattacharyya, 2012). FDI is the sum of equity capital, long-term capital, and short-term capital, as shown in the balance of payments. FDI usually involves participation in management, joint ventures, the transfer of technology, and expertise (Grazia, 2012). Generally, FDI takes place when an investor establishes foreign business operations or acquires foreign business assets in a foreign company.

According to UNCTAD (2005), foreign direct investment (FDI) is an investment made by a corporation established in another country that takes a controlling interest in a company in another country. FDI occurs when a company establishes a new wholly owned subsidiary in one nation, buys a local business, or forms a joint venture in the host economy to establish a business operation in another nation. Board participation, joint ventures, technology transfer, and knowledge transfer are frequently included in FDI.

### **2.1.3 Small and medium enterprises (SMEs)**

According to the OECD (2005) Small and medium companies (SMEs) are non-subsidary, autonomous businesses with less than a specific number of employees. The amount varies between nations. As in the European Union, 250 employees is often the highest limit for a SME. However, other nations set the limit at 200 employees, whereas the US includes businesses with less than 500 employees as SMEs. Small firms are generally those with fewer than 50 employees, while micro-enterprises have at most 10, or in some cases 5, workers.

However, since 1976, the World Bank has defined SMEs as any company with fixed assets (excluding land) worth less than US\$250,000. While Grindle et al. (1989:9–10) defined MSE as companies with fewer than or equal to 25 permanent members and fixed assets (excluding land) worth up to US\$ 50,000. For the purposes of USAID, SMEs are defined as companies with fewer than 50 employees for whom at least half the output is sold (also refer to Mead, 1994). According to UNIDO, the definition of an enterprise should consider its location and economic status (Elaiian, 1996).

## **2.2 Theoretical review**

This study was guided by two theories: Internalization Theory and Capital Theory.

### **2.2.1 Internalization theory**

The internalization theory developed by Buckley and Casson (1976) and further explained by Hennart (1982). According to Buckley and Casson (1976), a company arranges a collection of internal operations so that it can create and take use of firm-specific advantages in knowledge and other intermediate goods. These authors show that any kind of market flaw can result in pressure from multinational businesses to internalize. The growth of businesses and their reasons for pursuing foreign direct investment are made clear by the internalization theory of foreign direct investment (Burley & Mark, 1976).

This theory describes the internal operations that multinational corporations (MNCs) organize to create certain advantages that will later be exploited. Because knowledge is a public good, according to internalization theory, internalization produces larger

and more global corporations. As a result, firms create new technology and concentrate it within the business before spreading the information to other locations.

Dunning (1981) included internalization theory as part of his eclectic paradigm, sometimes known as the OLI model. The author outlined the internalization benefits that businesses have and asserted that having an ownership advantage is a requirement for a business to become a multinational corporation. The author further added that location advantages reflect variations between nations and regions, whereas internalization and ownership advantages reflect firm-level strategic decisions and their results.

Furthermore, among the strength of internalization theory is that it explains the international firm and thus augmented the international business field by demonstrating the interaction between the external environmental and the internal knowledge flows between MNE parent firm and subsidiaries (Hennart, 1982). This interaction between external country-specific advantages (CSAs) and internal MNE firm-specific advantages (FSAs) is the nexus for strategic managerial international business decisions (Rugman & Collinson, 2012).

However, some scholars showed some weaknesses of Internalization theory, stating that ownership advantage cannot be required if quality control and transfer pricing are adequate for businesses to become multinational organizations. According to Dunning (1981), a firm's capacity for internalization could equally well be referred to as an ownership advantage. In addition, Hennart (1982) clarified the internalization

theory by creating models that distinguish between the vertical and horizontal forms of integration.

Regardless of the weaknesses of this theory identified above but this theory is relevant to this study since it makes easier to thoroughly examine the options available to businesses who contract outside of the market exchange. This theory has been utilized in the study to explain how multinational firms spread knowledge and technology to other nations, including developing nations like Tanzania.

### **2.2.2 Capital Theory**

This theory was derived from empirical observations that American firms that invested in foreign countries gained a higher return (Mundell, 1957). This made it clear that investing abroad was better for companies if they needed higher returns. The high profits that are realized are a result of the difference in rates of return between the two countries. Therefore, FDIs in Tanzania are for the parent companies to make more money, and with this, they improve the local firms present. Since the study intends to find the effect of MNCs through FDIs on business growth by concentrating on SMEs, the capital theory helps illustrate the growth of the local firm's improvement, which then gives the direction of the study depending on the impact that the firms will have on business growth and the economy at large.

Bosworth and Collins (1999) think about the effects of internal capital developments on neighborhood speculation by methods for information on rising nations for the period 1978-1995. Both reflect three key classes of capital inflows which incorporate FDI, portfolio venture, and other money related streams for the most part bank contracts. They

find that an ascent of one dollar in capital inflows is connected by an expansion in nearby venture of around fifty pennies, with in participation of capital inflows and neighborhood speculation expressed as rates of GDP.

On the other hand, the theory has been criticized because for companies to make profit, the economy must be strong enough to support their operations (Wang, 2010). Therefore, the theory does not specify the types of economies that are better for such investments (Milanzi and Paul, 2016).

However, the relevance of this theory to the current study is that it shows why some MNCs and even governments choose to invest in foreign markets. Most organizations are usually yearning for more profits, and this can be a viable argument for investment. Among the different sorts of capital streams, FDI produces the most extreme results on nearby venture about a one for one. This implies FDI benefits creating nations with angles, for example, it gives financial development as it raises the development rates by enhancing household reserve funds prompting raise in capital amassing. Besides, FDI prompts move of innovation and administrative abilities that goes with direct venture.

### **2.3 Empirical review**

Numerous empirical studies on the impact of MNCs on the expansion of small and medium-sized businesses (SMES) have been done. Using a descriptive design and time series data from 2002-2011, Saddimbah (2014) examined the impact of FDI inflows on Kenya's GDP, exports, and BOP. The results revealed that FDI inflows have a causally positive association with GDP and BOP but a negative relationship

with exports. The findings advised the Kenyan government to stop a portion of FDI inflows in important sectors like agriculture, which will speed up the government's top export and the nation's economy. The study failed to explain the impact of Multinational Corporation (MNCs) on the creation of SMEs.

Another study by Nyaga (2013) looked at how FDI affected Kenya's economic growth from 1982 to 2012, using correlation analysis. The findings showed that FDI and GDP had a statistically significant positive association, with a correlation coefficient of 0.0565. The report also suggested that the nation should engage in bilateral and multilateral commerce, upgrade its infrastructure, and, lastly, show more political will in its fight against corruption in order to draw in more international investors. This indicates through multilateral and bilateral businesses the local enterprises will be able to growth through adopting the production and marketings techniques from foreign firms.

Also, Kirti and Prasad (2016) conducted a study on the effects of FDI in India on the capacity to generate jobs and GDP development from 1992 to 2012. The results showed that FDI in India has a multifaceted impact on the country's economy. Additionally, a declining rate of growth in labor employment and a further decline in the elasticity of employment were positively correlated with GDP growth and employment creation. The study concluded that even though India's agriculture industry doesn't make up much of the country's GDP, it might achieve wonders if given access to capital-intensive technology. However, this study failed to show the relationship between FDI and the growth of SMEs.

Using multiple regressions, Pandya and Sisombat (2017) investigated FDI inflows and their effects on economic growth in Australia. The findings showed that FDI inflows support employment, export performance, and GDP growth in the Australian economy. Additionally, as two out of the three variables had a poor relationship with FDI, the data indicated that there was no connection between FDI and Australia's economic growth. The study provided key information to Australian decision-makers so they could choose wisely regarding promising investment areas and policies and to entice foreign investors to invest in Australia. The study concluded by advising the government to choose FDI carefully so that FDI that boosts exports or lowers imports can be welcomed and avoided for the remainder of the flow. The study failed to explain the impact of FDI on the technological transfer to the local firms.

In addition, Awosusi and Awolusi (2014) examined the short-term effects of inward FDI, trade, and economic growth on foreign technology transfer to Nigeria as well as the long-run equilibrium link between various international determinants and economic growth. Using time series data from 1970 to 2010, the multivariate cointegration technique was employed in the study. The Granger causality test, which measures the short-term influence of inbound FDI, trade, and economic growth on international technology transfer, found a uni- or bi-directional causal effect among the variables for the country, the results confirmed. Finally, the government must quickly switch from FDI induced by primary products to FDI induced by science and technology due to the negligible influence of FDI on knowledge transfer and the dormant domestic investment climate in Nigeria. The study failed to show the link between FDI and SMEs growth.

Furthermore, a study by Wei (2013) using longitudinal macroeconomic data used to evaluate the effects of foreign direct inflows on job creation in China for three sectors. The results showed that FDI in the primary sector had a significant positive effect on employment, FDI in the secondary sector was not significant to employment, and FDI in the tertiary sector had a negative impact on employment. The study failed to explain the relationship between FDI and SMEs growth. Also, the study is China within Asian Continent where the kind FDI inflow, infrastructure and laws governing SMEs and business operation is quite different with Tanzania.

Moreover, Wang (2010) examines the impact of FDI on local interest in cutting-edge and developing nations in a board data focus. The investigation takes a gander at enduring and short-term effects, and it too coordinates industrialized nations with less developed nations. An example of fifty nations from 1970–2004 shows that the results indicate that in the short run, FDI jams out nearby interest in industrialized nations, but has a fair-minded result in creating nations. All things considered, in industrialized nations, the enduring effect is nonpartisan, while FDI swarms in neighborhood interest in job creation and capital transfer.

In the Tanzania context, Milanzi and Paul (2016) used co-integration and causality analyses to analyze the causal relationship between economic growth, FDI, trade, and domestic investment in Tanzania using time series data from 1970–2012. The study's findings provided strong evidence in favor of the export-led growth hypothesis. Exporters appear to be gaining more expertise in technology, design, quality, management, organization, and coordination of international activities as



they strengthen their commitment to servicing overseas markets. Additionally, the study discovered that GDP influences FDI, indicating that Tanzania attracted foreign investors thanks to its recent history of consistent economic growth and government attempts to foster a climate that is favorable to foreign investors. The study failed to show the relationship between FDI and SMEs growth.

In addition, based on a few case studies, Kabelwa (2006) investigated the potential effects of FDI on Tanzania's economic development. The study used qualitative analysis to examine certain FDI-related topics, including capital formation, job creation, trade abroad, technology transfer (spillovers), and tax income. The study concluded that, to attract and make FDI work for economic development, there was a great need for effective policy. It was also suggested to encourage domestic private investment in the larger development agenda. This study failed to show the link between FDI and technological transfer to the local SMEs growth.

Furthermore, Utouch and Rao (2016) conducted an empirical study on foreign direct investment (FDI) and how it affected job development in the manufacturing sector from 1980 to 2012. The variables were tested using OLS, and the co-integration of the variables was tested using the Augmented Dickey-Fuller test. The findings demonstrated that FDI had a considerable impact on jobs creation in Tanzania. The study failed to show the link between FDI and SMEs growth.

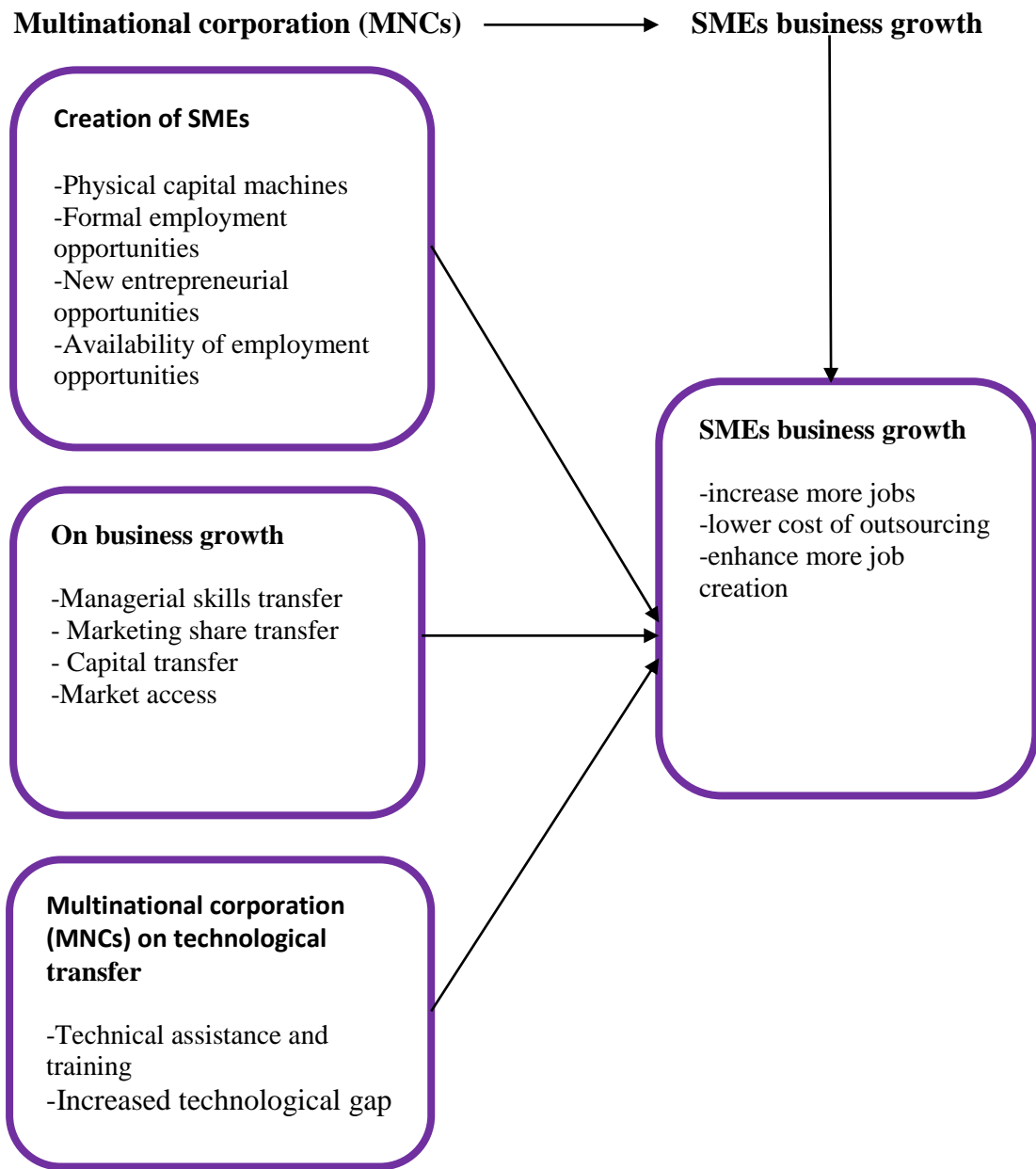
#### **2.4 Research gap**

The impact of MNCs on the business growth of small and medium enterprises is promoted along the lines of capital formation, employment, and revenue generation. Most of the reviewed studies focus more on the direct effects of MNCs, but some

studies have gone further and reviewed the importance of MNCs in increasing host country domestic firms' productivity through technological inheritance. However, the reviewed literature has addressed analytically and systematically issues surrounding MNCs in Tanzania, highlighting the link between FDI and SMEs as one of the most effective ways of upgrading domestic enterprises by facilitating the transfer of technology, knowledge, and skills, improving business and management practices, and facilitating access to finance and markets. Strong linkages can promote production efficiency, productivity growth, technological and managerial capabilities, and market diversification in local firms, but they can also stimulate the growth of FDI. Therefore, the study at hand aimed to determine how and to what extent Tanzania's small and medium-sized businesses (SMES) have benefited from foreign direct investment (FDI).

## **2.5 Conceptual framework**

This study was guided by two major variables: the dependent variable and the independent variable. The impacts of MNCs' information are considered the independent variable, while the dependent variable is the growth of SMEs. This means that the independent variable stands alone but the independent variable reacts upon the actions imposed upon it by the independent variable.



**Figure 2. 1: Conceptual framework**

**Source:** Researcher, 2023

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Chapter overview**

The methods and materials utilized in this study were covered in this chapter. The study location, study population, sample size, research design, the sampling procedures, the data gathering methods, the data analysis, and the validity and reliability of the data collection tools are just a few of the subsections that make up this section.

#### **3.1 Research design**

In this study, a case study research design was employed. With this design, data on respondents' perceptions can be collected at a single point in time (Kothari, 2019). It facilitated ability to collect data in relatively one point in time, it saves time and information are accurately collected at easy and relevant period.

#### **3.2 Research approach**

The study adopted both a quantitative and qualitative approach. A quantitative approach was adopted because it involved the use of computational, statistical, and mathematical tools to quantify the problem and derive the results for a larger population (Sarlis and Gallhofer, 2014). The qualitative approach responds well to the specific objectives of the study (Kothari, 2019). Secondly, a qualitative approach was preferred since it allows for a detailed presentation of the complicated issues at hand. Thirdly, qualitative research methods are typical for social science research.

#### **3.3 Area of the study**

The Ilala district served as the study's location. This is one of the five districts of the

Dar es Salaam region, along with the recently established Ubungo and Kigamboni Municipalities, Temeke to the south, and Kinondoni to the north. The 2012 Tanzanian National Census found 1,220,611 people living in Ilala. Ilala city has three constituencies, which are Ilala, Ukonga, and Segerea. It has a total of 35 wards with a total of one hundred and fifty-three (153) streets. Key economic activities in Ilala city are trade, industry, and fisheries, as well as economic and social services. The average income of a resident of Ilala city is TZS. 489, or USD 204.00 per annum (Ilala Municipal, 2020). When compared to other Dar es Salaam Municipalities, Ilala City is the most centrally located, with large markets such as Kariakoo, Karume, and Machinga Complex, as well as major ports and airports such as Julius Nyerere International Airport (JNIA), which used to be the hub for importation and exportation of goods and services.

### **3.4 Study population**

A population is a set of people or things that all share at least one characteristic (Kombo and Tromp, 2006). The study population consists of all employees, managers, or owners of SMEs from Ilala city council. The target population for this study will consist of employees, managers or owners of SMEs. Most of the businesses that will be surveyed include telephone traders, clothes traders and shoes traders who import their products from different countries such as China, Germany and Italy According to Ilala trade officer, the total number of SMEs in Ilala city is big but, in his registry, there are about 9000 SMEs.

### **3.5 Sample size**

Creswell (2014) defines a "sample" as a subset of the target population to which the

researcher intends to apply the study's conclusions. The purpose of sample selection is to obtain respondents who can provide information that reflects behavior or characteristics like those of the general population (Kothari, 2019). In this study sample size was obtained through mathematical model formulae of Taro Yamane (1967). In the study that employs primary data and seeks responses from the use of questionnaires, the TARO YAMANE approach plays a crucial role in determining sample size (Kothari, 2019).

$$n = \frac{N}{1 + N(e^2)}$$

Where:

n= sample size.

N=population of the study

e= Confidence level (expressed into percentages 5%-10%, for this study e=10%)

N = 9000.

$$n = \frac{9000}{1 + 9000(0.1^2)} = 98.9$$

Therefore, the sample size was 99 of SMEs owners and employees.

### 3.6 Sampling procedures

According to Kothari (2019), sampling refers to the procedure that the researcher adopts to select items for the sample. Sampling techniques can be employed depending on the nature and convenience of the study (Saris and Gallhofer, 2014). This study used stratified random sampling to obtain informal sector employees. It means the SMEs were selected randomly. Through a simple random technique,

anyone has an equal chance of being chosen to be a part of the sample. This sampling strategy was adopted to eliminate bias when gathering information from respondents (Majid, 2018).

### **3.7 Data collection methods**

Data collection is the process of obtaining information from all relevant sources in order to find answers to the research problem, test the hypothesis, and evaluate the findings, (Creswell, 2014). There are two categories of data gathering techniques: secondary data and primary data. However, this study only made use of primary data directly from participants. A questionnaire was used as the study's data gathering tool.

#### **3.7.1 Questionnaire**

Babbie (2010) says a questionnaire comprises of various inquiries printed or composed in a distinct request on a structure or set of structures. In this study a list of close and open questions was administered to informal sector employees and community members who required filling in answers. The respondents had freedom with this tool, as well as plenty of time to consider the questions and complete the questionnaires. Additionally, it was simple to quantify, evaluate, maintain anonymity, and keep track of the questionnaires that were returned and those that weren't (Schindler and Cooper, 2011).

### **3.8 Data validity and reliability**

#### **3.8.1 Validity**

Validity is defined as the degree to which an instrument can measure aspects that

require measurement (Kothari, 2019). In another sense, validity is the degree to which a test measures what it is measuring, and the results obtained from data analysis. Additionally, a study's validity is defined as its accuracy or intent to measure the ideas that the researcher tried to evaluate using the measuring approach (Kombo and Tromp, 2006). Both content validity and construct validity were used in this study. For content validity, a questionnaire has been utilized to ensure that all of the questions cover the key subjects of the research. While constructing validity before collecting data, the results were scrutinized by social security scheme experts.

### **3.9.2 Reliability**

Reliability deals with the subject of repeatability of study results. Consequently, reliability denotes the stability or dependability of a tool or process to gather information. (Bryman,2012). Therefore, the research study's stability and equivalency components of reliability were attained by the pre-testing of various data collection instruments, including questionnaires, and examined documents, as well as by executing a pilot study in the field prior to the actual study.

### **3.10 Data Analysis**

Data analysis is a procedure that modifies and alters data in a manner that users can quickly comprehend (Creswell, 2012). The data analysis in this study was based on descriptive statistics. This includes percentages and frequencies to assess respondents' characteristics and present the key findings of the study. The data was analyzed using Statistical Package for Social Science (SPSS) and Microsoft Excel.



### **3.11 Ethical consideration**

The Open University of Tanzania and the relevant Ilala district government in the Dar es Salaam administrative region were consulted prior to data collection to obtain permission. In this study, participants were asked if they would be comfortable with the location before the interview. The researcher ensured that participants' information would only be used for the purposes that were disclosed to them when consent was requested. Participants who preferred to remain anonymous were informed that they could do so. All the literature and sources of empirical data that were used in this study were expressly acknowledged by the researcher. The researcher received assurances that the data were professionally collected using the right techniques.

## CHAPTER FOUR

### DATA ANALYSIS AND RESULTS PRESENTATION

#### 4.0 Chapter overview

This chapter provides explanations of the observed results according to the research objectives from chapter one. The findings were obtained based on primary and secondary sources. In accordance with the study questions, the data results were shown and evaluated using frequency tables and percentages (charts).

#### 4.1 Demographic characteristics of respondents

##### 4.1.1 Respondent's Gender

In this study, gender is a crucial demographic factor since it enables the researcher to ensure that the findings obtained are free from gender bias and hence, they are valid. The results show that, out of the 99 participants, 52 were male making a total of 52.5% and 47 respondents were female which is equivalent to 47.5% as illustrated in Table 4.1. This implies that most of the respondents reached by the researcher are male in gender.

**Table 4.1: Gender of respondents**

		Frequency	Per cent	Cumulative Percent
Valid	Male	52	52.0	52.0
	Female	47	47.0	100.0
	Total	99	100.0	

**Source:** Researcher, 2023

##### 4.1.2 Respondent's Age

Table 4.2 indicates that 15 (15.1%) of the respondents' ages ranged from 18 to 25

years, 20 (20.2%) were between the ages of 26-35 years, 35 (35.3%) were between the ages of 36-45, 25 (25.2%) were between the ages of 46-55 years, and 4 (4%) were between the ages of 55 and above years. These findings imply that the majority of respondents were responsible adults (36-45) who were familiar with the subject of the study. Age is another trait or factor which influences the participation in economic activities including involvement in small businesses. Older participants are keener to acquire information impact of MNE on the growth of local firms.

**Table 4.2: Age of respondents**

	Frequency	Per cent	Cumulative Percent
Valid	18 – 25	15	15.1
	26 – 35	20	20.2
	36-45	35	35.3
	46-55	25	25.2
	Above 55	4	4.0
	Total	99	99

**Source:** Researcher, 2023

#### **4.1.3 Respondent's Level of education**

The level of education is a crucial demographic factor in this study since it allows the researcher to determine if each workers profession match with the type of work that he or she does to ensure maximum work performance that will enable the business firm to reach its goal. The results show that 28 (28%) of the respondents had only completed their primary education, 26 (26%) of the respondents obtained secondary education, 22(22%) of the respondents did certificate in different disciplines, 14(14%) of the respondents did diploma and 10 (10%) of the respondents completed secondary education level (Table 4.3). Moreover, the study showed that those who did a certificate, diploma, and higher education, studied technical skills in business

administration, procurement and supply and public relations and marketing. Hence this shows that large number of respondents were educated and as a result this implies that entrepreneurs have skillful personnel that deliver the require quality of service in each sector.

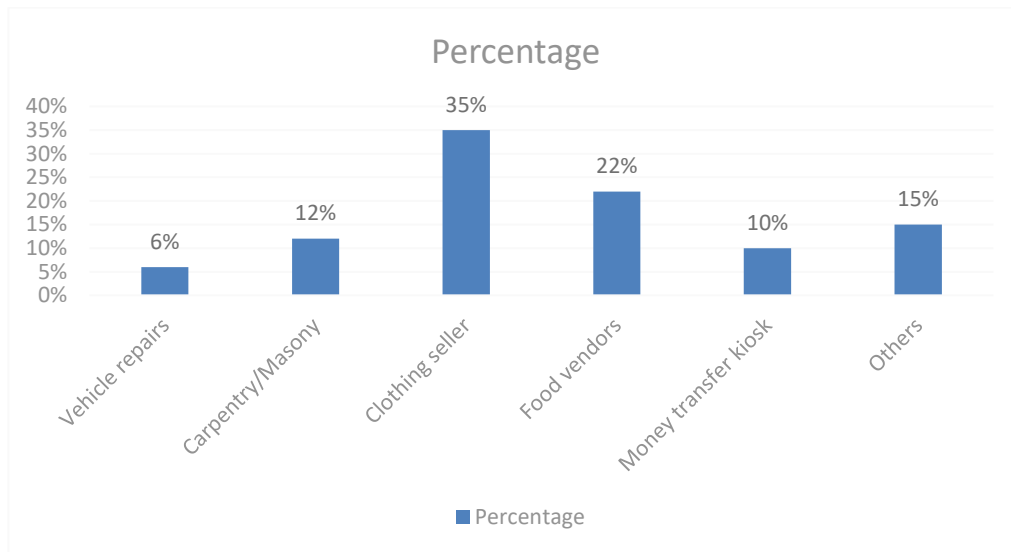
**Table 4.3: Level of education of respondents**

		Frequency	Per cent	Cumulative Percent
Valid	Primary education	28	28.3	28.3
	Secondary education	25	25.3	54.6
	Certificate	22	22.2	76.8
	Diploma	14	14.1	80.9
	Others(specify)	10	10.1	100.0
	Total	99	100.0	

**Source:** Researcher 2023

#### **4.1.4 Type of businesses operated by Entrepreneurs in Ilala district.**

Figure 4.1 shows that 6% of respondents worked in vehicle repairs, while 12% worked in carpentry or masonry.35% were clothing sellers, 22% were food vendors (juices, fruits, and vegetables), 10% were money transfer kiosks within the Ilala district, while respondents with other small businesses were at 15%. The researchers discovered that clothing sellers were the most popular type of entrepreneur; this was due to the nature of the businesses, which required less capital. Furthermore, the findings revealed that most SMEs in the Ilala district were working at Kariakoo market as hawkers or in permanent shops.



**Figure 4. 1: Kind of small businesses operated at Ilala district**

**Source:** Researcher 2023

#### **4.1.5 The period for the business survival**

Level of working experience is an important demographic variable in this study because it enables the researcher to find out the respondent's perception on how the performance of the small and medium enterprises is affected by today's business environment that involves large number of foreign investors basing on their number of years that they have been working engaging in business activities. The findings revealed that among the visited SMEs 20 (20.2%) of the entrepreneurs were in business for less than 3 years, 45 (45.5%) were in business for 4 to 10 years, 16 (16.2%) were in business for 10 to 15 years and 18 (18.1%) of the entrepreneurs were in business for more than 15 years according to Table 4.4. Hence from the findings shows that large number of respondents have working experience between four to ten years. And as a result, this indicates that most of the employees are experienced and capable to perform different tasks.

**Table 4.4: The period for the existence of the business**

		Frequency	Per cent	Cumulative Percent
Valid	Less than 3 years	20	20.2	20.2
	4-10 years	45	45.5	66.7
	10-15 years	16	16.2	82.9
	More than 15 years	18	18.1	100.0
	Total	99	100.0	

**Source:** Researcher, 2023

## **4.2 The impact of Multinational Corporation (MNCs) on creation of opportunities for SMEs**

### **4.2.1 MNCs in creation of employment opportunities for SMEs**

The study respondents were asked to indicate the extent multinational corporations creates formal out of informal employment. The findings revealed that large percentage of respondents about 90.9% agreed that MNCs have impact of the employment creation to SMEs in Tanzania, while 9.1% of respondents said no. This implies that MNCs activities have positive impacts on growth of SMEs in different aspects such as transfer of technology as well as observation of how foreign companies conduct their business in terms of pricing strategies, customer relationship building. This is in line with Utouch and Rao's (2016) study on the effects of FDI on job growth, the study's results showed a strong correlation between FDI and job creation in Tanzania. In the same vein, Pandya and Sisombat (2017) argued that FDI inflows have a great impact on the growth of GDP, export performance as well employment creation.

**Table 4.5: MNCs activities in employment creation**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	90	90.9	90.9
	No	9	9.1	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### **4.2.2 MNCs generate new entrepreneurial opportunities that weren't present before**

The findings from Table 4.6 indicates that, 90 respondents representing 90.9% of the total sample size indicated that, foreign firm may introduce new goods/product to the market and raise customer awareness of these goods. Therefore, this creates a good base for various employment opportunity spotters to participate in introducing new ventures that will serve the raised customer needs by the foreign investors. As a result, due to this, it clearly explains that the presence of MNCs leads to various new SMEs to be opened which at the end brings to its growth in the country.

**Table 4.6: MNCs generate new entrepreneurial opportunities that weren't present before**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	90	90.9	90.9
	No	9	9.1	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### **4.2.3 Measures to improve employment creation through MNCs.**

The respondents were asked to indicate the measures that could improve employment creation through the presence of multinational corporations. Their responses were

measured on a five-point Likert scale: 1: strongly agree; 2: agree; 3: neutral. 4-Disagree 5: Strongly disagree. The results were presented in Table 4.7. The findings revealed that 81.7% of the respondents generally agreed that MNEs must identify the stakeholders they will collaborate with in the country, including small business owners. 2.3% disagreed, while 16.0% were neutral about the statement. This is in line with the comments made by Nyaga (2013) on his investigation of how FDI affected Kenya's economic growth from 1982 to 2012. Nyaga suggested that for the sake of small businesses and economic growth (GDP), the government should develop the clear legal framework and policies that will enhance bilateral and multilateral trade.

In addition, 61.0% of the respondents generally agreed that MNEs must hold discussions with various SME stakeholders about how to enhance working conditions and create more jobs; 17.1% disagreed, while 22.9% were neutral. Further, 65.6% of the respondents generally agreed that MNEs must do a better job of supporting local SMEs with training and education; 26.4% disagreed, and 8.0% were neutral.

Moreover, 82.4% of the respondents generally agreed that MNEs should source more of their production inputs domestically to support the creation of more jobs. 3.1% disagreed, while 14.5% were neutral. Finally, 93.6% of the respondents generally agreed that MNEs must create capacity-building initiatives for SMEs, which have demonstrated their willingness and potential; 2.2% agreed to some extent, while 9.2% were neutral.



**Table 4.7: Measures to improve employment creation through MNCs**

Statement	Percentage response (%)					Mean
	1	2	3	4	5	
MNEs must identify the stakeholders they will collaborate with in the country, including small business owners	78.3	3.4	16.0	2.3	0.0	2.061
MNEs must hold discussion with various SME stakeholders about how to enhance working conditions and create more jobs	53.4	7.6	22.9	16.0	1.1	2.939
MNEs must do a better job of supporting local SMEs with training and education	39.3	26.3	8.0	22.6	3.8	1.404
MNEs should source more of their production inputs domestically to support the creation of more jobs	80.9	1.5	14.5	2.3	0.8	1.313
MNEs must create capacity-building initiatives for SMEs, which have demonstrated their willingness and potential	88.6	5.0	9.2	1.1	1.1	1.423

Source: Researcher, 2023

### 4.3 Contribution of Multinational Corporation (MNCs) on the SMEs growth in Ilala

#### 4.3.1 Impacts of MNCS activities on growth of SMEs in Tanzania

According to Table 4.8, most responders (92.9%) agreed that the activities of MNCs have an impact on the growth of SMEs in Tanzania. While 7.1% of respondents said not at all. Respondents explained that MNCs' activities have both negative and positive impacts on the growth of SMEs in different aspects. The positive impacts are such transfers of technology as well as observation of how foreign companies conduct their business in terms of pricing strategies, customer relationship building, etc.

Respondents claimed, business events that they at large percent participate is Dar es Salaam International Trade Fair (DITF) where large number of participants are

fellow SMEs originating from Tanzania compared to MNE companies and as a result, they don't get to meet with foreign firms who produce similar products as theirs to share experiences and business knowledge. And this platform is not enough for them to advertise their products therefore they demand for involvement in other business exhibition taking into consideration of their entrance fees as they operate on a low capital as they indicated that small firms are inadequate financial resources to enable them attend other big international exhibitions.

This implies that, overall, domestic companies are smaller than foreign companies in terms of both the number of employees and gross output, and that they are more labor intensive than foreign firms and show lower levels of labor productivity; hence, the foreign firms take over the market quickly and leave behind the domestic firms.

**Table 4.8: Impacts of MNCs activities on growth of SMEs in Tanzania**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	92	92.9	92.9
	No	7	7.1	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### **4.3.2 Managerial knowledge transfer**

Table 4.9 indicates that 81 respondents equivalent to 81.8%% explained that MNCs has come with improved managerial skills compared to the ones practiced by local companies in the country, and therefore due to this SMEs get to learn on various management skills in all aspects such as employees, finance, and production at large. The modern management skills presented by

the foreign investors' specialists help to bring intensity and proficiency up in the business air.

For instance, the remote financial specialists train the nearby representatives to improve human capital and later an overflow impact shows up as talented administration worker from an outside organization choose to work in a neighborhood possessed organization and thus move of the board aptitudes happens. Moreover, the respondents clarified that human capital is one of the significant factors in any organization yet, it's dictated by the quality and value of the local instructive and preparing framework.

It has been noted that the existence of FDI in the nation has prompted the transfer of management expertise from FDI businesses to SME companies, improving a variety of managerial abilities in the SME sector. And this is due to the fact that many SMEs, especially family-owned enterprises, faced difficulties with business transfer and management transition processes in earlier eras due to poor management practices and a lack of suitable corporate governance procedures. This serves as a reminder that managers in SMEs must master essential internal competencies, such as general and financial information, control, interchanges, staff management, and market improvement, or they will fail. A new set of problems related to the increased unpredictability of managing more established and frequently larger companies emerge as a lasting organization grows.

Administrative matters, such as improper use of outside consultants, a lack of emphasis on quality and the ability to allocate responsibilities, and personal problems

involving the proprietor/supervisors, grow moderately important over time and contribute to the dissatisfaction of other SMEs. In this way, according to respondents, the presence of FDI in the country has significantly impacted SMEs with managerial skills, such as human resource executives' abilities, which enable them to legally hire representatives based on their skills, train employees, monitor their performance, excuse, or lay off employees in accordance with various organizations' laws, and evaluate human resource plans.

**Table 4.9: Managerial knowledge transfer**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	81	81.8	81.8
	No	18	18.18	100
	Total	99	100.0	

**Source:** Researcher, 2023

### **4.3.3 The impact of MNCs on financial development and human capital**

The findings from Table 4.10 shown that 75 respondents speaking to 75.8% of the out all sample size demonstrated that there are propelled levels of budgetary turn of events and human capital brought about by MNEs swarm out local firms. This is uncovered because of quality of better monetary development and expanding human capital in Tanzania profiting remote financial specialists to the detriment of household speculators.

This is on the grounds that huge level of FDI firms decide to take part in huge obtaining from nearby banks that offer various budgetary administrations, for example, credit, protection, bookkeeping, shopper account, just as stock and venture

businesses therefore it prompts the swarming out of household speculators. This is because of the way that MNEs firms are every now and again extra serious. Additionally, as human capital levels upsurge in the rising economies of Tanzania, it is almost certain higher instructed partners of the work power would be working in MNCs and other outside endeavors, causing the swarming out of local firms.

**Table 4.10 MNCs on financial development and human capital to domestic investment**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	75	75.8	75.8
	No	24	24.2	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### **4.3.4 Impact of MNCs on market share owned by SMEs.**

Table 4.11 indicates that 72 respondents representing 72.9% clearly reported that the existence of MNEs in the country have at a large percentage lowered the market share of the SMEs. And the reason for this is that local MNEs have better human resources and more advanced technology than SME counterparts, which causes the foreign firms to strangle their underperforming domestic rivals. Therefore, the technological disparity between MNEs and SMEs drives increased rivalry, which ultimately encourages local businesses to catch up in productivity as the gap has narrowed and human capital has grown stronger. As a result, there is a high level of rivalry that exclusively favors foreign corporations over SMEs because SMEs have a low capacity for absorbing new technology.

**Table 4.11: MNCs on market share owned by SMEs**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	72	72.9	72.9
	No	27	27.1	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### 4.3.5 Access to finance

Table 4.12 indicated that about 82 respondents equivalent to 82.8% reported that the presence of MNEs in Tanzania has hardened the whole process of SMEs to get finance in various credit facilities in the country. And this is since the focus is based on the foreign affiliates as they are the ones benefiting from the accessing loans in various banks in the country neglecting the SMEs. Majority of respondents, they claimed that accessing credits from various credit institutions in the country have become more complex over the years hence most of business owners obtain their capital from family members such as father, mother, sister brother, uncle and etc. This is due to the fact credit agreements often come with collateral requirements while the truth is large number of SME business owners have limited/ no material possessions.

This has evidenced by one SMEs who own a company at Kariakoo market who started his business while completing his bachelor's degree at Mzumbe University, and had no any collateral possession and hence even after the university studies she was forced to engage in various vikoba programs so as to get more money to finance her business. The limited access to finance by SMEs qualities to financial service

providers strict requirements around formal registration, collateral, credit and savings history. Likewise, proprietors of SMEs realize these proper credits to be high hazard because of the high-financing costs, exacting advance conditions and various guarantees set on these advances.

High financing costs have a severe long-term impact on independent businesses, forcing them to pay back the credits they pledged for in advance to secure their insurances. Additionally, most SME remain unable to maintain their businesses despite making credit payments, stay stagnant, or even go bankrupt. Additionally, respondents mentioned that the high loan rates make it difficult for SME administrators to choose an obligation to support their businesses. As a result, respondents indicated that banks must increase their efficacy in order to reduce advance handling times and financing costs because doing so will help SMEs gain access to bank credit and promote their development.

**Table 4.12: Source of SMEs finance**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	82	82.8	82.8
	No	17	17.2	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### 4.3.6 Competition effect

According to Table 4.13, 90 respondents equivalent to 90.9% from the field reported that increased unfair competition in the manufacturing industry has become

inevitable after the entrance of multinational companies in the country. Whereby this competition only benefits the MNEs rather than the SMEs in the host country. And this is due to the fact that when the investor come in the country, they are experience low labour, production and distribution cost, but this is different from the SMEs as due to the fact that as Tanzania is among developing countries in the world, then the reality of SMEs is that they are the businesses that are mostly family owned and have capital less than Tsh 1,000,000/= and due to this are unable to operate as the way the foreign investors do.

**Table 4.13: Competition effect**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	90	90.9	90.9
	No	9	9.1	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### **4.4 The contribution of MNCs to SMEs technological capability in Ilala**

##### **4.4.1 Transfer of technical knowledge**

Table 4.14 reveals that 88 respondents representing 88.9% of the sample indicated that there is technical knowledge transfer from foreign companies to SMEs working in the same sector/field. This is because the experience of working in a foreign company enables business people to build up their expert systems which will be imperative to the accomplishment of their own future endeavors. What's more, this is because of the way that enormous number of business people begin from work by different firms. What's more, accordingly, because of this there is aptitudes and specialized information being discharged into SME segment through new firm birth.



**Table 4.14: Technical knowledge transfer**

		Frequency	Per cent	Cumulative Percent
Valid	Yes	88	88.9	88.9
	No	11	11.1	100
	Total	99	100.0	

**Source:** Researcher, 2023

#### 4.4.2 Increased technological gap affecting SMEs

According to the findings from Table 4.15 indicates that about 85 respondents' equivalent to 85.9% reported that SMEs mostly use locally produced machines from the Small Industries Development Organization (SIDO), and due to this, SMEs in Tanzania have kept their hopes and trust to SIDO. Whereby SIDO aims at facilitating SMEs capacities improvements in terms of facilities, processes and products. For example, SIDO's corporate strategic plan of 2017/2018-2020/2021, plan efforts were made to encourage and develop capacities of SMEs to assume the role of manufacturing machines and equipment developed by others on commercial basis whereby in that way 220 technologies were transferred to SMEs and capacities to commercial manufacture them.

This implies that there is a great difference between the technology used by FDI investors and SMEs in the country. And at this point, the foreign investors have more advanced technology that they come with from various countries outside Tanzania. These technologies have help them to produce better and quality products compared to the SME's. Due to a lack of proper technology, insufficient absorption capacity, and inability to pay for specialist technological services, SMEs have restricted access to relevant information. The speed of technological development is more than what

SMEs can handle. These findings are similarly to what highlighted by Awosusi and Awolusi's (2014) in Nigeria, who contended that there is indirect relationship between FDI and technology transfer. The authors added that FDI may result to inactive domestic investment in a particular country.

**Table 4.15: SMEs level of technology**

			Frequency	Percentage	Cumulative Percentage
Valid	Imported abroad	from	14	14.1	14.1
	Adopted SIDO	from	85	85.9	100
	Total		99	100.0	

**Source:** Researcher, 2023

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION, AND RECOMMENDATIONS**

#### **5.0 Chapter overview**

The chapter provides a summary of the facts revealed in Chapter four. In order to get the greatest results that will benefit everyone, this research offers a view on what the government, businesses, and Tanzanians in general should do to boost the growth of SMEs in Tanzania. In this study, the effects of multinational corporations on the expansion of small and medium-sized businesses (SMEs) in Tanzania were evaluated. Whereas the findings from the gathered data showed that the presence of MNEs in the country has an impact on the development of SMEs there that is both positive and negative, the negative effects outweigh the positive ones, thus steps must be taken to ensure progress in order to create a situation where MNEs and SMEs can benefit equally.

#### **5.1 Summary**

The aim of the study was to investigate the impacts of multinational corporations on the growth of small and medium-sized businesses (SMES) in Tanzania. The study was motivated by three distinct objectives: firstly; to assess how multinational corporations (MNCs) affect the development of employment opportunities for SMEs, secondly; to assess how much they contribute to business growth among SMEs, and thirdly; to assess the extent to which they facilitate the transfer of technology to SMEs. Questionnaires were used to gather the data from the field. A total of 99 participants as the study's sample size were included in the study.

The study examined how multinational corporations (MNCs) resulting from foreign direct investments (FDIs) on the expansion of small and medium-sized businesses (SMEs) in Tanzania. The results revealed there were the adverse effects of MNEs that have been brought on by slowing down SME growth and inhibiting the launching of new SME in the nation. Since both of these factors have an impact on the growth of SMEs in Tanzania, where considered both positive and negative impacts throughout this research work. Given that these consequences not only affect the growth of SMEs but also the whole economy of the country, when independent businesses fail to grow, it accelerates unemployment, reduces efficiency, and then depletes reserves and creates speculation whereby governments stop receiving payment from charged wages, meaning that the national salary will inevitably fall apart.

Additionally, the study analysis found that SMEs in Tanzania play a generous role in pay development, employment creation for locals, and neediness alleviation. In any event, it has been said that Tanzanian SMEs are not committed enough to the goal of producing the high-quality goods demanded in the culinary display. Therefore, tasks and exercises focusing on handling quality difficulties in the SMEA sector should be completed.

Consequently, initiatives that concentrate on overcoming the obstacles should be taken in light of the numerous significant observed effects that MNCs have on SMEs in Tanzania. in order to close the existing gap between MNEs and SMEs in the nation, which will both raise the overall standard of living and increase government revenue.

## 5.2 Conclusion

For positive impact the findings noted that MNC through FDI contribute to Managerial knowledge transfer, Transfer of technical knowledge, generate new entrepreneurial opportunities that weren't present before. 81.8% explained that FDI has come with improved managerial skills compared to the ones practiced by local companies in the country, and therefore due to this SMEs get to learn on various management skills in all aspects such as employees, finance and production at large. 88 respondents representing 88.9% of the sample indicated that there is technical knowledge transfer from foreign companies to SMEs working in the same sector/field. This is because the experience of working in a foreign company enables business people to build up their expert systems which will be imperative to the accomplishment of their own future endeavors. According to the data from the field, 90 respondents representing 90.9% of the total sample size indicated that, foreign firm may introduce new goods/product to the market and raise customer awareness of these goods.

For the negative impacts the findings revealed that Multinational Corporation (MNCs) on the SMEs growth, the levels of budgetary turn of events and human capital brought about by MNEs swarm out local firms. FDI firms decide to take part in huge obtaining from nearby banks that offer various budgetary administrations. FDI businesses want to participate in large getting from nearby banks that provide a variety of budgetary administrations. This is due to the fact that MNE enterprises are occasionally more serious. Furthermore, respondents indicated that acquiring credit from various credit institutions in the country has gotten increasingly difficult over

the years, therefore most company owners acquire money from family members such as father, mother, sister, brother, and uncle. High financing costs influence for the most part independent companies with respect to a significant extensive stretch they are obliged to reimburse the credits to protect their insurances that they swore for advance. What's more, thus, after credit installments most SME stay unfit to maintain their organizations or stay stale even become bankrupt.

### **5.3 Recommendations**

The Tanzanian government should establish procedures to promote the export of diverse goods to various regions outside its borders. This is due to the fact that many SMEs lack the connections necessary to export their products for trade. As a result, they are forced to rely on their domestic markets, which encourage MNEs to import more different products.

The legislature must establish science and technology advancement programs within every service across the board for Tanzania to strengthen its industrialized sector. In order for the SMEs in the country to have the greatest technology to make high-quality items that can compete with the foreign-imported goods that are now on the market, this should be done through advancement of science and technology innovation arrangement structures.

The numerous FDI laws that are being practiced in the nation should be subject to action. The MNEs should be directed by these regulations to collaborate with and impart their knowledge to the SMEs so that the local businesses can benefit from the

foreign ones and, as a result, make the best use of it in their daily business operations in order to ensure growth of their small businesses.

Government should emphasize on utilization of local goods produced in the country in order to increase the rate of consuming Tanzanian-produced products so as to extend the market for nearby products. The legislature ought to instruct and emphasize the residents to buy local merchandise to support up the development of SMEs through raise in deals.

To encourage rivalry in the market, directed activity to control import of modest fakes ought to be set up and authorized over a wide range of imported products. The administration should limit importation of products that can be privately delivered by the SMEs to make a base for the development of these organizations.

Likewise, policymakers are required to identify the business environment, which should be favorable to SMEs. According to the findings, some of the issues that need appropriate actions include the amendment of legal and policy framework, here the government should focus on coming up with policies and regulations that will promote products that are produced locally and boost small firms. In addition, the government should formulate a financial scheme that favors SMEs operations.

Also, SMEs should focus on cooperatives, enhancement of infrastructure, financial support, marketing strategies and well-organized information network. Also, SMEs should adopt advanced technology for their daily business operations. The study

noted that firm technology is one of the essential tools that influence the growth of SMEs in Tanzania. The adoption of new technology helps SMEs in reducing operation costs, enhancing business communication and production.

#### **5.4 Recommendation for further studies**

The current study concentrated on the impacts of Multinational Companies on growth of small and medium-sized enterprises (SME) in Tanzania, with a particular focus on SMEs found in, Ilala district, Dar Es Salaam. Therefore, a similar study may be done in rural settings of Tanzania as impacts may vary according to location and the type of business activity being performed.



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## APPENDICES

### APPENDIX 1: QUESTIONNAIRE

#### Introduction

My name is **JOHN LAMECK MAPUGA**, a post graduate student pursuing master's degree of Arts in International cooperation and development offered by Open University of Tanzania. I am conducting a dissertation titled, "*Impact of Multinational companies on the Growth of SMEs in Tanzania: A Case of Ilala District*". Please check the appropriate box or complete the area provided for each of the questions below to indicate your response: To help me conduct fruitful research on the study topic, I would greatly appreciate it if you could please complete the enclosed questionnaires to the best of your ability.

1. Please indicate the category of your age from the list below by ticking in the space provided;

a) 18-25      [    ]

b) 26-35      [    ]

c) 36-45      [    ]

d) 46-55      [    ]

e) Above 55   [    ]

2. Please indicate your gender;

Male [    ] Female [    ]

3. Please indicate your education level.

- a) Primary education [    ]
- b) Secondary education [    ]
- c) Certificate [    ]
- d) Diploma [    ]
- e) Other [    ] Please specify.....

4. What kind of businesses are you dealing with (tick one)?

- a. vehicle repairs [    ]
- b. Carpentry/masonry [    ]
- c. Clothing sellers [    ]
- d. Food vendors. [    ]
- e. Money transfer kiosks [    ]
- f. Other (specify) [    ]

5. Number of years you have been in this business

- a) Less than 3 year [    ]
- b) 4- 10 years [    ]
- c) 10- 15 years [    ]
- d) More than 15 years [    ]

6. Does Multinational Corporations creates formal out of informal employment?

- i) Yes (    ) ii) No (    )

7. Please rate your agreement with the following statements on a scale of 1 to 5 on the measures to help multinational corporations create more jobs. Where 1- Strongly agree, 2- Agree, 3- Neutral 4- Disagree 5 – Strongly disagree.

Statement	1	2	3	4	5
MNEs must identify the stakeholders they will collaborate with in the country, including small business owners					
MNEs must hold discussion with various SME stakeholders about how to enhance working conditions and create more jobs					
MNEs must do a better job of supporting local SMEs with training and education					
MNEs should source more of their production inputs domestically to support the creation of more jobs					
MNEs must create capacity-building initiatives for SMEs, which have demonstrated their willingness and potential					

8. Do you benefit from the existing relationship?

YES

NO

9. What kind of benefit of benefit do SMEs gain from MNEs and how?

TECHNOLOGY TRANSFER

.....

.....

.....

.....



KNOWLEDGE TRANSFER

.....  
.....  
.....  
.....

NON-OF THE ABOVE

.....  
.....  
.....  
.....  
.....

ALL THE ABOVE

.....  
.....  
.....  
.....  
.....  
.....

10.Is there any existing competition between SMEs and MNEs in the country?

A. YES

B. NO

11. What is the type of competition existing between SMEs and MNEs and how?

(More answers are)

QUALITY OF PRODUCTS/SERVICES

.....  
.....  
.....  
.....  
.....

**PRICE**

.....  
.....  
.....  
.....  
.....  
.....

**TECHNOLOGIES AND STANDARDS**

.....  
.....  
.....

**BRAND AWARENESS**

.....  
.....  
.....  
.....  
.....  
.....

12. How can you rate the existing competition between SMEs and MNEs?

- A. NORMAL
- B. MODERATE
- C. MAXIMUM

13. Do FDI activities have effect on growth of SMEs in Tanzania?

- i. Yes
- ii. No

**APPENDIX II: A LETTER FROM THE UNIVERSITY (OUT) FOR  
RESEARCH CLEARANCE AND ALLOWING DATA COLLECTION  
STAGE**

**THE OPEN UNIVERSITY OF TANZANIA**

**DIRECTORATE OF POSTGRADUATE STUDIES**

Kawawa Road, Kinondoni Municipality,  
P.O. Box 23409  
Dar es Salaam, Tanzania  
<http://www.out.ac.tz>



Tel: 255-22-2666752/2668445  
Ext.2101  
Fax: 255-22-2668759,  
E-mail: [drps@out.ac.tz](mailto:drps@out.ac.tz)

Date: July 20<sup>th</sup>,2022.

Ref: PG201702531

Regional Administrative Secretary,  
Dar es Salaam Region,  
P.O.Box 5429,  
DAR ES SALAAM.

**RE: RESEARCH CLEARANCE**

The Open University of Tanzania was established by an act of Parliament No. 17 of 1992, which became operational on the 1<sup>st</sup> March 1993 by public notice No. 55 in the official Gazette. The act was however replaced by the Open University of Tanzania charter of 2005, which became operational on 1<sup>st</sup> January 2007. In line with the later, the Open University mission is to generate and apply knowledge through research. To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you Mr. John Lamec Mapuga. Registration number PG201702531 pursuing Master of Arts in International Cooperation and Development. We hereby grant this clearance to conduct a research titled "Impact of Multinational Companies on Growth of Small and Medium Enterprises In Tanzania: A Case Of Ilala Businesses." He will collect his data at, Ilala, District in Dar es Salaam Region from 20<sup>th</sup>, July to 20<sup>th</sup>, August 2022.

Incase you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O. Box 23409, Dar es Salaam. Tel: 022-2-2668820. We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity.

With kind regards,

**Prof. Magreth Bushesha**  
**DIRECTOR OF POSTGRADUATE STUDIES**

**APPENDIX III: A PERMIT FROM THE DAR ES SALAAM REGION**

**JAMHURI YA MUUNGANO WA TANZANIA  
OFISI YA RAIS  
TAWALA ZA MIKOA NA SERIKALI ZA MITAA**

**MKOA WA DAR ES SALAAM**  
Anwani ya Simu:  
Simu: 2203156/2203158/286371  
Barua pepe [ras@dsm.go.tz](mailto:ras@dsm.go.tz)

**OFISI YA MKUU WA MKOA,**  
3 Barabara ya Rashidi Kawawa  
S.L.P 5429,  
12880 DAR ES SALAAM.



Unapojibu Tafadhali taja:

**Kumb. Na. EA.260/307/03/400**


**22 Julai, 2022.**

Wakurugenzi wa Jiji,  
Halmashauri ya Jiji la Dar es Salaam,  
**Dar es Salaam.**

Yah: **KUMTAMBULISHA BW. JOHN LAMEC MAPUGA KUFANYA UTAFITI**

Tafadhali husika na somo tajwa hapo juu.

2. Ofisi ya Mkuu wa Mkoa wa Dar es Salaam imepokea barua **Kumb. Na. AB3.98/12(B) ya tarehe 20/07/2022** kutoka Chuo Kikuu cha Open ikimtambulisha na kumuomba kibali cha utafiti **Bw. John Lamec Mapuga** katika Halmashauri yako
3. Mwanafunzi huyu anafanya utafiti kuhusu "*Impact of multinational companies on Growth of small and medium Enterprises in Tanzania*".
4. Kwa barua hii, kibali kimetolewa kuanzia 20 Julai, 2022 hadi 20 Agosti, 2022.
5. Asante kwa ushirikiano wako.

  
John J. Ngonyani.

Kny: **KATIBU TAWALA MKOA  
DAR ES SALAAM**

**Nakala:** Makamu Mkuu wa Chuo,  
Chuo Kikuu Cha Open,  
S.L.P 35091,  
**Dar es Salaam.**

Bw. John Lamec Mapuga

DAR-ES-SALAAM CITY COUNCIL

**RECEIVED**

DATE: 22/7/2022

25/7 - CTRO