

Influence of institutions on value creation activities of micro and small enterprises in rural Tanzania

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Economic development initiatives in Tanzania recognise the importance of enterprises in the country's economy. Similarly, rural entrepreneurship has the potential to stimulate the rural economy. The promotion of rural entrepreneurship can help to fulfil that potential, with creation of value for customers as one of the promotion initiatives. Institutions govern the value creation activities of enterprises. By focusing on the wood furniture industry, this research article analyses the influence of institutions on the value creation activities of rural Micro and Small Enterprises (MSEs) in Tanzania. The institution theory and the value chain model are its theoretical bases. The Mvomero district is the study area. Interviews and discussions are the data collection methods used in this qualitative study and 14 cases are analysed. The study finds that four institutional concerns influence the value creation activities of enterprises and these are: regulations compliance; regulations enforcement; regulations knowledge; and regulatory costs. However, the study excludes informal institutions. Its findings may be beneficial to stakeholders such as policymakers, development stakeholders, researchers – as well as rural MSEs.

Key words: institutions, value creation activities, micro and small enterprises, rural areas, Tanzania

1. Introduction and the research problem

In this section we provide an introduction to the research topic, the research question, and research objectives.

Economic development initiatives in Tanzania recognise the importance of the private sector in which micro, small and medium enterprises (MSMEs) 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 are legitimate but have a limited impact on the economy. Naude (2011) 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 micro and small enterprises (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.

According to the World Bank (2010), Tanzania has more than 40 million inhabitants of which 70% or more 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.

The World Bank Group (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, *ibid*).

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, *ibid*). 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 socio-economic gains from such resources. The country imports more timber and timber-related products than it exports. Dinh & 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.

By focusing on the rural furniture manufacturing industry, this research paper 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 article has five sections. The following sections are composed of: a literature review, methodology, findings, and a discussion of findings which outlines the study conclusions, implications, limitations and areas for further studies.

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 and the value-chain model. The section describes the study concepts and research model.

2.1. Institution 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. Political institutions are linked to the actors who are associated with the availability of basic amenities and economic systems. Legal institutions include actors who are involved with decisions that relate to the legislation and regulations of a particular government (Sobel, 2008).

Another way of analysing institutions is by focusing on the forms of institutions to reveal their cognitive, normative, and regulatory aspects. 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. This study analyses the influence of regulatory institutions on value creation activities of MSEs in rural areas of a developing country.

Business enterprises in rural areas of developing economies are prone to a deficiency of favourable economic, political, and legal institutions (Vaillant & Lafuente, 2007). The promotion of rural entrepreneurship is linked to the existence of entrepreneurship-nurturing institutions in rural areas. Naude (2011) 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.

2.2. The value chain model

According to the value-chain model by Porter (1985), economic resources are employed in a chain of business activities. Value-adding activities consume the resources of business entities. The core activities of businesses are related to the acquisition of

input, the processing of input, and making output available to the market. Porter stipulates these activities as ‘inbound logistics, operations, outbound logistics, marketing and sales and services’. As per Lambert & Cooper (2000), the supply-chain actors comprise of suppliers, manufacturers, and customers who are engaged in the exchange of products, as well as information. The core activities of manufacturers include *research and development, purchasing, production, finance, logistics, marketing, and sales*. Such value-adding activities are supported by activities such as ‘procurement, technology development, human resource management and firm infrastructure’ (Porter, 1985). Therefore, various activities in a value chain and supply chain affect the value creation activities of businesses.

2.3. Empirical review

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, 2011); 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 & Ventresca, 2013).

At the institutional level, studies show that the activities of MSEs are influenced by legislation, regulations, policies, government strategies (Patel & Chavda, 2013; Talebi *et al.*, 2012; Chawla *et al.*, 2010), corruption (Naqvi, 2011), and the existence of basic amenities such as energy, transport, telecommunication services, and information technologies (Patel & Chavda, 2013; Lee & Phan, 2008; Vaillant & Lafuente, 2007).

Authors acknowledge 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 Cant & Wiid (2013), Chawla *et al.* (2010), Calvo & Garcia (2010) and Keizer *et al.* (2002). MSE activities are also influenced by industry-related factors. These activities are associated with competitors, suppliers, and customers (Talebi *et al.*, 2012; Keizer *et al.*, 2002).

While the authors acknowledge 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. This study 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 & 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, we 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 & Morris (2001) show that institutions govern the inter-relationships between business enterprises in a specific supply chain. 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, the authors 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 (which consist of input purchasing, input-transporting, production, output distribution and output-transport). This study investigates value creation activities and regulatory institutions as indicated in Figure 1.

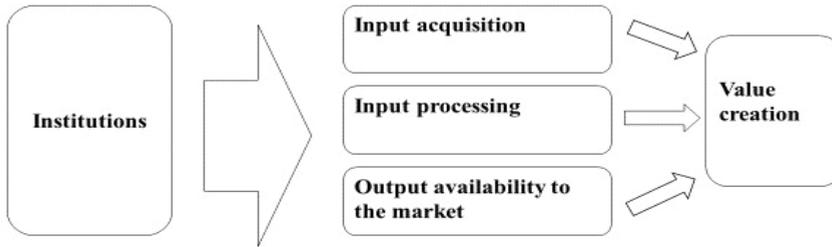


Figure 1: Research model. Source: Msamula and Tutuba, based on the literature 2017.

2.4. The concepts of MSE, rural MSE and rural area

The definition of MSEs varies across countries and industries, but according to Tanzanian SME Development policy, MSE refers to the micro and small enterprise. Employee numbers and initial business capital are among the classification indicators of MSEs. The policy indicates that business enterprises with 1-4 employees, or an initial capital of less than 5 million Tanzanian shillings, are to be termed micro business enterprises. Similarly, the policy considers business enterprises with 5-49 employees, or an initial capital of 5 to 200 million Tanzanian shillings, as small business enterprises (URT, 2003). Therefore, rural MSEs refer to rural micro and small business enterprises exploiting rural resources through entrepreneurial activities (Lee & Phan, 2008). Rural areas are defined as geographical locations that have less than 150 inhabitants per km² (OECD, 1996). Other concepts that relate to rural MSEs such as the age, size, formalisation, management and commitment are described next. The authors describe the age of rural MSE as the operating period since foundation, while its size refers to the size of the workforce engaged in furniture manufacturing activities and includes full-time and part-time furniture manufacturers. The formalisation of MSE refers to the registration of the MSE in the regulatory bodies such as local government and tax authorities. Regarding the management of the businesses, they can be owner-managed or manager managed. The commitment refers to a number of months an enterprise is engaged in furniture businesses.

2.5. 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 Tanzania Forest Act (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. We 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 refers 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 Organization of the United Nations, 2004). A plantation is 'a forest of not less than five hectares which has been planted and is developed and managed by human agency' (Tanzania Forest Act, 2002). We 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.

3. Research methodology

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

3.1. The research design

The Mvomero district is the study area. This study area has a population density of 35.5 people per square kilometer (Ministry of Agriculture Food Security and Cooperatives, 2014). The 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). The study area has 54 MSEs. Each MSE is considered as an individual case study. By using a purposeful sampling technique, a total of 14 individual cases are engaged in this holistic multiple-

case research design. Figure 2 indicates 14 cases that are classified into four categories based on the nature of the forest and type of forest ownership. Rural MSEs that are not near ‘natural forests and forest plantations’ nor ‘publicly-owned forests and privately-owned forests’ are also included. 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.

		Type of forests' ownership	
		Public-owned forests	Private-owned forests
The nature of forests	Natural forests	6 cases	1 case
	Forests plantations	4 cases	1 case
		2 cases	

Figure 2: Categories of study cases based on the nature and types of forests. Source: research data 2017.

As shown in figure 2, there are 5 categories of forests. 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 or privately-owned forests, and there is no access to natural forests or forest plantations.

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 (2016) and this is the leading document used in the study. After transcribing the collected data, NVivo software is used for coding. An analysis of each group of cases is conducted. Furthermore, researchers employ the interpretative analysis technique to analyse the influence of institutions on the

value creation activities of rural MSEs. After explaining the methodology of the study, the next section of the paper presents the research findings.

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.

4.1. Description of rural MSEs

Rural MSEs are described by their characteristics such as age, size and formalisation. The description also includes 'form of ownership' and 'level of commitment' of rural MSEs. Regarding the age of rural MSEs, the study shows 7 rural MSEs are less than 9 years old, and 7 rural MSEs are between 10 and 21 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. Appendix 1 indicates the summarised descriptions of the rural MSEs. 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.

4.2. Institutions and value creation activities

The objective of this study is to analyse the influence of institutions on the value creation activities of rural MSEs. The research 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' we 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.

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 various costs (including 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.

4.3. 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 as indicated in table 1: Influence of institutions on value creation activities in each category of cases.

Cases	Publicly-owned natural forests	Publicly-owned forests plantations	Privately-owned forests plantations	Privately-owned natural forests	Absence of forests
REGULATIONS COMPLIANCE	<p>Category 1</p> <p>'...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 timber to us...' (INPUT ACQUISITION)</p>	<p>Category 2</p> <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>	<p>Category 3</p>	<p>Category 4</p> <p>'...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)</p>	<p>Category 5</p> <p>'...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)</p>

Cases	Publicly-owned natural forests	Publicly-owned forests plantations	Privately-owned forests plantations	Privately-owned natural forests	Absence of forests
REGULATIONS KNOWLEDGE	<p>Category 1</p> <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...'</p> <p>(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.'</p> <p>(INPUT ACQUISITION)</p>	<p>Category 2</p> <p>'...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 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.'</p> <p>(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...'</p> <p>(INPUT PROCESSING)</p>	<p>Category 3</p>	<p>Category 4</p>	<p>Category 5</p> <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...'</p> <p>(INPUT ACQUISITION)</p>

Category 1	Category 2	Category 3	Category 4	Category 5
<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...'</p> <p>(INPUT PROCESSING AND MAKING OUTPUT AVAILABLE TO THE MARKET)</p>	<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 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...'</p> <p>(INPUT ACQUISITION)</p>			
<p>REGULATORY COSTS</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...'</p> <p>(INPUT PROCESSING AND MAKING OUTPUT AVAILABLE TO THE MARKET)</p>			

Cases	Publicly-owned natural forests Category 1	Publicly-owned forests plantations Category 2	Privately-owned forests plantations Category 3	Privately-owned natural forests Category 4	Absence of forests Category 5
REGULATIONS COMPLEXITY		<p>‘...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)</p>			

Cases	Publicly-owned natural forests	Publicly-owned forests plantations	Privately-owned forests plantations	Privately-owned natural forests	Absence of forests
	<p>Category 1</p> <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 (some-time 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>	<p>Category 2</p> <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>	<p>Category 3</p> <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>	<p>Category 4</p>	<p>Category 5</p>
REGULATIONS ENFORCEMENT					

Table 1: Influence of institutions on value creation activities in each category of cases.

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.

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.

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.

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.

Regulatory costs 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. These institutional aspects are provided in appendix 2, but their summary is presented in table 2.

	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

Table 2: Influence of institutions on the value creation activities in each category of cases. Source: research data, 2017.

The findings section of the article 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.

5. Discussion

This section of the article 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.

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 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 regula-

tions 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 3.

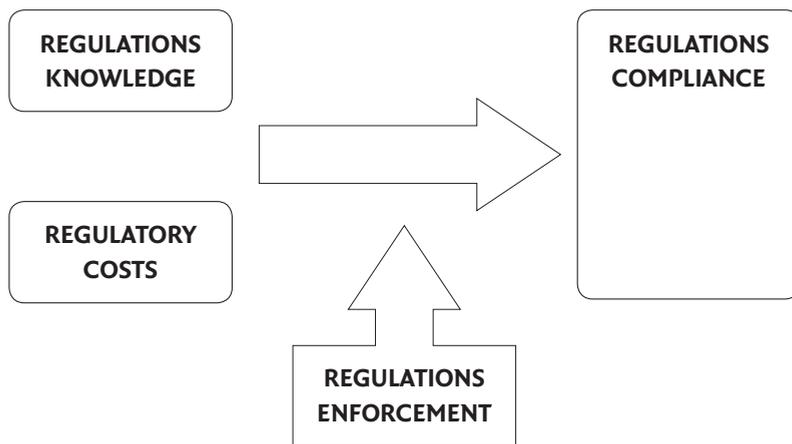


Figure 3: The interrelationship between aspects of regulations that are of influence in value creation activities.

Source: research findings 2017.

As shown in Figure 3, 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.

5.2. The conclusion and 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 comply with regulations the institutions may have a negative effect on the value creation activities. The compliance of MSEs with regula-

tions 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. The study 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. 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 Trade, Industry and Marketing, Local Government authorities (LGAs), Tanzania Revenue Authority (TRA) and Small Industries Development Organisation (SIDO). The study may be beneficial to policy-makers, lawmakers, development stakeholders, researchers – as well as rural MSEs.

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.

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Case	Age (years)	Size	Formalization	Management	Commitment in the business
Case 1	10	2	Informal	Not owner-managed	Not full-time
Case 2	2	2	Informal	Not owner-managed	Not full-time
Case 3	4	3	Informal	Owner-managed	Not full-time
Case 4	7	3	Informal	Not owner-managed	Full-time
Case 5	21	2	Informal	Owner-managed	Not full-time
Case 6	20	4	Informal	Owner-managed	Not full-time
Case 7	9	2	Informal	Owner-managed	Not full-time
Case 8	2	3	Informal	Owner-managed	Full-time
Case 9	10	5	Informal	Owner-managed	Not full-time
Case 10	10	30	Formal	Not owner-managed	Full-time
Case 11	10	2	Informal	Owner-managed	Full-time
Case 12	15	9	Formal	Not owner-managed	Full-time
Case 13	6	2	Informal	Owner-managed	Full-time
Case 14	9	9	Formal	Not owner-managed	Full-time

Appendix 1. Description of rural enterprises. Source: research data, 2017.

Category 1 (6 MSEs) Publicly-owned natural forests	Category 2 (4 MSEs) Publicly-owned forests plantations	Category 3 (1 MSE) Privately-owned forests	Category 4 (1 MSE) Privately-owned natural forests	Category 5 (2 MSEs) Absence of forests
<p>Some enterprises have no compliance with regulations in activities of input acquisition and transportation; and production. (businesses are not registered; they lack licenses, permits, transit passes, tax identity numbers; and, uses uncertified input).</p> <p>Other businesses have partial compliance with regulations in activities of output distribution and transportation (pays levy charges)</p> <p>Most of MSEs are not complying with regulations.</p>	<p>Most businesses have partial compliance with regulations in activities of input acquisition and transportation; production and output distribution. (some businesses are registered while other are not; but all MSEs lack licenses, permits, tax identity numbers; and, uses uncertified input. Also, all MSEs pays levy charges).</p> <p>Some enterprises have no compliance with regulations in the activity of input transportation (does not have transit passes)</p> <p>Most of the businesses have partial compliance with regulations.</p>	<p>The enterprise has no compliance with regulations in activities of input acquisition and transportation; and production. (the business is not registered; it lacks the license, permit, transit pass, tax identity number; and, uses uncertified input).</p> <p>Also, it has partial compliance with regulations in output distribution and transportation activities (The business pays levy charges)</p> <p>Mostly, the enterprise is not complying with regulations.</p>	<p>The business has full compliance with regulations in all value creation activities. (The enterprise is registered; it has the license, permits, input transit pass, tax identity number. It and uses certified input and pay levy charges)</p>	<p>These MSEs complies with regulations in activities of input acquisition and transportation; and, production. (one enterprise is registered, has license and permits. Another business is not registered, it lacks the license and permits, but it is not engaged in input acquisition activities because its customers are required to supply raw their materials.</p> <p>Both enterprises use certified input and are not engaged in output transportation activities. Their buyers transport the output)</p> <p>Have partial compliance with regulations in the activities of output distribution and transportation (pays levy charges but lacks tax identification numbers) Mostly; enterprises complies with regulations.</p>
<p>Regulations compliance</p>	<p>Regulations compliance</p>	<p>Regulations compliance</p>	<p>Regulations compliance</p>	<p>Regulations compliance</p>
<p>Regulations enforcement</p>	<p>Regulations enforcement</p>	<p>Regulations enforcement</p>	<p>Regulations enforcement</p>	<p>Regulations enforcement</p>

Appendix 2: Institutional influence on value creation activities in each category of cases. Source: research data, 2017.

Regulations knowledge	Category 1 (6 MSEs) Publicly-owned natural forests	Category 2 (4 MSEs) Publicly-owned forests plantations	Category 3 (1 MSE) Privately-owned forests plantations	Category 4 (1 MSE) Privately-owned natural forests	Category 5 (2 MSEs) Absence of forests
Regulations	Some enterprises have insufficient regulations knowledge which guides all value creation activities. Other MSEs does not have knowledge of such regulations (procedures and costs).	Some enterprises have good knowledge of regulations which guides all activities. Other businesses have insufficient knowledge of such regulations (procedures and costs).	The enterprise lacks the knowledge of regulations which guides production activity, but it has insufficient knowledge regarding other activities (procedures and costs).	The enterprise has good knowledge of regulations which guides all activities (procedures and costs).	The businesses have good knowledge of regulations which guides all activities (procedures and costs).
Regulations	Enterprises perceive regulatory procedures that are linked to the input acquisition activity as difficult ones (lack of transparency of procedures)	Enterprises perceive regulatory procedures that are linked to the input acquisition activity as difficult ones (unaffordable costs that relate to procedures)			Enterprises perceive regulatory procedures that are linked to the input acquisition activity as difficult ones (it is expensive to comply with procedures)
Regulatory costs	Some enterprises experience high regulatory costs that are linked to value creation activities; others incur low costs. These are compliance costs (costs of business registrations, licenses, permits, transit passes, taxes, levy charges, resellers commissions) and costs which are linked to lack of compliance (penalties and fines)	These businesses incur high costs that are linked to all activities. These are compliance costs (costs of business registrations, licenses, permits, transit passes, taxes and levy charges) and costs which are linked to lack of compliance (penalties and fines)	The enterprise experiences low costs that are linked to all value creation activities, because it is in a location which has passive regulations enforcement.	The enterprise experiences low costs that are linked to all value creation activities. It incurs compliance costs (costs of business registrations, licenses, permits, transit passes, taxes and levy charges.). This MSE experiences fewer complexities and incurs low costs because it acquires input from its plantations.	One of the MSEs incurs high costs in the activities of input acquisition and transportation; and, production. It is a registered business. It incurs compliance costs (the costs of business registration, license, permit, levy charges and transit pass for its input). Another MSE does not incur these costs because it requires customers to supply their input; also, it is not registered, lacks the license, permit and tax identification number. The customers of both businesses are required to transport their furniture. These MSEs does not incur regulatory costs that are linked to the transportation of their output.