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To Assess Effects of Business Environmental Factors on Profitability of Curio Business in Zambia: A Case of Mukuni Curio Park)

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ABSTRACT

Organizations without exception are environment serving and environment dependent. A business is influenced by the environment in which it operates and the success of any business is dependent on its ability to adapt to its environment. The changes in external environment have a significant impact on the survival and success of the organization. The ever-changing business environment requires firms to adapt quickly to associated new challenges and competition, and presents particular problems for small businesses given their small size and limited resources. Small businesses increasingly face competition not only from their peers but also from large corporations participating in niche markets once regarded the preserve of smaller businesses. It is generally accepted that SMEs are becoming increasingly important in terms of employment, wealth creation, and the development of innovation. However, many problems encounter

SMEs and as a result, many firms perform dismally and fail to grow. In addition, it is generally known and accepted that there is a high mortality rate of SMEs within the first two years. Given this high failure rate, it becomes vital to research the factors required to enable the SMEs to survive and indeed progress to the growth phase of the organizational life cycle.

The study sought to assess the effects of environmental factors affecting the profitability of curio business in Zambia: a case study of mukuni Curio Park. The study employed a descriptive research design to achieve the objectives. The target population under study was 50 SMEs in curio business at Mukuni Park in Livingstone. The study used a questionnaire to collect the required data. The data collected was coded, quantified and analysed quantitatively and qualitatively. Quantitative data was analysed by the use of statistical package for social sciences (SPSS).

The study concluded that political, economical, sociological, technological, environmental and legal were among factors that affect profitability of curio business in Mukuni Park. The other key factors that were found to affect SMEs are: access to business information, access to good infrastructure and government policy and regulations. The study recommends that the government should start offering basic business and financial management skills as this will enable entrepreneurs to make informed investment decisions as well as enhance their entrepreneurial skills that enable them to recognize and exploit the available business opportunities. The researcher also recommends that each individual business in Mukuni Park should make strategies on how to make these factors affect their business positively.

CHAPTER ONE: INTRODUCTION

1.1 Overview

There is controversy that small and medium scale business in any country where they operate play important role in the economic growth and development of the country and it improves the quality of life of individuals (ohanemu, 2006). Business organisations anywhere in the world operate within environments which according to Adidu & Olanye (2006) is an aggregate of all conditions, events, circumstances and influences that surround and affect the business organisation. This business environment provides conditions that are essential for business growth. However, this is not the case with business at mukuni curio park as these factors mostly affect business negatively and hence businesses do not survive.

1.2 Background

In management, the term "Environment" does not necessary mean physical surroundings but, it is used as a total forces, factors and influences that surround and affect business organisations as a separate entity as well as other business organisations. This means that business organisations must interact with those forces that influence its decisions, directions, actions, size, health, profitability and performance of the organisation as a whole.

Organizations today are facing unprecedented challenges in maintaining commercial being and success. Due to the rapid changes happening in today's marketplace and emerging business practices, it is more likely for an organization, to fall behind by not keeping up with trends of their external environments (Albright, 2004). Organizations are open systems which interact with their environment and the environment helps to shape the organization. The environment is perceived as key determinant of organization's performance (Porter, 1981).

The strategic choice approach offers a starting point for linking the firm's external environment to its activities. This approach suggests that a firm's capacity to cope with environmental uncertainty is critical to its continued viability (Grant, 2002). Uncertainty arises when the organization is unable to predict or control its external environment, a condition that can profoundly influence the organization's operations. It is essential that organizations are able to quickly and strategically place themselves to minimize the effects of negative events and take advantage of opportunities (Vinzant and Vinzant, 1996). As Rogers (1999) put it, SMEs need to take an interest in both the economic structures of the countries in which they wish to do business and in the international economy as a whole in order to; establish the sizes and characteristics of various markets, assess the degree of risk attached to operating in specific nations, identify high growth sectors, make investment decisions and deploy company resources in the most effective way.

Before the economic reforms were undertaken in the early 1990s, Zambia's economy was a government driven. This was so, for good and obvious reasons, some of which included the duty on the part of the government to provide employment, and the necessary social services that the government was obligated to, soon after independence in 1964. In the pursuit of achieving these objectives the government formed a number of companies in which it injected a lot of capital and also had to nationalize a lot others in the program called nationalization. Born out this, government initiative were companies like Mwaiseni stores, NIEC stores ZCBC, United Bus Company of Zambia (UBZ) INDECO milling brought on board to provide goods and services to the public. (Mwitwa, 2006).

However, as early as 1981 the Zambian government recognised the importance of the SME sector and its contribution to economic development. At the same time, the government recognised the challenges that the sector was facing and therefore, through the Small Industries Development (SID) Act of 1981 made an attempt to enhance the effectiveness of the sector's contribution to the national economy by establishing the Small Enterprise Development Organisation (SIDO). In support of the SID Act, provisions were made for the Fourth National Development Plan of 1989 to provide infrastructure for operations of SMEs, promote access to credit by SMEs with growth potential and to improve production capacities of SMEs with the view to increase incomes and employment. (Chiumya, 2006)

The change of government in 1991 however accelerated the need to grow the Zambian economy through SMEs. This brought about many changes in the way the economy of Zambia was to be managed. The Chiluba administration came on board with new policies totally different from the Kaunda administration. The new government then, introduced capitalism as a way of running enterprises. The belief here was that economic growth is enhanced faster and efficiently under private enterprise. Therefore all government owned companies had to be sold or privatized, but more so the emphasis was on the creation of employment, economic growth through SMEs. This change in government brought about radical economic reforms, from government control to an economy led by individuals or private sector. The reforms included decentralization, privatization and liberalisation of the entire economic system. (Mwitwa, 2006)

Small and Medium sized Enterprises (SMEs) are the backbone of virtually all economies in the world. However, the process has long been constrained by various factors, such as government policies, economic factors, social amenities and the limited availability and accessibility of financial resources among other are challenges to meet a variety of operational and investment needs within the SME sectors. SME and entrepreneurs play a significant role in all economies and are key agents of employment, innovation and growth. A significant number of entrepreneurs and SMEs could use funds productively if they were available, but are often denied access to financing, thus impeding their creation, survival and growth. (Chiumya, 2006)

Kuye, (2004), emphasized that the need to study business environments is very important considering the fact that business organisations do not operate in a vacuum and an effective management in complex and dynamic society requires the assessment of strengths and weaknesses of the organisation and the opportunities and threats provide by the challenges of the external environment, hence for survival and growth, organisations must cope and adopt to these challenges posed by the ever changing environment (internal and external) in which managers operate means that managers must not only be aware of what constitutes the elements of their business environment but also should be able to respond to the forces of the environment which inevitably impinges on the operations of the business organisation.

Small scale and Medium Enterprises (SMEs) constitute large population of businesses worldwide and they play a significant role in the economy. Consequently, the performance of small scale enterprises sub-sector is closely associated with the performance of the nation. SMEs play very important role towards fostering accelerated economic growth, development and stability within several economies. They play tremendous roles in employment generation, provision of goods and services, creating better standard of living, as well as contributing to the growth of Gross Domestic Product (GDP) of the nation, (OECD, 2000). Small firms create new jobs, open up opportunities for upward social mobility, foster economic flexibility, and contribute to competition and economic efficiency (Liao, Welsch, & Moutray, 2009). SMEs are the driving force for economic growth, job creation, and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved. Furthermore SMEs has been recognized as a feeder service to large- scale industries (Fabayo, 2009).

Studies have indicated that SMEs provide an effective means of stimulating indigenous enterprises, enhancing greater employment opportunities per unit of capital invested and aiding the development of local technology (Sule, 1986; and World Bank, 1995). SMEs help in mobilizing surplus income and resources through savings for investment. In similar vein they also encourage, as well as, promote the use of local raw materials. Their nationwide spread contributes to a more equitable income distribution among individuals and regions, as well as mitigating rural-urban migration. They also enhance the strengthening of industrial linkages and the integration of industry with other sectors of the economy via production of intermediate products such as raw materials and spare parts.

In Zambia for instance, Considering the 1996 baseline survey of SMEs, about 97 percent of businesses are in the micro small and medium enterprises sector and the sector employs about 18 percent of the labour force and a lot of them are women accounting for 47 percent (Parker, 1996. The role that SMEs play in an economy cannot be over-emphasised. SMEs provide sustainable economic growth through job creation, development of entrepreneurial skills and the potential to contribute significantly to export earnings. However, provision of finance to the SME sector in Zambia still remains a challenge. A survey conducted by the World Bank on Enterprise Development in Zambia (2007) identified poor access to finance as a major impediment to investment and growth in Zambia. Only 16% of firms surveyed reported having a loan or line of credit from a financial institution, compared with 23% for the region and 35% for all countries surveyed. Therefore, while Zambia's cost of doing business index has progressively improved in recent years, access to finance continues to feature among the three key constraints to investment and growth.

1.3 Statement of the Problem

Business environment is the most important aspect of any business. To be aware of the ongoing changes, not only helps the business to adapt to these changes but also to use them as opportunities. Business environment presents threats as well as opportunities for any business. A good business manager not only identifies and evaluates the environment but also reacts to these external forces. These business environmental factors change but not all changes are negative. If understood and evaluated carefully they can be a reason for the success of a business. It is very necessary to identify a change and use it as a tool to solve the problems of the business.

The problem is that despite the SMEs at mukuni curio park being the backbone of virtually Zambian economy, the business has not been spared by constraints that adversary affect their development and limit their potential to boost the country's export. The economic climate for carrying out business for SMEs in modern society differs from state to state. As such, the appropriate policy for one country would not necessarily be appropriate for another. With privatisation of 1991, the economy become more liberal which resulted in increase of difficulty for local SMEs to grow and face up to competition being created by foreign companies. In view of this, the fairness of the economic policies governing the way business is conducted in Zambia on the basis of companies being local SMEs and foreign conglomerates is being questioned. The whole purpose of empowering local Zambians is being defeated because they cannot face up to competition from foreign companies in terms of capacity, quality of goods, access to financing and general management. (Chiumya, 2006). Hence the aim of this study to investigate business environmental factors affecting the profitability of curio business in Zambia: a case study of mukuni Curio Park.

1.4 General Objective

The purpose of the study is to assess the extent to which business environmental factors affect the profitability of curio business in Zambia: a case study of mukuni Curio Park in Livingstone.

1.5 Specific Objectives

i. To determine the extent to which business environmental factors affect growth, profitability and survival of curio business.
ii. To determine challenges facing curio business within Mukuni Park.
iii. To find out if government provides incentives to support curio business.

1.6 Research Questions

In order to arrive at a precise answer to the effects of environmental factors on the profitability of curio business, the following are the research questions;

I. To what extent do business environmental factors affect growth, profitability and survival of curio business at Mukuni Park?
II. What are the challenges facing curio business within mukuni park?
III. Rate the extent to which government provides incentives to support growth of curio business.

1.7 Significance of the Study

This study will be highly useful after its completion for both current and future entrepreneurs, business organisations and the government. This research study on the effects of business environmental factors on profitability of curio business in mukuni curio park would have considerable benefits on the SMEs operating within this business environment in that it would;

I. Help the SMEs become sensitive to the uncontrollable external environmental factors affecting the performance of their businesses and how they can effectively manage these factors and top the opportunities for enhanced productivity and profitability.
II. To an entrepreneur; the knowledge obtained from this study will enable them to know how critical environmental factors are and how to effectively manage these factors for the survival and growth of the SMEs
III. To organisations and society; the study will equally be useful to at large in the sense that knowledge about technological advancement generation through SMEs

source of credit facilities to establish SMEs will be acquired.

IV. To the government; this research will also be useful in formulation of policies towards SMEs development in Zambia. It will also help the government to identify the importance of SMEs in the achievement of economic growth and development in Zambia.

1.8 Theoretical Framework

1.8.1 Porter's Five Forces of Competitive Position Analysis

Porter's Five Forces of Competitive Position Analysis were developed in 1979 by Michael E Porter of Harvard Business School as a simple framework for assessing and evaluating the competitive strength and position of a business organization. This theory is based on the concept that there are five forces that determine the competitive intensity and attractiveness of a market. Porter's five forces help to identify where power lies in a business situation. This is useful both in understanding the strength of an organization's current competitive position, and the strength of a position that an organization may look to move into. Strategic analysts often use Porter's five forces to understand whether new products or services are potentially profitable. By understanding where power lies, the theory can also be used to identify areas of strength, to improve weaknesses and to avoid mistakes.

Porter's five forces of competitive position analysis:

The five forces are:

1. **Supplier power**.

An assessment of how easy it is for suppliers to drive up prices. This is driven by the: number of suppliers of each essential input; uniqueness of their product or service; relative size and strength of the supplier; and cost of switching from one supplier to another.

2. **Buyer power**.

An assessment of how easy it is for buyers to drive prices down. This is driven by the: number of buyers in the market; importance of each individual buyer to the organization; and cost to the buyer of switching from one supplier to another. If a business has just a few powerful buyers, they are often able to dictate terms.

3. **Competitive rivalry**.

The main driver is the number and capability of competitors in the market. Many competitors, offering undifferentiated products and services, will reduce market attractiveness.

4. **Threat of substitution**.

Where close substitute products exist in a market, it increases the likelihood of customers switching to alternatives in response to price increases. This reduces both the power of suppliers and the attractiveness of the market.

5. **Threat of new entry**.

Profitable markets attract new entrants, which erodes profitability. Unless incumbents have strong and durable barriers to entry, for example, patents, economies of scale, capital requirements or government policies, then profitability will decline to a competitive rate.

1.8.2 Configurational approach

Miller & Friesen (1984) successful firms are considered to be aligned in a small number of typical patterns. However, as the business environment of many firms is changing all the time, there is a continuous need for adjustment of the fit between the firm and its environment. From the firm's viewpoint, this process of adapting to changes in its environment is called strategic management (Schendel & Hofer, 1979).

Firm performance can be approached from many perspectives, i.e. from an internal (firm) or external (environment) perspective. Recently, the most popular theoretical approaches in research have been strategic management and population ecology (Tsai et al. 1991). They explain firm performance from opposite directions: the first from the firm-internal viewpoint, and the second from the firm-external point of view. Later studies of firm performance have discovered the benefits of an integrated approach, i.e. a dialectical approach (Amit, Glosten, & Muller, 1993; Vesalainen, 1995). Therefore; business performance is bounded with firm internal factors and with environmental factors and their fit.

1.8.3 A strategic choice approach

Child (1972, 1997) assumes that firms are in a state of continuous change, which is directed according to the actors‟ subjective interpretations of the situation and the preferences they have (Vesalainen, 1995). Naturally, there are some external and internal constraints, but management has certain discretion in strategy formulation. According to Astley and Van de Ven (1983), the strategic choice approach draws attention to individuals and their interactions, social constructions, autonomy, and choices, as opposed to the constraints of their role incumbency and functional inter relationships in the system. Both environment and structure are enacted to embody the meanings and actions of individuals.

According to this approach, managers are regarded as performing a proactive role. Their choices are viewed as autonomous, and their acts are viewed as energizing forces that shape the organizational world. However, the decisions made by entrepreneurs restrict the number of alternatives available in subsequent decisions.

Strategic management research encompasses several research streams, and this may make it difficult to see and understand the role of different factors and mechanisms affecting firm performance. In view of the existence of this variety of research streams, it can be concluded that the theory behind strategic management research has more than one hard core‟ (Lakatos, 1972). The most popular recent research stream in the field of strategic management has been the resource-based view of the firm (Wernerfelt, 1984; and Barney, 1991) and its extension, the knowledge-based view of the firm (Kogut & Zander, 1992; Spender & Grant, 1996; Grant, 1996).

These theoretical perspectives are founded on firm-internal aspects. However, the roots of the resource-based view of the firm can be seen to be based on Penrose's (1959) idea of viewing a firm as a bundle of resources. Subsequently, since the appearance of Wernerfelt‟s (1984) work "A resource-based view of the firm", the popularity of the resource-based view of the firm has grown rapidly, and researchers attempted to explain differences in firm performance by differences in firm resources.

1.9 Scope

This study covers environmental factors and its effects on the performance of SMEs in mukuni village. The study basically focuses on the challenges of businesses and managing the dynamic nature of their business environment in achieving organisational performance.

1.10 Operational Definitions Used

Environment factors- an identifiable element in the physical, culture, demographic, economic, political, regulatory or technological environments that affect the survival, operations and growth of an organisation.

Small and micro enterprises (SMEs) - are businesses that maintain revenues, assets or a number of employees below a certain threshold. Every country or economic organisation has its own definition of what is considered a small and medium-sized enterprise.

Mukuni Park- is a great market for the perfect gifts. The curio market is in the center of the tourist capital of Zambia, where you can shop for gifts and souvenirs from Zambia and in the process support the industry at the grassroots level

Business environment- is the sum total of all external and internal factors that will influence the smooth operation of a business

Tourist attraction- is a place of interest where tourist visit, typically for its inherit or an exhibit natural or cultural value, historical significance, natural or built beauty, offering leisure and amusement.

Entrepreneur- someone that creates something new, an initiative, a business or a company

Economic growth- an increase in the amount of goods and services produced per head of the population over a period of time

Infrastructure development- is the construction and improvement of foundational services with the goal of sparking economic growth and improvements in quality of life.

Financial inadequacy-is a monetary rationale
Variables- is anything that has quality or quantity that varies

Key performance indicators- is a measurable value that demonstrates how effectively a company is achieving key business objectives

Business performance- is a set of performance management and analytic processes that enables the management of an organisations performance to achieve one or more pre-selected goals

CHAPTER TWO: LITERATURE REVIEW

2.0 Overview

This chapter defines what SMEs are and reviews the existing related literatures that are essential to this research work on factors affecting profitability of SMEs.

2.1 Definitions of SMEs

There are a range of definitions of small enterprises by different scholars (Storey, 1994). These definitions have created a lot of problems for entrepreneurs. The principal advisory group to overcome this definition issue postured on little scale endeavours was panel of request on SMEs which is known as Bolton Committee (1971). The Bolton Committee confirmed the statistical and economic definition on SMEs. Three main criteria are used to evaluate the economic definition. Firstly, it should have small market share, secondly, it should be managed by owners in a modified way and lastly it should be self-regulating. One of the disadvantages connected with the Bolton Committee economic and statistical definition is that the economic definition which expresses that a small business is overseen by its owners or part owners is a changed way and not through the medium of a formal administration structure. As firm builds, entrepreneurs no more settle on vital choices, however, decline obligation toward a group of administrators. For example, it is impossible for a firm with one hundred workers to be overseen in a personalized way, proposing that the economic and numerical definitions of Bolton Committee are afar reconciliation, (Weston & Copeland, 1998; cited in Abor & Quartey, 2010). The Bolton Committee's definition was criticized by some scholars. Scholars said there was no single criteria definition for the words smallness, ownership, turnover, number of employees and assets. Second criticism was that the first three high limits of sales were grouped for dissimilar sectors and two dissimilar high limits of sales were grouped for number of employees. This situation makes the definition difficult to make cross country evaluation. The final criticism was that the definition considered the small scale firms industry to be homogeneous. As a result of the above criticism for Bolton Committee statistical and economic definition for small scale enterprises, the European Commission (2004) proposed the term „Small and Medium Enterprises" (SMEs). The European Commission divided the sector into three components: European Commission said enterprise with up to 9 employees is termed „Micro enterprises", ten (10) to ninety nine (99) employees is referred to as Small Enterprises and firms with hundred (100) to four hundred and ninety nine (499) is termed „Medium Enterprise". In retrospect, European Commission definitions on SMEs are based on employment rather than diversity of criteria. Finally, EC"s definition is not homogeneous because it does not make clear distinction between small and medium enterprises. In Ghana, Small & Medium Sized Enterprises have been distinct in so many ways; mostly the criterion used to define SMEs is the number of employees which leads to a lot of confusion, Abor & Quartey, (2010). The Ghana Statistical Service (GSS) considers enterprise with less than 10 employees as Small Scale Enterprise and with more than 10 employees as Medium and Large Scale Enterprise. The National Board of Small Scale Industries (NBSSI) in Ghana used fixed assets and number of employees in its definition criteria of Small Scale Enterprise. It defines SMEs as enterprise which has 9 workers with plant and machinery (excluding land, building and vehicles) not exceeding 10 million cedis (US$ 9506, using 1994 exchange rate). On the other hand, the Ghana Enterprise Development Commission (GEDC) uses 10 million cedis upper limit definitions for plant and machines to define Small & Medium Sized Enterprises. However, these definitions received criticism. Firstly, valuation of fixed asset in Ghana is a big problem. Secondly, continuous depreciation of the cedis affects the exchange rate which make such definition out-moded (Kayanula & Quartey 2000). From the above reviewed literature about the definition of SMEs, definition of SMEs does not relate to a single universally accepted definition, but it can be in the context of statistical, geographical and economic.

2.2 **Concept of small and medium enterprises**

Business is fundamental to the well-being of every society. Small scale enterprises exist in all economic environments. Most people have an idea of what is meant by small-scale business, but defining it poses a problem. How it is defined depends on who is defining it and the purpose for which it is defined. Thus, there is no universally accepted definition of small-scale business, because the classification of business into large, medium or small scale is relative. Bandar and Presley (2002) observe that the different socio-economic structures of each country are the reasons for non-uniformity in definition of SMEs.

2.3 Roles Performed By Small and Medium Scale Enterprises (SMEs)

The strategic importance of SMEs in the economic development of any nation is well recognized. Kilby (2015) observes that small and medium scale enterprises are the spring boards for inventions, adaptations and general technological development. According to Ogundele (2007), SMEs represent 90% of the enterprises in African, Caribbean and Pacific (ACP) countries. They also provide 70% of employment opportunities for the citizens and promote the development of local technology. Kuratko and Hodgetts (2001) have observed that small businesses employ 53% of the private workforce and account for 47% of sales and 51% of private sector gross domestic product. The contributions that the SMEs have made to the economic development of various countries of the world especially the developing countries cannot be exhausted. Therefore Zambia as a developing country cannot close eyes from the potentials of SMEs. In this wise, according to Asaolu (2004) a viable small scale enterprises sector in a country like Zambia is in dire need of self-reliant industrial strategy to turnaround the economy. The implication of these issues on SMEs development calls for the attention of both the policy makers and academicians. This is because from the works of Abdukadir (1985) and Babalola (1982), at the end of 1979 over 80% of all establishments registered under the Factory Act were small scale enterprises and according to NACCIMA (2006) 75% of the private sector is dominated by small and medium enterprises.

In developing economies, the role of SMEs is even more obvious and conspicuous to the degree they dominate economic activities, it can be inferred that they play significant role in whatever economic growth is recorded (Francis, 2000). Among other things, estimates put the percentage of labor force engaged by small businesses alone (i.e. excluding the medium-sized ones) as high as 25% in developing economies (Elkan, 1998). Elkan (1998) come to conclusion that small businesses are the most promising vehicle of entrepreneurial dynamism in Africa.

Small and medium scale industries generate employment for a lot of Nigerian Zambians. A lot of unemployed people and youths have found employment in small scale industries. A lot of small retail shops, cottages, restaurants, poultry farms, and telecommunication/ telephone shops have been established and managed profitably by Zambians who would have been unemployed till date. The entrepreneurs have in turn provided jobs for other Zambians who serve as support, technical and administrative staffs for them.

It has encouraged self-employment for many youths both in the rural and urban areas; the spirit of successful entrepreneurship has taken over the mind of Zambians, who believe in themselves and in the goals of self-employments, instead relying on government jobs. In the telephone retail and rental jobs, a lot of youths and Zambians have remained self-employed. Their businesses have expanded to the level of employing some other unemployed people.

The dynamic role played by SMEs in low income countries have been recognized, (Paul, 2012). SMEs are significant wellspring of business and salary in developing nations. It is said that SMEs employ 22% of dynamic populace in developing nations (Daniel and Fisseha, 1992; Paul, 2012 cited in (Kayanula and Quartey, 2000). SMEs enterprises perform a useful role of ensuring economic growth, income stability and employment. Since SMEs is labor intensive it is more likely to succeed in urban areas and rural areas. Also, when SMEs are settled in rural and urban areas, they can add to even allocation of economic activities in rural areas which will slow down rural urban migration, (Abor & Beipke, 2005) In any case, some authors argued that job created by SMEs is statistical flaw and increment in business through SMEs is not generally connected with profitability. Nevertheless, the important role played by these enterprises cannot be overlooked, (Kayanula & Quartey ,2000). In Ghana the sector accounts for over 80% of businesses, employs 15.5 of labor forces and accounts for 6% of GDP in 2000. Activities engaged in SMEs such as farming, electricians, auto mechanics, over the counter, retail and whole sale pharmaceutical business provide sources of employment and income to entrepreneurs in SMEs, (Abor & Beipke, 2005).

2.4 **Challenges of SMEs in Contributing to National Economies**

Despite the contributions of SMEs to the national economy, they still battle with problems which affect economic growth and development. According to Schmitz 1982, Liedholm & Mend, 1987, Liedholm, 1990; Steel & Webseter, 1990 cited in (Kayanula & Quartey 2000). In Ghana SMEs face a lot of constraints, among those are; input, finance, political, legal, economical, competitive forces, managerial and others. In Ghana, Small Scale Entrepreneurs in whole sale and retail pharmaceutical industry face regulatory constraints. These regulatory constraints are in the form of regulatory sanctions Ghana Pharmaceutical Council imposed on industries which failed to renew pharmacy license, engaged in unprofessional practices, improper records keeping of procurement, continuous absence of pharmacists from business premises and others (Melorose et al. 2015). Other legal constraints like permitting and administrative prerequisites, high cost of settling legal cases and over the top deferrals in court continuing influence SMEs operation.

In general, external business environment is a major driver that impact on all business including SMEs. According to Ibrahim, 2008 cited in (Dzisi et al. 2013) said SMEs in developing countries are vulnerable to external business environment effects. He said, the challenges the SMEs face can be attributed to macro environmental factors, competitive forces and strategic group competition.

2.5 **Theoretical Foundation of the Study**

For an organization to survive and prosper it needs to address the challenges of the environment it faces. Porter, (1980, 1985), argued that the central tenets of a firm's competitive advantage rest on the ability of the firm to position and differentiate itself in a given context. This requires strategic capabilities that its competitors find difficult to imitate or obtain. In addition the organization must be capable to deliver against the critical success factors that arise from the demand and needs of its customer. This is dependent on the resources and competencies it has. Wilensky, (1967) argues that when the environment is seen as hostile or threatening, or when the organization depends heavily on the environment, more resources are allocated to the environmental scanning function. Pfeffer and Salancik, (1978) in their resource dependency theory, the environment is seen as a source of resources upon which the organization is dependent. Resource dependence is affected by munificence, or the abundance of resources; concentration, the extent to which power and authority in the environment is dispersed; and interconnectedness, the 13 number and pattern of linkages among organizations in the environment. The degree of dependence would be great when resources are scarce, and when entities in the environment are highly concentrated or interconnected. An organization can manage increasing dependence by adapting to or avoiding external demands; changing the patterns of interdependence through growth, merger, and diversification; establishing collective structures to form a negotiated environment; and using legal, political or social action to form a 'created environment. Powell and DiMaggio, (1991) in their institutional theory generally regard organizations as being forced to respond to, adapt to, or imitate the ebb and flow of normative and regulatory currents in their environments. Porter, (1980, 1985) observed that competitive forces in an organization's environment drive its business strategy. It's further emphasized that the attributes of the environment determine the most appropriate type of strategy for a firm (Campbel and Garnett, 1989 as cited in Poister et al, 2010). External environment is extremely dynamic, globalisation and incredible technological advances has created a new chapter that has reshaped the organization's external environment. Both business and service organizations are experiencing turbulence. Local, national and global issues and groups are having far reaching impacts on organizations. Gone are the "good old days" of absolute advantage and comparative advantage. In response new models of business are emerging aimed at aligning organizations with the changing environment.

2.6 **External Environment and Organization**

Duncan, (1972) viewed external business environment as the totality of factors outside an organization that are taken into consideration by an organization in its decision making. These factors depend largely on the complexity and dynamism of the environment. The external environment refers to the relevant social and physical factors outside the typical boundaries of an organization which affect managerial decision-making. Broadly, the external environment can be divided into two categories: the task or domain environment which has a direct impact on company tasks and outcomes and the remote environment with indirect and long-term impacts. Pearson II, Robinson and Mital, (2008) viewed the firm's external environment as factors beyond the control of the firm that influences its choice of direction and action, organizational structure and internal processes. These factors which constitute the external environment can be divided into three interrelated subcategories: factors in the remote environment, factors in the industry environment, and factors in the operating environment. The remote environment comprises of factors that originate beyond and usually irrespective of any single firm's operating situation and include, economic, social, political, technological and ecological factors. That environment presents firms with opportunities, threats, and constraints, but rarely does a single firm exert any meaningful reciprocal influence. Thus, external business environment has been classified as being stable when it does show any changes, unstable when it shows relative changes, and 15 dynamic when it shows changes continuously (Aguilar, 1967).However, perceptions of the organizations about the type of the external business environment to a large extent depend on their size and industry in which it operates. Worthington and Britton, (2003) posits that in examining the business environment, a useful distinction can be made between those external factors which tend to have a more immediate effect on the day to day operations of a firm and those which tend to have a more general influence. The immediate or operational environment for most firms includes suppliers, competitors, labour market, financial institutions and customers, and may also include trading organization, trade unions and possibly a parent company. In the contrast the general or contextual environment comprises more macro environmental factors such as economic, political, socio-cultural, technological and legal influences on business which affect a wide variety of businesses and which can emanate not only from local and national sources but also from international and supranational developments. Careful and accurate analysis of the external environment benefits organization by providing overall greater understanding and an appreciation of the context in which the organization operates. Organizations require an effective competitive strategy to operate successfully in a market where there is established and potential competition.

Export Promotion Council in its study on the make-up of the services sector, the enabling environment within Kenya, identified a close link between external environmental factors and key drivers of growth in the sector (www.epckenya.org). In order to survive in this competitive environment, it becomes necessary for the services exporters to design 16 business strategies based on the conviction that a firm able to anticipate future business conditions will improve its performance and profitability. Despite the uncertainty and dynamic nature of the business environment, an assessment of external environment even if it does not precisely define, future expectations is of substantial value to business services exporter.

2.7 **External Environmental Characteristics and Organizational Performance**

Given environmental attributes of uncertainty and complexity (Emery and Trist, 1965), the organization's ability to meet its objectives in the environment will be pegged on how effectively it will predict the magnitude and course of environmental change. Ansoff and McDonnel, (1990) observe that for optimization of a firm's profitability (performance), it has to ensure alignment between the organization and its environment. Organizational theorists have emphasized that organizations must adapt to their environment if they are to remain viable (Duncan, 1972). This is mostly emphasized by the strategic success formula put forth by Ansoff and McDonnell, (1990) and Ansoff and Sullivan's, (1993) as cited in Machuki and Aosa, (2011), which advocates that great firm performance is assured when the responsiveness of an organization's strategy matches the turbulence in the environment but also the organization's capabilities should match the aggressiveness of its strategy. 17 The external environment also stimulates managerial attention to the threats and opportunities, which influences the organization's strategic choices. Attention, therefore, should be given to the role of executives' perceptions of their venture's external environment in determining export performance (Calof, 1994; Naidu and Prasad, 1994; Samiee and Walters, 1990 as cited in O'Cass and Julia, (2002). The performance of an export venture is determined by the export marketing mix strategy adopted, firm characteristics and environmental characteristics. Key export environmental characteristics include competitive intensity, legal-political environment of the export market, channel accessibility and customer exposure to the product/service (O'Cass and Julian, 2002). Therefore, export performance tends to be conditioned by environmental characteristics (Cavusgil and Zou, 1994, as cited in O’Cass and Julian, (2002) such as the extent of competition, the legal and regulatory policies of host country governments, the availability of suitable distribution and communication channels and customer familiarity with the product. Machuki and Aosa, (2011) pointed to the relationship between performance and environment, and theorize that, dictates of the environment call for alignment to achieve desired outcomes.

2.8 **Identified Factors affecting SMEs**

The business environment is defined as factors both inside and outside the organization, influencing the continued and successful existence of the organization. The business environment is considered to play a crucial role in the growth of SMEs (Delmar & Wiklund, 2008). Factors inside the business are known as internal environment and factors outside the business are the external environment. According to Beck and Demirguc-Kurt (2006), the growth of both internal and external environment is important for SME growth. Growth of SMEs will be negatively or positively influenced by changes in the business environment (World Bank, 2006; Zhang, van Doorn & Leeflang, 2014).

2.8.1 **Internal environment factors**

The internal environment includes factors in the business environment that are largely controllable by the business (Fatoki & Garwe, 2010; Kolstad & Wiig, 2015). Challenges in the internal environment of a business, includes management competency and skills, limited financial knowledge and a lack of business management training, technological capabilities. The literature will discuss the internal environment factors, which include various factors, namely: managerial competency and skill, access to finance and technological capabilities.

2.8.2 **Availability of Managerial Experience on performance of SMEs**

Many SMEs owners or managers lack managerial training and experience. The typical owner or managers of small businesses develop their own approach to management, through a process of trial and error. As a result, their management style is likely to be more intuitive than analytical, more concerned with day-to-day operations than long-term issues, and more opportunistic than strategic in its concept (Hill, 1987). Although this attitude is the key strength at the start-up stage of the enterprise because it provides the creativity needed, it may present problems when complex decisions have to be made. A consequence of poor managerial ability is that SMEs owners are ill prepared to face changes in the business environment and to plan appropriate changes in technology.

Majority of those who run SMEs are ordinary lot whose educational background is lacking. Hence they may not well be equipped to carry out managerial routines for their enterprises (King& McGrath, 2002). Management skills relate to the owner/manager and the enterprise. Bennet (1997) defines management as concerned with the deployment of material, human and finance resources with the design of organization structure. Haimann (1977) looks at management as a process of getting tasks accomplished with and through people by guiding and motivating their efforts.

According to Cant and Lightelm (2003) in a survey of small business failure maintain that entrepreneurs often have good ideas and are competent but they do not have a clue on how to run a business and have no underlying appreciation of business fundamentals. Professional experience has been cited as an important factor affecting many aspects of entrepreneurial firms. Experience takes many guises and breadth of experience is shown to be an important factor driving the performance of firms, with the number of previous jobs positively related to new firm performance (Lumpkin and Marvel 2007). Thapa (2007) found a positive association between education and small business success. The likelihood of failure was also found to be associated with the owner/manager's work experience prior to business launch and education.

Human capital is the most critical agent of SME performance. The recruitment of academically qualified employees is a necessary start for sustainable human capital development in all organizations. Human capacity has become a critical index of competition in the world of business to the extent that the development of such capacities through training has become top priority in designing the strategic plan of business organizations (Tim & Brinkerhoff, 2008).

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Education and skills are needed to run micro and small enterprises. Research shows that majority of the lot carrying out micro and small enterprises in Kenya are not quite well equipped in terms of education and skills. Studies suggest that those with more education and training are more likely to be successful in the SME sector (King and McGrath, 2002). As such, for small businesses to do well in Kenya, people need to be well informed in terms of skills and management. SMEs in ICT appear to be doing well with the sprouting of many commercial colleges offering various computer applications. Further, studies show that most of those running SMEs in this sector have at least attained college level education (Wanjohi and Mugure, 2008).

Management is therefore necessary to enable group or business goals to be accomplished through the functions of planning, staffing, directing, controlling activities, coordination and directing. Personal characteristics of the owner/manager were interpreted by Larson and Clute (1979) as lack of experience among small business managers who happen to be the owners leading to poor performance and consequently to business failure. Bamback and Lawyer (1979) also identified poor management as the root cause of many failings and poor performance of small business. Nzioka (1995) in the role of education in business performance notes that one of the things that hold back the development of small – business is the need for better management. Good management means need for proper planning, control, organizing skills and proper staffing with qualified and competent employees.

Harper (1984) observes that the growth of many enterprises of all sizes, suggest that the scarcity of competent managers is a more serious constraint on economic development. As the enterprise becomes larger, the more need for managers to plan, coordinate and control the activities of the enterprise. The owner who is likely to be the manager of the small enterprise may not have the training, skills and experience to steer the operations of the business successfully hence affecting business performance. He/she may operate in a very rigid environment sometimes not dictated by sound business and management decision but by social and cultural norms. The inability to keep proper records, to separate business operations from personal, manage cash flow and growth is likely to affect business performance.

2.8.3 Access to Finance on performance of SMEs

Lack of access to credit/ finance is almost universally indicated as a key problem for SMEs. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives which is not enough to enable SMEs undertake their business activities optimally. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance. There are various financial challenges that face small enterprises. They include the high cost of credit, high bank charges and fees. The scenario witnessed in Kenya particularly during the climaxing period of the year 2008 testifies the need for credit among the common and low earning entrepreneurs. Numerous money lenders in the name of Pyramid schemes came up, promising hope among the ‘little investors,’ which they can make it to the financial freedom through soft borrowing. The rationale behind turning to these schemes among a good number of entrepreneurs is mainly to seek alternatives and soft credit with low interest rates while making profits. Financial constraint remains a major challenge facing SMEs in Kenya (Wanjohi and Mugure, 2008).

Finding start-up finance for the business is the biggest hurdle that many entrepreneurs go through. Even after getting started, getting sufficient finance to sustain business growth is another problem. Research findings by McCormick et al (1996), Daniels et al (2003) Kinyanjui (2006) show how SMEs are constrained by finance. Studies undertaken by Kiiru, Mirero and Masaviro (1988) for Kenya Rural Enterprise Programme (K-Rep) confirm that a major constraint within the small business enterprise sector is financing. In the study carried in Nairobi among small manufacturing enterprises, Nyambura (1992) established that finance was rated among the biggest problem. In South Africa Eeden (2004) finance was also cited as one of the most prominent constrains. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs.

Insufficient financing is as much a problem as lack of finance as Yankaya a consultant for an NGO Techno-Serve observes (Daily Nation 20.6.06). He notes that the proliferation of MFI has not substantially improved financing options for growth-oriented enterprises. Group lending and regular weekly interest payments are necessary cures to enable small-scale entrepreneurs without collateral to access credit but the same attributes tie down growth-oriented clients. As a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. The profit Margin are usually little to support growth. Harper (1984) notes that businesses like grain millers and tailors are unable to compete with large manufactures of ready-made goods because they have to wait until a customer provides them with raw material or money to buy it. Some may be unable to get started until a customer pays the deposit, which will be used to buy the raw material.

Access to finance is essential for improving SME competitiveness, as SMEs have to invest in new technologies, skills and innovation. Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum. There are institutional issues covering a spectrum from the macro level to the micro, which are accompanied by capacity deficiencies (Basil,

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2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. It is also noteworthy to add that effort to resolve access to finance issues is not solely the responsibility of governments. SMEs need to take a better initiative than pointing it out as their number one obstacle: they need to mobilize joint advocacy and recommendations, based on sound analyses, through their membership organizations. Most significantly, SMEs must implement sound business practices and continuously invest in good internal management systems: in accounting, planning, financial, operations and human resource management.

Due to lack of funding, business membership organizations usually operate without qualified and professional management staff and are unable to benefit from specialist inputs and research, upon which they should base their advocacy efforts. Lack of funding and "free riding" problems also constrain these structures in developing and delivering appropriate information, facilitation, and networking services to their membership. Their weaknesses work in almost a vicious circle eroding the expectations of members, in turn, resulting in further funding, representation and capacity problems. Though SMEs play an important role in economic growth and employment creation, they are commonly constrained by finance.

SMEs identify financing, especially medium to long-term finance, as their topmost obstacle to growth and investment. These obstacles come at two levels. In least developed economies, and in some transition and developing economies deficiencies in both the macroeconomic and microeconomic environments pose challenges: high budget deficits and unstable exchange rates and legal, regulatory and administrative environment poses major obstacles to access of SMEs to financing. In some economies, capital may just not be available, property rights regimes may not allow ownership of land, markets for transfer of immovable assets may be very underdeveloped, credit and collateral legislation may not allow certain assets that SMEs commonly have access to, to be used as collateral (e.g. future acquired property), absence of registries for mortgages and pledges may increase risks to lenders, contract enforcement and asset liquidation may be hampered due to weaknesses in legislation and in the judiciary (Kinyanjui, 2006).

The obstacles may be due to organizational capacity weaknesses: For example, in least developed economies, business services markets in accounting, auditing, financial management and legal counsel may be so underdeveloped that SMEs may not be able to access or afford such services: essential services they would need when they approach banks and other types of lenders. In more advanced developing countries, where there is reasonable progress in the fundamental institutions, SMEs may still face challenges in accessing formal finance in the form of bank loans, guarantees, venture capital, leasing and so on. For instance, although SMEs are by far the largest group of customers of commercial banks in any economy, loans extended to SMEs are often limited to very short periods, thereby ruling out financing of any sizable investments. Moreover, due to high-perceived risks in SME loans, access to competitive interest rates may also limit.

In many developing economies, banks prefer to lend to governments, which offer less risk and higher returns, crowding out most of the private sector from the financial system. The problem related to finance includes lack of information on where to source for finance, restrictive lending offered by commercial banks, lack of access to finance, insufficient financing, lack of track record required by the banks, limited access to collateral, and the fact that financial institutions lack appropriate structure for dealing with SMEs. As a result of scarcity of finance, small enterprises are unable to expand, modernize or meet urgent orders from customers. Capital is therefore necessary for the long-term survival and growth of small enterprises. It should also be noted that more money than required can be much of a problem as less money. More money means high cost for money in terms of interest and may also lead to un-worthwhile investments.

The formal financial institutions sees SMEs as high risky and commercially unviable locking them out the situation is worse in the rural areas where most SMEs are located. The present legal and policy framework for financial services is less supportive of smaller borrowers and needs to be addressed. The banking act prohibits MFI's from taking deposits from customers for re-investments; this act should be reviewed so that MFI's can build strength to finance SMEs. The post office act prohibit post bank from lending and the co-operatives act does not provide for effective supervision of the savings and credit co-operative societies (SACCO's). Despite the increasing number of MFI's, the rural SMEs are starved as MFI's are not in the rural areas because of limited resource base and lack of institutional capacity to provide wide range of financial services.

Most studies (Ngobo, 1995; Kibera and Kiberam, 1997; Chijoriga and Cassiman, 1997), point to finance as one of the key constraints to small enterprise growth. This is worsened by the absence of financial markets in the developing countries. Small enterprise owners cannot easily access finance to expand business and they are usually faced with problems of collateral, feasibility studies and the unexplained bank charges. This means that they cannot access finance to enable them to grow. In a study by Ngobo (1995), he makes a detailed analysis of finance as a constraining factor and includes collateral, interest rates, extra bank charges, inability to evaluate financial proposals and lack of financial management skills as hindrances to small enterprise growth. Under developed financial markets impose additional constraints. There are no financial instruments and no independent financial sources that is market driven.

Lack of access to credit/ finance is almost universally indicated as a key problem for SMEs. This affects technology choice by limiting the number of alternatives that can be considered. Many SMEs may use an inappropriate technology because it is the only one they can afford. In some cases, even where credit is available, the entrepreneur may lack freedom of choice because the lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the loan. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends or relatives. Lack of access to long-term credit for small enterprises forces them to rely on high cost short term finance.

2.8.4 **Technological capabilities**

Introduction to Information systems (IS) provide major opportunities to SMEs for obtaining added value through exploitation of the information resource. IS are also a major driver of strategic change. There is less evidence of small and medium enterprises (SMEs) investing in information systems to capture similar benefits. While many SMEs have taken a reactive approach to investment in IS/IT, primarily focused on cost. Hagmann and McCahon (1993) describe the adoption of IS by an SME for strategic competitive advantage. More recently, Levy and

Powell (2000) report that SMEs do in fact align their IS strategy to the strategic context, as defined by the level of customer dominance, to capture both cost advantages and value added benefits.
Because of their smallness these enterprises end up using a cheap technology which is usually not top of the range. This results into high costs of production and un- competitiveness. For instance small enterprises cannot afford to use computers or even where they have a computer, to continuously upgrade their equipment. Therefore they cannot compete with large enterprises. This may not be the case in the developed countries where because of market opportunity and likely success due to environmental enabling factors, it is easier to secure new technology. Besides, this technology originates from the developed countries and unlike in the developing countries where it must be imported, it is relatively cheap. The primary reasons small businesses continue to face growth challenges in developing countries, despite significant support from governments and other organizations, is their technological capabilities or lack thereof (Arinaitwe, 2006). Small businesses are still hindered by their lack of technological implementation, despite great technological advancements globally. Without this technology, these small businesses find it difficult to neither compete, nor grow (Arinaitwe, 2006).

2.8.5 **External environment factors**

Factors such as economic variables and markets; crime and corruption, labor, infrastructure and regulations make up the external environment (Fatoki & Garwe, 2010). In a comparative research between Nigeria and UK, Ihua (2009) found that economic growth of Nigerian SMEs were hindered by externally related factors, like the poor economic conditions and infrastructural inadequacy.

2.8.6 **Competition**

Businesses have to make decisions which deal not only with business survival opportunities, but also with business development in a changing environment under dynamic competitive conditions where each competitor tries to do impossible things to survive (Scarborough et al., 2009). The competitive standards change continuously due to consumers changing needs and expectations, technological developments and globalization of markets. Over the years, competition among SMEs has increased radically. Competition and sustainability for SMEs involve factors such as changing market trends, changing technologies and emerging new management and organizational techniques. SME survival is increasingly dependent on a number of factors including resilience of SMEs to refocus some of their strategies and technologies (Gunasekaran, Rai & Griffin, 2011).

2.8.7 **Globalization**

Small businesses can no longer consider themselves to be strictly domestic businesses in the competitive global environment. For businesses across the globe, going global is not a preference or a matter of choice, but rather a necessity. Failure to cultivate global markets can be lethal mistake for modern businesses, whatever their size. To be successful business must consider themselves to be businesses without borders. Going global can put a tremendous strain on a small company (Scarborough et al., 2009). Though the trend toward the convergence has been developing for some time, the pace seems to be quickening, creating global opportunities and competition that did not exist even a few years ago. With the astounding rate of economic growth in countries such as China and India, a small business owner would be unwise to ignore overseas opportunities (Longenecker, 2012).

2.8.8 **Regulatory factors**

The success of the small business sector is continuously threatened by poor allocation of resources and over-regulation (Chamberlain & Smith, 2006). Regulations governing establishment of businesses are extremely intricate and conflicting. Mollentz (2002) argued that some SMMEs do not comply, because of some regulations being time-consuming and expensive. However, most SMMEs do not understand the laws that govern them, making it difficult to be compliant. South Africa's SMEs owners are losing confidence that the country's rigid labor laws are conducive to business growth. With regards to government policy, the country rates among the worst in the world in terms of labor market efficiency. Labor regulations are currently ranked as one of the most restrictive factors for doing business in South Africa for businesses dependent on labor. South Africa has extremely restrictive labor policies and the new labor regulations being promulgated have been slated as being even more restrictive than the existing problematic policies in place (Herrington, Kew & Kew, 2010b). 1.12. Macroeconomic factors. Van Eeden, Viviers & Venter (2003) found that macro-environmental issues such as inflation, interest rates and unemployment were the main factors negatively affecting the success of small businesses in four major urban areas in SA. Weak rand and high inflation rates are some of the characteristics of SA economic environment. Global economic downturn has been one of the reasons for the country's economic decline (Ehlers & Lazenby, 2007). The rand has depreciated by about 5% to the dollar since the beginning of 2014 (Maswanganyi, 2014). Macroeconomic variable inflation results in the increase of expenses which again reduces the profits of SMEs and diverts investment to ensure the growth and success of the business. Inflation not only affects SMEs, but also their consumers, as it increases the costs of goods and decreases their disposable income (Cant & Wiid, 2013). 1.13. Crime and corruption. In South Africa, the corruption rate is high, compared to developed countries (Transparency International, 2008). Transparency International's (TI) 2013 annual global corruption perception index (CPI) shows that SA has dropped 34 places since 2001. Out of 175 countries, SA ranks at number 72 (Corruption Watch, 2013). According to the GEM report corruption is becoming more prevalent, impacting the enterprises ability to survive and grow in SA, while the high levels of crime are affecting all business (Xavier, Kelley, Kew, Herrington & Vorderwuibecke, 2012). In a survey of SMEs in Mexico, more than 50% of those interviewed saw their business severely negatively affected by corrupt practices (UNIDO, 2007).

2.9 **Concept of business performance**

The concept of performance is used to determine the success of a business entity whether small, medium or big. Firm performance refers to the firm's success in the market, which may have different outcomes. Firm performance is a focal phenomenon in business studies. However, it is also a complex and multidimensional phenomenon. Performance can be characterized as the firm's ability to create acceptable outcomes and actions (Pfeffer, & Salancik, 1978). However, performance seems to be conceptualized, operationalized, and measured in several ways. Lebas and Euske (2002) provide a good definition of performance as "doing today what will lead to measured value outcomes tomorrow." Business Performance Measurement then is concerned with measuring this performance relative to some benchmark, be it a competitor's performance or a preset target. Performance is the act of performing; or doing something successfully;

using knowledge as distinguished from merely possessing it.

2.10 **Business and its environment**

The firm interacts with its environment. There are in fact different levels of environment, each encompassing several components. Thus, the environment of the firm consists of several environments. Environment as a general term refers here to all those arenas the firm is operating in and is attached to (Kauranen, 1996). Moreover, environments and their components affect firm performance in many ways, directly or indirectly. Hence, the firm operates in many environments simultaneously collaborating with other actors in the market and at the same time competing for scarce resources with others.

For instance, from the firm's point of view, one of the most critical markets is the customer market, where the firm sells the products which have gone through the process of combining the production factors. On the other side of the supply chain, in the supplier market, the firm buys factors of production. In the financial market, the firm acquires necessary financing for the business.

Several environmental dimensions have been presented in the literature for describing the qualities of organizational environments. For instance, Dess and Beard (1984) distinguish between dimensions such as munificence, dynamism, and complexity. Munificence refers to the environmental capacity as the extent to which the environment can support sustained growth. In general, a munificent environment is regarded as more favourable for business success than a scarce environment. Dynamism is related to the turbulence, i.e. the dimension of stability vs. instability. It has been found that small firms that face an environment with increasing dynamism tend to grow faster than others (Wiklund, 1998). Environmental complexity indicates that there are several different segments of the market with varied characteristics and needs that are being served by the firm. Thus, the firm sees a heterogeneous environment as complex.

A distinction can also be made between hostile and benign environments (Covin & Slevin, 1989). Hostile environments are characterized by precarious industry settings, intense competition, harsh, overwhelming business climates, and the relative lack of exploitable opportunities. On the other hand, benign environments provide a safe setting for business operations due to their overall level of munificence and richness in investment and marketing opportunities. Perhaps the most elaborate typology of environmental dimensions is the one presented by Jurkovich (1974), who identified 64 types of environments based upon the following dimensions: complex/non-complex, routine/non-routine, organized/unorganized, direct/indirect, low-change/high-change, and stable/unstable.

However, it seems that the environmental dimensions commonly used are uncertainty, dynamism, homogeneity, munificence, and complexity (Miller, 1987c). It is important to notice that the environment may play a bigger role for small firms than for larger firms because of small firms‟ higher vulnerability to environmental influences. Paradoxically, environment is a threat for the firm, but also an opportunity in providing resources the firm needs.

2.11 **Approaches to studies on business performance**

Business performance is often referred to as business success or failure, but to date, research into firm success and failure does not provide a comprehensive explanation for small business performance. Much research has been carried out in trying to discover the factors responsible for firm success and failure (Lussier, 1995; Duchesneau & Gartner, 1990). However, the findings of previous studies of such factors have been contradictory. This may be explained, at least partly, by differences in research designs, operationalization of variables and different limitations of the studies, some potential factors may have not taken into account in the research, for example, most of such studies have been carried out in the large scale enterprises context, or have focused on the success and failure of new ventures rather than on established small enterprises, and the factors affecting their longevity and growth or failure. Moreover, few studies have focused on the foundations of the performance of SMEs in peripheral locations (Vaessen & Keeble, 1995). However, many studies have found that there are cross-national differences in the factors affecting business performance (Lussier & Pfeifer, 2000; Yusuf, 1995).

There are several approaches to investigating business performance. Several studies have been based on a single specific and often narrow perspective on factors affecting firm performance, e.g. on decision making (Eisenhardt, 1999). Many studies have focused on firms with a certain age or size, or on a single industry sector. Moreover, the type of firm may affect the success and failure factors of the firm. Also, several methodological approaches to investigating business performance have been used, for instance, there are studies focused on a very limited number of potential success or failure factors, comparative studies of success and failure factors, and studies focused on the holistic profiles or configurations of successful or failed firms. Most studies have concentrated on studying the role of a small number of variables for firm success (Lussier & Corman, 1996; 1995; Cressy, 1996; McDougall, Robinson, & Denisi, 1992; Tsai, MacMillan, & Low, 1991; Keeley & Roure, 1990; Stuart & Abetti, 1990; Sandberg & Hofer, 1987).

In reaction to the contradictory nature of the results of previous studies, recent research has called for a more integrated and holistic approach in studying firm performance (O"Farrell & Hitchens, 1988; Sandberg & Hofer, 1987; McDougall et al. 1992; 1994). Few studies have investigated how different types of factors may be inter-related with small firm performance (Gadenne, 1998). It can be argued that the field is fragmented and several research streams exist. For instance, attempts have been made to explain firm success or failure in terms of the personality traits of the entrepreneur. However, as Storey (1994) argues using "the analogy of the rowing boat on a rough sea" in describing the role of the entrepreneur's personality in SME performance in the event of unpredictable external shocks, it might be that firm performance is not easily predicted on the basis of the entrepreneur's personality

There is considerable variation in the criteria for business success used in previous studies. Empirical studies of factors affecting small business success can be roughly divided into two groups according to whether they focus on a quite limited set of variables or try to capture more holistic profiles of successful SSBs. Previous empirical research has used both surveys and case studies. There are also some compilations of the results of previous studies of the factors contributing to firm success. For instance, Storey (1994) has compiled the results of previous studies focused on the birth, growth and death of small firms, on the basis of which he presents some normative "dos and don"ts" lessons for small firms. Aminul, Ejaz and Muhammad, (2008) in their study of SMEs in Bangladesh found that product and service, the way of doing business, management know-how and, external environment are most significant factors in determining the business success of SMEs.

The following studies based on surveys have dealt with the factors affecting business success. Nurul and Marja (2005) identified key components to be important in analyzing the business success of SMEs which includes the characteristics of the entrepreneurs; the characteristics of the SMEs; and the contextual elements of SME development. Westhead (1995) studied factors influencing the survival of 227 high-technology small firms. Ghosh and Kwan (1996) made a cross national intersectoral study of the key success factors of 152 SMEs in Singapore and 164 SMEs in Australia. Kauranen (1996) carried out a follow-up study of 37 new manufacturing firms in Finland and studied the determinants of the future success of the firm in the short term and in the long term. Yusuf (1995) explored critical success factors for small firms in several industry sectors based on the perceptions of 220 South Pacific entrepreneurs. Wijewardena and Cooray (1996) explored the importance of a set of success factors by studying a sample of 300 small manufacturing firms in Japan. Gadenne (1998) investigated the effect of various management practices on small firm performance by studying 369 small businesses in the retail, service, and manufacturing industry in Australia. Bracker and Pearson (1986) studied planning and financial performance of small mature firms in the dry cleaning business. Pelham (2000) explored the relationship between market orientation and the performance of manufacturing SMEs in eight industrial sectors.

2.12 **Strategic Groups**

Strategic group theory stems from Hunt (1972). Strategic group was used as analytical tool for examining the intra-sartorial structure, (Santos Álvarez ,2004). Hunt defined the concept strategic groups to mean a collection of firms within the industry which have two sides by means of respect to cost structure, the degree of vertical or horizontal integration and the product differentiation, formal business, control systems and management rewards/punishments, Hunt, 1972, p.8 cited in (Leask & Parker 2006). Porter, 1979:215 cited in (Santos Álvarez 2004) described strategic group as a cluster of firms within a particular industry who share a similar strategy. The purpose of strategic group is to identify group (or clusters) of companies in and industry that pursue similar competitive strategies, (Cool & Schendel, 1987). Analysis of strategic group in business environment provides a basis for research into areas such as; intergroup interaction, process of strategic change, strategic stability, the dynamic of organizational behavior etc. The study of strategic group gives more directions and scope for explaining organizational behavior and performance, (Santos Álvarez 2004). The strategic group concept is helpful in no less than three ways; understanding rivalry, examination of strategic opportunities and investigation of versatility. Understanding competition is where managers focus on their direct competitors within their particular strategic group rather than the whole industry.

2.13 Market Segments

A market fragment is a gathering of clients who have relative needs that are not the same as customers needs in different parts of the market. The theory of market segment focuses attention on differences in customer needs, relative market share and how market can be recognized and serviced, (Johnson et al., (2008). There are processes of market segments. To begin with, the first way to segment market is to differentiate your customer on the basis of demographic variables (such as age, gender, evaluation and income), psychographic variables (such as opinions, interests, region and attitudes) and behaviours (such as media behavior purchase rate, brand loyalty and channel usage). For market segments to be functional, the segments groupings must include customers who are similar to one another and must be separated from customers in the other groups although the customers have reaction to your potential marketing offerings and approaches. Also, the market segments should be different in order to allow their sizes and accessibilities to be easily measured. Secondly, segments should be large enough to validate separate targeting efforts. Thirdly, the segments should be exclusively reachable through communication media and marketing strategies. Lastly, it should be fairly steady and not losing ground in size over time, (Lynn, 2011).

2.14 Strategic Customers

The strategic customer is the person(s) to whom the strategy is primarily addressed because they have the most influence over which goods or services are purchased. For instance, most clients buy products through retail outlets, so the manufacturers must take care of two sorts of clients, the shop clients and the immediate clients. Although, both customers influence demand, one of the customers will be more influential than the others. These customers are called strategic customers, (Johnson et al., (2008).

2.17 Global perspective

United Kingdom

A study carried out by the Small Business Research Unit in the United Kingdom between the periods 1982-1988, showed that SMEs created between 8000,000 and 1,000,000 new jobs. Also, Gibb (1996) opined that small and micro enterprises were by far the most common form of enterprises in Europe and constitute over 98 percent of all registered companies, in Japan, the industrial strength of the nation is premised on SSBs, they employ more than 82 percent of the total labor force and account for more than 50 percent of the total manufacturing value added. In Nigeria, Kasimu (1998) opined that the SSBs have through NIDB assisted projects created more than 300,000 jobs and through the Nigeria Agricultural and Co-operative Bank (NACB), created more than 700,000 jobs.

2.18 Regional perspective

Nigeria

In Nigeria, much of the success of the economy is as a result from innovations of the individual entrepreneurs operating in an environment of private enterprise. The number of small-scale enterprises in Nigeria has increased greatly in the last twenty years due largely to the general economic environment that may have encouraged the start-up of well initiated and well-run small enterprises (Oladunni, 2004, Orisanaye, 2004).

Eke (2007) argued that small businesses accounts for over 93 % of the total entrepreneurs in Nigeria. Small scale enterprises in Japan accounted for about 99.4 % of the non-primary business establishments, employing 81.1 % of the country labour force and contributing 51.8% of the shipment (Cowdhury, & Kazuhiro 2007). Given the needed financial support small businesses ensure income stability, growth and development as averred Alabi, Alabi and Ahiawodzi, (2007). Owualah (1987) is of the view that economic development is a factor of industrialization, characterized by increasing growth of small-scale enterprises (SSEs). These SSEs make invaluable contributions to the economies of both More Developed Countries (MDCs) and Less Developed Countries (LDCs).

The contributions that the SSEs have made to the economic development of various countries of the world especially the developing countries cannot be exhausted. Therefore, Nigeria as a developing country cannot close eyes from the potentials of SSEs. In this wise, according to Asaolu (2004) a viable small-scale enterprises sector in a country like Nigeria is in dire need of self-reliant industrial strategy to turnaround the economy. The implication of these issues on SSEs development calls for the attention of both the policy makers and academicians. This is because from the works of Abdukadir (1985) and Babalola (1982), at the end of 1979 over 80% of all establishments registered under the Factory Act were small scale enterprises and according to NACCIMA (2006) 75% of the private sector is dominated by small and medium enterprises.

In developing economies, the role of SSBs is even more obvious and conspicuous to the degree they dominate economic activities, it can be inferred that they play significant role in whatever economic growth is recorded (Francis, 2000). Among other things, estimates put the percentage of labor force engaged by small businesses alone (i.e. excluding the medium-sized ones) as high as 25% in developing economies (Elkan, 1998). Elkan (1998) come to conclusion that small businesses are the most promising vehicle of entrepreneurial dynamism in Africa.

Tanzania

In Tanzania, SMEs have played a big role in the social and economic transformation of the country since its transition from a command economy to a market economy and they contribute about 60 percent to the gross national product (Echengreen and Tong, 2005; Pyke et al., 2000). In the Tanzanian consideration, an SME is viewed as one that employs at least 4 persons and with a capital of TZ shillings 5 million and the majority of the SMEs fall in the informal sector. It is however possible that you find some SMEs with capital of between 200-800 million employing above 49 employees (Hamisi, 2011). From such examples, Zambia as a country would look for ways of improving the SMEs market since it is evident from these studies, that they are can be a good source of jobs creation, taxes for the government among other benefits.

According to UNIDO (2006), there is a strong relationship between existence of SMEs and contribution to a country's GDP and in the case of Tanzania they contribute about 35 percent and this would have been better if the SMEs are operating efficiently and a full friendly business environment (Calcopietro and Massawe, 1999). It is vital to understand how SMEs can function economically and with efficacy to increase their chances of survival in the competitive business environment.

2.19 **Local Perspective**

Governments can play a pivotal role in setting policies to protect SMEs by for example securing markets for the goods and services produced and offered by these companies, setting up of specialized financial institutions that deal with micro financing. This is a big area that the government of Zambia should explore to make it possible for the operation of SMEs in the country.

2.20 Summary of the Chapter

This section reviewed literature on the definitions of SMEs, roles performed by SMEs, challenges of SMEs in contributing to national economies, and the theoretical and conceptual framework of the study. Again, this chapter reviewed literature on external business environment and layers of the external business environment factors. In addition, the study reviewed literature on the industry forces. Industry forces are the five forces framework developed by Professor Michael E. Porter. The industry forces consist of competitive industry, threat of new entrants, the powers of suppliers, the powers of buyers and threats of substitute's products. Furthermore, the study reviewed works of literature on competitors and market forces. The competitors and market forces comprise of strategic groups, market segments and strategic customers. Lastly, the research study reviewed literature on the dependent variables which are performance measurement.

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Overview

This chapter explains the procedures of this study. It entails the availability and selection of appropriate research design, strategy and method that helped to address the key questions raised. The various techniques and methods that were used to select respondents to participate in the study have been outlined as follows, Research Design, study Population, Sample size, Sampling procedure/techniques, Data collection methods and Data analysis, also the ethical issues arising from the research. The chapter ends with a statement on the challenge from the field.

3.1Research design

Research design provides a framework for the collection and analysis of data. Quantitative and qualitative research methodology was used in this research study and specifically survey design which is also called cross-sectional design. The design is appropriate as survey design entails the collection of data on more than one case and at a single point in time in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect patterns of association (Bryman, 2012). The study collected data from respondents on their opinions and experiences on the business environmental factors that affect curio business in Zambia's mukuni park.

3.2 Population of the study

The population of interest to this study was the set of all operational curio SMEs in Mukuni Park. Mukuni Park is one of the largest areas in Zambia's tourist city to hold a large number of SMEs that contribute to the national's economy.

3.3 Sample and sampling techniques

However it was difficult to cover the entire population because of a number of reasons such as resources and time constraint, a fair representative sample of the population was imperative. This academic research adopted a purposive sampling technique to select 50 respondents for generating data through the use of questionnaire, as Jankowicz (2005) suggested that this involves selecting people (respondents) whose views are relevant, important, and particularly worth obtaining for the research, i.e. the key informant technique of selecting people (respondents) with specialized knowledge and information as instances of purposeful sampling.

3.4 Sources of data and research instruments

This case study utilised both primary and secondary data. The Primary data was collected using questionnaires, in-depth interviews and observation, collected from selected curio SMEs in Mukuni Park. Whilst Secondary data was obtained from past books, journals, articles, reports, the internet, as well as conference and working papers that concern themselves with the topic under investigation. These instruments were chosen because they are the most appropriate. The interview schedule was used because of its known advantages of building good rapport, creating a relaxed and healthy atmosphere in which

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respondents easily cooperate, answer questions, and clear misapprehension about any aspect of a study (Kumekpor, 2002). The interview schedule was semi-structured and comprised of many close ended questions. This facilitated easy administration of the interview schedules. It also helped to avoid irrelevant answers from respondents, and this made entering of data into the computer fairly easy. In-depth interviews were used to collect information from the key informants. In other words, In-depth-interviews provide some scope for obtaining more relevant information through additional questions often noted when it prompts the interviewer. Observation checklist is another instrument that was used in the study.

3.5 Data processing and analysis

The data which was collected from the field was cross-checked first to ensure that there are no mistakes in the responses and the information given is relevant. The data was then coded and fed into the computer. The Statistical Package for Social Sciences (SPSS) was employed to process and analyse the interview schedules. The in-depth interviews was analysed manually. The data from the in-depth interviews was transcribed, categorised under specific themes and used for analysis. Frequencies, percentages, averages, proportions and diagrams were used to present the results.

3.6 Ethical consideration

The researcher made sure to obtain proper permission from the relevant authorities. During the administration of the interview schedule, the researcher availed herself to the respondents to avoid impersonation. The purpose of the study and the nature of the interview schedule were also made known to the respondents. Participation in the study was not by force but on the willingness of respondents to participate. Anonymity of respondents was also respected. During the field work all forms of identification including names, addresses and telephone numbers of respondents were avoided.

3.7 Limitation of The Study

-Participants were not giving in the relevant information required as they feared that the information would be used against them.

-Since it is case study of Mukuni Curios Park in Livingstone district only, the findings may not be generalised to other parts of the country

- Financial limits were another issue as the study was not funded but self-sponsored.

CHAPTER 4: PRESENTATION OF THE FINDINGS

Response rate

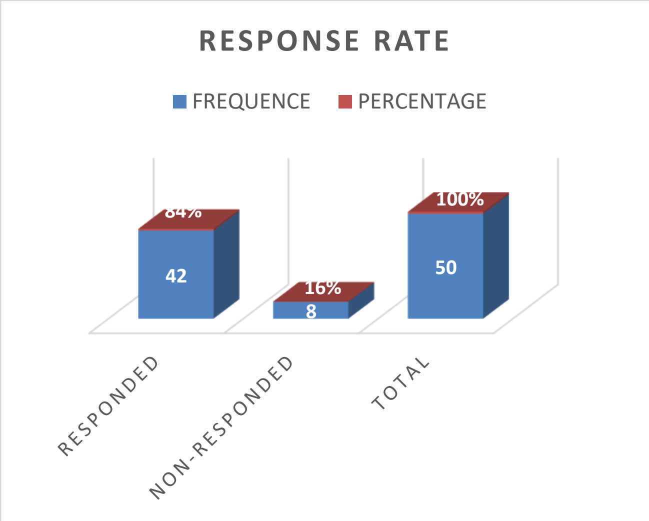
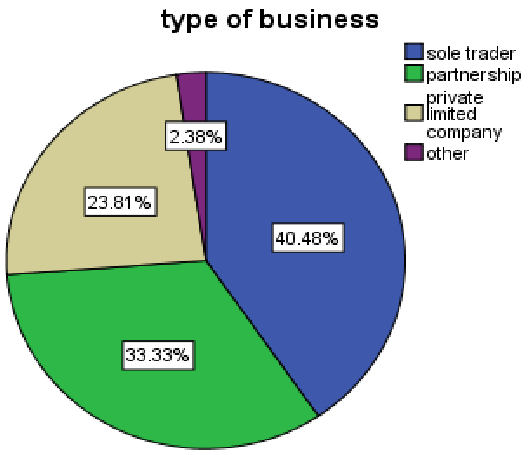
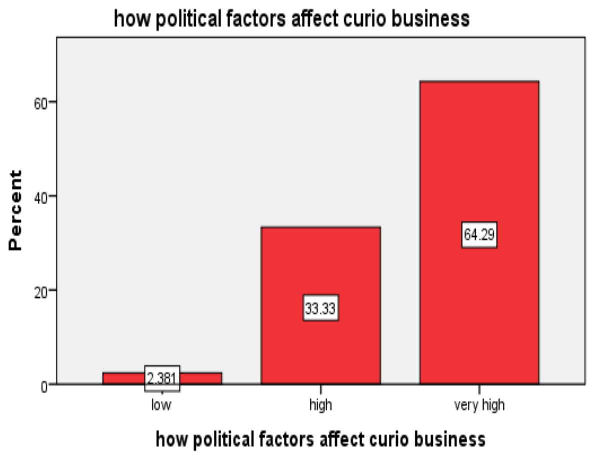


Figure 4.1 above shows the response rate. A total of 50 questionnaires were distributed and 42 respondents representing 84% responded while 8 respondents representing 16% did not respond.

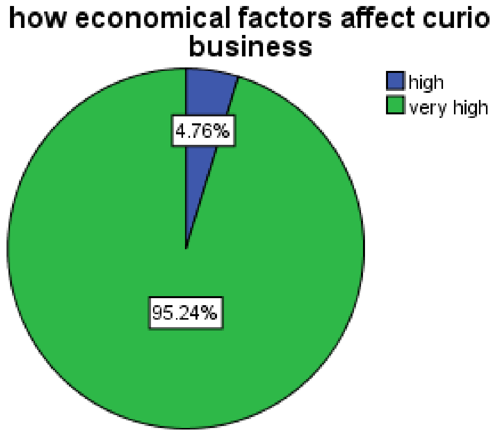
The type of businesses found at Mukuni curio park are 40.48% sole traders, 33.33% partnership, 23.81% private limited companies and 2.38% other forms.



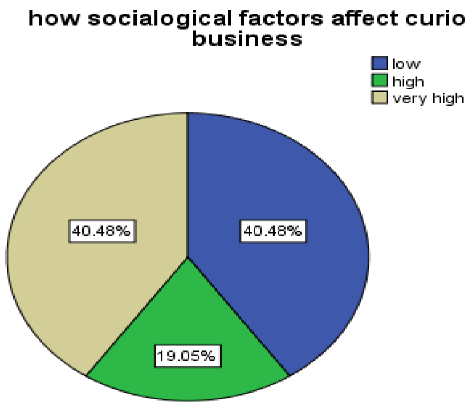
PESTEL analysis is a frame work or tool used to analyse and monitor the macro-environmental factors that have an impact on an organization. The results of which are used to identify threats and weaknesses used in the SWOT analysis. Respondents were asked to evaluate the extent to which these factors affect their business.



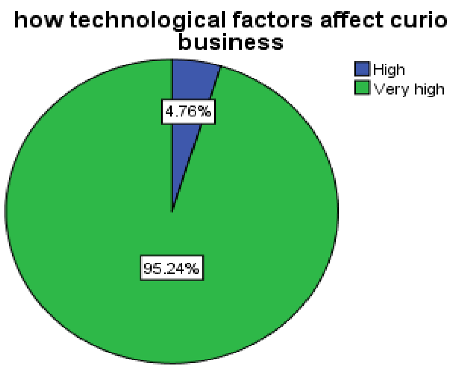
In order for the researcher to assess effect of environmental factor on profitability of curio business, the researcher had to ask respondents' questions that would help find answers. Respondents were asked on the extent to which political factors affect their business. 2.381% answered low, 33.33% high and 64.29% very high.



When asked to evaluate the extent to which economic factors affect curio business; 95.24% said it was very high whilst 4.76% said it was high.

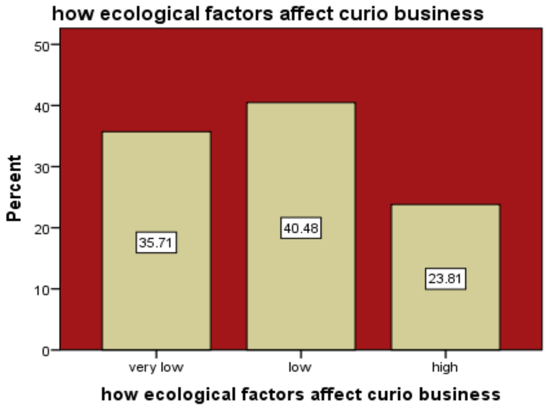


The figure above show the extent to which sociological matters affect curio business and 40.48 % said the extent was low, 40.48% said it was high while 19.05% said it was very high.

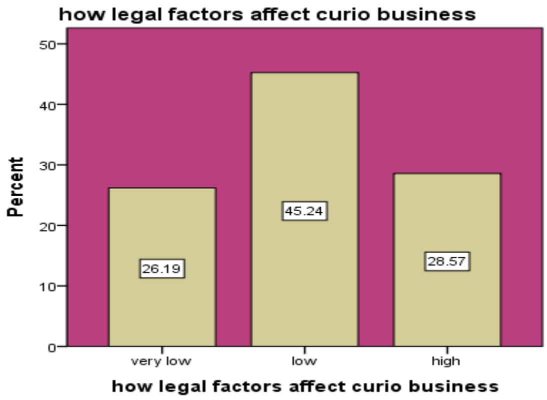


The figure above shows that 95.24% of

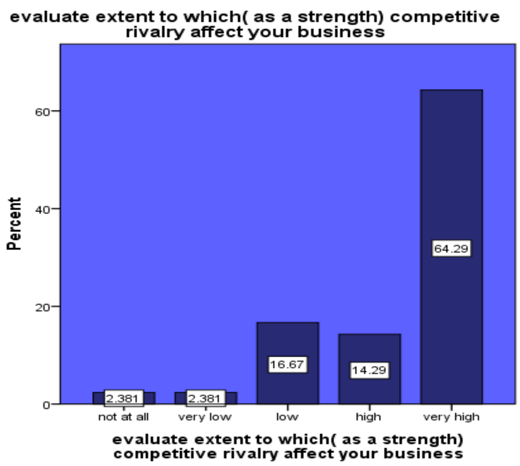
respondents said the effect of technology was very high and 4.76% said it was high.



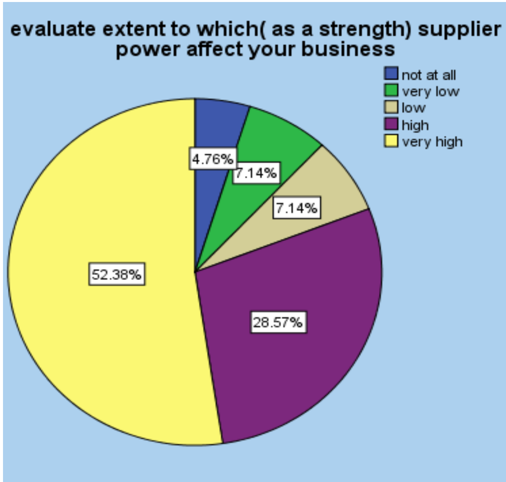
When asked on how the physical environment affected their business, 35.71% said the effect was very low and 40.48% low whilst 23.81% said it was high.



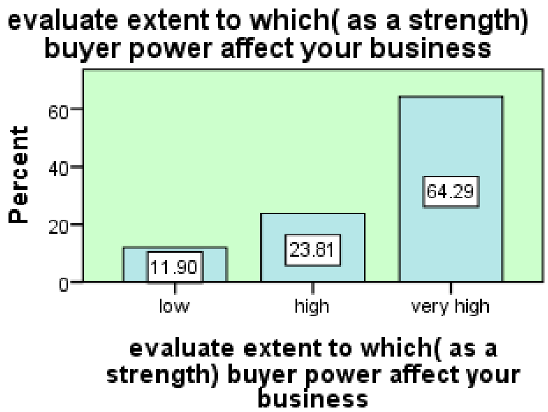
When asked how legal factors affect curio business 26.19% said very low, 45.24% low while 28.57% high.



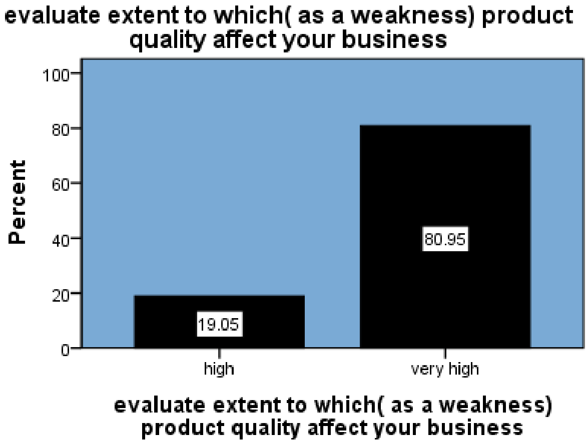
The respondents were asked the extent to which competitive rivalry had an effect on their business and the response was as follows; 2.381% said not at all, 2.381% said very low, 16.67% said low, 14.29% high and 64.29% very high.



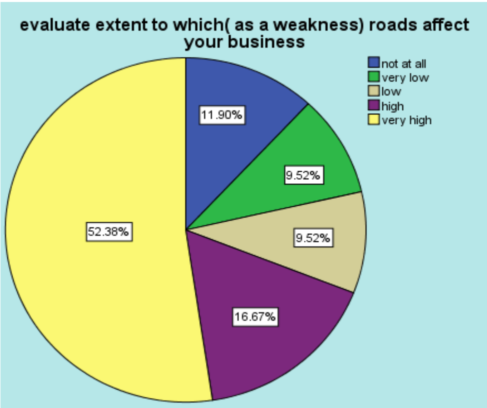
The figure above shows the extent to which pressure suppliers can exert on businesses by raising prices, lowering quality, or reducing availability of their products affect the business and 4.76% said not at all, 7.14% very low, 7.14% low, 28.57% high whilst 52.38% said very high.



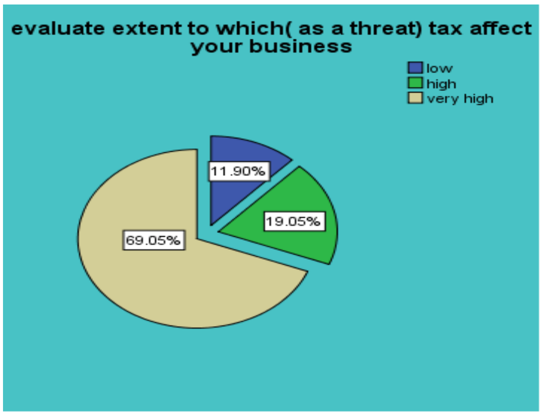
The figure above shows the extent to which consumers can exert pressure on businesses to get them to provide higher quality products, better customer service and lower prices and when asked respondents answered as follows; 11.90% low, 23.81% high and 64.29% very high.



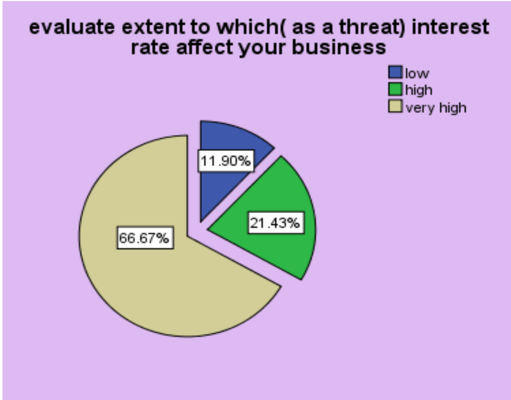
The figure above shows how the products' ability to fulfil and meet requirements of the end user affects their business; 19.05% said it was while and 80.95% said it was very high.



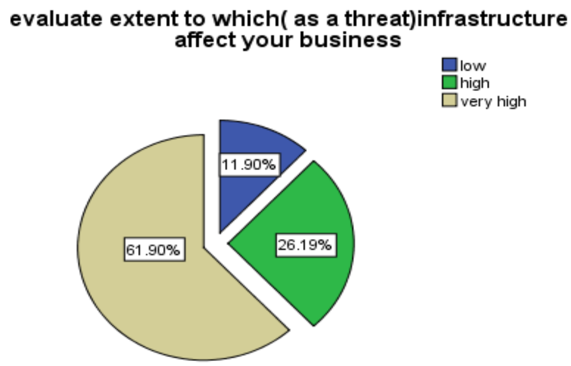
The figure above shows the evaluation of the extent to which roads affect curio business at mukuni curio market and 11.90% said there was no effect, 9.52% very low, 9.52% low, 16.67% high while 52.38% said it was very high.



Respondents were told to evaluate the extent to which a compulsory financial charge or some other type of levy imposed by Zambia revenue authority affect their business and the response was as follows; 11.90% said very low, 19.05% high and 69.05% said it was very high.



The figure above shows the extent to which the amount of interest due per period, as a proportion of the amount lent, deposited or borrowed affect curio business and the response was as follows; 11.90% low, 21.43% high and 66.67% very high.



The figure above shows the extent to which infrastructure (which is the basic physical and organizational structures and facility needed for the operation of a society or enterprise) affect curio business and the response was as follows; 11.90% said it was low, 26.19% high and 61.90% very high.

CHAPTER FIVE: DISCUSSION OF THE FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.0 Findings

The research findings are as follows;

It has been found that curio business is affected by;

- Political factors, which include how regulations and policies imposed by the national or local government affect the way business is conducted. Import and export restrictions make it difficult or uneconomical to do business across borders.
- Economical factors which include different types of taxation and other duties paid to the local authorities affect business in Mukuni Park to a greater extent.
- Sociological factors which are attitudes and profiles are constantly changing. Developing a demographic profile of consumer base helps in understanding what motivates them and as such entrepreneurs find it difficult to keep and use the data base efficiently and effectively.
- With advances in technology developing at a seemingly unstoppable rate, keeping up-to-date with changes could help in developing a market advantage in the face of competition. Technological change is most evident in how we communicate, with smart phones and tablet computers becoming commonplace. As a business owner, you should look at ways to harness technological potential to identify and service new and emerging markets but this is not the case with most of the businesses in Mukuni Park as most of them don’t even have a computer. Keeping up to date with technology is difficult for most traders because they consider their business to be small and see no use of a computer or any gadget to help in the running of the business.
- Environmental concerns have become important in recent years, with the wider impact of doing business increasingly recognized by consumers as a factor in their buyer behavior. Responsible business owners look for ways to minimize the environmental impact of their operations. It is difficult for mukuni park traders to protect the environment they operate from because waste management is never taken to be a matter that need urgent attention.
- Businesses across the world operate in a web of legal obligations and restrictions. Some of these legal factors relate to internal obligations such as those dealing with health and safety, while others have a wider impact on matters as diverse as waste and environmental management, import and export restrictions and or consumer protection laws. Most traders have no broad knowledge of rules and laws that impacts their business in order for them to minimize the risk of non-compliance leading to litigation.

- The study shows that new entrants in the industry pose as a threat to already existing businesses. The entrants can eventually decrease the profitability for other firms in the industry. Buyers find it easy to substitute product for another as a result effect profit. The other problem is the bargaining power of suppliers where suppliers drive the prices because there are few substitutes. The degree of competition in this industry is high and this has an effect on the profitability of individual businesses.
- Marketing was found to be another factor that affects profit.
- Other factors that affect curio business to a greater extent are; interest rates, tax, product quality, material and infrastructure. When interest is not favourable, borrowing is

avoided and as such affect business because investment is limited. Tax also affects this business in that there are financial obligations that traders have to pay on a regular basis. Customers will always want quality products at lower prices but for a curio to be of good quality it will have to have price which will be equal to the value. To a greater extent this affects business as most people would want to get these products at a lower price hence lowering sales. Material is one of the components that make a product to be of good or bad quality and as such material was found to affect the businesses. Infrastructure includes roads, power, furniture, water, drainage, sewer and bridges. These affect curio business as it's an important aspect of business which brings either failure or success.

- This business is affected by individual firm weaknesses and strengths as well as threats and opportunities.
- The extent to which government gives incentives to the entrepreneurs is average.

5.1 Conclusion

The profitability, growth and survival of curio business in Zambia are associated with a number of factors. This study revealed that a lot of factors have adversely affected curio business in Mukuni Park. Among these factors are political, economic, social, technology, ecology and legal. The level at which these factors affect business is very high and is a matter of concern to the entrepreneurs as well as the government. The business main target market is the tourists who visit Livingstone and as such when tourism business is in its off peak the business is affected. The power that buyers have to drive prices, the power that suppliers have to drive prices for raw materials, the threat of substitution, the threat of new entrants and the competition already existing in the industry affect the industry to a greater extent. Tax, interest rates, infrastructure, material, product quality. If individual firms are not careful with strategies to help them deal with these factors the profitability of their business is affected negatively.

5.2 Recommendations

Business environment is a set of forces that are largely outside the control and influence of a business and that can potentially have both a positive and a negative impact on the business.

1. Political decisions have impact on many vital areas of business and as such the researcher recommends that education of the workforce, health, and the quality of infrastructure of the economy such as roads and railways systems should be looked at carefully and worked on.
2. Economic issues such as interest rates, taxation changes, economic growth, inflation and exchange rates affect business. If the government can put up policies that can help reduce inflation, and reduce on the interest rates then the business under study can be profitable.
3. Social issues have negatively affected the curio business and as such there is a need to learn the culture and all aspects of social elements around the place, they trade from in order to formulate strategies to help the individual businesses to be profitable.
4. Technology can solve all the biggest problems in the world. The researcher recommends that individual firms should create value for their firms by coming up with a system that would make communication to customers as well as selling easy.
5. The government needs to improve on the incentives that it gives to support curio business so that the curio business can help in improving the living standard of people as it

will be a source of employment to a larger scale of people.

6. The individual firms also need to make strategies in order to reduce the impact of these factors. Individual firms need to analyze their firms using porter's five forces in order to develop strategies that will make the effect a positive one. Individual business firms needs to make strategies on;

a. Buyer power, - the power to drive prices down should not lie with buyers but individual businesses.
b. Supplier power, -the power that suppliers have to drive prices up and delivering poor quality material should be discouraged and as such suppliers should be checked to see to it that the materials are of good quality and that the value should be equal to the price.
c. Threat of new entry, - when a new business enter the industry, it should not get your customers and as such the researcher recommends that strategies on how to handle new business and not be able to lose customers.
d. Threat of substitution, - individual businesses should make strategies on how they will make sure that customers will find no satisfaction in a substitute product but theirs.
e. Competitive rivalry, - even when competition is tough, individual businesses should strategies on how to remain on top and not letting competition bring them down.

All the above recommendations if implemented would help firms sell their product at a profit. Developing small and medium enterprises help to achieve sustainable growth as a centralized theme. These enterprises play vital role in the country's overall production networks and they are core to the economic growth of developing countries. The aim of any business is to provide quality products, at the right price, right promotion and at the right place with profit.

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