

## Analyzing Business Failure Among Small and Medium Scale Enterprises in Zambia. A Case Study of the Central Business District of Lusaka.

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**Abstract** — After attaining independence in 1964, Zambia had no policy or special legal framework promoting the development of Small and Medium Sized Enterprises (SMEs). The country was enjoying high prices of copper hence ignoring the private sector. Unfortunately, the price of copper fell in 1975 resulting in the decrease in the Gross Domestic Product (GDP), and increased poverty levels, prompting the government to find alternative ways to develop the economy. It was at this point that the government realized the vital role of small and medium enterprises (SMEs) in contributing to the social-economic development of the country. However, many SMEs in Zambia fail to grow due to the challenges they encounter in their operations. Given the above, the study sought to analyse business failure among small and medium enterprises in Zambia: a case study of the Central Business District (CBD) in Lusaka. In doing so, the study sought to assess the effect of skills in marketing, business planning, management and financial matters on business growth. To achieve this objective, the study employed a descriptive research design. The target population under study was the 300 licensed SMEs located in the CBD. The study used a questionnaire to collect the required data from a sample of 50 SMEs. The data collected was coded, quantified and analyzed quantitatively and qualitatively. The study concluded that skills in

business planning, financial literacy, management, and marketing impacted business performance, and if well managed, these skills can improve business performance of SMEs in the CBD.

Keywords—business planning, financial literacy, managerial competences, marketing, performance.

### I. CHAPTER ONE: INTRODUCTION

#### 1.1 Background

The importance of SMEs to any economy cannot be overstressed. According to Harvie, (2005), their role includes stimulation of indigenous entrepreneurship, transformation of traditional industry, creation of employment, linkage effects, utilization of resources, contribution to regional actively, and corporation, reduction in rural urban immigration, interdependence of business, innovation, and improvement in standard of living etc. According to Harvie, (2005), SMEs have received increasing attention in recent years because this sub sector of the economy makes a significant contribution toward employment creation, value added production feeder industry services, and industrial dispersal and development of local technology. Acs, Z. J. & Yeung, B. (2009), see the contribution of SMEs to include the provision of new jobs, introduction of innovation, stimulation of

economic competition, aiding big businesses and the production of goods and services, and efficiency.

After attaining independence in 1964, Zambia had no policy on the development of the private sector, and in particular SMEs. The country had no special legal framework promoting SMEs since the country depended heavily on copper mining and the public sector seemed very important at that time. The country was enjoying high prices of copper hence ignoring SMEs. Unfortunately, the price of copper fell in 1975 therefore prompting the Zambian Government to find alternative ways to develop its economy. In addition to the above, the opening up of the markets coupled with privatization of the state owned mines (and firms) acted as a 'double edged sword' that left a number of citizens unemployed. The output of Gross Domestic Product decreased and the poverty levels increased dramatically (70%), setting Zambia among the poorest countries in the world. Thus, the formation of SMEs was inevitable since most Zambians were now out of formal employment and they had to find other means of surviving (World Bank (2004).

It was at this point that the government realized the vital role of the micro small and medium enterprises sector in contributing to the social economic development of the country. Hence after 1981, the Government began to develop SMEs policies, and consequently came up with the Small Industrial Development Policy of 1981, which was succeeded by the Small Enterprise Development Policy of 1996. Thus, through an Act of Parliament, Government established the Small Industries Development Organisation (SIDO) to promote the Micro, Small and Medium Enterprise sector. SIDO was established to cater for financing needs of small-scale companies as defined in the SID Act. In 1996, SIDO was transformed into Small Enterprises Development Board (SEDB) through the 1996 Small Enterprise Development (SED) Act and, in 2006 it was amalgamated into the Zambia Development

Agency (ZDA Act No. 11 of 2006) as an MSE Division. (MOF, 2002; FSD Zambia, 2009).

As of 1989, a provision was made in the said pieces of legislation to enable micro small entrepreneurs to have access to business infrastructure, access to micro financing, improved production services, etc. (Kang'ombe, 2004; MCTI, 2007). Through the aforementioned strategies, it was believed that the efficiency and effectiveness of SMEs will improve in order to increase employment and improve household income and consequently help the poor out of poverty (MCTI, 2008; OPM, 2012; Newman, 2011). In September 2021, the Ministry of Small and Medium Enterprise Development was created to further promote the development and growth of cooperatives, small and medium enterprises in order to create jobs and wealth across the country. It is therefore evidently clear from the foregoing that the Zambian Government has at various levels focused on ensuring the growth of SMEs in the country.

Part of the support includes credit facilities and other financial incentives and the establishment of the Zambia Development Agency (ZDA). The mission of the ZDA is to facilitate the development of micro, small and medium-sized enterprises in the country through creation of a favourable business environment, trade development, investment promotion, enterprise restructuring, the development of Greenfield projects, trade and industry fund management, and contributing to skills training development in Zambia. (IFAD, 2013). Despite the aforementioned measures put in place by the government, SMEs in Zambia have continued to struggle to graduate and have continued to perform poorly due to various challenges which they face in their operations, making it difficult for them to contribute positively to poverty alleviation and to economic growth. (Ministry of Finance and National Planning, 2002).

## 1.2 Statement of the Problem

In almost all economies of the world especially in developing countries in Africa, small and medium enterprises are crucial and are a key factor for sustained economic growth and development. However, despite their significance to economic growth, SMEs across the globe, Zambia inclusive, encounter many challenges which hinder business growth (Fang, Yuli & Hongzhi, 2009). In the Zambian context, past statistics indicate that three out of five small and medium scale businesses fail within the first 18 months of operation (BoZ, 2016). As a result only 40% of the Zambian SME entrepreneurs who start businesses every year get established while 60% fail to run their businesses and close within 18 months of operation.

While there are various reasons for such failure, one central reason is lack of business planning, lack of financial literacy, and lack of managerial and marketing skills. This situation is of great concern. However, little research has linked these salient factors to SME growth particularly in developing countries like Zambia and dealing specifically with lack of business planning, lack of financial literacy, and lack of managerial and marketing skills as variables. This study therefore investigated and provided an insight of the actual effect of these variables on business performance in the CBD, Lusaka with a view of formulating concrete strategies regarding the development of SMEs in the country.

## 1.3 General Research Objective

The broad objective of this study was to investigate the effect of business planning, financial literacy and management, and marketing on the growth and performance of SMEs in Zambia with the view of finding solutions.

## 1.3.1 Specific Research Objectives

In order to achieve the general objective, the research set out to achieve the following specific objectives:

- i) To explore the effect of business planning on the performance of SMEs in Lusaka.
- ii) To assess the effect of financial literacy and management on the performance of SMEs in Lusaka.
- iii) To scrutinize the effect of marketing on the performance of SMEs in Lusaka.

## 1.4 Research Questions

- i) What is the effect of business planning on the performance of SMEs in Lusaka?
- ii) What is the effect of financial literacy and management on the performance of SMEs in Lusaka?
- iii) What is the effect of marketing on the performance of SMEs in Lusaka?

## 1.5 Significance of the Study

The informal sector has proved that it can be a factor that can boost economic growth in Zambia. In particular, SMEs continue to be hailed as a huge contributor to the Zambian economy. Given the crucial role played by SMEs in economic development, the study will help to know the prevailing conditions in the business environment of SME entrepreneurs and suggest initiatives aimed at promoting their businesses in Zambia. Most importantly, the study is expected to help the Government of the Republic of Zambia, and other stakeholders to adopt proactive measures, which are needed to ensure that SME entrepreneurs perform better. In addition, the findings of the study are expected to guide policy makers generally on entrepreneurship and SME activities within the business sector in the CBD of Lusaka. The information generated from the study will further add to the already existing body of knowledge. The said

information will be useful to other researchers, as a stepping stone for further studies on the challenges SME entrepreneurs face.

## 1.6 Scope of the Study

This study was limited to small and medium enterprises operating in Lusaka which are engaged in different economic activities. The study was carried out in one area namely; the Central Business District of Lusaka (CBD) Zambia. The study focused on this area because a large number of SMEs are found in the CBD. Furthermore the study was confined to the CBD because of time and financial constraints.

## 1.7 Operational Definition of Concepts

**SMEs:** Defining an SME can be challenging as the term includes a wide array of definitions globally. When defining SMEs, countries and businesses often use their own judgment, using the asset value of the company, number of people employed, etc. annual turnover generated (URT, 2003).

**Entrepreneurship:** is the creation or extraction of economic value. With this definition, entrepreneurship is viewed as change, generally, entailing risk beyond what is normally encountered in starting a business, which may include other values than simply economic ones.

**Business Environmental factors:** business environment is defined as factors both inside and outside an organization that influence the continued and successful existence of the organization. The business environment is considered to play a crucial role in the growth of SMEs. It refers to all the identifiable elements in the economic, political, regulatory, technological and demographic environment that affect how a company operates, grows as well as survives. (Delmar & Wiklund, 2008).

**Internal environment factors:** internal environment factors are factors that are largely controlled by the business in the business

environment (Fatoki & Garwe, 2010; Kolstad & Wiig, 2015).

**External environment factors:** these are factors that are beyond the control of the business such as economic variables and markets; labor, infrastructure and regulations (Fatoki & Garwe, 2011).

**Business failure:** this refers to a company ceasing operations following its inability to make profit or to bring in enough revenue to cover its expenses.

**SWOT Analysis:** Strengths, Weaknesses, Opportunities, Threats.

**Turbulence:** Environmental turbulence is a dynamism in the environment, involving rapid and unexpected alteration in the environmental sub-dimensions. Turbulence results from fluctuations in and interactions between environmental factors mostly because of technological advances (Lumley, 1972).

**Economy:** Economy refers to the resources of a country in terms of production and consumption of goods and services that determine its wealth (Manfred, 2015).

**Performance:** This refers to the accomplishment of a given task measured against preset goals, completeness, speed, costs and standards of accuracy (Paul, 2003).

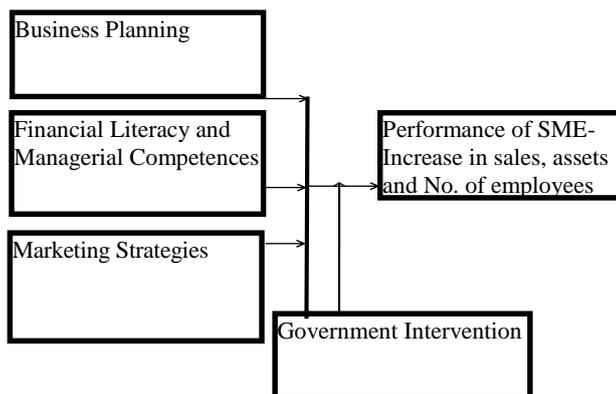
**Management:** This is the leadership of an organization or firm tasked with controlling the activities thereof to ensure successful running (Porter, 2004)

## 1.8 Theoretical Framework

The objective of a theory in any discipline is to model a simple phenomenon from a real structure, which makes the study to be understood easily. This research has utilized the economic participation theory, where every citizen participates into the economy, and the expectancy theory. There are many ways in which citizens can participate in the

economy. One way is through the creation of SMEs in a country where poverty and unemployment levels are high. In Zambia, unemployment rates and poverty levels according to Central Statistics Office (2018) have been high. The 2006 and 2010 Living Conditions Monitoring Survey (LCMS) reported that poverty levels had remained high in Zambia. One way in which the two phenomena could be reduced is the participation of citizens through SMEs. Many economies needed to emphasize the development of SMEs as they contribute to providing employment and generation of incomes in an economy. In economics, one of the best indicators is employment in which citizens participate into the economy.

Additionally, motivation has long been recognized as a key driver of individual behavior. Starting as early as Tolman (2002) and Lewin (2008), expectancy theory ties perception to behavior. Expectancy relates to the expectation or likelihood that specific actions or states of nature will yield a certain outcome. Based on these theories,

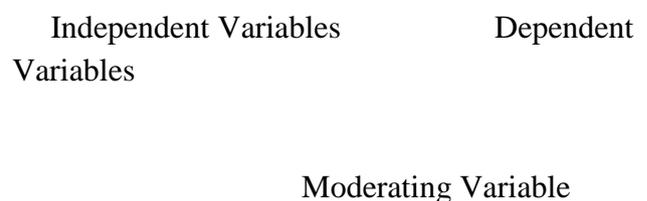


individuals are motivated by things that can successfully lead to valued outcomes (Mandel & Klein, 2007). According to this theory, if individuals perceive acquisition of appropriate business skills as a tool which can help them enhance the quality of their decisions, they would be motivated to acquire them; this would improve on their long term perceived outcome. The impact of the said factors depend on the expectations individuals have on them and the expected reward of the outcome (Mandel et

al, 2007). Therefore, the acquisition of skills in business planning, financial literacy, business management, and marketing would more likely than not help SME owners make key decisions that would affect their lives.

A conceptual framework is a simplified representation of how two or more variables interact with each other. The purpose of a conceptual framework according to Chalmers (1982) is that it identifies research variables, and clarifies relationships among the variables categorized as dependent and independent variables. The independent variables of interest in the current study include business planning, financial literacy, managerial competences and marketing. Government intervention is included as a moderating variable as applied by Fatoki, (2014) and Thapa and Raj, (2015). The performance of a business is measured by dependent variables, namely; increase in sales, increase in total assets (business expansion) and increase in the number of permanent employees employed by an SME (Chamwada, 2015). The relationship of these variables is shown in figure 1 below:

Figure 1: Conceptual Framework



The relationship of these variables is discussed below.

According to a study by Benson Honig and Michael Samuelson (2011) business planning is the continuous managerial process of anticipating and forecasting the future environment of the business

organization, the formulation of long term and short term goals to be achieved and selecting the strategies for their realization. The essence of planning is to see opportunities and threats in the future and respectively exploit the opportunities and combat the threats as the case may be. Therefore, strategic planning seeks to help a firm achieve its goals; maintain a long-term and constant environment for the company, support the long-term aptitude and competence of the business, and at the same time, increase the company's profitability and allow for growth.

Financial literacy depends on financial education. Financial education determines how an individual perceives financial issues. Therefore, financial education is an independent variable that influences financial literacy. In the same way, financial literacy may influence decision making in business processes and help a business to succeed. Potrich et al. (2015) found that financial literacy positively impacted an individual's assertiveness and efficiency in decisions related to monetary affairs. On the other hand, managerial competencies and skills have a positive influence on the performance of SMEs. Human capital is the most critical agent of SME performance. Studies suggest that those with more education and training are more likely to be successful in the SME sector (King and McGrath, 2002). Skilled management is therefore necessary to enable group or business goals to be accomplished through the functions of planning, staffing, controlling activities, coordination and directing.

Further, SMEs need effective marketing strategies to be able to seize market opportunities, and overcome various internal weaknesses and external threats. Marketing strategy itself means different actions taken by a company compared to its competitors (Free Management, 2011). Therefore, effective marketing strategies may positively influence decision making leading to business growth. Businesses require the owners to make

decisions and these decisions can be in terms of what to purchase, what to sell, what to spend money on, planning, staffing, coordinating, directing and controlling business activities, etc. These decisions may be dependent on business planning, financial literacy and management, and marketing skills.

The performance of a business can either be success or failure. Firm performance is measured by three aspects namely, increase in sales, increase in total assets (business expansion) and increase in the number of permanent employees employed by SMEs (Chamwada, 2015) and is taken as dependent variables. It is every businessperson's intention to run a successful business, however the performance of a business may depend on factors such as proper spending, budgeting, marketing, planning, staffing, controlling, coordination, organizing and directing the activities of the enterprise. To achieve this, acquisition of appropriate skills becomes crucial to business growth and survival. Equipped with appropriate skills, entrepreneurs are assured of their business's survival and also growing significantly. Through education one gets to develop essential skills that are critical in a certain area. Education will give an entrepreneur skills on business planning, financial literacy and management, and marketing. Without proper skills, it is difficult for one to lead an enterprise into growth

However, the government has a role to play in ensuring that SMEs grow by formulating appropriate policies that may affect businesses. The government must have a strong and supportive policy instrument to guide the work of SMEs. According to Sapru (2012) a policy is the proposed course of action of a government within a given environment providing opportunities and obstacles which the policy was proposed to utilize and overcome, respectively, in an effort to reach a goal or realize an objective or purpose.

## II. CHAPTER TWO: LITERATURE REVIEW

Small and medium sized enterprises (SMEs) have an important role to play in the development of the country (Bayati & Taghavi, 2007). The results of a recent study of the Global Entrepreneurial Model (GEM) suggest that there is a statistically significant relationship between the national level of entrepreneurial activity and subsequent level of economic growth, although large samples with multiple years of data are needed for precise assessment (Reynolds et al., 2001).

Grammy (2011) reveals that entrepreneurs play four major roles in the economy and that they contribute to the following: (1) Creating jobs; (2) producing new products and services; (3) serving larger corporations; and (4) providing specialised, innovative products. In connection to this, Bouri et al. (2011:7) states that the entrepreneurship sector is the backbone of any economy, especially in high-income countries, although the sector is less developed in lower income countries. SMEs have played and continue to play a bigger role in the social economic development of many countries. For example, from previous studies by Kromberg (2005) on South African SMEs, it was found that SMEs contribute 30 percent to the gross national product considered they are registered with the government, although the percentage could be higher if unregistered SMEs are also included (Skinner, 2006).

In South Africa, SMEs have been the backbone of social economic development and this is the same for many other Sub Saharan African economies. SMEs have played a big role in job creation especially in the private sector which has the majority of SMEs. In Kenya, for example, SMEs employ more than 5.1 million people, while in South Africa, SMEs employ about 50 - 60 percent of the work force (Kromberg, 2005; Tshuma and Jari, 2013). In countries like Nigeria, SMEs contribute about 37 percent to the country's Gross Domestic Product (GDP) ranking

them second from the oil sector as biggest contributor to the country's GDP (Okezie, Ihugba, Alex Odii, Njoku, 2014). Another study in Tanzania found that SMEs and entrepreneurs have played an important role in the socio-economic transformation of the country since the recession from the economy to the market economy and contributing nearly 60 percent to the national domestic product (Echengreen and Tong, 2005; Pyke et al., 2000).

Even in the developed economies, SMEs play a bigger role in contributing to social economic development. In the European Union for example, SMEs account for 99.9 percent of the 11.6 million businesses created in the bloc (World Bank (2006a). In the United States of America, SMEs create over 75 percent of the new jobs contributing 40 percent of GDP and 80 percent of the population get their first employment in the SMEs according to World Bank (2000). Reynolds and White (2007) expressed that the primary role of small businesses and small entrepreneurs (MSE) is their valuable contribution to the manufacturing sector and GDP of GDP. Many countries have shown that the value of small and medium entrepreneurs can be enormous. Entrepreneurs can also contribute to the development of overseas countries, as in developed countries where industrial sales come from small textile companies, electronic products, clothing, leather and ceramic products, among others.

In Canada, the Prime Minister's work for women entrepreneurs (2003) has collected data on Canadian figures on women entrepreneurs. They see that there are more than 821,000 Canadian businesswomen and they donate more than CAD18, 109 to the economy every year. Between 1981 and 2001, the number of women entrepreneurs increased by 208%, compared with a 38% increase for men. Therefore, based on these results, we can conclude that at least for these countries (and there is no evidence of the contrary for any other country) that SMEs represent an important economic strength that is able to generate both substantial sales and employment for themselves and

others. More experiments to assess the economic impact of SMEs are provided by the International Labor Office (ILO).

A strong SME sector contributes highly to the economy, contributing to the gross domestic product, reducing the level of unemployment, reducing poverty levels and promoting entrepreneurship activity. Entrepreneurs who invest in SMEs do it to earn some income as one of the major objectives and in the process, these SMEs contribute immensely to the social economic development of a country (Okezie, Ihugba, Alex Odii, Njoku, 2014; Obiajuru, 2012). Studies show that SMEs are of great importance to the nation's economy since they can be a mechanism to stimulate economic growth, thereby creating employment in the country. These enterprises dominate the developed and developing economies in terms of employment creation in several countries, however, their full potential remains untapped owing to the high rate of failure among them.

In 1987, one of the earliest studies by Bruno, Leidecker and Harder (1987) examined 250 high-tech firms and found three major categories of causes for failure: (1) product/ market problems, (2) financial difficulties, and (3) managerial problems. These three problems always surface in most studies as dominant problems causing or leading to failure. Another study by Nemaenzh (2010) identified four important causes of failure of SMEs in South Africa: monitoring and control, experience and planning in marketing and finance, income constraints and cash control.

According to Bayraktaroglu and Kutanis (2006), the same failure reasons unearthed by Bruno et al.'s (1987) study were examined and confirmed by Karakaya and Kobu (1994). Even in studies reviewed below, financial difficulties, managerial problems, and lack of industry experience surface as major causes of SME failure. A study by Titus (2016.) on why small businesses fail in the USA revealed a list of 12 identified causes, namely; lack

of industry experience, inadequate financing, lack of adequate cash flow, poor business planning, management incompetence, ignoring the competition, unworkable goals, diminished customer base, uncontrolled growth, inappropriate location, poor system of control, and lack of entrepreneurial skills.

Another study by Petrus (2009:24), which looked into what contributed to SME failure in South Africa, identified 13 factors: (1) poor business planning, (2) poor financial planning, (3) poor marketing, (4) poor management, (5) access to funding, (6) regulations, (7) gender, (8) inadequate financing, (9) government's role, (10) globalisation, (11) inability to manage growth and (13) access to markets. Common elements emerged from Titus's (2016) and Petrus (2009:24) lists, include: (1) poor business planning and (2) inadequate financing. When looking closely at the configuration of these causes or factors, Petrus (2009) does not adequately show the difference between certain factors, in particular 'poor business planning', 'poor management' and 'inability to manage growth', which are discussed as separate factors in the present study.

In Uganda, a study by Nangoli et al. (2013) revealed the following causes of business failure: employing relatives, inability to supervise, excessive global competition, lack of business management and entrepreneurship skills, poor savings culture, lack of financial discipline in entrepreneur, financial problems, employing dishonest workers, bank loan delinquency, poor management of family businesses, failure to pay rent and taxes, lack of commitment to the business by entrepreneur, inability to generate profits, inability to meet family needs, lack of financial discipline, sibling rivalry, and conflict of interest between managers and family (p. 290). There is a common thread in the reasons cited in the Ugandan article and those in the USA article, especially matters of mismanagement, financial indiscipline and poor planning.

As regards planning, according to the Small Business Development Centre, in the USA, 90% of business failures are associated with the lack of business planning that is attributed to the lack of management skills. According to the Oxford Advanced Learners' dictionary New 7<sup>th</sup> edition, a plan is something that you intend to do or achieve. Relating planning to business or management, planning is the first function performed by managers that determines the pattern of actions needed for meeting situations in the future in order to attain organizational goals. Plans are predetermined courses of action made in the present to guide future implementation towards the goals of the organization. Plans and planning are therefore, the means by which managers can exert their impact on the future of the organization. However, planning can also be seen as the process by which managers analyse present conditions to determine ways of reaching a desired future state. Planning is also a management function that produces and integrates objectives, policies and strategies. From the above, it is evident that planning is defined as the process of deciding what objectives will be pursued within a future time frame and what will be done in order to achieve those objectives.

A popular adage which states that 'failing to plan is planning to fail' cannot be overstated. Planning helps an organisation to be proactive, not reactive. Planning ensures that managers and workers focus their efforts on the attainment of the same goals; sound plans are essential for monitoring the progress of an organisation and the increasing complexity of organizations makes planning essential (Smit et al. 2013:133). When a business is not properly planned, it leaves its operations to chance and pure luck, which is a risky path to tread. Only a knowledgeable SME, running a business, will see the need to plan and will enforce planning for everything, starting from inputs to the production process to the customer service systems, among others. Failure in these, subjects an SME to failure. For example, if a

business is established on a good idea but located among retirees who have no disposable incomes to spend on the business's products and services, it will not make the business viable.

Therefore, a business plan is essential to achieving the objectives of a firm. With a detailed study and analysis, investors can formulate a plan that is result oriented. According to the study by Benson Honig and Michael Samuelson (Swedish Entrepreneurship forum), the methodological approach to the planning process gives the most effective results. In addition, by making use of the appropriate features, this may be made even better. A lack of preparation may lead to considerable losses in the financial world. Rhonda Abrams also researched the dangers of not preparing ahead (2019). Planning is essential for every commercial organization but can also be used for labor. This is a critical part of the business.

Furthermore, lack of access to credit facilities is almost universally indicated as a key problem for small and micro enterprises. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack collateral. Credit constraints operate in variety of ways where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Empirical evidence supporting the importance of access to external finance for business growth can be found in Brown, Earlem & Lup, (2005), who examines firm growth determinants.

Marvin Kabubi, & Ruth Fungwe, (2019) in their journal "exploring operational challenges faced by small and medium-sized enterprises (SMEs): Case Study of Lusaka Central Business District", identified lack of access to finance as one of the major challenges facing SMEs in Lusaka. The authors attributed this challenge to the inability of SMEs to provide collateral and other information needed by banks when accessing loans such as

audited financial statement coupled with the high cost of loans in terms of high interest rates. Gondwe (2012) also identified low uptake of loans as a major constraint to the development and growth of Micro, Small and Medium Enterprises (MSMEs) in Zambia. Wanjohi & Mugure, (2008). Matavire et al., (2013), in their study on challenges facing SMEs in accessing finance from financial institutions in Bulawayo, Zimbabwe found out that SMEs fail to secure loans because of restrictive requirements of the financial institutions, top among them being collateral security.

Another variable that influences business growth and sustainability and ultimately contribute to economic health is financial literacy. Financial literacy is seen as an important instrument for the success of SMEs as it helps to understand and evaluate the information needed to make day to day decisions that have financial impacts in the firm's day-to-day management. Brown et al. (2006), noted that financial literacy for small business owners must contemplate the ability to read and understand fundamental financial statements, as well as, the ability with numbers, in order to make informed judgments and to make effective decisions regarding the use and management of money.

Pearl and Eileen (2014) surveyed 14 small business owners in Florida in order to determine their level of financial understanding and their usage habits of financial statements in making management decisions. The results revealed that there was a clear connection between the lack of financial literacy and financial difficulties experienced by entrepreneurs, and adequate financial education can partially decrease the financial difficulties. Sagana (2014) conducted a study on entrepreneur financial literacy, financial access, transaction costs and performance of microenterprises in Kenya with a representative sample of 396 microenterprises and findings of the study indicated that entrepreneur financial literacy had a statistically significant influence on enterprise

performance. Sagana (2014) also studied the effect of financial literacy on financial returns of Miraa farmers in Meru and found that financial literacy levels remained low among Miraa farmers and this resulted in low returns.

Whereas financial literacy is key to business growth, it is notable that finance alone cannot make the entrepreneur successful. It must be in uniformity with the person's will to succeed in business and the training in the field in which the enterprise is set. Kinyua (2014), researching on factors affecting the performance of small and medium enterprises in Nakuru town, Kenya, concluded that management skills were found to positively and significantly affect the performance of SMEs. Managerial incompetence is crafted as meaning the same as 'management inadequacy', with its origin in management inexperience (Titus (2016). cited in Perry and Pendleton 1983:13). A study by Brink, Cant and Ligthelm (2003) specifically highlighted that insufficient management skills, lack of expertise in functional areas such as marketing, human resource, and financial knowledge are the major causes of SME failures.

Professional management refers to the ability to manage the business in all its aspects, from marketing, finance, operations, human resources, administration, viz., information flow management, public relations management, security management and records keeping. In this case, it is insufficient to just point at management inexperience but specific aspects that underscore such an area of great concern, for example, planning, resourcing, controlling and leadership. Professional management often lacks in most enterprises, depriving the business a skills set required to drive it forward to a formidable firm. A good example is the lack of separation between the corporate and personal purse of the owner. The inability to distinguish between the business and personal purse and/or wallet has racked most well-meaning businesses. When corporate cash is used for

personal purchases, it is reflective of unprofessional conduct that often leads to business failure.

Another issue faced by most SMEs is marketing related problems (Can't and Wiid, 2013: 709). The American Marketing Association defines marketing as an organizational function and a set of processes for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. In other words, marketing is the process of exploring, creating and delivering value to meet the needs of a target market in terms of goods and services. It potentially includes selection of a target audience; selection of certain attributes or themes to emphasize in advertising; design of products and packaging attractive to buyers; product placement in media or with people believed to influence the buying habits of others.

The purpose of marketing is to analyze how a business can attract, acquire, and keep customers by satisfying their wants and needs (Cerf, M. & Et al. 2017: 281). An organization that has adopted the marketing concept will place customers at the top of the corporate organizational chart and focus on capturing and satisfying their needs and wants in order to maximize profits (Day 1994; Ruekert 1992).

The four Ps of marketing, often referred to as the "Marketing Mix," are the key factors that are involved in the marketing of goods or services. They are the product, price, place, and promotion of any good or service. The four Ps are constrained by internal and external factors in the overall business environment, and they significantly interact with and build upon one another. The 4 Ps of marketing are used by companies to identify some key factors for their business, including what consumers want from them, how their product or service meets or fails to meet those needs, how their product or service is perceived in the world, how they stand out from their competitors, and how they interact with their customers. By considering the 4 Ps of marketing, businesses can anticipate challenges and better

prepare themselves for success in the future (Goi, Chai Lee, 2009: 15).

Marketing ensures development of a product that best meets the requirements of customers. Such an effort would be informed by market research on the needs of the customer, which drive their tastes and preferences. This constitutes the value the business is offering its target customers. It may be a physical product or a service with satisfying attributes. Often because the SME business lacks a proper understanding of its customer base, it fails to appreciate the extent of product design required to satisfy its customers. So SMEs need to know the needs of the customers and the benefits a product creates for them relative to competition. As regards pricing, this is how much a consumer will pay for a product. Customers could be divided into basically two categories: the price sensitive customers who want functional benefits and think more on the price than luxurious additions, and the image sensitive customers who consider the distinctiveness of the product more important than the cost they must pay to obtain it. Therefore, pricing for price-sensitive and image-sensitive customers differ, same as pricing in a highly competitive market with many competing offerings.

The price sensitive customers want basic needs satisfied and want no extra frills, while the latter buy products for the emotional and image benefits attached to them and hence will consider frills more important than the price. Failure to design products that are customer specific may predict failure for a small firm. This even stretches to issues of packaging. Poorly packaged products may attract no interest from customers. These factors must be considered when developing a pricing strategy. Poor pricing has emerged as an important matter in research. Wrong pricing strategies being implemented garnered 83.7% backing as a major constraint to SME business success in the study of Can't and Wiid (2013: 709).

In any market, customers will tend to look for the highest price-value offering. There are many pricing strategies available to SMEs, including market-based pricing and cost-based pricing strategies, among others. According to Best (2005:244), market-based pricing includes skim pricing, value-in-use pricing, perceived value pricing, segment pricing, strategic accounting pricing and plus-one pricing, all based on customer and competitor intelligence. On the other hand, cost-based pricing includes floor pricing, cost-plus pricing, penetration pricing, low-cost leader pricing, competitive bid pricing and harvest pricing. The latter calculates the cost to put the product on the market and adds a mark-up which stands as its profit in the end. This is where knowledge of economics, viz., theory of demand and supply, pays the premium to a customer. Pricing is critical as it engenders the determination of profitability, which is one of the core objectives of an SME.

It stands to reason that if customers do not know that an SME business and its products do exist and are available for their consumption, it can present a marketing weakness for the SME. Often constructed in marketing parlance as promotional mix and in other usages as integrated marketing communications, this element is equally as important as all other marketing efforts, namely; product and pricing. Best (2005:304) argues that building customer awareness and comprehension among the target customers is one of the core objectives of marketing communication among its target customers. He further argues that ‘even a memorable advertisement that is well-known among the general population is a failure if it does not achieve a high level of awareness and comprehension among target customers’ (Best 2005). A message requires reinforcement to achieve a high level of target market response. Key aspects of the communication mix available to a serious SME are advertising, sales promotions, catalogues, direct marketing, telemarketing, electronic marketing (e-marketing), public relations and publicity opportunities. The

reason why the Coca Cola brand continues to track in sales is that it generates favourable marketing awareness and reinforcement.

Finally, placement. In the touted 4 Ps of marketing, this element enjoys an equal footing and is commonly known as placement. The objective is to reach the customers with the product or service. Best (2005) argues that:

*... marketing channel performance is based on three things: customer reach, operating efficiently and quality service. If a business does not reach potential customers, business will not happen. If for instance operations are not efficient, the cost to serve customers will be too high to be profitable. Without quality service, customer retention will suffer even if customers are reached effectively and at minimal cost. (p. 275).*

Key considerations here are geographical location and distribution methods. This depends largely on the nature of the products sold. Some products are perishable, like milk and fresh flowers, which may require fewer distribution channel levels such as one-way or two-way channels. Questions to be addressed here are the following: ‘how long does it take target customers to reach your business?’, ‘how long does it take for a customer to receive the product or service?’, and ‘are there no other better ways to get the product or service?’ This is a major consideration for an SME to be sustainable.

In conclusion, marketing is an important function, especially in a growing SME. Any successful business needs an effective marketing strategy, which requires to be adjusted and refined as a business grows and as its potential buyers, change. It is also important to note that the type of product partially dictates its perceived value and how much it can be priced, where it should be placed, and how it should be promoted in the marketplace (McCarthy, Jerome E., 1996: 104).

Lastly, Gunto and Alias (2013:1521) recognize the role of government in supporting SMEs as a regulator of the business environment. A good

business environment is important for MSEs to flourish, but it has been observed that some of the top African economies do not make it easy for MSEs to work due to, for example, high taxes, high inflation, and unstable exchange rates (World Bank, 2006, Olawale and Garwe, 2010). Lings (2014) is of the view that: "... currently, small business owners in Africa are trying to survive in an environment that is not especially conducive to entrepreneurship." This environment tends to inhibit people from venturing into business or from taking risks in expanding their existing business. (p. 168). This argument confirms the view that there is a lack of an environment which nurtures an entrepreneurial mindset in Africa. The environmental argument seems to advance the argument that being born in Silicon Valley in the USA, for instance, would have turned anybody entrepreneurial just through the environmental influences and exposure to the successful others like Bill Gates and Paul Allen – the founders of Microsoft Corporation. Most African economies unfortunately do not adequately offer such an environment, by and large, it would be argued.

Gunto and Alias (2013:1521) noted with interest how the Malaysian government had demonstrated in no uncertain terms its commitment to the development of the SME sector, given their role to 'economic growth, employment creation and transformation towards a developed country by year 2020'. Since the early 1960s, having recognised the importance of the SME sector, the Malaysian government put in place, national policies and institutional frameworks that addressed the developmental needs of the SME sector.

The Government of Malaysia offered and still offers a two-pronged support structure to the SME sector: one being financial in the form of property loans, working capital and grants and the other being non-financial in the form of advisory, marketing, management, networking, research and development, and technical support (Gunto and Alias 2013). While such services are available in other

African countries, there is comparably a very limited spread. Furthermore, many SMEs are not aware of the availability of such services as Khula Finance Enterprise (Khula) and the Small Enterprise Development Agency (SEDA) in South Africa (Maas & Herrington 2006). In addition, most policy negotiations are conducted between governments' organised labour and big business. Small businesses are largely excluded from the policy debates (Lings 2014:167). The result is that small businesses simply have to accept and comply with onerous industry-wide agreements. In many instances, the agreements reached are seldom beneficial to small businesses and add substantially to the cost of business, yet small business development is critical to job creation.

The World Bank and the International Finance Corporation (IFC) report titled "*Doing Business 2014: Understanding Regulations for Small and Medium Size Enterprises*" assesses regulations affecting domestic companies in 189 economies (Lings 2014:167). Lack of small to micro and medium enterprise support structures such as development plans, incubation centres and other SME development systems across the wide spectrum of South African society. In Malaysia, there are many support centres for the development of SMEs, which explains its favourable outcomes in entrepreneurialism. Support structures emanate from legislative frameworks that are SME-friendly, and a cultural environment that does not stigmatise failure, which in fact encourages learning from such failure.

One of the key issues that emanates from the concept of SME failure is its effect on important stakeholders, such as suppliers, employees and their families, directors of the company, banks and other non-bank finance institutions, of the business who may have an interest in the operations of the business. Employees will definitely suffer job losses through redundancies, and in the current climate where unemployment is a major macro-economic threat, redundancies are a nightmare. Job losses

mean loss of family income and they spell other social challenges related to that fact. Directors of the company obviously lose their investments in the company in terms of time and money spent to get the SME firm running. Banks often run the risk of losing their funds loaned to SME firms when the business fails. This is the risk that has caused most commercial banks to be reluctant to provide funding to the SME sector, citing issues of loan delinquency and information asymmetry often associated with SMEs.

Macro-level impacts of SME failure include (1) economic, (2) political, (3) socio-cultural and (4) other impacts. Economic impacts go directly into job creation issues and specifically lead to job losses and therefore loss of income. Literature points out that job creation is a challenging undertaking, and SMEs are the miracle workers in this regard. Socio-cultural effects include loss of welfare and further social evils that are the aftermath of having more unemployed people on the streets. One of the common evils is theft, unwarranted population growth through sexual conduct and diseases through unprotected sex. One argues that Africans often resort to sex as a form of entertainment when they are not economically engaged. This is because of the lack of entertainment amenities in overpopulated African communities. Other impacts include just the usual aggression in society.

In summary, when SMEs fail, some of the envisaged effects are: (1) loss of revenue and profits, (2) loss of motivation and propensity for venture creation, (3) loss of jobs, (4) loss of credibility, (5) loss of family income, (6) loss of entrepreneurial spirit, (7) failure and collapse and (8) closure. These are obviously undesirable elements, while their opposites are desirable. It is arguable and instructive that these effects have domino impacts at national scale in the following ways: (1). stifled economic growth, (2). job losses, (3). socio-economic impacts, (4). loss of enterprising culture, (5). poor job creation, (6). loss of sustainable development, (7).

uncompetitive markets, and (8). poor wealth creation prospects.

It is, evidently, clear that a lot of research has been carried out locally and internationally reviewing small and micro enterprises, however, the findings could not be generalized to the CBD in Lusaka which is in a totally different atmosphere; different in terms of socio-economic development. The current study agrees with the foregoing literature, but explores this area of concern from the Zambian context by focusing on the effect of business planning, financial literacy, management, and marketing on the performance of SMEs in the Central Business District of Lusaka (CBD). The scarce availability of reliable and valid local literature touching on SME traders in Zambia continues to be one of the key obstacles in understanding small and micro entrepreneurs in Zambia. Furthermore, there is limited research on the factors accounting for the increase in the failure of small scale businesses in Lusaka resulting in the lack of development of effective policies and strategies by the government to support their growth. Therefore, the current study will build on the locally scarce available data on factors that affect performance of SME traders in Zambia in order to improve and enhance SMEs' performance in Zambia.

## III. CHAPTER THREE: METHODOLOGY

### 3.0 Overview

This chapter presents the research methodology adopted in conducting the study in order to achieve the study's objective which is to analyse the failure of small and micro enterprises in the CBD of Lusaka Zambia. The chapter is thus structured into research design, target population and sample, data collection and data analysis.

### 3.1 Research Design

Research Design refers to a plan that describes how, when and where data is to be collected and analyzed so as to get an overall answer for the

research questions or testing the hypothesis (Polit et al: 2001). The Research design which will be used in this research is descriptive research design. Descriptive research involves field survey where the researcher goes to the population of interest to ask certain issues about the problem under study. Cooper and Schindler (2003) defined a descriptive study as one that is concerned with determining the frequency with which something occurs or the relationship between variables. In this study, both quantitative and qualitative approaches to analyze the data will be employed. Questionnaires will be used as the main tool of data collection because of its advantages which include cost effective even on large populations, free from interviewer biases, and more time for the respondents to give well thought out answers (Kothari, 2019).

Therefore, there are a number of advantages of descriptive research, however the two main benefits of this research method is being able to use various forms of data as well as incorporating human experience. It gives researchers the ability to look at whatever they are studying in so many various aspects and can provide a bigger overview as opposed to other forms of research. Mugenda and Mugenda (2003) describe descriptive research design as a systematic, empirical inquiring into which the researcher does not have a direct control of independent variables as their manifestation has already occurred or because they inherently cannot be manipulated. Inferences about relationships between variables are made from associated variables. In the present study, the research design was a survey conducted on a sample of small and medium sized enterprises (SMEs) within the Central Business District in the City of Lusaka Zambia. According to Owens (2002), survey research design has the advantage of uniqueness since information gathered is not available from other sources, having unbiased representation of population of interest and standardization of measurement as same information is collected from every respondent.

### **3.2 Target Population**

The target population consisted of 300 SMEs operating within the Central Business District in the City of Lusaka Zambia.

### **3.3 Sampling design**

Stratified random sampling technique will be used in selecting study zones. The study applied stratified sampling technique where the population in each sampling frame was selected to participate in the study. The use of stratified random sampling means that the sample is more likely to be representative and one can hope that each of the strata is represented proportionately within the sample (Saunders et al., 2010). This technique was used to group population into homogeneous subsets that share similar characteristics and ensure equitable representation of the population. It also accounts for the difference in subgroup characteristics.

### **3.4 Sample Size Determination**

For the exact individuals to participate in the study, the researcher used simple random sampling technique as it offers every member of the population an equal chance of being included in the sample. The key component behind all probability sampling approaches is randomization Kombe and Tromp, (2016). In probability sampling; subjects are randomly selected with each unit in the population having an equal chance of being selected. This sampling technique enabled the researcher to generalize the findings and make inferences from a sample, thus enabling one to draw conclusions about a population.

This was a cross-sectional study conducted among all the SMEs registered with ZDA. There are about 2000 SMEs that are registered with ZDA. The recommended sample size for this study was obtained from the generalized scientific guideline for sample size decisions developed by Krejcie & Morgan (1970), as cited in Sekaran & Bougie (2010). By applying this model, a minimum sample size for the study was 325. By applying this model, a minimum sample size for the study was 50

respondents. Sample size refers to the number of participants or observations included in a study. This number is usually represented by *n*. The size of a sample influences two statistical properties: 1) the precision of our estimates and 2) the power of the study to draw conclusions (Gujarati, 2010).

### 3.5 Data Collection Methods

The study employed the use of questionnaires to collect primary data. Gall and Borg (1996) points out that, questionnaires are appropriate for studies since they collect information that is not directly observable as they inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals. They further observe that questionnaires have the added advantage of being less costly and using less time as instruments of data collection. The questionnaire, which was structured, was administered through drop and pick-later method to the sampled population. Price, (2002) maintains that closed questionnaires control respondents from giving irrelevant information. In-depth Interviews were also used.

For data collection, a questionnaire was developed to answer the research question. The questionnaire had two sections. The first section contained socio-demographic details of respondents and the last section had questions related to the factors affecting the performance of SMEs. The questions were short, simple and unambiguous. Self-administered questionnaires allow the participants to respond to the questions by themselves and at their own pace, which eased the respondents' burden by giving them the time to think through their responses (Monsen & Horn, 2008). A variety of measurement scales were used which included dichotomous questions and Likert questions.

Majority of the questionnaire was based on Likert scaling as this proved to be most appropriate for the study. As noted by Sekaran & Bougie (2010), Likert scaling is one of the most frequently used numerical scales to measure attributes and behaviors in an

organizational research. The self-administered questionnaire was sent to randomly and relevant selected respondents in an effort to collect the necessary information. The questionnaires were administered to the respondents between 20 May, 2023 and 31 of May 2023. Reminders were sent to the respondents every after the other week to ensure proper follow-up on the responses.

### 3.6 Data Analysis

The questionnaire was checked for completion. Mugenda & Mugenda (2003) assert that data obtained from the field in raw form is difficult to interpret unless it is cleaned, coded and analyzed. Therefore, primary data was collected, coded and analyzed with the help of the Statistical Package for Social Sciences (SPSS). Statistical Package for Social Sciences (SPSS) versions 21.0 was used to aid in coding, entry and analysis of quantitative data obtained from the closed ended questions. The results were presented using tables for ease of understanding. Secondly, the data was coded and keyed in Excel, to analyze the relationship between the independent and dependent variables as fore stated. The collected data was analyzed using descriptive statistics such as frequencies and percentages. Descriptive statistics allowed for the generalization of the data so as to give an account of the characteristics of the population as represented by the sample. Analyzed data was presented in tables allowing for orderly arrangement of data. Regression analysis was also done to establish the relationship between the independent variables and the dependent variable.

### 3.7 Triangulation

Triangulation refers to the use of multiple methods or data sources in qualitative research to develop a comprehensive understanding of phenomena (Patton, 2019). Triangulation also has been viewed as a qualitative research strategy to test validity through the convergence of information from different sources. Denzin (1978) and Patton (1999) identified four types of triangulation: (a)

method triangulation, (b) investigator triangulation, (c) theory triangulation, and (d) data source triangulation. This research will present the four types of triangulation followed by a discussion of the use of focus groups (FGs) and in-depth individual (IDI) interviews as an example of data source triangulation in qualitative inquiry.

### 3.8 Limitations of the study

Although the research reached its purpose, there were some unavoidable limitations, some of which included the time frame of the study, sample size and lack of literature on the local level. The research will use the sample size of the CBD which might not represent the general phenomenon across the nation. Since the findings are based on a small sample, thus, there is need to conduct longitudinal studies in future with larger samples in order to ascertain the consistence of such outcomes.

### 3.9 Ethical Consideration

Various ethical actions were performed during this research study. According to Bhattacherjee (2012), ethics are defined as conformance to the standards of conduct of a given profession or group. Ethics are important in order to eliminate the aspect of manipulation in unethical ways by people and organizations to advance their private agenda and engaging in activities that are contrary to the norms of conduct. Therefore, this study will be used purely for academic purposes only. Consequently, all data which was collected from respondents was treated with utmost confidentiality during and after the research. Therefore, privacy was guaranteed, and no information was disclosed without permission from the parties concerned herein.

## IV. CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

### 4.0 Overview

This chapter presents the analysis of data collected from the respondents. The collected data was edited and cleaned for completeness and consistency in preparation for coding. Once coded, the data was keyed into the Statistical Package for Social Sciences (SPSS) for analysis. A total of 50 questionnaires were administered and the study managed to obtain 45 completed questionnaires representing 90% response rate. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires contained questions that addressed the objectives of the study. The broad objective of this study was to investigate the effect of business planning, financial literacy and management, and marketing on the growth and performance of SMEs in the CBD of Lusaka Zambia with the view of formulating appropriate strategies for improving their performance. In order to achieve the general objective, the research set out to achieve the following specific objectives:

- i) To explore the effect of business planning on the performance of SMEs in Lusaka.
- ii) To assess the effect of financial literacy and management on the performance of SMEs in Lusaka.
- iii) To scrutinise the effect of marketing on the performance of SMEs in Lusaka.

### 4.1 Presentation of results on background characteristics of respondents

Figure 2 below shows that majority of the SME owners/managers were males, indicating that majority of the SMEs in the CBD were dominated by males. This could be attributed to the findings of Gray (1996) in which he concluded that women's major problem during the start-up is the credit discrimination. Most woman are not allowed to open a bank account or own land without their husbands' or fathers' cosignatory. Although inheritance laws were revised with the enactment of the Intestate

Succession Act of 1989 of Zambia, most women have rarely inherited land and other property in their own right. This means that they lack title deeds which are still the most commonly used form of security for borrowing money. For example, women own only 1 percent of Kenya's land (5-6 percent is held under joint names usually with their husbands (World Bank Report 2016). Entrepreneurship always involves some level of risk taking, which most women are not willing to take. The fear to take risk is a big hindrance.

Furthermore, for women, gender stereotyped perception of lack of confidence and assertiveness appear to be a major barrier. The status of women in a patriarchal social structure makes women dependent on males for their livelihoods. Furthermore, some women find that they are not taken seriously by their employees, especially in non-traditional sectors, and have to make a special effort to win their respect. Examining other countries such as the United Kingdom and Korea, it was observed that women represented a growing part of the self-employed (26% of all self-employed) in the UK in 1999, and that they represented an important part of the small business population (36% of all firms) in Korea in 2001. Therefore, based on these results, we can conclude that, at least for these countries, women's entrepreneurship represents an important economic strength that is able to generate both substantial sales and employment for themselves and others.

Figure 2. Gender of participants

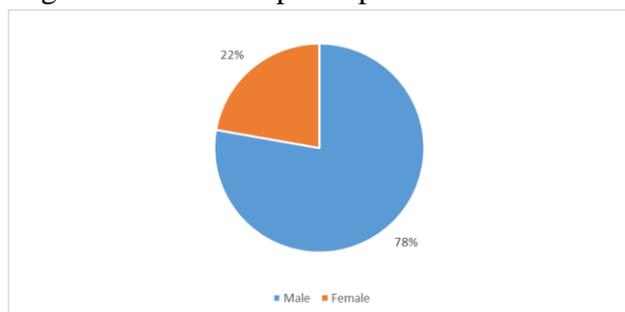


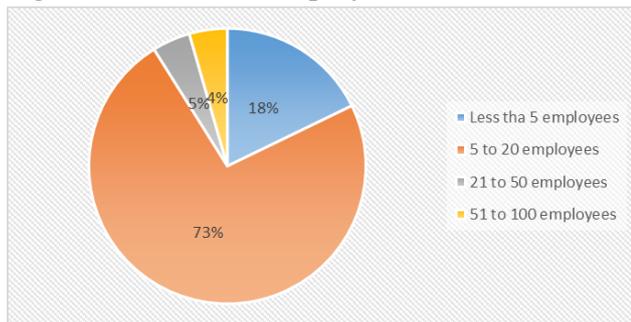
Table 1 below shows that most of the respondents were the SME owner or both the manager and owner (75.56%). This is reflective of the fact that many SME owners perform many roles. Most SME were found to be run by the owners at 48.89%, while Managers only accounted for 17.78%. The results on the number of people employed also shows that more than two thirds of the SMEs employ between 5 - 20 people (Figure 3).

Table 1 Role of respondent in the business

Role of Respondent in the business	Frequency	Percentage (%)
Owner	22	48.89
Manager	8	17.78
Both	12	26.67
Other	3	6.67
Total	45	100

Finding and retaining skilled employees is essential for the success of a business, however the results in Table 1 and Figure 3 show that this is very difficult for small scale entrepreneurs in the CBD of Lusaka, since most of them tend to be very small, and often less likely to provide job security and retain skilled workforce. And as indicated below, a business thrives on human skills. If an entrepreneur brings in the best machinery and equipment, it is equally critical for him or her to employ skilled people to operate those gadgets. Lack of people with appropriate skills can pronounce doom to a small business. People management necessitates the ability to employ the right people at the right time and with the right skills. However, hiring skilled workers in the context of most SMEs in the CBD of Lusaka can never prove cheap, especially when one considers minimum wage requirements under the Employment Code Act and other labour regulations that have become stringent.

Figure 3 Number of employees



The results show that all of the SME owners/managers had some form of education, 35.56% of the respondents had a grade 12 certificate, 31.11% had a diploma, and 11.11% had a bachelor's degree while only 4.44% had a masters' degree (Table 2). Leitao & Franco (2011) found that the performance of SMEs is positively affected by the high levels of education of the SME owners. SME owners that are highly educated are able to attain and develop skills to start up a new business and to sustain the business.

Table 2 Level of education

Level of Education	Frequency	Percentage (%)
Grade 7	1	2.22
Grade 12	16	35.56
Certificate	7	15.56
Diploma	14	31.11
Bachelors	5	11.11
Masters	2	4.44
Total	45	100

Almost all of the respondents agreed that lower education levels put entrepreneurs at a disadvantage, creating a barrier for them to access training and other business development services. Through education one gets to develop essential skills that are critical in a certain area. Education will give an entrepreneur skill on business planning, financial literacy and management, and marketing. Without proper skills, it is difficult for one to lead an enterprise into growth especially that most of the

education curriculums do not emphasize entrepreneurship skills, which decreases the chance that SME owners/managers will have the knowledge needed to excel in business, and thereby contribute to the country's overall economic growth. Lack of sufficient education and training amongst SME managers is an impediment to SMEs' success, as it tends to affect performance in later life. Usually less educated SMEs managers are less well equipped to manage a business. Namusonge (2006) noted that entrepreneurial education and training play a key role in stimulating entrepreneurship and self-employment.

Table 3 shows that sole proprietor (60.00%) and private limited company (22.22%) were the popular means of carrying on business. Some of the SMEs surveyed are registered businesses with a legal status. Literature on SMEs and their legal status confirms the finding of a study conducted by FinMark (2010) that a big proportion of SMEs operate informally, without being registered.

Table 3. Legal status of the business

Legal Status of the Business	Frequency	Percentage (%)
Private limited company	10	22.22
Private unlimited company	2	4.44
Partnership	3	6.67
Sole proprietor	27	60
Other	3	6.67
Total	45	100

The survey response in Table 4 reflects that majority (62.22%) of the SMEs have been in business for not more than 5 years while the rest of the SMEs have been operating for more than 5 years. Most of these SMEs have remained in the embryonic state and baby business phases since startup, lacking growth. It is not surprising therefore that Zambia has

a very high rate of SMEs failures, as pointed out early. This trend is common in most African countries including South Africa, which has a 40% failure rate of SMEs in their first year, 60% in the second year and 90% within the first 10 years.

Table 4 Number of years in operation

Number of years in operation	Frequency	Percentage (%)
Less than 3 years	5	11.11
Between 3 and 5 years	23	51.11
Between 5 and 10 years	8	17.78
Between 10 and 15 years	6	13.33
Over 15 years	3	6.67
Total	45	100

Close to 31.11% of the SME owners/managers have indicated that the performance of the business over the past year, in comparison to the previous year, has improved (Figure 4). Whilst the performance of the business may have improved, majority of the SME owners/managers found that running an SME was more difficult (Table 5).

Figure 4 Business performance in the past year in comparison to the previous year

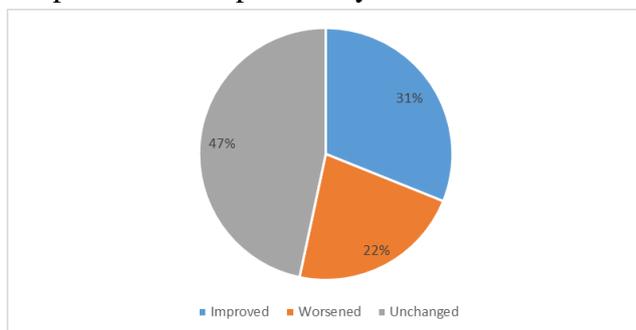


Table 5 Running an SME over the past year in comparison to the previous year

Responses	Frequency	Percentage (%)

More difficult	32	71.11
Easier	0	0
Stayed the same	13	28.89
Total	45	100

In Zambia, SMEs stretch across all sectors of the economy (FinMark, 2010), and the survey results show that SMEs stretch across most of the sectors (Table 6). The results below show that majority of the SMEs in the CBD trade in Retail Industry (55.56%). Due to the consumer economy type which we have in Zambia, most enterprises do not produce or manufacture instead they trade, resulting into low profits.

Table 6 Type of business traded in

Type of business traded in	Frequency	Percentage (%)
Retail industry	25	55.56
Business services	3	6.67
Finance	3	6.67
Transport, communication	2	4.44
Wholesale, motor vehicles and repairs	3	6.67
Agriculture	2	4.44
Customer services	6	13.33
Other	1	2.22
Manufacturing	0	0.00
Total	45	100

#### 4.2 The effect of business planning on the performance of SMEs

According to the results of the present research, 64.7% of the respondents out of the 45 small business owners rarely use business planning in their work (Table 7). However, they all agreed that the current business condition is highly dynamic, with various turbulences. They all agreed further that changes are inevitable to be faced by companies and their people. These circumstances require entrepreneurs to be more innovative in doing

business and planning their activities in a prudent manner. All the respondents agreed that planning is the primary function of management as it represents the basis for other managerial functions, such as organization, coordination, motivation and control. The research revealed that planning reduces uncertainty by anticipating changes, as such, entrepreneurs are urged to look ahead, anticipate changes, think about the shocks of these changes, and prepare adequate responses.

It was further agreed that planning enables and helps businesses to reduce and eventually avoid activities that can lead to business failure. With the help of planning, the respondents stated that they would have the opportunity to solve a significant number of problems and barriers that arise during the operation of the enterprise. Therefore, every aspect of business activity such as marketing, production, financing, staffing, business risk, market research, products, services, competition, economic trends, SWOT analysis, e.t.c should be analysed. (Anggadwita and Yuuhaa, 2014). Analysing these aspects using a business plan would enable SMEs to gain a clearer picture of their business. As revealed in the study of Crutzen and Van Caillie (2010), an entrepreneur who loses dynamism and subsequently fails to anticipate and respond to change progressively, loses touch with the external world leading to loss of strategic position.

### 4.3 The effect of financial literacy and management on the performance of SMEs

The majority of the respondents (70.59%) do not have necessary skill to analyze financial statements, but 65.22% have basic skills to prepare trading budgets, 63.24% have basic skills to prepare cash flow forecasts while only 43.48% have basic skills to prepare financial statements. (Table 7). In a study by Abdel, Rowena & Robyn (2010), it was found that small firm owner-managers have been found to have problems in reading financial language and

understanding common terms and conventions used in financial reports.

The study found that almost 70% SMEs outsource the business functions, with accountancy being the most outsourced function at 77.78 (Table 8). By relying on outsourcing, SMEs can obtain the capabilities and competences they require from external service providers (Gilley, Greer & Rasheed, 2004). Authors reported that the main reasons small businesses outsource accounting functions are that they lack the expertise and specialized knowledge of the professional accountant, they lack necessary resources and skills required to carry out accounting functions within the organization, (Yahya & Susela, 2011).

Table 7 Management/owner having the necessary skills to undertake the following business functions

Business Function	Yes (%)	No (%)
Prepare financial statements	43.48%	56.52%
Prepare business plan	35.3%	64.7%
Prepare trading budgets	65.22%	34.78%
Prepare cash flow forecasts	63.24%	36.76%
Analyse financial statements	29.41%	70.59%
Outsourcing any of the business functions	69.44%	30.56%

Table 8 Outsourced business functions

Business function	Frequency	Percentage
Accounting	35	77.78
Business Planning	3	6.67
Marketing	5	11.11
Other	2	4.44
Total	45	100

Figure 5 below indicates whether or not the respondent had experienced any improvements in business performance upon using borrowed funds.

Most respondents (53%) revealed that they did not see any improvement in their business performance while 47% of the respondents disclosed that they recorded improved business performance after loan uptake.

Figure 5 Business growth after loan uptake



A 5 point Likert scale was used to assess the financial literacy of the respondents based on financial knowledge, financial behaviour, financial attitude, and financial awareness. The results in Table 9 show that the majority of the respondents (51.117%) had sufficient financial knowledge to make sound financial decisions on their businesses.

Table 9 financial knowledge

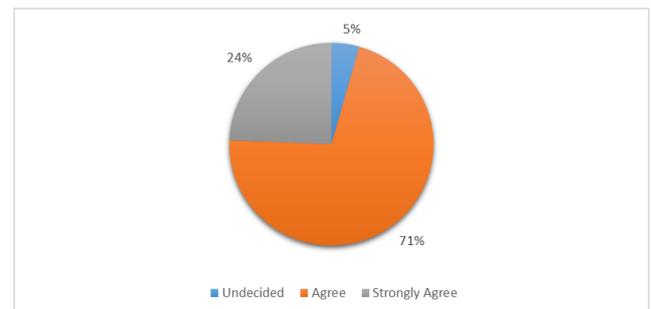
Financial knowledge		
Responses	Frequency	Percentage (%)
Strongly Disagree	1	2.22
Disagree	2	4.44
Not Sure	5	11.11
Agree	15	33.33
Strongly Agree	23	51.11
Total	45	100

The results in Table 9 further revealed that respondents with the highest level of financial knowledge were willing to take up loans as they understood when best to make a financial decision, when to borrow, from whom to borrow, the cost of the loan, and the type of loan that meets their needs (Abubakar, 2015; Hussain, et al., 2018). With

reference to these findings, the study concluded that willingness to take up loans depends on the level of financial knowledge to a greater extent.

The results in figure 6 show that only 24.4% of the respondents had positive financial behaviour towards cash, credit and saving behaviour. A good example is the lack of separation between the corporate and personal purse of the owner. Of course, this can be attributed mainly to the fact that some of the SMEs interviewed were sole proprietors hence the lack of separation (Table 3). However, the study revealed that majority of the SME owners including owners of private limited companies use business cash for personal purchases, which often leads to business failure.

Figure 6 financial behaviour



The results in table 10 indicate that 95.54% of the respondents were likely to act based upon their financial knowledge and ability. Barte (2012) found that financial literacy was directly linked to the performance of SMEs while Bruhn et al. (2011) show that financial literacy has a significant impact on the growth of firms in Bosnia.

Table 10 financial attitude

Financial Attitude		
Responses	Frequency	(%)
Strongly Disagree	1	2.2
Disagree	1	2.2
Not Sure	0	0

Agree	14	31.1
Strongly Agree	31	64.44
Total	45	100

Table 11 financial awareness

Financial Awareness		
Responses	Frequency	Percentage (%)
Not at all Aware	32	71.11
Slightly Aware	3	6.67
Not Sure	1	2.2
Very Aware	3	6.67
Extremely Aware	6	13.5
Total	45	100

According to the results in Table 11, majority of the respondents were not aware of the financial products and activities that were currently available in the market place (71.11%). These findings are consistent with the behaviour of low the uptake of loans to finance their businesses. The results in Table 11 revealed that respondents with the highest level of financial literacy were willing to take up loans as they understood whom to borrow from, the cost of the loan, and the type of loan that meets their needs (Abubakar, 2015; Hussain, et al., 2018). With reference to these findings, it can be concluded that willingness to take up loans depends on the level of financial awareness to a greater extent.

Table 12 shows that, majority of the respondents fell in the medium level category of financial literacy with a representation of 46.67% while 35.56% of the respondents were found to exhibit low levels of financial literacy. A proportion of 17.4% of the respondents showed that they were highly financially literate. The results in Table 12 revealed that respondents with the highest level of financial literacy were willing to take up loans as they understood when best to make a financial decision, when to borrow, from whom to borrow, the cost of the loan, and the type of loan that meets their needs

(Abubakar, 2015; Hussain, et al., 2018). With reference to these findings, it can be concluded that willingness to take up loans depends on the level of financial literacy to a greater extent.

Table 12 Level of financial literacy

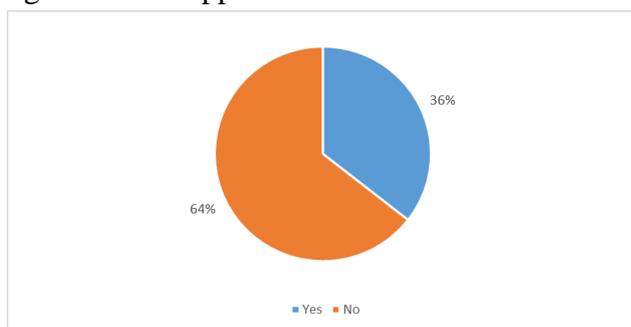
Scale %	Level of Financial literacy			Total
	Low Level of Financial Literacy	Medium Level of Financial Literacy	High Level of Financial Literacy	
Frequency	16	21	8	45
Percentage	35.56	46.67	17.77	100

Figure 7 presents the respondent's attempt to acquire a loan from any financial institution. 35.56% indicated that they had taken up a loan while 64.44% stated that they had never. Most small and medium entrepreneurs in developing countries generally do not get formal bank loans (Nichter and Goldmark, 2009). Formal financial support is seen to be too expensive for many SME entrepreneurs and hence they treat this as a last resort (Stevenson and St-Onge, 2005). Frequent reasons given are that: they are often the most vulnerable to default, they are less profitable and not able to present the physical guarantees required, when obtaining a loan. The World Bank's most recent Global Financial Development Report (World Bank, 2015) has once again stressed the lack of both financial capital and business-related knowledge as key impediments to firm growth in developing countries. However, lack of access to long term credit is a major challenge to those SMEs that would like to expand their operational activities (Collins, 2014).

The reasons for this are well known, most especially considering the fact that enterprises are viewed as highly risky to credit lenders since many

of these SMEs lack adequate collateral for credit and also suffer from low capitalization. In addition, poor accounting records and the lack of other financial records make it difficult for banks to assess the credit worthiness of potential SME borrowers (Pansiri, 2015). In order to cope with these concerns, the government of Ghana has put together a stimulus package for SMEs including an increase of the capital of the “SME Bank”, which is a government financial institution (World Bank, 2009).

Figure 7 Loan application



Accessibility to finance is a major factor affecting the growth and success of SMEs, which can be attributed to many factors (Haron et al., 2013). More than two-thirds (72%) of the SME owner/manager believe that access to finance is a major challenge affecting the growth of business (Table 11). Access to finance has been singled out as a major constraint, impeding the survival and growth of start-up SMEs (Mazanai & Fatoki, 2012). Researchers reported that access to external finance is a struggle for SMEs particularly for firms in emerging economies (Berger & Udell, 2006). However, the results of the study on difficulties in accessing finance show that only half of the SME owners/managers (53.33%) experience difficulties in accessing finance (Table 13).

Table 13 Accessing finance by SMEs in the CDB

Access to finance is a major challenge that affects the growth of business		
Responses	Frequency	Percentage (%)

Strongly disagree	3	6.67
Disagree	8	17.78
Agree	14	31.11
Strongly agree	20	44.44
Total	45	100

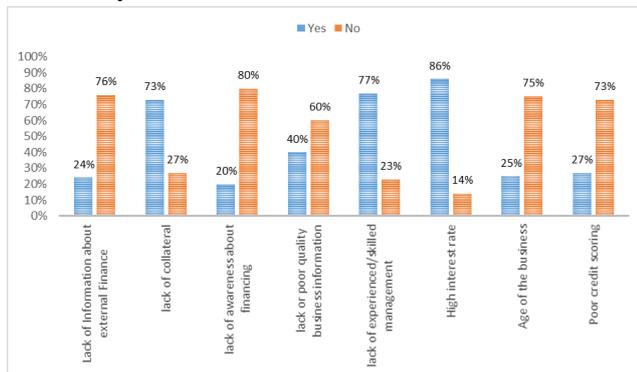
Table 14 Face difficulties in accessing external finance

Variables	Frequency	Percentage (%)
Yes	24	53.33
No	21	46.67
Total	45	100

The study results in Table 14 indicate that 75.55% of SMEs have experienced difficulties in accessing finance. The resource-based theory of entrepreneurship is anchored on the premise that access to resources has been identified as the predictor of entrepreneurial opportunity (Alvarez and Busenitz, 2001). The importance of access to financial, social and human resources in enhancing ability of individuals to detect and act upon opportunities discovered cannot be overemphasized (Davidson and Honing, 2003).

From all the factors considered to make access to finance difficult, lack of experienced/skilled management (77%), high interest rates (86%) and lack of collateral (73%) appear to be among the main reasons (Figure 8). In Zambia, the risk perception on SMEs is associated with the high failure rates. Strict security requirements are one of the ways through which financial institutions attempt to shield themselves against such risks (Mazanai & Fatoki, 2012). As Okpara & Kabongo (2009) rightly pointed out, one of the major reasons for the difficulty of borrowing money from the bank is because of lack of required collateral to be used as security against the borrowed funds.

Figure 8 Reasons for difficulties with access to finance by SMEs in Zambia



The present study revealed that the main source of funding for majority of the respondents is through own savings (53.33%) followed by short term debt from family and friends (33.33%) (Table 15). This has culminated into small lending group called village banking, which provides very short term loans. Due to this development, banks seem to have lost capacity to fully assess SMEs' ability to pay back. With finance cited as a major constraint to SMEs growth and development, various sources ought to be explored by SMEs owners/managers to run their business. Brunt (1997) states that insufficient capital or lack of financial sources is the major obstacle for small and medium entrepreneurs and usually entrepreneurs resort to using personal financial sources to start up their businesses and to expand their operations, since the internal financial sources are normally insufficient.

Table 15 Source of business financing

Variables	Frequency	Percentage (%)
Own savings	24	53.33
Short term debt	15	33.33
Long term debt	3	6.67
Other	3	6.67
Equity	0	0.00
Venture capital	0	0.00
Total	45	100

With respect to management competence, the results revealed that more than half (72.16%) of the respondents viewed managerial competency and skills shortage as a factor that affects the performance of the business (Table 16). This finding is supported by the Hisrich & Drnovsek (2002). In another study, it was found that managerial competencies positively impact on the performance of SMEs, and as pointed out by Martin & Staines (2008) SME failure is a result of lack of managerial experience. Managerial competency/skills are summarized in Table 16. The results indicated that SME owners/managers lack prior experience in managing this type of business (33.33%) and lack experience in small business management (30.99%). If SMEs are to survive, they must obtain the necessary skill. Most entrepreneurs often start a new enterprise, while ignorant of many key elements of running their own enterprises (Shepard, Douglas & Shanley, 2000). With experience, entrepreneurs must be knowledgeable about all functional areas of business for survival and success (Lotz & Marais, 2007; Sola, Teruel & Solano, 2014).

Table 16: Owner/management having the necessary experience and training

Variables	Yes	No
Management/owner have prior experience in managing this type of business	66.67%	33.33%
Management/owner have prior experience in small business management	69.01%	30.99%
Management/owner have formal training in business management	55.71%	44.29%
Management/owner have formal training in financial management and planning	54.29%	45.71%
Management/owner have formal training in marketing	47.89%	52.11%

Managerial competency affects business performance	72.16%	27.84%
Strategic Marketing improves the business	91.00%	9.00%

The research revealed that skilled management has an important role in the development and growth of SMEs (Table 16 above). The reason for this fact is that the leaders of any organization generally consider all the plans and business decisions, effective and timely decisions. Professional management refers to the ability to manage the business in all its aspects, from business planning, marketing, finance, operations, human resources, administration, viz., information flow management, public relations management, security management and records keeping. When a business, for instance, ignores the advice of accountants to avoid flamboyant purchases or acquiring a more expensive premise that increases its operating expenses, this would amount to lack of professional management, which may deprive the business a skills set required to drive it forward to a formidable firm.

In agreement with Mumford, Zaccaro, Harding, Jacobs, & Fleishman (2000), the respondents asserted that skilled leadership becomes more essential when one has to develop and lead and adapt to new or changing situations. Amagoh, 2009; Chen (2013) pointed out that a successful leadership knowledge results from the key elements consisting of changing attitudes, personnel development, and improved business and leadership skills. The results further revealed that to drive the success of SMEs, skilled management was recognized as the key element. (Madanchian et al., 2016). The literature in SMEs also shows that insufficient and weak leadership skills are main factors causing failure of SMEs. Davies, Hides, & Powell, (2002). The present study concluded that to avoid SME business failure, effective leadership is significant. The response to the challenges faced today by SMEs is only possible

through adoption of management skills and competences by the various people in charge of businesses (Ladzani, 2010).

Managerial competencies, have a positive influence on the performance of SMEs. Managerial experience, education, knowledge and start-up experience are used to measure managerial competencies (Hisrich & Drnovsek, 2002). In a study where the importance of management competence in SMEs success was investigated, lack of managerial competency was found to be the main reason why SMEs fail (Martin & Staines, 2008). Abdel, Rowena & Robyn (2010) revealed that small business owner-managers have very basic understanding of financial and accounting information and have serious problems with financial planning literacy. It has also been asserted that small and micro enterprises owner managers have little knowledge about financial matters, and found out that those with little or limited financial planning skills do not even value the information extracted from financial statements (Alattar, Kouhy & Innes, 2009).

On the same theme, and as asserted by Hill, (1987), the current study reveals that 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. 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 new developments. Majority of those who run SMEs in the CBD are not well equipped to carry out managerial routines for their enterprises). Management skills relate to the owner/manager and the enterprise (King & McGrath, 2002. 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.

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 & 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). Education and skills are needed to run micro and small enterprises. However, the current research shows that majority of the lot carrying out micro and

small enterprises in Zambia are not quite well equipped in terms of education and skills. The study suggests that those with more education and training in business management are more likely to be successful in the SME sector. As such, for small businesses to do well in Zambia, entrepreneurs need to be well informed in terms of skills and management.

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 poor 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.

#### 4.4 The effect of marketing on the performance of SMEs

Based on the results of the present study and discussion of the research, 91% of the respondents agreed that SMEs will gain an advantage over their marketing strategies (Table 16 above). The small and medium enterprises should pay attention to product strategy, price, distribution channels and promotion as suggested by the research results. This is supported by similar research conducted by Ibidunni, (2011) which found that the use of marketing mix elements (product, price, promotion, and place) can gain competitive advantage and influence consumer perceptions so as to get effective performance in the market. The marketing function in the form of a marketing mix is the company's main key in winning competition. Product quality has a positive and significant direct influence on the competitive advantage of small and medium enterprises. Product quality is the overall characteristic of a product or service to satisfy consumer needs. Consumers will feel satisfied when the results of the evaluation show the quality products they use.

Similarly, price has a positive and significant direct influence on the competitive advantage of small and medium enterprises, which means that the application of good prices can have a significant influence on competitive advantage through affordability, price compatibility with product quality, and price competitiveness influencing consumers to buy products. Distribution channels also have a positive and significant direct influence on the competitive advantage of SMEs in terms of distributing products efficiently. Promotion has a positive and significant direct influence on the competitive advantage of small and medium

enterprises. Promotion is an important aspect, when companies want competitive advantage values.

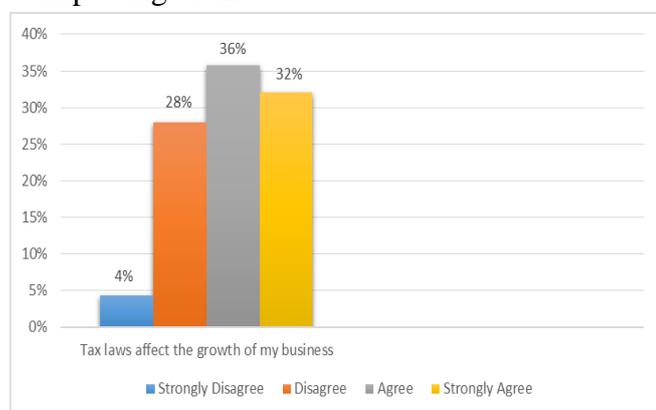
The results show that a poorly planned and executed marketing effort renders the business unable to provide its market with quality products, appropriate pricing, appropriate promotional efforts and lack of proper placement and location. It is noted that often, when asked to indicate reasons of business failure, poor marketing, poor pricing, poor location and poor promotion are mentioned independent of each other. Cant and Wiid (2013:709) argued on that same footing that the thorny issues faced by most SMEs, are marketing-related problems, among others. Most 'entrepreneurs' start-up with unique outline plans but later become stereotyped and follow what other market leaders have done before. Bruno et al. (1987) cited in Bayraktaroglu and Kutanis (2006) examined 250 high-tech firms and found: (1) product and/or market problems to be among the three major categories of causes for failure alongside (2) financial difficulties and (3) managerial problems.

The survey further revealed that two thirds of the SME owners/managers (67.74%) believe that tax laws are affecting the growth of the business (Figure 9 below). This is consistent with the findings of past research, where tax compliance costs for SMEs are viewed to have negative impacts on SMEs (Venter & de Clercq, 2007). The most difficult areas for compliance have been singled out as income tax and Value Added Tax (VAT) (Mollentz, 2002). Tax requirements add to the administrative burden of small businesses and use resources that could, otherwise, be used for managing such businesses more effectively (Abrie & Doussy, 2006). The respondents stated that providing conducive enabling environment is the responsibility of any government in the development of SMEs, as well as the wellbeing of society. Without conducive

enabling environment institutions and citizens find it difficult to thrive.

Therefore, it is the duty of any government to provide good legal and institutional set up though there are many external factors in the environment such as politics, economic, social, technology, environmental and legal factors that are difficult to control by entrepreneurs of SMEs. The importance of SMEs to the economy of a country indicates how important it is to have government policies that support SMEs, including regulations that enable them to operate efficiently and regulations that reduce their administrative costs (Harvie and Lee, 2005). Although there have been initiatives by governments to promote and support SMEs in order to enhance their development and reduce poverty, there is still a lack of laws and genuine administrative procedures such as accessibility to assistance from the government agencies (Harvie, 2005). According to World Bank research, complex tax systems, and the compulsion to pay bribes to access public services, represent major barriers for SMEs, (WB, 2015).

Figure 9: Participants views regarding tax law impacting SMEs



A good business environment is important for SMEs to flourish, but it has been observed in this study that the government does not make it easy for SMEs to operate smoothly as the business

environment is hostile due to high taxes, inflation, unstable exchange rate, etc. Majority of the SME owners/managers (72.58%) believed that government regulation has an impact on the growth of the business (Figure 10). This result is supported by studies where it was found that SMEs are a key indicator of the impact of regulation as smaller companies have less ability to absorb compliance costs than bigger firms (Christianson, 2003). The effect of this has happened among many other African countries (World Bank, 2006, Olawale and Garwe, 2010).

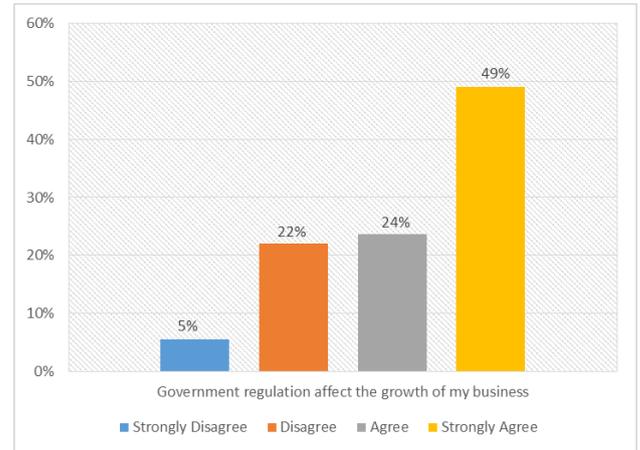
Regulations governing establishment of businesses are extremely intricate and conflicting. Therefore, small businesses find it so complicated to conform to methods of regulation which are considered as the most important hindrance for small firms to conduct or establish business (Small Business Project, 2003). In some cases, the requirement for business licenses are too many, costly and perceived to be lengthy and complex. Majority of the SMEs may be less likely to meet the said requirements. This makes them target to harassment and exploitation by law enforcers which in the long term is expensive, disrupts business and affects their performance. The current results are in agreement with the findings of Bindra (2006) who concluded that many Kenyan SMEs are covered by some formal registration, the cost of such registration is normal but entrepreneurs find the procedures to be followed and information about offices to be visited for requisite form and registration to be confusing. There is no “one stop shop” which inform an aspiring entrepreneur about what is required of him or her in terms of regulations to be followed for licensing.

Although, the current Zambian constitutional framework and the new Micro and Small Enterprise Act 2012 (MSE Act 2012) provide a window of opportunity through which the evolution of SMEs can be realized through the devolution framework,

the impact of devolution of SMEs' development however depends on the architecture of the regulatory and institutional framework inclined to support SMEs in an economy (Kigguddu, 2000). Research by Harper (2004) observes that governments that are not concerned with the promotion of small enterprises should examine the impact of its policies and programmes on the small businesses. Mann et al (1984) makes a similar observation that government regulation about wages, taxation, licensing and others are among the important reasons why the informal sector business develops. Without careful attention, government policies could crush the small business sector in any economy

Government policies should aim to encourage and promote the development of local SMEs. By way of example, Table 6 reveals that out of the 45 SMEs that participated in the current study, none of them was involved in manufacturing as its line of business. Therefore, emphasis should be on the promotion of the local manufacturing industry to reduce reliance on imports. Because of their small size and resource limitations, SMEs are usually unable to venture into new business opportunities or to make vital changes to their existing line of business. Similarly, there is evidence that SMEs have the potential to initiate minor technological innovations to suit their circumstances. However, for them to fully develop and use this potential, they need specific policy measures to ensure that technology services and infrastructure are provided. (Wanjohi, 2009). It is important to note that policy initiatives in revitalizing the SME sub-sector should not only be government engineered, but all the stakeholders in the development arena should take frontline.

Figure 10: Participants views regarding government regulation impacting SMEs



## 4.5 DISCUSSION OF RESEARCH FINDINGS

A questionnaire was surveyed among 50 respondents in the CBD out of which 45 responded representing 90% of the participants who received the questionnaire. Collected data was described by frequency, percentage and factor analysis and regression analysis. The study found that the majority of SME owners in the CBD were moderately financially literate. The study analyzed the SME owners' financial literacy namely, financial behavior, financial attitude and financial knowledge and their firm performance. The study found that SME owners are more knowledgeable in basic financial concepts, but less familiar with analysis of financial statements, taxes, share markets, and insurance. The results revealed that SMEs that are more successful are run by entrepreneurs who are financially literate and understand key financial concepts that include debt management, record keeping, and budgetary skills.

The results also revealed that not only did the respondents possess moderate financial skills, but were also able to display some basic knowledge relating to management, marketing and business planning. The research revealed that proper

marketing strategies and business planning can answer fundamental questions that affect the future of any organization. They can answer questions about the external environment including consumer segments and competitors, and how the external environment will affect the strategy of another business. It was further agreed that marketing strategies and business plans help SMEs to communicate with their customers, and investigate the components making up the marketing mix which includes product, promotion, price and distribution. A well designed marketing strategy and business plan will provide the business with the information to help determine the right product, price, place and promotion that will motivate consumers to purchase. Business is most successful when it is planned. A popular adage which states that 'failing to plan is planning to fail' cannot be overstated. A considerable number of business failures are associated with the lack of business planning that is attributed to the lack of management skills. (Smit et al. 2013:133).

The findings revealed that there is a positive correlation between the level of education and financial literacy, marketing strategy skills, business planning skills, and availability of managerial skills. The findings revealed that those who possessed financial literacy, marketing strategy skills, business planning skills, and managerial skills were able to make sound decisions such as taking up a loan to boost their business. Majority shop owners in the CBD preferred financing business activities with owner savings rather than loan financing. The findings revealed that the participants were not willing to take up loan products, not because they did not understand the benefits of a loan financing, but took consideration of every aspect of taking up loans such as repayment periods, interest requirements and other unattractive lending terms. However, asked whether lack of experienced management affected their chances of taking up loans or not, 77% of the participants responded in the affirmative.

It was revealed that skills of the owners regarding effective marketing, business planning, management, and financial management assist in reducing the SMEs running costs while increasing the profits. Most of the respondents agreed that these skills empower SME owners with the ability to read, analyze, manage and write about business conditions of the firm and to do better management to ensure a proper channeling of resources towards improvement of the business. Financial literacy, for example, facilitates accumulating savings, diversifying assets, and purchasing insurance, decision making processes such as payment of bills on time, proper debt management which improves the creditworthiness of potential borrowers to support livelihoods, economic growth, poverty reduction, growth, and expansion. It can be concluded that well skilled SME owners or managers tend to be more successful than those with a low level of financial knowledge, marketing skills, business planning skills, and managerial competence (Table 4 above).

These findings are consistent with previous studies that suggested that there is a correlation between business performance and the availability of financial literacy, marketing skills, business planning skills, and managerial competence. It was established that the said skills impact the performance of SMEs in the CBD. The main constraint identified in this study was the poor response rate of the SMEs selected as the sample. Only 90% of the participants who received the questionnaire completed it. This completion rate could be due to the limited time factor to complete the survey, and some respondents might not be comfortable to share information. Another limitation of the research was that it was only conducted in the CBD of Lusaka. The sample chosen does not represent the sample frame of all SMEs in Zambia.

## V. CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

### 5.0 Overview

This study was divided into five Chapters. Chapter one is the background of the study, statement of the problem, general and specific research objectives, research questions, significance of the study, scope of the study, operational definitions of concepts, limitations of the study, and the theoretical and conceptual frameworks. Chapter two contains review of the literature either directly or indirectly related to the study. The literature review focuses on what researchers, scholars and educationists have found out and said about SME growth. The literature has also investigated the importance of Small and Medium Enterprises and the factors influencing their growth. Chapter three focuses on how the study was carried out. It explains the research design, target population- sample size, data collection tools, data analysis, data collection procedure, reliability of study, validity and ethical consideration. This section also explains the sample size and sampling procedure. This section covers the research instrument used by the researcher to collect data, which includes interview schedules, questionnaire schedules and observation schedules. Chapter four presents, analyzes interprets and discusses data collected by the research using the methods described in chapter three. Based on the data and other information obtained and analyzed to answer the research questions of the study, a number of research findings were presented in chapter four. Chapter five discusses the conclusion and recommendations to the body of knowledge and suggested areas for further research.

### 5.1 Conclusion

Business failure refers to a company ceasing operations following its inability to make a profit or to bring in enough revenue to cover its expenses. A profitable business can fail if it does not generate adequate cash flow to meet expenses. Small and medium scale entrepreneurship has been identified during the last decade as an untapped but important source of economic growth. SME entrepreneurs have the potential to create new jobs for themselves and others. However, their contribution to national economic development is relatively low due to their stunted growth. The failure of this sector needs to be addressed by policy makers so that the economic potential of this sector can be fully utilized. In particular, practical skills need to be developed at low cost and with financial support, to develop labour-intensive enterprises that can absorb hundreds of young job seekers. However, many SMEs, though operational, stagnate at one stage for many years, performing poorly and employing only the owner. Those who run the businesses in this sector lack adequate business skills.

This means that such SMEs die when the owners die. No legacy and perpetuity is expected when performance in these SMEs is insignificant. It is not sufficient to know how to produce a high quality product. The producer must also know how to sell it effectively and how to control the financial side of the business and in doing that the entrepreneur must be skilled in business (Wanjohi, 2009). Therefore, the objective of the study was to establish the factors affecting the performance of small and medium enterprises in the CBD of Lusaka Zambia. The study concluded that although there are several factors which affect the performance of SMEs, financial literacy, marketing strategy, business planning, and availability of managerial competence are some of the key factors that can boost the performance of businesses in the CBD. There was a significant association, which exists between the performance of the business on one hand, and the availability of

business planning, financial literacy, managerial competency, and marketing skills, on the other hand.

## 5.2 Recommendations

If the whole conceptualization of entrepreneurship as the panacea to economic growth and development is to go by, then it is inevitable that it is promoted as a national agenda to start with. Access to finance issues cannot be resolved by implementing financing schemes or programs in a vacuum. There are institutional issues covering a wide spectrum from the macro level to the micro level (Basil, 2005). A wide spectrum such as this may only be tackled by mainstreaming SME development in national frameworks. The other strategy is to ensure that the entrepreneur himself or herself is capacitated and has the skills required to run a successful business. There is scarcity of business information in the CBD, therefore, the Government in collaboration with other development partners like banks and saving and credit organizations should organize seminars and business drills for these SMEs and also educate them on business planning, financial literacy, managerial competency, and marketing so that they perform better.

Financial institutions and other lenders should also simplify the financial information on the prices of their products to the level of their clients. For example, explain to the client, the meaning of compounded interest without assuming that the customer knows. This will minimize the wrong perceptions and knowledge gap between the borrower and the lender. The information should give a real reflection of the price of loan products and enable the borrower to evaluate the products and make an informed decision. Financial institutions should engage in active financial awareness programmes to communicate their product offering to the customers and work on perception change. Financial institutions will also do well to design products tailored to SME owners to ensure mutual

benefit. Government should also be assisting entrepreneurs particularly the, small and micro entrepreneurs to access affordable finance, removal of administrative barriers, enhance both export and locally oriented manufacturing industries.

The study also found out that government policy and regulations has a moderating effect on the performance of SMEs in the CBD. The study therefore recommends that the government should create policies that favours the growth and expansion of SMEs and improve regulatory framework. This will save the businesses from the challenges they face. The business ought to manage its environment. It should keep its ears on the ground to watch environmental variables that may impact the business. The business should remain flexible and manage the competition. Changes in tastes and preferences of customers, trending issues, new technologies that impact the operations of an SME, regulations and laws from regulatory bodies that have a direct or indirect bearing on the business and competitive forces, including those from foreign products, are all important. An SME cannot ignore environmental issues in the business playing field as these can have terminal effects on its operations if not well managed. Most importantly, SMEs must implement sound business practices and continuously invest in good internal management systems in financial literacy, accounting, marketing, planning, operations and human resource management. When a business does not do well in general management, financial, human resources, operations, administration, marketing, public relations and customer relations management, it is likely to fold.

Arising from this study, the following directions for future research should be carried out: This research only covered micro and small enterprises in the CBD of Lusaka, however, there are other enterprises that are medium to large scale in the same town. Researchers are encouraged to conduct some more research on them. In future, a similar research

should be done covering other towns in Zambia to enable the researcher make adequate conclusions as this research only covered SMEs in the CBD of Lusaka. The study recommends further research in the following areas; (a) the effect of information technology on SMEs' marketing strategy in Zambia; and (b) the effect of credit on the profitability of micro and small enterprises, this will help in shedding more light on whether accessing microcredit helps SMEs to perform better as compared to other businesses.

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