

AN INVESTIGATION ON THE FACTORS INFLUENCING THE GROWTH OF SMALL AND MEDIUM ENTERPRISES - A CASE STUDY OF KABWATA CONSTITUENCY, LUSAKA DISTRICT (2014-2018)

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Abstract:-

The aim of the study was to investigate the factors influencing the growth of Small and Medium Enterprises in Kabwata Lusaka. The study employed a descriptive research design to achieve the objectives. The following were the research objective to explore the state of growth in SMEs in Kabwata, Lusaka, to identify internal factors that affect growth in SMEs in Kabwata, Lusaka and to identify the external factors that affect growth in SMEs in Kabwata, Lusaka. The study used a questionnaire to collect the required data. The data collected was coded, quantified and analyzed quantitatively and qualitatively. Quantitative data was analyzed by the use of statistical package for social sciences (SPSS). The study concluded that access to finance and lack of managerial skills experience are the key socioeconomic factors affecting the growth of businesses in Lusaka. The other key factors that were found to affect SMEs are: access to business information, access to infrastructure and government policy and regulations. The study recommended that the government should start offering basic business and financial management skills as this will enable entrepreneurs to make informed investment decisions as well as enhance their entrepreneurial skills that enable them to recognize and exploit the available business opportunities. SMEs owners/managers have to formalize their businesses visa vie formal registration in order to enjoy the opportunities; they would be SME owners must be aware of what goes into the sector to help them make a judicious decision before joining the sector and the Government should seriously regulate many external factors affecting finance such as tax laws, interest rates and tighter conditions by banks so that many would be and those already in the sector could help grow the economy especially at a time when many white collar jobs are scarcely available.

Key words: - Growth, Small and medium enterprises, Financing, internal and external factors.

BACKGROUND OF THE STUDY

Unemployment, coupled with the rising of population are among the economic problems that most less developing countries are faced with, and not only less developed countries but as well as developed countries experience the same phenomena. Small and medium-sized enterprises (SMEs) are crucial economic actors within the economies of nations (Wolff and Pett, 2006). They are a major source of job creation and they represent the seeds for future large companies and corporations. The small and micro enterprises (SMEs) play an important role in the Zambian economy. According to the Economic Survey (2012), the sector contributed over 50 percent of new jobs created in the year 2011. Despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Zambia Statistics Office, 2011).

Problem Statement

Past statistics indicate that three out of five small and medium scale businesses fail within the first few months of operation (BoZ, 2016). While there are various reasons for such failure, one central reason is lack of proactive and sustainable innovations. Further, as noted by Damanpour et al., (2009); when SMEs don't take advantage of technological, product and service quality, new marketing techniques and innovative organizational structures, such SMEs fail. Therefore, lack of innovativeness has seemingly created poor business performance. However, the state of businesses growth in Kabwata in relation to factors that influence such business growth has not been investigated. Further, numerous studies have dealt with innovativeness in SMEs. However, little research as linked certain salient factors to small business growth particularly in developing countries like Zambia and dealing specifically with technological innovation, entrepreneurial training and skills, product and service quality and marketing innovation as variables. This study therefore investigated the factors the factors influencing the growth of Small and Medium Enterprises in Kabwata Lusaka

General Objectives

The general objective of this study was to investigate the factors influencing the growth of Small and Medium Enterprises in Kabwata Lusaka

Specific Objectives

1. To explore the state of growth in SMEs in Kabwata, Lusaka.
2. To identify internal factors that affect growth in SMEs in Kabwata, Lusaka.
3. To identify the external factors that affect growth in SMEs in Kabwata, Lusaka.

LITERATURE REVIEW

Global Perspective

In Bangladesh, Chowdhury and Alam (2017) studied factors affecting access to Finance of Small and Medium Enterprises (SMEs). Data was collected data from a sample of 86 SMEs from various types of businesses to investigate the problems and suggest policy recommendations. Instruments used to collect data were depth interviews with structured questionnaire for self-guidance. A five-point Likert type scale statements were used to measure the variables. Convenience sampling was used reason being that the SMEs located in the region of the study were too many that it was impossible to include every SME within a short duration of time Secondary data was also collected for the same purpose.

The study's findings revealed a number of factors vis-a-vie education and skills of the owners, the size and age of the firms, unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials among others as some of the biggest hurdles that SMEs in Bangladesh face in getting loans from financial institution stables and percentages for the precision of the data analysis.

African Perspective

A sampled review of literature that were relevant and similar from Africa were taken into consideration. The African sample of SMEs was done because they could have a different result on the growth of SMEs as compared to outside Africa. By doing so, it helped the researcher to have first-hand information on factors that affect growth in Africa as Africa has its share of problems and successes. Though Zambia is in Africa, there are still some differences in social, cultural and economic development. In order to identify academic gaps from the reviewed empirical researches, methodologies and results were studied because from methods results are obtained. The empirical researches are provided in the next paragraphs from Ghana, Kenya, Libya, Nigeria and South Africa.

Mmieh and Mordi (2017) carried out a study on factors influencing the growth of SMEs in Ghana. It was a case study using entrepreneurs (or owner/managers) of SMEs as the unit of analysis. The instruments used to collect data were in-depth interviews with entrepreneurs (or owner/managers) of SMEs and some Key Informants in Ghana who were conversant with SMEs in Ghana both academically and exposure to socio-economic life of Ghana. A total of 75 owner-managers were sampled from the three main sectors of the economy namely agriculture, manufacturing, and services. This was an extensive study that took three months involving audiotaped interview transcripts. The mode of data analysis was thematic technique. The results showed that level of education, poor energy supply, access to external finance, competition, inflation and government policies influence the growth of SMEs in Ghana. The researcher came up with various recommendations that should sustained energy supply, review of lending and borrowing regulations, favorable

fiscal policies, measures to combat unhealthy competition, provision of adequate training centers to equip entrepreneurs, and regulation on land acquisition if growth of SMEs in Ghana was to be consistent.

Zambian Perspective

It was important for the researcher to sample and review some of the literature in Zambia to have a feel of what was happening before the current study. The literature that were relevant and similar from Zambia were taken into consideration. The Zambian sample of SMEs was done because they could have near to reality as compared to Africa and outside Africa. By doing so, it helped the researcher to have first-hand information on factors that affect growth in Zambia. Kabwata Constituency is in Zambia there could have some similarities with other SMEs in Zambia because of similar social, cultural and economic development. In order to identify academic gaps from the reviewed empirical researches, methodologies and results were studied because from methods results are obtained. The empirical researches are provided in the next paragraphs from Zambia.

In Zambia, Nuwagaba (2015) carried out a research on Enterprises (SMEs) in Zambia. The purpose of the study was to understanding the state of the SMEs sector in Zambia and how they contribute to the country's economic development. Both Primary and secondary data were collected using instruments such as: questionnaires, interviews and review of previous literature on the subject. The study was exploratory and qualitative. The method of analysis was tabulations especially in MS excel and MS word applications. Purposive sampling technique was used to select Entrepreneurs' financial center for this research.

The research revealed that over 90 percent of SMEs operated in the informal sector and this made it difficult for the government to support the sub sector efficiently. SMEs' contribution therefore, to the country's development was not very clear. The state of growth of SMEs resulted in challenges being experienced because SMEs have failed to attract funding from micro finance institutions (MFIs). Entrepreneurs Financial Centre (EFC) was used as a case study. This is a specialized micro finance institution that provides SMEs lending. Period considered in this research was 2012-2014. Whereas, SME loans constitute about 60 percent of EFC's loan portfolio, the loans given out were small value ranging from USD133 with a maximum of USD 46,667. The process of acquiring these loans were cumbersome and those without security stood no chance.

Methodology

Research Design

Descriptive research design was used, this research design was considered appropriate by the researcher because of the need to identify and describe what factors influence the growth of SMEs to a larger population and to gain an understanding of the relationship between dependent and independent variables that were being studied.

Target Population

Traders in Lusaka with small and medium enterprises and key informant conversant with SMEs operations such as big banks, Ministry of Finance, PACRA, and micro-finances organizations.

Sampling Techniques

The study adopted purposive or judgmental non probability sampling. The purpose of purposive sampling as it is self-introductory was used to make sure that specific respondents were not left out in the study.

Data Collection Instruments

Data was collected using a structured interview schedule and questionnaire specifically designed for this study.

Data Analysis

Data analysis involved organizing the raw data in order to make sense out of it. Raw data on its own is useless unless it is organized. This study used both qualitative and quantitative data. The quantitative data collected was first checked, cleaned and finally coded. The missing data was arrived at by using averages for each variable. After the quantitative data was coded properly, it was entered into a software for analysis called Statistical Package for Social Sciences (SPSS) version 21.0.

Data Presentation and Analysis

Demography Characteristics of Respondents

The demographic characteristics of respondents included their gender, age and education level. These characteristics have a bearing in the financing of small and medium entrepreneurs.

Gender

The respondents were asked to state their gender. The following were the results on figure 2.

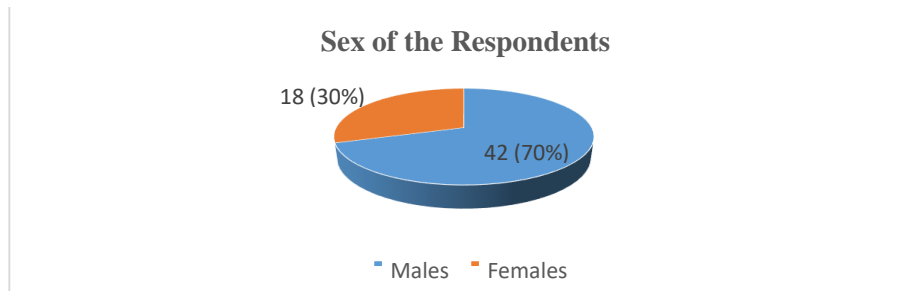


Figure 2 indicates the gender of the respondents in the study. Out of the 60 respondents targeted, 42 respondents representing 70% were males and 18 respondents representing 30% were females. The majority of the respondents were males and females were few.

Age

Table 2: Age distribution of the Respondents

Age group (Years)	Males	Females	Total	Percent
20-35	10	4	14	(23%)
36-50	18	8	26	(43%)
51-60	11	4	15	(25%)
61-70	3	2	5	(8%)
Total	42	18	60	100

Source: Own compilation (2019)

Table 2 shows age distribution of the respondents. 14 were in the age group of 20 -35 years representing 23%; 26 were in the age group of 36-50 years representing 43%; 15 were in the age group of 51-60 years representing 25% and 5 were in the age group of 61 to 70 years representing 8%.

Educational Level of the Respondents

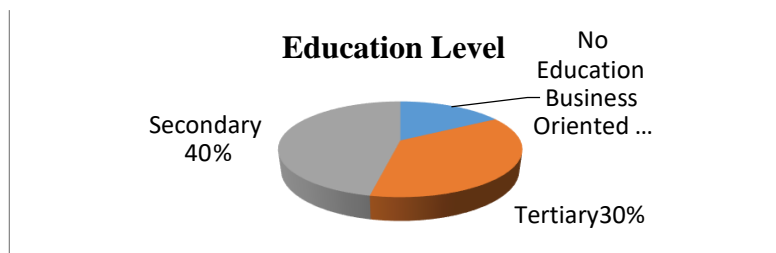


Figure 3: Educational Level of Respondents

From figure 3, 40% (24) of the respondents interviewed were from secondary school. 30% (18) of the respondents were from tertiary that is either from college or university while 30% (18) of the respondents interviewed did not have an education but were business oriented.

The State of Growth in SMEs Financing in Lusaka Registered SMEs

The respondents were asked to state whether their enterprises were registered. The following results are shown on table 4.

Table 4: Whether the enterprise was registered

Response	Frequency	Percent
Yes	28	47
No	32	53
Total	60	100

Source: Field work (2019)

Table 4 shows that 28 of the respondents representing 47% registered their enterprises whilst the 32 (53%) did not register their SMEs. It was observed that most of the SMEs were not legally registered.

Number of full time Workers for the Enterprise

The respondents were asked to state the number of full time workers for the enterprise. The following results are shown on figure 4.

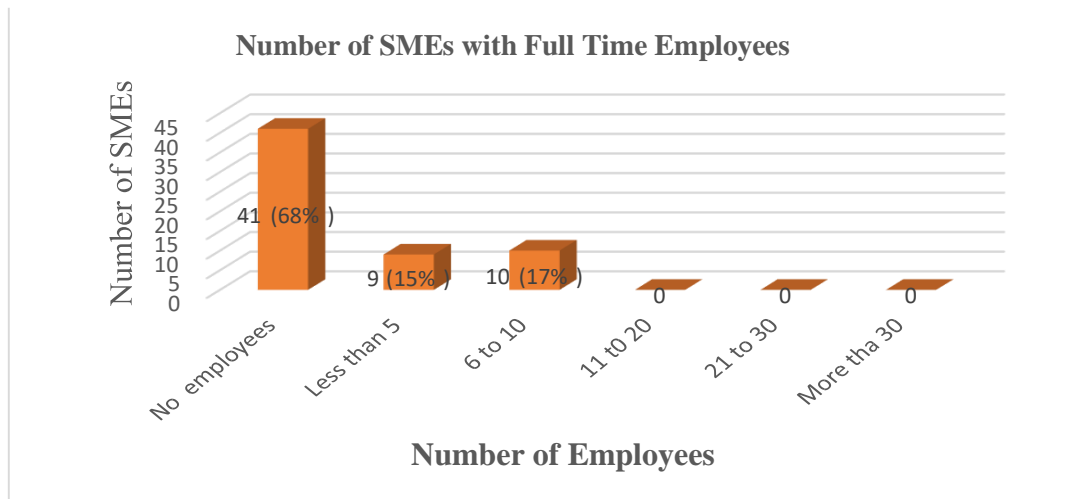


Figure 4: Number of SMEs with the number of full time workers

The figure shows the number of SMEs with the number of full time workers. The figure shows 41 SMEs representing 68% have not employed full time workers, 9 SMEs representing 15% have employed less than 5 full time workers and 10 SMEs representing 17% have employed 6 to 10 full time workers.

4.2.3 Ownership of Enterprise

The respondents were asked to state the kind of ownership in terms of sole proprietorship partnership and cooperative of the SMEs. The following results are shown on figure 5.

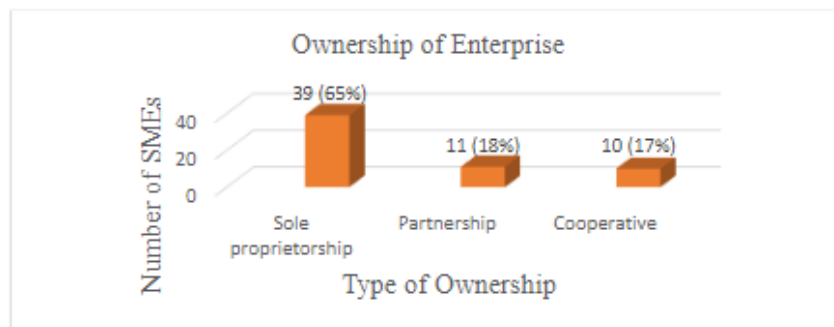


Figure 5: Type of Ownership

Figure 5 shows the type of Ownership of the SMEs. 39 SMEs representing 65% fall under the category of sole proprietorship, 11 SMEs representing 18% fall under the category of partnership and 10 SMEs representing 17% fall under the category of cooperative.

The Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed all came up with one sub-theme saying summarized as, “SMEs a way to survive as a family”.

4.2.4 Source of Business Finance of the Enterprise

The respondents were asked to state the source of business finance of the enterprise. The following results are shown on table 5.

Table 5: Source of business finance of the Enterprise

Detail	Frequency	Percent
Family/friend	36	60
Savings	16	27
Financial Institutions	8	13
Total	60	100

Source: Field work (2019)

Table 5 shows the source of business finance of the enterprises. 36 SMEs representing 60% depend on family/friend as the source of business finance of the enterprise, 16 SMEs representing 27% depend on savings as the source of business finance and 8 SMEs representing 13% depended on financial institutions as the source of business finance.

Internal Factors that Affect Growth in SMEs in Lusaka

Lack of Security/ Collateral has affected their Business

The respondents were asked to state whether lack of security/ collateral has affected their businesses in terms of growing their finances. The following results are shown on figure 6.

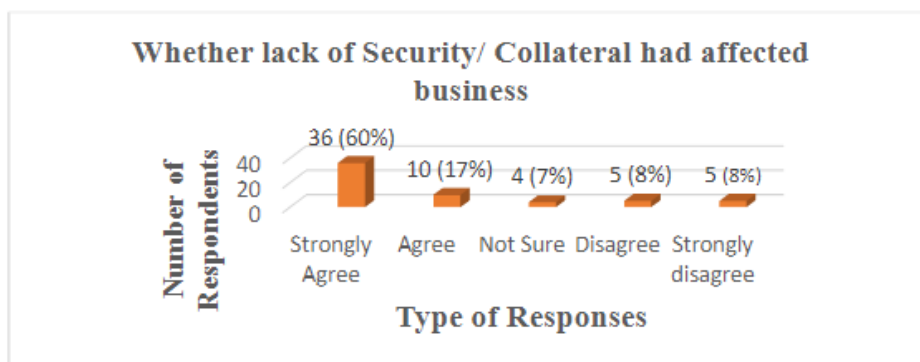


Figure 6: The State of lack of Security/ Collateral on business

The figure shows whether lack of security/ collateral has affected their businesses. 36 SMEs representing 60% strongly agreed that lack of security/ collateral had affected their business; 10 SMEs representing 17% agreed that lack of security/ collateral had affected their business, 4 SMEs representing 7% were not sure, 5 SMEs representing 8% disagreed that lack of security/ collateral had affected their business and, 5 SMEs representing 8% strongly disagreed that lack of security/ collateral had affected their business.

Lack of Equity Base has affected their Business

The respondents were asked to state whether lack of equity base has affected their businesses. The following results are shown on table 6.

Table 6: Whether lack of equity base collateral had affected their business

Responses	Frequency	Percent
Strongly Agree	38	63
Agree	20	33
Not Sure	2	4
Total	60	100

Source: Own compilation (2019)

Table 6 shows whether lack of equity base has affected their businesses. 38 SMEs representing 63% strongly agreed that lack of equity base had affected their business; 20 SMEs representing 33% agreed that lack of equity base affected their businesses and 2 SMEs representing 4 % were not sure whether lack of equity base had affected their businesses.

Lack of Experience in Management has affected their Businesses

The respondents were asked to state whether lack of experience in management has affected their businesses. The following results are shown on figure 7.

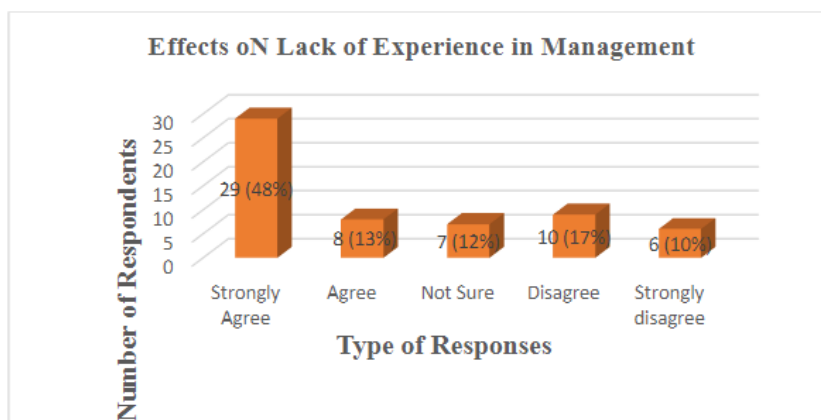


Figure 7: Whether lack of experience in management had affected their businesses

Figure 7 shows whether lack of experience in management had affected their businesses. 29 SMEs representing 48% strongly agreed that lack of experience in management had affected their businesses. 8 SMEs representing 13% agreed

that lack of experience in management had affected their businesses, 7 SMEs representing 12% were not sure. 10 SMEs representing

17% disagreed that lack of experience in management had affected their businesses and 6 SMEs representing 10% strongly disagreed that lack of experience in management had affected their businesses.

Lack of Technology has affected their Businesses

The respondents were asked to state whether lack of technology had affected their businesses. The following results are shown on table 7.

Table 7: Whether lack of technology had affected their business

Responses	Frequency	Percent
Strongly Agree	30	50
Agree	21	35
Not Sure	3	5
Disagreed	3	5
Strongly disagreed	3	5
Total	60	100

Source: Own compilation (2019)

Table 7 shows whether lack of technology had affected their businesses. 30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

Table 8: Whether high taxation had affected their business

Responses	Frequency	Percent
Strongly Agree	30	50
Agree	20	33
Not Sure	10	17
Total	60	100

Source: Own compilation (2019)

Table 8 shows whether high taxation had affected their businesses. 30 SMEs representing 50% strongly agreed that high taxation had affected their businesses. 20 SMEs representing 33% agreed that high taxation had affected their businesses, 10 SMEs representing 17% were not sure.

Table 9: Whether high interest rates had affected their business

Responses	Frequency	Percent
Strongly Agree	25	42
Agree	30	50
Not Sure	5	8
Total	60	100

Source: Own compilation (2019)

Table 9 shows whether high interest rates had affected their businesses. 25 SMEs representing 42% strongly agreed that high interest rates had affected their businesses. 30 SMEs representing 50% agreed that high interest rates had affected their businesses, 5 SMEs representing 8% were not sure.

Tight conditions with Banks had affected their Businesses

The respondents were asked to state whether tight conditions with banks had affected their businesses. The following results are shown on table 10.

Table 10: Whether tight conditions with banks had affected their business

Responses	Frequency	Percent
Strongly Agree	40	67
Agree	15	25
Not Sure	5	8
Total	60	100

Source: Own compilation (2019)

Table 10 shows whether lack of technology had affected their businesses. 30 SMEs representing 50% strongly agreed that lack of technology had affected their businesses. 21 SMEs representing 35% agreed that lack of technology had affected their businesses, 3 SMEs representing 5% were not sure. 3 SMEs representing 5% disagreed that lack of technology had affected their businesses and 3 SMEs representing 5% strongly disagreed that lack of technology had affected their businesses.

Effects of Corruption on SMEs Business

The respondents were asked to state whether corruption had affected their businesses. The following results are shown on Figure 8.

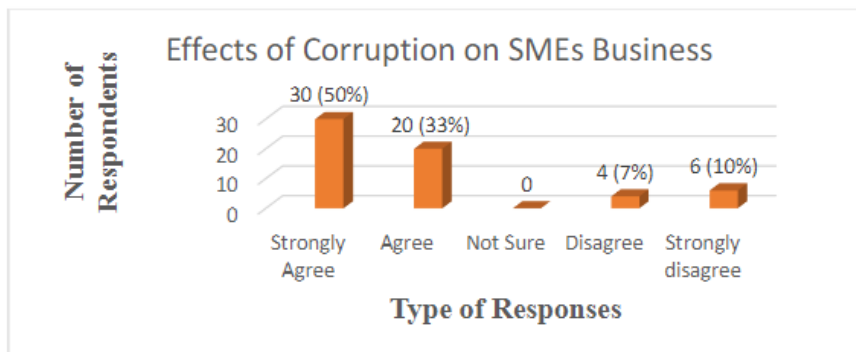


Figure 8: effects of corruption on SMEs business

Figure 8 shows whether corruption had affected their businesses. 30 SMEs representing 50% strongly agreed that corruption had affected their businesses. 20 SMEs representing 33% agreed that corruption had affected their businesses, 4 SMEs representing 7% disagreed that corruption had affected their businesses and 6 SMEs representing 10% strongly disagreed that corruption had affected their businesses.

Effects of Competition on SMEs

The respondents were asked to state whether competition had affected their businesses. The following results are shown on Figure 9.

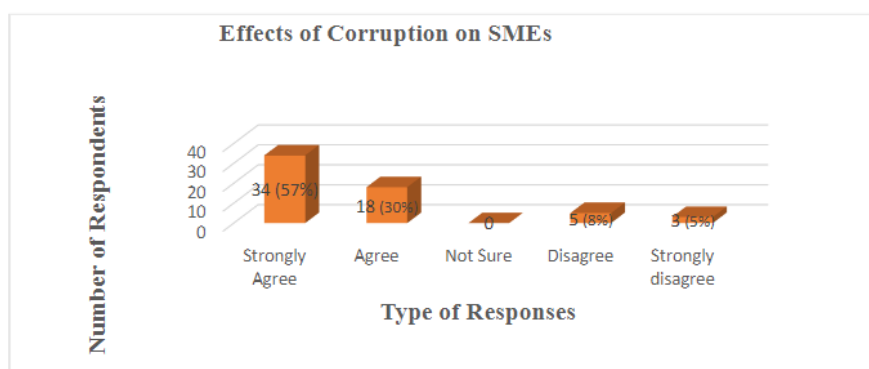


Figure 9: effects of competition on SMEs

Figure 9 shows whether competition had affected their businesses. 34 SMEs representing 57% strongly agreed that competition affected their businesses. 18 SMEs representing 30% agreed that competition had affected their businesses, 5 SMEs representing 8% disagreed that competition had affected their businesses and 3 SMEs representing 5% strongly disagreed that competition had affected their businesses.

4.4.6 Effects of Inflation on SMEs Businesses

The respondents were asked to state whether inflation had affected their businesses. The following results are shown on table 11.

Table 11: Effects of Inflation on SMEs businesses

Responses	Frequency	Percent
Strongly Agree	29	48
Agree	16	27
Not Sure	15	25
Total	60	100

Source: Own compilation (2019)

Table 11 shows whether lack of technology had affected their businesses. 29 SMEs representing 48% strongly agreed that inflation had affected their businesses. 16 SMEs representing 27% agreed.

Discussion of Findings

Internal Factors that Affect Growth in SMEs Financing in Lusaka

Another factor studied was the internal factors in the business environment of the SMEs. There are many challenges in that regard in the internal environment of SMEs. The study collected data on such factors, which included security/collateral, lack of equity base, lack of experience in management and lack of technology to have impacted negatively on the growth of the SMEs

Internal Factors that Affect Growth in SMEs Financing in Lusaka

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Lack of Security/ Collateral has affected their Business

36 SMEs representing 60% strongly agreed that lack of security/ collateral had affected their business; 10 SMEs representing 17% agreed that lack of security/ collateral had affected their business, 4 SMEs representing 6% were not sure, 5 SMEs representing 8.5% disagreed that lack of security/ collateral had affected their business and, 5 SMEs representing 8.5% strongly disagreed that lack of security/ collateral had affected their business.

Lack of Experience in Management has affected their Businesses

29 SMEs representing 49% strongly agreed that lack of experience in management had affected their businesses. 8 SMEs representing 14% agreed that lack of experience in management had affected their businesses, 7 SMEs representing 12% were not sure. 9 SMEs representing 15% disagreed that lack of experience in management had affected their businesses and 6 SMEs representing 10% strongly disagreed that lack of experience in management had affected their businesses.

Lack of Technology has affected their Businesses

The majority of the SME owners/managers agreed that (85%) believed that technological advancement can improve growth of the SMEs.

External Factors that Affect Growth in SMEs in Lusaka

External factors were equally studied in order to ascertain whether they had an effect on the growth of SMES.

High Taxation had affected their Businesses

29 SMEs representing 50% strongly agreed that high taxation had affected their businesses. 20 SMEs representing 33% agreed that high taxation had affected their businesses, 10 SMEs representing 17% were not sure. With regard to issue of taxation, the Micro Finance Institutions, Banks and Ministry of Finance official who were interviewed revealed that SMEs managers are always scared of the term taxation.

High Interest Rates had affected their Businesses

25 SMEs representing 42% strongly agreed that high interest rates had affected their businesses. 30 SMEs representing 50% agreed that high interest rates had affected their businesses, SMEs representing 8% were not sure. With regard to issue of high interest rates, the Micro Finance Institutions, Banks and Ministry of

Tight conditions with Banks had affected their Businesses

The survey results revealed that 92% of the SME owners/managers believe that financial institutions have tighter conditions on loans they give to SME and that had impacted negatively on their businesses as they cannot afford to get a loan. Tighter conditions do not mean lack of collateral, but many stringent state of affairs in which SMEs are unable to provide answers to the lenders. Tighter conditions mean SMEs remain with their equity in their businesses because of inaccessibility to credit facilities.

Corruption on SMEs Businesses

30 SMEs representing 50% strongly agreed that corruption had affected their businesses. SMEs representing 33% agreed that corruption had affected their businesses, SMEs representing 7% disagreed that corruption had affected their businesses and 6 SMEs representing 10% strongly disagreed that corruption had affected their businesses.

Competition on SMEs Businesses

SMEs representing 57% strongly agreed that competition affected their businesses. SMEs representing 30% agreed that competition had affected their businesses, SMEs representing 8% disagreed that competition had affected their businesses and SMEs representing 5% strongly disagreed that competition had affected their businesses.

Inflation on SMEs Businesses

The survey results revealed that 75% of the SME owners/managers believe that inflation had impacted negatively on their businesses as they lose the value of the capital. This means that the strength of the kwacha is weakened and in turn affects the business growth of SMEs.

Conclusion and Recommendations

Conclusions

The growth of SMEs in Kabwata are closely associated with a number of factors. The present study revealed that some factors have adversely affected the growth of SMEs in Kabwata. Financial inadequacy is a factor which has significantly constrained the growth and expansion of the SME sector in Kabwata. The lack of access to new technology is another vital factor which has limited the growth and expansion of SMEs. However, access to new technology is directly linked to the availability of financial resources.

Recommendations

- ✓ The study therefore recommends that the government should move in quickly to create policies that favour the growth and expansion of SMEs. This will save the businesses from the challenges they face when trying to access financing from mainstream commercial banks.
- ✓ The Government should seriously regulate many external factors affecting finance such as tax laws, interest rates and tighter conditions by banks so that many would be and those already in the sector could help grow the economy especially at a time when many white collar jobs are scarcely available and make the SMEs to benefit more.
- ✓ The study there fore, recommends that banks and other credit giving financial institutions should come up with creative policies that make it easy for the SMEs to access financing.
- ✓ The government should start offering basic business and financial management skills as this will enable the SMEs to make informed investment decisions.

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