



To Determine Socio-Economic Factors Affecting the Growth of Small and Medium Sized Enterprises (Smes): A Study of Three Selected Enterprises Namely Kutentemba Enterprises, Yopa General Dealers and Luzangu Electronics Enterprises in Mporokoso District of Northern Province of Zambia.

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Abstract: The study sought to establish the factors affecting the growth of small and micro enterprises (SMEs) in Mporokoso district, Zambia. The small medium enterprises under focus are as follows: Kutentemba Enterprises, Yopa General Dealers and Luzangu Electronics Enterprises. The study employed a descriptive research design to achieve the objectives. It was discovered that 53.25% of small and medium sized business are owned by female or women while 46.7% are owned by males or Men. This could be attributed to the fact that, women create small business in order to manage time or balance work life and family life. Then, 3.3% SMEs are owned by those who are less than 18 years of age. 46.7% shows those who in the age group between 19-24 years of age. 36.7% are those in the age group of 25-30 years and 13.3% are those who are in the age group above 31 years of age. Moreover, it was found out that 60% are single, 27% are married, 3% are divorced and last the research shows that 10% are widowed. Besides that 53% are less or equal to 3 people per family members, those who are between 3-5 , the research shows 30% and 16% for those who are between 6-11 members per family. Furthermore, it was discovered that 53.3% have their first degree, which is the biggest percentage. 10% are those who are able to read and write, 13.3% those who have reached their grade 12, another 10% those who have done a vocational training and for those who hold a diploma are 13% of the total sampled. Then, when the business was established, 46.7% of the SMEs were established more than 5 years ago. 12% are reported to have started their business greater than 2 year but less than 5 years. 33.3 % shows that they started their business equal or less 2 years but greater than 1 year. For those who started their business have 8%. The study shows that legal information is very important; this can be attributed to the fact that, SMEs need legal information in order for them to access loans. It also highlighted how important technology, financial resources, strategic partners and product market readiness is. The majority of the SMEs felt that ZDA does not introduce the network in their line of business, 78.3% say that, the ZDA do not introduce them next contact while 21.7% say, they have been introduced the network. The study concluded that access to finance and lack of managerial skills experience are the key socio-economic factors affecting the growth of businesses in Mporokoso.

Keywords: **Liquid Asset:** Any asset which can be easily converted into cash.

Liquidity: The ease with which a company's assets can be converted into cash.



Macroeconomics: This is a part of economics that seeks to simplify and show the progress of whole economies rather than focus on individuals or groups (which is microeconomics).

Managed Fund: There are two ways in which a fund can be controlled:

Actively. A fund manager buys and sells to maximize gains and minimize losses.

Passively. A computer programme tracks the performance of a market.

Margin: A profit margin is how much money a company made. For example, a gross profit of £1m on sales of £10m is a 10% profit margin. Companies can compare profit margins with others to see how they are doing.

Market Segmentation: A market segment is a division of a market with similar characteristics (e.g. age, gender, religion) that cause them to demand similar products and/or services.

Market Share: The percentage or portion of the overall market controlled by one company.

Marketing Mix: The combination of marketing elements used by a company to encourage consumers to purchase its product or service. Also known as the seven Ps: product, price, promotion, place, people, process, physical evidence.

Merger: When two or more companies are combined into one.

Microeconomics: This is a part of economics that concentrates on the actions of individuals and groups, rather than of whole economies (which is macroeconomics).

National Insurance: National insurance is a form of tax which everyone currently employed must pay in order to qualify for benefits, including the state pension.

Negative Equity: When the value of an asset you have already bought becomes worth less than what you initially paid.

Net: The amount of profit remaining after deductions such as tax have been made.

Net Asset Value: A way of measuring investment trusts. Take the total number of its assets minus its liabilities.

Niesr: National Institute of Economic and Social Research.

Nominal Interest Rate: An interest rate that isn't adjusted for inflation.

Nominal Values: These values do not take inflation into account.

Non-Executive Director: This is a director who helps the company and offers an independent view on strategies and performance but is not actively involved in the day-to-day running.

Offshore Account: Funds which are managed outside of the UK.

Oligopoly: A market where only a few firms control the percentage of total sales.



Operating Expenditure (Opex): On-going costs for running a business, service or system that includes day-to-day expenditure such as sales and administration. Compare with capital expenditure, which is money spent on fixed assets or extensions to already-owned fixed assets.

Shareholder: An owner of shares in a company.

Smes: Small and medium-sized enterprises. A small business has fewer than 50 staff and a medium-sized business has fewer than 250 staff. Micro-businesses, with fewer than 10 staff, would also come under the term 'SME'.

Social Enterprise: Social mission driven businesses, with social and/or environmental aims, that use market-based strategies to achieve their goals. Social enterprises can be both non-profit and for-profit.

Stakeholders: Any individual or party that has an interest in or may be affected by a business and/or its activities. This can include anyone, from shareholders to residents of the local community.

Supply Chain: The different elements making up the process involved in producing and distributing an item or items.

Sustainability: The use of natural resources with a minimal impact on the environment; e.g. no depletion of resources. For example, a company that manufactured paper would be sustainable if it only made 100 percent recycled paper or planted a new tree for each one it cut down.

Takeover: The buying out of one company by another.

Trade Balance: Only taking visible trade into account (the import and export of physical goods) the trade balance shows a country's trade position.

Trademark: A logo, brand name or phrase legally registered by one company to represent them.

Triple Bottom Line: People, planet, profit. The bottom line was originally considered as just profit. In recent years, with the growth in popularity of corporate social responsibility, businesses are increasingly measuring project success not only in monetary terms, but also by examining their social and environmental performance.

Turnover: The total sales of a business or company during a specified period.

Unit Trust: A unit trust invests money in the stock market on behalf of a group of private investors that have put all their money together to invest and be managed by a fund manager.

Unquoted Shares: Some companies choose to not be listed on the stock market, or they may not meet the listing requirements. Therefore the shares are 'unquoted'.

Venture Capital: Capital invested into projects with higher risks, usually start-up businesses.

Vertical Merger: A merger between companies that are in the same industry but are not at the same production stage.



Volume: The number of shares traded in a day on the London Stock Exchange.

Without-Profits Policy: An insurance policy that does not share in the profits of the business that issued it.

Working Capital: This is the capital a business uses in its day-to-day trading. It's the difference between current assets and current liabilities. It provides an indication of liquidity and the businesses ability to meet its current obligations.

Work-Life Balance: The balance in demands of both life at work and personal life.

I. INTRODUCTION

1. Back Ground Information About the problem

Before the economic reforms were undertaken in the early 1990s, Zambia's economy was a government driven. This was so, for good and obvious reasons, some of which included the duty on the part of the government to provide employment, and the necessary social services that the government was obligated to, soon after independence in 1964. In the pursuit of achieving these objectives the government formed a number of companies in which it injected a lot of capital and also had to nationalize a lot others in the program called nationalization.

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

2. Statement of the Problem

The economic climate for carrying out business for SMEs in modern society differs from state to state. As such, the appropriate policy for one country would not necessarily be appropriate for another. With privatisation of 1991, the economy became more liberal which resulted in increase of difficulty for local SMEs to grow and face up to competition being created by foreign companies. In view of this, the fairness of the economic policies governing the way business is conducted in Zambia on the basis of companies being local SMEs and foreign conglomerates is being questioned. The whole purpose of empowering local Zambians is being defeated because they cannot face up to competition from foreign companies in terms of capacity, quality of goods, access to financing and general management.



3. Specific Objectives

- To highlight specific problems SMEs face in accessing finance.
- To identify key collateral requirements that hinder SME from fulfilling certain contractual obligations in their quest to do business.
- To identify the key support structures and aspects of the support environment for Zambian Enterprise growth activities.
- To develop a profile of the enabling environment for the SME enterprise growth in Zambia that eliminates unfair competition with foreign companies.

4. Significance of the Study

It is an internationally recognised fact that Small and Medium Enterprises (SMEs) play an important role in the economic development of many countries. The aggregate contribution of SMEs to national development cannot be over looked or ignored. According to United Nation Development Programme (2004), SMEs have the highest capital employment ratio and are a source of income for a broader layer of the population. The growth of SMEs is viewed as one sustainable way of reducing the levels of poverty and improving the quality of life of households through wealth and job creation.

II. Literature Review

This reviews literature associated to socio-economic factors affecting the growth of small and medium enterprises SMEs in Mporokoso district and related or corresponding international explorations of the same research study or topic . Furthermore, this review will highlight perspectives of other academic scholars in relation to the research study topic.

Theoretical

The financing constraint literature has been the first to recognize that partitioning firms helps to provide important insights into their behaviours. Fazzari, Hubbard and Petersen (1988), pointed out the fact that firms are definitely not homogeneous. They classify firms according to their dividend pay-out ratio.

According to Aghion (2007), access to external finance improves market selection by allowing small firms to be more competitive. Additionally, financial accessibility significantly facilitates the growth of firms. Unlike large firms, SME are restricted in their funding options. Tambunan (2010) argues that SMEs in developing countries can survive, and even grow in the long run, as they create a niche market for themselves, they act as a last resort for the poor, and they will continue to grow alongside larger enterprises for which they often supply required inputs.

Empirical

Despite the macroeconomic reforms undertaken by the government aimed at macroeconomic stabilization for example, liberalization, privatization among others, the SMEs sector has not yet significantly benefited



from them. There have been a number of constraints that have hindered the growth of SMEs in Zambia. The Task Force on SMEs (2014) identified some of the constraints affecting the Zambian SMEs as:

Inadequate Policy Frame Work

Although in Zambia's industrial policy, the existence of the informal SME sector is recognized, the references made to the promotion and development of SMEs mainly refer to improving goods and services in the formal sector but not those found in the micro and informal sub-sector. The Zambia Development Agency (ZDA) Act of 2006, which is the current statute covering the promotion and facilitation of investments in Zambia, is far beyond the reach of most SMEs.

Difficulties in filling capacity Gaps for SMEs

Analysis of the SME sector in Zambia indicates severe deficiencies in basic management and technical skills relating to the following fundamental areas:

Strategic management capacities, for example the ability to manage entry into new markets and organizing labour and capital to respond to the changing markets, technologies and regulations.

Functional management skills, for example skills required in production, finance, purchasing and marketing to improve production of capital, and quality control

Technical management skills, for example the actual technical know how to achieve the required quality and quantity.

The Financial Limitations

Previous research done on SMEs, show that small firms are so limited in their financing accessibilities to an extent that they do not even recognize their own growth potential. This is so because most of the managers of the small and medium size enterprises are more concerned about the survival of the firm rather than the growth of the firm. The lending institutions are so careful in lending to SMEs fearing defaulting rates.

III. Methodology

The data collected was coded, quantified and analysed quantitatively and qualitatively. Quantitative data was analysed by the use of statistical package for social sciences (SPSS). A total of 30 questionnaires were administered and the study managed to obtain all 30 questionnaires representing 100% response rate. The questionnaires contained questions that addressed the objectives of the study. The target population under study was the 30 licensed SMEs by PACRA in 2024. Mporokoso. Moreover, the sample size was 50 which consisted of: 12 wholesalers, 12 general dealers, 1 district commissioner, 5 officials from civil societies, 5 representatives from business community, 5 underperforming entrepreneurs and 10 superb performing traders. The study used a questionnaire to collect the required data.



The researcher mainly used secondary research methodology although the tertiary methodology or the search tool also used for the purpose of this research. This will include books, magazines, newspapers to collect data and information regarding the topic. The researcher will also make use of the internet to obtain information about SME and other related information. It is the desire of the researcher to be very intensive in the process of carrying out this study. The researcher will examine the various journals and publications that have to do with the issue of small and medium sized enterprises in order to ascertain the views and opinions of other writers. The various small and medium scale enterprises in Mporokoso will also be examined with a view of finding their response.

IV. FINDINGS

The study sought to establish the factors affecting the growth of Small and Medium sized Enterprises in Mporokoso district

Access to business information services

The study established that access to business information affects growth of businesses in Mporokoso district to a moderate extent and this information was not readily available at the Zambia Development Agency. Even the available information was not deemed to be relevant nor does it inform the respondents of the changes in the business environment on time. Overall, the business information services in Lusaka district affect the performance of businesses to a small extent.

Access to Finance

Further, the study established that access to finance exposes businesses in Mporokoso district better opportunities to a great extent while it also leads to improved business performance to a great extent. The study also found out that access to capital for businesses is very challenging to a great extent. Overall, access to finance affects the growth of SMEs in Mporokoso district to a great extent.

Managerial Skills

The study further found out that availability of managerial skills and experience affects businesses in Mporokoso to a great extent while the respondents felt that training on managerial skills are required in the businesses to a great extent. Further, the respondents reported that they do not get trainings on business management skills frequently. Overall, availability of managerial experience affected business performance only to a moderate extent.

Access to Infrastructure

On infrastructure, the study established that good road network is available to the business people around Mporokoso and it's easy for them to do their business. The respondents' reported that the working space allocated to them is accessible to a great extent but is sufficient only to a moderate extent. The road becomes only bad during the ruin .However electricity power is real challenge and water, most business do not have running water. Study also found out that infrastructure affects growth of businesses to a great extent.



Government Policy and Regulations

Government policy and regulations affects the growth in Mporokoso distinct to a great extent. On previous studies, Kinyua (2014), researching on factors affecting the performance of small and medium enterprises in the Jua Kali Sector in Nakuru town in Kenya found out that access to finance had the potential to positively affect performance of SMEs; management skills were found to positively and significantly affect performance of SMEs; macro environment factors were found to significantly affect performance and Infrastructure did not significantly affect performance of SMEs in the study area. The study results also indicated that as number of years in operations increased the performance in SMEs increased. Therefore, the finding of this study supports existing literature.

V. Discussion

Constraints to growth

This research aimed at establishing the constraints to growth of SMEs. Respondents were given a list of constraints picked by the researcher and asked to rank their effect on their firms' growth. The ranking scale ranged from 1-5 with 1,2,3,4 and 5 being no effect, low effect, medium effect, high effect and very high effect respectively.

Factors/Scale	No effect	Low effects	Medium effects	High effects	Very high effects	Grand total
Inflation	4	3	2	14	6	30
Collateral for loans	2	5	3	4	16	30
Transaction cost for loans	4	1	7	10	9	30
Energy cost	0	0	5	10	15	30
Low business skills	2	3	10	10	5	30
Inadequate technology	4	2	6	9	9	30

- The table shows that inflation has a high effect on the growths of SMEs with 46.7%
- Collateral for loans also has very high effect on the growth of the SMEs with 53.3%
- Transaction costs also has 45% high effect on the SMEs
- Energy cost also shows 50% very high effects
- Low business skills shows that it has both medium effect and high effects on the SMEs
- Inadequate skills are shown that they have high and very high effects on the growth of SMEs.

V. Conclusion



The objective of the study was to establish the factors affecting the growth of micro and small enterprises in Mporokoso district. The study concludes that access to finance and availability of managerial skills and experience are the key socio-economic factors affecting the growth of businesses in Mporokoso district. These two have the potential of leading to improved business performance. The other key factors that were found to affect growth of micro and small enterprises in Mporokoso district are: access to business information, government policy and regulations and access to infrastructure.

RECOMMENDATIONS

Access to business information

There is scarcity of business information in Mporokoso district, therefore, the Government of the Republic of Zambia should work in collaboration with the Zambia Development Agency so as to organize seminars and business drills for these SMEs. Other development partners like banks and saving and credit organizations should also educate these SMEs so that they may perform better.

Access to Finance

The study found out that most SMEs prefer to use personal savings and contributions from relatives because they find it very difficult to access financing from commercial banks due to strict requirements such as collateral security and high repayment costs and so the study therefore 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.

Availability of Managerial Skills

The government should start offering basic business and financial management skills as this will enable the SMEs to make informed investment decisions. This will enhance their entrepreneurial skills that will enable them to recognize and exploit the available business opportunities.

Access to Infrastructure

Access to infrastructure affects the growth of SMEs only to a moderate extent. However, the study recommends renovations of public goods such roads, electricity power and water to weather changes.

Government Policy and Regulations

The study found out that the government policy and regulations have a moderating effect on the growth of SMEs. 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.

Areas for Further Research



Arising from this study, the following directions for future research should be carried out. This research only covered micro and small enterprises Mporokoso district. However, there are other enterprises that are medium and large firms in the same district. Researchers are encouraged to research on them. In future, other SMEs in other towns should be involved to enable the researcher to make adequate conclusions.

This research didn't concern itself with the challenges and possible solutions hindering SMEs from accessing financing by credit giving institutions. In future, a research should be instituted to establish the challenges and the possible solutions. In future, a comparison should be done between the financial performance of SMEs that have received microcredit and the ones that have not received the financing. This will help in shedding light on whether accessing microcredit helps the SMEs to perform better than other businesses.

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