

Small Business Management in Kabwe: Factors Influencing Their Failure

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Abstract: The main objective of this study was to identify the factors influencing failure among small businesses and to investigate the relationship between the number of years of operations and business performance. In order to achieve this objective, we developed a survey instrument and data was gathered by sampling small businesses in Kabwe town. Our research revealed a myriad of factors, but the most important factors are lack of market information, financial constraints, high taxes and lack of collateral were more often cited. The study also revealed that the more years spent in business with good government policy was cardinal in the success of small businesses. Therefore, we found that the longer one stays in business the higher the probability that he/she would yield the profits and expand the business tentacles in other forms of diversity. Finally we draw conclusion and suggestion for small business owners, researchers and policy makers.

Keywords: Small Businesses, business failure, Enterprise development, Entrepreneurship

INTRODUCTION

Over the last decade, research into enterprise development has grown because of the massive failure of a number of industrial and economic reforms which has stimulated great response from the private sectors, hence the need to supplement liberalisation measures with pro-active policies to attain the desired goal. Small scale enterprise has been the backbone of the Zambian economy since the ardent of privatization, as many people no longer depend on the government for them to survive except in few situations.

Small and medium enterprises (SMEs) play a major role in economic development in every country, including in African countries. Literature on enterprise development suggests that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector. Therefore, for African economies, the contribution of the SME sector to job opportunities is even more important and accounts for about three-quarters of total employment in manufacturing.

The Zambia Development Agency (ZDA) has put in place a number of programmes to sustain the same scale business such as providing them with the necessary environment by easing the bureaucratic arrangement and making to have easy access to finance and levelling the playing field (ZDA, 2013). These efforts have been categorised into three development pillars namely, capacity, access and operating environment. Despite these efforts most of the small scale enterprises are operating in a downward spiral with most of them closing down their businesses and getting back to their old ways of doing business (ZDA,

2013). Those that have continued seems not show any significant improvement in their profit margins, and have not even diversified their business to match the standards of other SMEs in other parts of country particularly Lusaka and Copperbelt were the same services are being provided by the Zambia development Agency.

According to ILO (2005), starting a business is a risky venture and warn that the chances of small-business owners making it past the five-year mark are very slim. Recent research into small-business development has also shown that the rate of failure of small scale businesses in developing countries is higher than in the developed world (Marlow, 2009).

It was from this background that this study was undertaken to ascertain the factors that influence the small scale business failure to succeed beyond five years in the competitive business environment in Kabwe district of Zambia.

Description of Kabwe District

Kabwe District is located 130 km north of Lusaka. It is the principal urban settlement of Zambia's Central Province with a population of more than 202,360 (CSO, 2014). The town lies at the strategic intersection of the Great North Road linking Lusaka with the Copperbelt, and the principal east-west route way between Zambia's Eastern and Western Provinces, respectively. Kabwe has for several years been characterized by net in-migration, resulting in the development of some of the largest unplanned settlements in the country.

The Kabwe Mine site (occupying approximately 3 km²) is located south of the town (east of the Great North Road). The Mine's formal high density townships of Chowa and Kasanda are located to the north-east and north-west of the mine, respectively. Central Kabwe and the residential areas of Highridge and Luangwa are characterized by low housing densities relative to the mine townships. Substantial informal settlements, together accounting for around 29.6% of Kabwe's total population, have developed in the Makululu area, which lies to the north and west of Kasanda, and further stretches along the artery of the Main Canal (Kabwe Mine's principal drainage system) all the way up to the east of Chowa. These descriptions give a highlight of the how much the study covered.

LITERATURE REVIEW

In this review, we seek to deal with three issues; the definition of small business; the definition of business failure and factors influencing small business failure.

Concept of business failure

The failure of any business has a negative impact on a number of stakeholders such as loss of the mean of production and distribution of goods and services by the community, jobs by employees, revenues from taxes by the government and loss of investment capital [1]. The impact of business failure is devastating to the owner(s) and the community at large and requires more attention.

Scholars generally agree in their definitions of business failure as discontinuance of the business. However, Boon and Theng (1996) observed the definition of business failure still differ in terms of the reasons for discontinuance. The broadest definition is business mortality due to bankruptcy.

According to Ropega [2], it's important to understand why and how business fail because failure is not a sudden event but a dynamic process and it also helps to understand the origin of failure and how it can be prevented in future.

SME Classification

The classification of SMEs for this study was based on the Zambia's MSME Policy [12]. According to the policy, firms are classified by the number of full time employees engaged and the sales turnover. Firms which employ up to 10 full-time workers and have the sales turnover of K150, 000 (about \$ 27,000) are referred to as micro enterprises. Those employing between 11 and 50 workers and the sales turnover between K150, 000 (\$27,000) and K250, 000 (\$45,000) are classified as small scale enterprises (SEs) and those with 51- 80 full-time employees and sales returns

between K300, 000 (\$54,000) and K800, 000 (\$145,000) are medium enterprises. Within the MSME sector, manufacturing activities account for 41% while trading account for 49%. Services accounted for only 10% [12].

Factors influencing failure of SMEs

A lot of research has been done by different authors on the factors that influence small scale business failure and success. Storey [3] considers the growing small firm by a Categorization combining three components namely, the starting resources of the entrepreneur (s), the firm and the strategy. The implication of the above statement is that less rapidly growing, no-growth or failing firms may have some appropriate characteristics in the entrepreneur, firm or strategy areas, but it is only where all three combine that the fast growth firm is found.

The results of previous studies focused on the birth, growth and death of small firms, have presented some normative "dos and don'ts" lessons for small firm [1, 3].

According to Philip [4] the factors influencing SMEs can be classified into the following categories; an entrepreneur Characteristics, e.g. management and know-how of products and customer services and markets; the way of doing business; cooperation and the characteristic of SMEs in terms of the ability to acquire loans from the financial institutions such as banks.

In addition, a study conducted by Nkonoki [5], attributed the failure of small scale business due to the lack of education which he described as a key component of human capital needed for business success. He argued that education and training provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients. Therefore, educated entrepreneurs showed more promising results in terms of how their business is doing.

It is always argued that business ownership is not an intellectual activity rather entrepreneurship is an opportunity for the less academically successful to earn high incomes [11].

Failure factors can be categorised into external and internal factors [6]. Examples of external factors are access to finance, poor market conditions, inadequate staff, and lack of institutional support, cooperation and networking. These factors are sufficiently recognised while the internal factors such as lack of strategy and vision, low educational level and inadequate social capital through not sufficiently recognised.

From the perspective of the financial institutions, SME segment is considered to be a strategic priority for the banks and profitable business prospect which provides an important opportunity for cross-selling [7].

Literature has shown a number of micro and macro factors hindering the banks from engaging small businesses. Micro factors such as the lack of adequate information and collateral as well as their largely family-owned structures are perceived to be obstacles to the banks. Furthermore, Macroeconomic factors, business regulation, the legal and contractual environment, the lack of a more proactive government attitude towards the segment, some areas of prudential regulation and some bank-specific factors are also perceived to negatively affect the SME lending market in Zambia, Kenya, Tanzania and Uganda respectively [7].

The literature has dwelled much into understanding the concept of SMEs, their classification and how they impact on the economy both in developing and developed nations. It has also addressed several factors that influence the success of small scale business in various countries. The factors such as the lack of adequate market information and collateral as well as their largely family-owned structures, business regulation, the legal and contractual environment, and the lack of a more proactive government attitude towards the segment where explored to understand how they influence SMEs failure. Therefore this study was an attempt to determine the factor(s) which are crucial to small business success beyond five years in the context of Zambian environment.

METHODOLOGY

This research paper is the product of the dissertation which was submitted to Mulungushi University in the school of business for the partial fulfilment of the award of the Bachelor of Commerce degree. We collected primary data from the combination of survey questionnaires and semi-structured interviews of key informants. Survey questionnaires were used to enable individual failure factors of small businesses to be examined and semi-structured interviews enabled as to analysis effectively the responses from the questionnaires.

As a sampling technique, we adopted purposive sampling techniques to generate the primary data because it involves choosing respondents whose views are relevant, important and of value to the research (Jankowicz, 2005). This approach was appropriate for this study because of lack reliable data which makes it difficult to study small businesses as observed by Watson and Everett (1996).

For the sample size, Saunders et al (2003) argued that for statistical analysis, a minimum number of thirty (30) provides a useful rule of thumb. However, for this study we chose a sample size of 100 questionnaires and conducted 5 semi-structured interviews with key informants on a one-to-one, face-to-face basis. Data processing was performed through excel and stata. The study was conducted for the period of eight (8) months.

Out of 100 questionnaires distributed, only 95 were collected which represents 95% respondents. This percentage (95%) of the sample was sufficient and significant for analysing and identifying key failure factors for small businesses in Kabwe.

RESEARCH FINDINGS

The profile of respondents showed that 74% of the respondents were male and 26 female as shown below in figure 1.

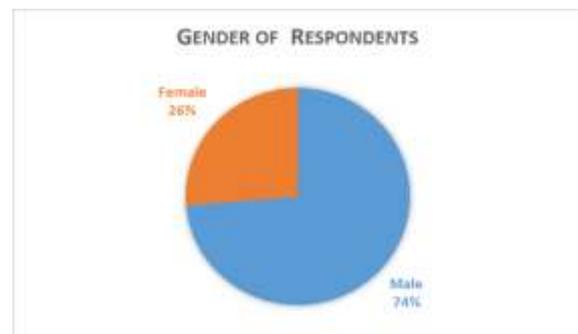


Fig-1: Gender of Respondents

From the results it can be implied that more men are engaged in small scale business enterprise because of lack of employment opportunities and that men must feed the families back home or they risk engulfed in the cycle of poverty.

With regard to levels of education, the study revealed that 48% are certificate holders who are the majority, 25% diplomas, and 16% have no qualifications, and 11% of them have degrees and no PhD and masters holders.



Fig-2: Level of Education of Respondents

Education plays a very significant role in addressing issues surrounding the performance of any business regardless of the amount of investment. It is regarded as a key constituent of the human capital needed for business success and it provides the basis for intellectual development needed by entrepreneurs in business to be successful. Moreover, they provide the entrepreneurs with confidence to deal with clients [3]. In other words individuals with the highest academic attainment are likely to be insufficiently challenged by many of the mundane tasks associated with business ownership [11].

When respondents were asked about the type of business they are engaged in, the results showed that 5% of the respondents are marketeers, 21% talk time booths, 32% grocery owners and 42% of them are second hand clothes traders as shown below.

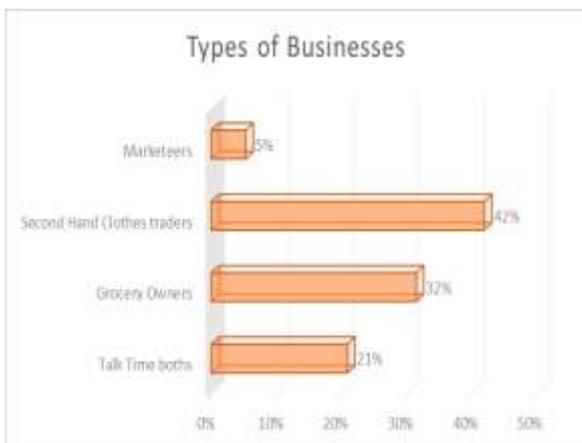


Fig-3: Types of Businesses

It seems that majority of the respondents are second hand clothes traders followed by grocery owners. When respondents were asked to state about their enthusiasm, interest, or commitment that made them engages into a specific type of business, the results were as shown below.

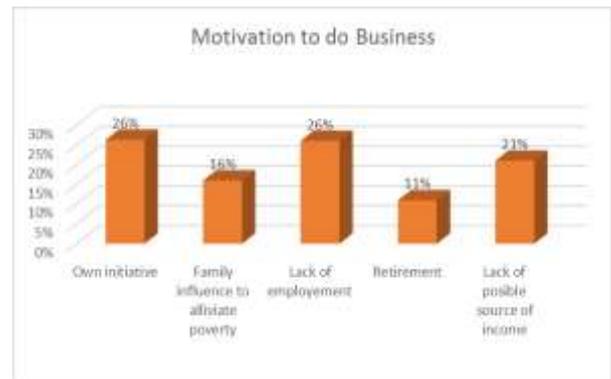


Fig-4: Motivation to do Business

Figure 4.4 above shows that most (26%) the respondents were motivated by their own initiative for their survival and save the family needs as well as the lack of employment (26%) followed by complete lack of a possible source of income especially among individuals (21%), family influence (16%) and due to retirement (11%).

The performance of businesses in the last five years

On performance of businesses in the last five years, the results of the study revealed that majority representing 42.1% indicated that the business has been very poor and only 31.6% seemingly agreed to the fact the business environment has been good owing to the fact they have had a business plan from the onset in the last five years.

Ironically, only 21.1% stated that they have had an excellent business environment because of the certain government's policy pronouncements that relates to reduced taxes rebates for individuals that deals in a particular type of business. However the remaining respondents representing 5.3% expressed ignorance as they did not know whether they have had an improvement or reduction in the running of their business. In sum, generally the business has been poor owing to the lack of information gap among the SMEs .

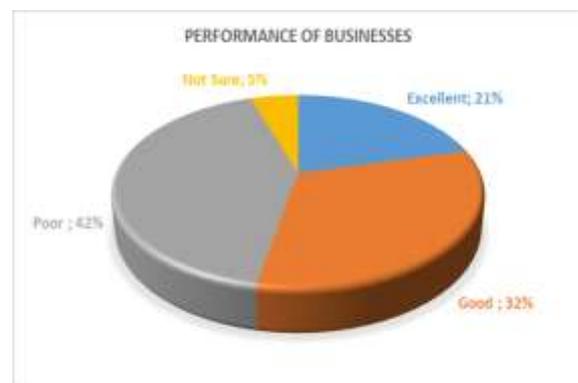


Fig-5: Performance of businesses in the last five years

The lack of performance has also been attributed to the stiff competition resulting from the pronouncements by the PF government to legalise street vending in the country.

Factors influencing failure

According to the facts in table 4.6, the respondents were asked to state the factors leading to the failure of small medium enterprise in Kabwe (SMEs). The information shows that most of them were of the view that the major factor was the lack of market information that represented 40 respondents giving rise to 42.1%. 21% representing 20 respondents of those interviewed had a similar feeling that financial constraints and the wide range of high taxes imposed the local authorities and the central government played a part in demotivating the SMEs in conducting business in Kabwe.



Fig-6: Factors influencing failure

From figure 6 above, it can be seen that the remaining 16% clearly disagreed with the other group and stated that what causes failure of small businesses is lack of collateral or proper legal documentation that would eventually ease the accessibility of loans for them to survive in heavily competed business environment.

Is there any relationship between performance and the number of years of operating a business?

In addition to understanding the performance of the business, the respondents were asked to state if number of years had an influence on the operation of business among the SMEs in Kabwe. The responses are as shown in figure 7 below.

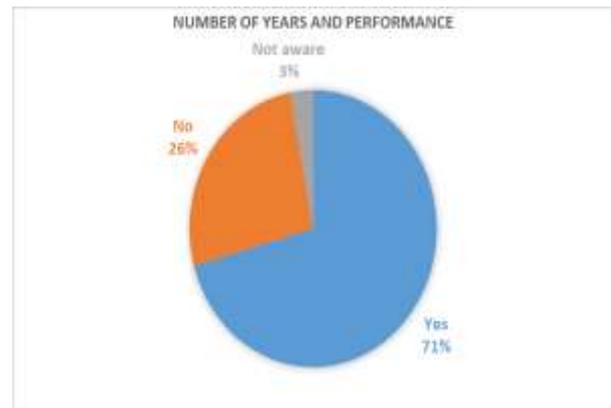


Fig-7: Number of years and performance

About 73.7% of the respondents indicated that the more years spent in business with good government policy was cardinal in the success of their businesses. On the other hand, 26.3% were of the view that it's not the question of being in business for a long time that shaped the complexion of profits but it was a question of having better connections and getting the right product on the market. However, 3% of the respondents were not aware if there is any relationship between the two.

DISCUSSION AND CONCLUSIONS

Small scale enterprises have been considered to be the backbone of the Zambian economy since the advent of privatization, as many people no longer depend on the government for them to survive except in few situations. Recent research into small-business development has also shown that the rate of failure of small scale businesses in developing countries is higher than in the developed world (Marlow, 2009). According to Ropega [2], understanding why and how business fail is important because failure is not a sudden event but a dynamic process and it also helps to understand the origin of failure and how it can be prevented in future, hence the need for this study.

The main aim of this research was to explore and identify the key failure factors for small businesses in Kabwe. We sampled a wide spectrum of people that dealt with various businesses that can be classified as small. The majority of the small business owners were males and the rest females which shows that there are more men engaged in small scale business enterprise because the lack of employment opportunities and the men must feed the families back home or they risk engulfed in the cycle of poverty. With regards to the level of education, majority of the small business owners are certificate holders and followed by diploma holders and a large number of them had none. This shows that the level of education is low for them to read and understand the changing market conditions. According to Nkonoki [5], education and training

provides the basis for intellectual development needed by entrepreneurs in business to be successful.

Entrepreneurial activities are influenced by different factors depending on the environment. The results of the study revealed that that most of the respondents were very much influenced by their own initiative as it a well-known fact Kabwe towns's economic activity as has been slowly growing as compared to other towns coupled with the prevalent rate of poverty. Therefore, as a way of survival people have seized opportunities and embarked on their own initiative. The other motivating factors is the exodus of people searching for employment has become a turning point for those that return and those that have remained to start up a small business that aim at improving the status core of house hold food security. In this regard, it is important to indicate that regardless of the various motivating factors into any form of business, the performance has been generally poor due to failure to understand the motive for starting the business. According to Ham [8], business performance is basically related to the motive behind the established of a business and the more positive motivation of the entrepreneur the more likely the business will grow.

On the failure factors for small businesses, the study indicated that the major or key factor is lack of market information with regards to how to access business plans and when and how to get the correct information that relates to business registration which is as a result of no or low level as suggested by Haase and Franco [6]. Furthermore, the research revealed that apart from the lack of market information, the small businesses are clearly affected by the prevailing financial constraints and high taxes imposed on them by the central and the local authorities through what they termed as unnecessary levies that distracted their day to day operations of a business in the central business district. According to Akabueze, [9], it would seem reasonable to expect that small businesses would grow and flourish, but the rate of business failure continues to increase because of the obstacles affecting business performance which include: lack of financial resources and lack of management experience. This handicap in obtaining finance subsequently leads to inadequate competent personnel that are unable to eventually to control costs.

However, the issue of collateral is a significant factor for small business owners. The findings of the study show that, businesses fail due to lack of security required to access the loans to boost their businesses. This is in line with Kuzilwa [10] who suggested that collateral constraint and bureaucratic procedures are major factors hindering the success of small businesses as they constrain them from obtaining funds from

lending institutions. Most of the small business owners do not have valuable property that can be used to secure a loan and where property exists they have no title deeds.

Finally, the study has also revealed that there is a positive relationship between the number of years of operations and the performance of the business or that the longer one stays in business the higher the probability that he/she would yield the profits and expand the business tentacles in other forms of diversity.

POLICY IMPLICATIONS

In this research, key failure factors for small business were investigated. Small business owner managers are facing challenges and their business performance is very poor.

Policy makers would like to see how best they can provide support that can enhance the growth of small business the Zambia. Therefore, the results of this study will help owner managers of small businesses to appreciate their key failure factors and seek help to address them from the government and non-governmental organisations support.

To the policy makers, the results of the study will help them to understand the failure factors for small businesses and the nature of the business environment they are operating in. This will provide the basis for policy formulation which will promote the growth of small businesses through the provision of loans at subsidized interest rates, reduced taxes, free or subsidized information and advice, ensuring smaller firms get shares of government contracts and so on and so forth.

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