

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District



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ABSTRACT: The study focused on assessing the growth challenges and opportunities of small and medium-sized enterprises (SMEs) in Chipata District, Zambia. The specific objectives were to examine the nature of challenges and opportunities faced by SMEs, investigate the factors leading to the failure of start-ups within five years, and develop a practical framework to guide SMEs in Chipata District. The study employed a mixed-methods approach, integrating qualitative and quantitative research approaches. The descriptive survey design was adopted, targeting a finite population of 85 SMEs, SME employees, and industry experts. Using Yamane's formula with a 5% margin of error, a sample size of 70 respondents was derived. A sample of 70 participants was selected, comprising 60 SME employees chosen through random sampling and 10 experts, including local authority officials and SME owners, selected via purposive sampling. Data were collected through structured questionnaires and interview guides. Quantitative data were analyzed using the Statistical Package for Service Solutions (SPSS) to produce descriptive statistics, while qualitative data were subjected to content analysis to extract key themes. The findings revealed that SMEs face numerous challenges, including a highly competitive environment, financial constraints, outdated technology, insufficient government support, and lack of strategic knowledge. Opportunities were identified in leveraging government programs and local market demand. Start-up failures were attributed to inadequate capital, limited managerial competencies, and difficulties in retaining skilled employees. To address these issues, a framework was proposed, focusing on harmonizing regulatory frameworks, improving access to financing, building managerial and technological skills, and establishing innovation hubs to enhance product development and competitiveness. The study concludes that SMEs' success depends on fostering managerial skills, embracing innovation, ensuring access to capital and infrastructure, and developing a committed workforce. Sustainable SME operations require enabling regulatory policies, strategic market linkages, and capacity-building initiatives. Recommendations included streamlining regulations, enhancing access to government programs, fostering mentorship initiatives, and creating innovation hubs. Policymakers are advised to prioritize a conducive regulatory environment, improve financing mechanisms, and invest in capacity-building initiatives for SMEs to thrive.

KEYWORDS: Challenges, Opportunities, SMEs', Growth, Chipata, Zambia.

1.0 INTRODUCTORY BACKGROUND

Small and Medium Enterprises (SMEs) are typically defined based on the number of employees, annual revenue, or total assets. While the exact thresholds can vary across countries and organizations, SMEs are generally classified as Micro-enterprises for fewer than 10 employees, Small enterprises for 10 to 50 employees and Medium enterprises for 50 to 250 employees. In terms of annual revenue or assets, SMEs may vary by industry, but they are commonly distinguished from larger corporations based on their size, organizational structure, and financial capacity. The key characteristic of SMEs is their flexibility, innovation, and the critical role they play in employment creation and economic development, particularly in emerging economies.

The global importance of SMEs can be summarized by their substantial contribution to job creation, innovation, and economic diversification. According to the World Bank (2023), SMEs represent over 90% of businesses worldwide and account for approximately 50-60% of total employment. In many developing economies, SMEs play an even more prominent role as they serve as the backbone of informal and formal economies. SMEs contribute significantly to GDP in most economies, with estimates suggesting they provide up to 60% of total employment in high-income countries and as much as 90% in low-income and developing countries. In developing countries SMEs can play a crucial role in poverty alleviation by providing income-generating

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

opportunities for disadvantaged groups, including women and youth. A report by UNDP (2023) highlights that SMEs, through informal sector growth, are crucial in lifting millions of people out of poverty by offering flexible labour and entrepreneurial opportunities.

Despite their importance, SMEs often face significant challenges that can hinder their growth and sustainability. Some of the most common challenges include access to finance, market access and competition, regulatory constraints, technological gaps and human capital. Despite these challenges, SMEs also enjoy significant opportunities, especially in the context of globalization, digitalization, and sustainable development. With the rise of e-commerce, social media, and digital marketing platforms, SMEs have greater access to global markets and the ability to engage with consumers in new and innovative ways. The World Economic Forum (2023) underscores how the adoption of digital technologies can enable SMEs to scale up operations, reduce costs, and increase productivity.

In the context of Chipata District, Zambia, which serves as the case study for this research, understanding the local dynamics and unique challenges SMEs face such as limited access to financial services, market access issues, and infrastructure deficits is crucial. Understanding and addressing these challenges is critical for unleashing the sector's potential to drive sustainable economic development in Zambia. However, Chipata like many developing regions, also presents significant opportunities for SMEs, particularly in sectors such as agriculture, tourism, and manufacturing. By addressing the challenges while leveraging local resources and policy support, SMEs in Chipata can contribute substantially to the district's economic development.

Part of Zambia's long-term development objectives contained in the National Vision 2030, include (a) reaching middle-income status, (b) significantly reducing hunger and poverty; and (c) fostering a competitive and outward-oriented economy (Government of the Republic of Zambia, (2006)). All of which can be attained by creating an enabling environment for SMEs as indicated in Zambia's Seventh National Development Plan 2017–2021, where the Government emphasizes the creation of a credit guarantee scheme for issuance of low-interest, long-term loans to Zambian SMEs, as well as initiatives to accelerate informal sector formalization, foster skill development, create urban industrial clusters, strengthen value-chain linkages and provide business development services to SMEs (Ministry of National Development Planning, (2017)).

In September 2015, the Zambia Institute for Policy Analysis and Research (ZIPAR) observed that most local businesses fail to grow because owners go into entrepreneurship due to failure to find jobs and not out of passion (Matakala, 2019) and this contributes to the failures of the SME sector in Zambia (Randolph and Jain, 2016). SMEs in Eastern Province have not been as successful, studies indicate that SMEs in Chipata largely depend on the ease with which they can access finance in form of bank loans and other alternatives which in many instances, the cost of finance is usually high due to interest rates (Msoni, 2022). Other studies done on this subject area have only been qualitative in nature leaving so many gaps on the individual factors behind the growth-failures of SMEs in Africa, Zambia in particular (Bhagwat and Sharma, 2007; Agyapong, 2010; Halwampa, 2015; Raikes et al., 2017; Matakala, 2019; Hamududu and Ngoma, 2020; Amehon and Xiaokang, nd). It is therefore the purpose of this study to investigate and analyse the factors that lead to failure of the SMEs growth by studying the business areas of Chipata, the provincial capital of Zambia's Eastern Province

1.1 Problem Statement

With 60% of the population living below the poverty line coupled with the unemployment rate at 12.6% in 2022 (Zambia Statistics Agency & Ministry of Labour and Social Security, 2023), it is no surprise that SMEs have been an option for many for a long time. According to the Zambia Statistics Agency (2023), Eastern Province had both the second lowest employment-to-population ratio at 17.4 percent and labour force participation rate at 18.3 percent. Given the statistics, the importance of SMEs to the provision of the much needed jobs cannot go unobserved in any country, and particularly in the Eastern Province of Zambia. There is a need to have a vibrant SME industry sector in the Eastern Province in order to increase the already low employment to population participation ratio and the labour force participation rate. However, SMEs are faced with several challenges that cannot be underestimated and in most cases they are similar across the continent (Nuwagaba, 2015).

Several studies have examined the challenges facing small and medium-sized enterprises (SMEs). Fjose et al. (2020) investigated the roles and obstacles to SME growth, while Wang (2016) focused on the obstacles to SME growth in developing countries. Additionally, Mulenshi (2017) studied the factors influencing the growth of SMEs in Lusaka District. There have also been deliberate efforts from the government and its collaborating partners aimed at ensuring that SMEs grow rather than fail (Whitworth, 2012; Zulu et al., 2013; Halwampa, 2015; Kanyamuna, 2019; Hamududu and Ngoma, 2020). However, about 74% of the SMEs in Zambia still fail to get well established and grow into bigger corporations (Kosler, 2007). The bottlenecks to the growth of the SMEs in Zambia remain unclear. However, without a clear understanding of the bottlenecks to the failures of SMEs in Zambia, it would be difficult to create the enabling environment that SMEs need to thrive. It is, therefore, imperative that a

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

systematic study be conducted with the hopes that from the knowledge and information gathered measures may be put in place to ensure that SMEs do not die prematurely.

1.2. Study Objectives

- To assess the nature of the challenges and opportunities that SMEs in Chipata District are faced with.
- To examine the factors that lead to failure of start-up SMEs within their initial five years in Chipata District.
- To devise a framework that can be used by existing and prospective SMEs as best practices to remain sustainable and competitive in Chipata District.

2.0 LITERATURE REVIEW

Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. In emerging markets, most formal jobs are generated by SMEs, which create seven out of ten jobs. However, access to finance is a key constraint to SME growth, it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries. SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. SMEs are generally more common in rural areas than larger businesses. Especially in developing countries, SMEs thus provide much-needed employment in rural areas. They can satisfy the increasing local demand for services, which allows increasing specialisation, and furthermore support larger enterprises with services and inputs (Fjose et al. 2010). This section, therefore, is intended to survey related literature to the subject topic under review, as a way of trying to establish gaps hoped to be bridged by this study.

2.1 Related Literature

2.1.1 Challenges and opportunities Facing SMEs

According to Sanjay Sony (2005), the major obstacles to business expansion faced by Small and Medium Enterprises (SMEs) all over the world were the competitive environment, regulations and availability of a skilled workforce, the cost of finance, international expansion, lack of knowledge about markets, bureaucracy, political and social instability. Despite the immense opportunities for developing Micro, Small and Medium Enterprises, almost all have remained informal or semi-formal, serving the low-income segment of the population for which there is very stiff business competition. Their access to formal market and incidence of upward mobility is quite limited. There are many reasons for this state of affairs. This include limited awareness and capacity of operators, limited access to financial and other support services and absence of enabling business environment in terms of legal and regulatory frameworks (Zambia Economic Bulletin 2009).

The Zambian SME development The International Journal of Multi-Disciplinary Research ISSN: 3471-7102 24 Paper-ID: CFP/364/2017 www.ijmdr.net policy (2008) explains that, SMES face unique problems including heavy cost of compliance resulting from their size. Insufficient working premises and limited access to finance. Business training, marketing, technology development and information. Institutions and Associations supporting SMEs are weak, fragmented partly due to lack of clear guidance and policy for the development of the sector.

The challenges facing SMEs have been discussed in several studies (Zutsi A; Mendy, J; Sharma, G.D; Thomas, A; Sarker, T. 2021). Al-Tit, Omri2019 identified four main challenges facing SMEs: firstly, difficulties related to financial resources with the time-consuming procedures of obtaining loans and a lengthy list of guarantees; secondly, lack of critical knowledge regarding local, regional, and international market variables and changing circumstances; thirdly, the inability of entrepreneurs to reach customers beyond local markets, be it regional or international due to their lack of marketing strategies; and finally, inadequate managerial skills in areas such as human, financial, and administrative fields. Similarly, (Alqassabi, 2020) reported that SMEs face several constraints that hinder their success and limit their chances of growth. One such constraint is the lack of managerial skills among enthusiastic business pioneers

Access to finance may be justifiably placed in the second position on the list of challenges faced by SMEs since as younger and smaller firms, SMEs suffer from lack of capital because they may have no retained earnings to reinvest and so they have to seek ways of raising this capital (Olaitan 2006). One of the options available may be by obtaining loans or borrowing from the bank but may not be possible for these young firms as collateral security may be prohibitive (Onugu 2005). Their usual lack of positive past financial performance and low returns make financial institutions be reluctant to give money to such firms where credit analysis shows some high risks (Myers et.al. 2008).

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

In conclusion, challenges faced by many SMEs in trying to grow their businesses included financial problems where most SME owners lacked the financial capability as they funded their SMEs using personal savings. Other challenges included competition from local suppliers, high interest rates from bank loans and high taxes. It was also noted that inconsistent government policies also affected the growth of businesses. SMEs in developing countries are facing several critical challenges that hinder their businesses' growth (Andalib & Ridzuan Darun, 2018).

2.1.2 Factors that lead to failure of start-up SMES within their initial five years

Start-up SMEs face numerous challenges during their formative years, leading to high failure rates globally and locally. Research identifies financial constraints, managerial inefficiencies, external market forces, and inadequate government support as the primary causes.

In Zambia, Banda and Tembo (2020) found that start-up SMEs in rural areas like Chipata struggle to access affordable financing due to high interest rates, stringent collateral requirements, and limited awareness of financial programs. Despite efforts from the Citizens Economic Empowerment Commission (CEEC), these barriers persist, disproportionately affecting younger enterprises. Globally, Joshi et al. (2021) observe that inadequate financial resources are the most cited reason for SME failure, especially in developing economies.

Mwansa et al. (2021) note that Zambian SMEs often lack proper training in financial and operational management. Entrepreneurs frequently operate without structured business plans or bookkeeping systems, which hinders decision-making and resource allocation. Zulu and Phiri (2020) highlight that market volatility and competition from imported goods are significant threats to start-up SMEs in Zambia. Local entrepreneurs often struggle to maintain competitive pricing or quality standards, leaving them vulnerable to economic shocks. According to Patel et al. (2022), SMEs globally face similar challenges from market volatility, particularly during economic downturns or periods of inflation.

Banda and Mwale (2019) argue that Zambia's regulatory environment is complex and burdensome, with lengthy processes for obtaining licenses and tax compliance requirements. Start-ups, with limited resources, are disproportionately affected. Clarke and Simon (2021) identify regulatory red tape as a universal challenge for SMEs. However, some countries have streamlined these processes through e-governance platforms, significantly reducing start-up costs and delays. Such innovations remain underutilized in Zambia.

Phiri and Tembo (2021) report that SMEs in Chipata and other rural areas are technologically under-equipped, relying on outdated tools and processes. This hampers productivity and the ability to compete in an increasingly digital economy. Yang et al. (2022) emphasize that limited technology adoption is a barrier for SMEs worldwide, particularly in developing regions. However, targeted programs in countries like India and Kenya have successfully introduced affordable technology solutions, demonstrating a potential path forward for Zambia.

2.1.3 Frameworks for SME Growth to Ensure Sustainability and Competitiveness

Entrepreneurial growth frameworks provide strategic guidelines that SMEs can adopt to remain sustainable and competitive. These frameworks focus on operational efficiency, innovation, market adaptability, and collaboration, among other aspects.

The Business Model Canvas, developed by Osterwalder, provides a structured template for SMEs to design, analyze, and innovate their business models. It focuses on elements such as value propositions, customer segments, revenue streams, and key resources. Mwansa and Banda (2021) highlight the potential of the BMC in Zambia, especially for SMEs seeking to streamline their operations. It allows entrepreneurs to align their resources with market demands and identify opportunities for value creation. Lekhanya (2021) reports the success of BMC in South African SMEs as a tool to adapt to dynamic markets and enhance customer focus. Globally, SMEs using this framework have shown improved operational clarity and strategic adaptability.

The Lean Start-Up Framework emphasizes rapid experimentation and iterative product development. It encourages SMEs to create a "minimum viable product" (MVP), gather customer feedback, and refine offerings quickly. Phiri and Tembo (2022) note that in Chipata, this approach has helped SMEs reduce costs and align products with customer needs, especially in the agro-processing sector. However, access to resources for experimentation remains a challenge. Ries (2019) demonstrates that globally, SMEs adopting the Lean Start-Up framework can pivot their strategies effectively in response to market changes. For instance, technology startups in Asia have used this framework to accelerate growth.

The Triple Bottom Line (TBL) Framework emphasizes balancing social, environmental, and economic goals. SMEs adopting this framework focus on sustainability while achieving profitability. Zulu et al. (2021) discuss the growing importance of green practices among Zambian SMEs, such as renewable energy adoption and waste reduction. These practices not only enhance sustainability but also appeal to environmentally conscious customers. Clark and Simon (2020) highlight the success of TBL in European SMEs, where sustainability practices lead to cost savings and improved brand reputation. The framework encourages long-term planning that integrates environmental and social responsibilities.

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

Cluster-Based Development Framework focuses on SMEs operating within clusters to benefit from shared resources, infrastructure, and networks. It fosters collaboration and innovation. Banda and Mwale (2021) note the potential for cluster-based frameworks in Zambia, particularly in agriculture and textiles. By pooling resources, SMEs in Chipata can access better technologies and share marketing channels. Porter (2000) demonstrates the effectiveness of clusters in developed economies, such as Italy's textile hubs and Silicon Valley's tech clusters. These examples show how SMEs in clusters innovate faster and achieve economies of scale.

Digital Transformation Framework emphasizes integrating digital tools into core operations to improve efficiency, customer engagement, and market reach. Phiri et al. (2022) found that Zambian SMEs adopting digital platforms like mobile payment systems and e-commerce have improved competitiveness despite limited internet penetration in rural areas. Yang et al. (2021) report that digital transformation frameworks have revolutionized SMEs globally, especially during the COVID-19 pandemic. Businesses leveraging digital marketing, automation, and analytics have shown greater resilience.

2.2 Gaps in the Literature

Entrepreneurial success has been well investigated and remains a major concern to researchers in many nations. Literature is however, very scanty on entrepreneurial success in Zambia because little attention is given to research in this area despite the increasing challenges of business failure occasioned mostly by increasing harsh business environment; the need to accord priority to research in this area therefore, becomes imperative to conduct empirical studies on entrepreneurial success factors and success measuring parameters to enhance SMEs development in Zambia. Existing studies highlight SME challenges but lack targeted frameworks for sustainability in Zambia, particularly in rural areas.

2.3 Theoretical Frameworks

This section presents the theories underpinning the study. Some of these theories are: the resource dependency theory (RDT) as propounded by Pfeffer and Salancik (2010); the capital structure theory proposed by Modigliani and Miller; and the working capital management theory.

2.3.1 Capital Structure Theory. Capital structure has an impact on company's financial sustainability. The relationship between firm's capital structure and the firm's profitability is very significant as the profitability of the firm can directly be affected by the capital structure decisions therefore impacting on the long-term sustainability of the firm. Velnampy and Niresh (2012) argued that profitability of the firm is dependent upon the capital structure decisions. Abor (2005) revealed that there is a significant relationship between total debts and total assets that make up the capital structure, suggesting that firms depend more on debt as a way of financing which influenced financial sustainability. The capital structure theory has been adopted for this study to help analyse how SMEs structure their capital and how they source their capital in order to maximize returns, while ensuring that they maintain the costs of capital so as they don't supersede the benefits.

2.3.2 Working capital management theory underpins the interaction between current assets and current liabilities (Sagan, 1955). It is concerned with the problem that arises in attempting to manage the current liabilities and the interrelationship that exist between them. The significant goal of working capital management is to manage a firm's current assets and current liabilities in such a way that satisfactory level of working capital are achieved and maintained (Rekha, 2014). Working capital concerns the company liquidity, efficiency and overall wealth, which includes cash, inventory, account receivable and account payable. Working capital management has been adopted for this study in order to analyse how SMEs are able to balance between components of working capital to ensure that they remain competitive, establish long term relationships with creditors and form a framework for analysing strategies put by SMEs to ensure solvency.

2.3.3 The Resource dependency theory (RDT). Resource dependence theory (RDT) is based upon how the external resources of organizations affect the behaviour of the organization. Small firms need critical resources such as raw material, land, or labor, or even location as defensive mechanisms at their disposal to enhance growth. Hence, Zehir et al. (2019) suggest that as the uncertainties increase, the smaller firms need to focus more on the 'relationships of dependence on power' through formal contracts, embeddedness and strategic alliances such as joint ventures or M&A instead of giving a power-advantage. Salam et al. (2017) advocate that such dependence will help them leverage the firms' resource-related bargaining power, strategic partnership, or choice of exchange strategies. For SMEs to achieve growth, resources are important. These resources will come in the form of raw material, land, or labour, or even location as well as finances. The RDT used will have to explain how resources of SMEs enhances the growth of SMEs

2.4 Conceptual Framework

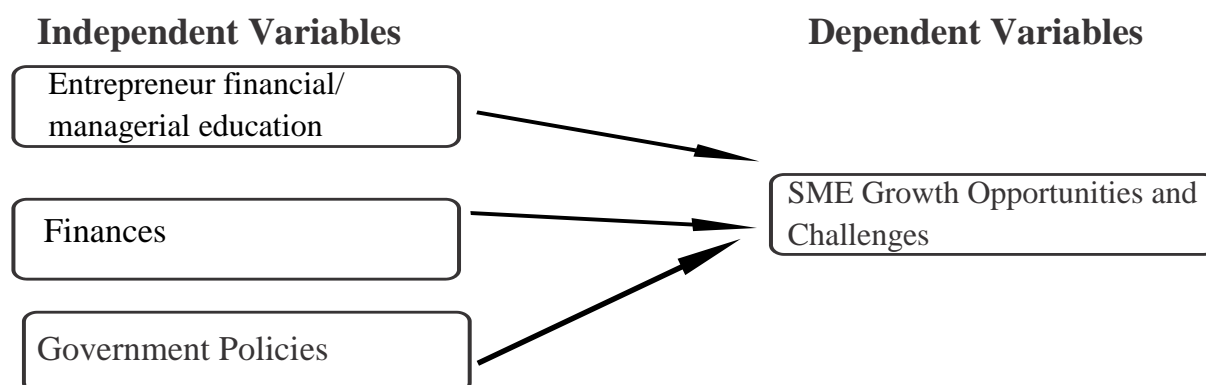


Figure 2.1 Conceptual Model (Source: Researcher, 2023)

The conceptual framework for this study aims to understand the dynamics between various factors influencing the business growth of SMEs in Chipata. At the core of this framework is the relationship between the challenges faced by these SMEs and their business growth. The independent variable in this framework are the challenges faced by SMEs in various sectors. These challenges encompass a range of issues, such as financial constraints, government policies, lack of entrepreneur financial and managerial education. These obstacles directly impact the ability of SMEs to expand their operations, increase revenue/sales and sustain profitability. The dependent variable is the SME growth opportunities and challenges. Business growth is characterized by several indicators, including revenue growth, expansion of market share, brand recognition, increase in production capacity, and overall profitability. The extent to which SMEs can overcome the identified challenges will significantly influence their growth. Therefore, the business growth of SMEs depends on how well they manage and mitigate the challenges they face.

3.0 METHODOLOGY

This study adopts pragmatism as its philosophical underpinning, combining elements of positivism and interpretivism to provide a balanced and comprehensive approach to understanding the challenges, opportunities, and best practices for SMEs in Chipata District. Pragmatism is a philosophy that focuses on the practical application of ideas, emphasizing solutions to real-world problems through actionable insights (Creswell, 2014). Positivism in the study is reflected in the use of structured questionnaires to collect quantifiable data from SME owners and employees. This allows for the objective measurement of common trends and challenges, such as financial constraints, lack of skilled labour, or inadequate infrastructure. The use of random sampling ensures representativeness and reduces bias, aligning with the positivist emphasis on reliability and generalisability (Neuman, 2014). Interpretivism, on the other hand, is evident in the semi-structured interviews conducted with experts. These interviews allow for in-depth exploration of subjective experiences and insights that cannot be captured quantitatively, such as personal observations on market dynamics or cultural factors influencing SME operations. This interpretive approach provides a nuanced understanding of the context-specific challenges and opportunities in Chipata District (Bryman, 2016).

Chipata district was selected for this study because it is a newly declared city in Zambia, with high potential by government on providing opportunity for the city to grow. The entire population of this study was composed of SMEs located in Chipata. Other parties contacted for additional information were SME sector experts and council officials. The population of this study was 85 SMEs. The sample size needed for the study was 70 participants. The study utilized two (2) sampling methods namely: random and purposive sampling. The study used both questionnaires and interview schedules. SPSS version 27 was used to analyse quantitative data while content analysis was applied on qualitative data. Ethical considerations and measures of data quality control were adhered to with the deserved strictness.

4.0 FINDINGS

4.1 Assessing the Nature of Challenges and Opportunities for SMEs in Chipata District

The study identified a range of challenges and opportunities that influence SME operations and growth in Chipata District. The primary challenges include financial constraints (70%), limited access to technology (55%), inadequate managerial skills (50%), and regulatory barriers (40%). Financial constraints were a recurrent theme, with SMEs facing high interest rates and stringent collateral requirements for loans. Technological adoption was another critical challenge. SMEs in the district predominantly rely on outdated tools, which limits their operational efficiency and innovation potential. Conversely, the district also offers

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

opportunities through government initiatives and a growing local market. On the other hand, government programs and a growing population in the district provide a fertile ground for SME expansion. Initiatives by the Zambia Development Agency (ZDA) and the Citizens Economic Empowerment Commission (CEEC) offer support mechanisms, although their implementation faces bureaucratic delays. The growing demand for goods and services in the district underscores the potential for SMEs to tap into emerging markets. About 60% of SMEs acknowledged the availability of support programs from entities like the Zambia Development Agency (ZDA) and the Citizens Economic Empowerment Commission (CEEC). Additionally, 50% of respondents highlighted the increasing market demand as a key growth opportunity.

4.2 Examining the Factors Leading to Start-up Failures Within Five Years

Start-up failures were predominantly attributed to inadequate capital, limited managerial skills, market volatility, and regulatory barriers. These findings resonate with the Working Capital Management Theory, which highlights the necessity of maintaining liquidity for meeting short-term obligations. Start-ups in Chipata often fail to effectively manage working capital due to limited financial literacy and external pressures.

Inadequate capital was the most cited factor at 40%. High interest rates and stringent loan conditions make it difficult for start-ups to access necessary funds. Managerial inefficiencies also emerged as a significant contributor to start-up failures at 25%. It was further observed that having one skill alone was not adequate to sustain an SME. However, possession of a good number of skills in good distribution was essential to the success of a startup SME. Entrepreneurs in Chipata often lack structured business plans and financial management skills, leading to poor decision-making. Market volatility, exacerbated by competition from imported goods, further compounds the challenges faced by start-ups at 20%. Finally, regulatory barriers (15%) such as lengthy licensing processes and high compliance costs—disproportionately affect start-ups with limited resources.

4.3 Proposing a Framework for SME Sustainability and Competitiveness

The findings informed the development of a framework to enhance SME sustainability and competitiveness in Chipata District. The proposed framework emphasizes financial access, technological adoption, capacity building, and regulatory streamlining. Financial access can be improved through simplified loan processes and cooperative financing models. Technological adoption is crucial for improving efficiency and innovation. Training programs and partnerships with private and public entities can provide SMEs with access to affordable technology. Capacity building through mentorship programs and workshops can address the managerial skill gaps identified in the study. Streamlining regulatory processes through e-governance platforms can reduce compliance costs and delays, enabling SMEs to focus on core business activities. The findings have significant implications for policymakers and practitioners. Policies should prioritize financial inclusion, capacity building, and regulatory reforms to create an enabling environment for SMEs. Practical initiatives, such as mentorship programs and digital transformation training, can empower SMEs to adapt to market demands and sustain growth.

5.0 DISCUSSION OF FINDINGS

5.1 What is the nature of the challenges and opportunities that SMEs in Chipata District are faced with?

The SME industry is faced with a highly competitive environment characterised by inaccessible financing for SMEs. Many SMEs are unprepared to face the competitive rivalry due to their failure to diversify and innovate so as to survive in their respective industries. SMEs' financing was found to be from their own savings as loans were not attainable by a number of them due to restrictions on borrowing from the financial institutions. A number of SMEs have not embraced technology and good management practices. Further, the cost of doing business was also highlighted. This was also attributable to the many regulatory institutions such as NAPSA, ZRA and others that imposed serious penalties for SMEs not abiding by regulations. A number of SMEs have opted not to formalise their operations because of the costs associated with regulation. Financial constraints were a recurrent theme, with SMEs facing high interest rates and stringent collateral requirements for loans. Msoni (2022) specifically highlights how these high interest rates significantly hinder the growth and sustainability of SMEs in Chipata

5.2 What are the factors that lead to failure of start-up SMEs within their initial five years in Chipata district?

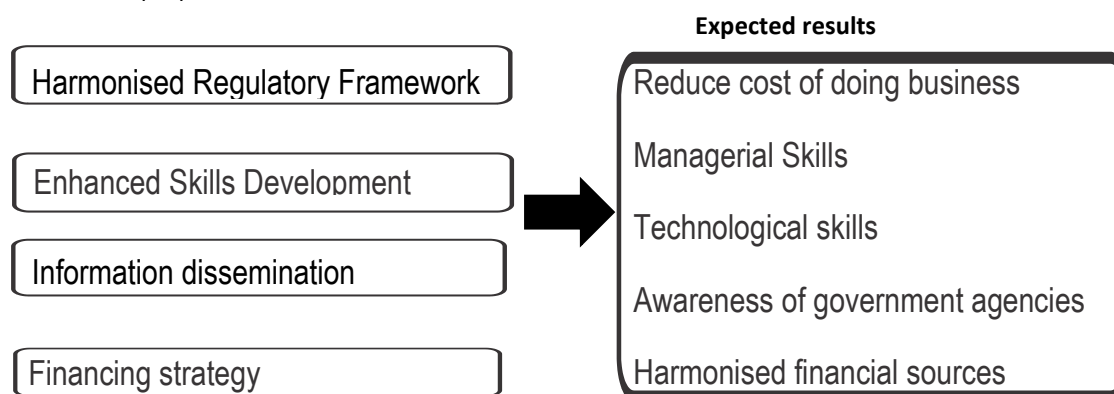
The factors that lead to failure of startup SMEs in their early stages were found to be lack of capital to expand the businesses beyond the startup phase. Inadequate capital was the most cited factor. High interest rates and stringent loan conditions make it difficult for start-ups to access necessary funds. Banda and Tembo (2020) similarly observed that financial challenges disproportionately affect start-ups in rural Zambia. Globally, Joshi et al. (2021) noted that start-ups in developing regions face higher failure rates due to financial constraints. Managerial inefficiencies also emerged as a significant contributor to start-up failures. It was further observed that having one skill alone was not adequate to sustain an SME. The SMEs need to have managerial competencies to manage their businesses effectively. However, possession of a good number of skills in good distribution was

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

essential to the success of a startup SME. To be able to attain maximum business success, marketing skills are crucial for SMEs' survival and growth (Bouazza et al., 2015). In essence, lack of marketing skills hinders small business success (VanScheers, 2011; Pandya, 2012). Entrepreneurs in Chipata often lack structured business plans and financial management skills, leading to poor decision-making. These findings are consistent with Martin and Staines (2008), who identified managerial incompetence as a leading cause of SME failures worldwide.

5.3 What framework can be used by both existing and prospective SMEs as best practices for SMEs to remain sustainably competitive in Chipata District?

A suitable framework that can lead to the success of SMEs is one that identifies the challenges, opportunities and factors for success of SMEs as proposed below:



A harmonized regulatory framework aims to streamline policies, simplify licensing procedures, and create a business-friendly environment. Access to relevant and timely information is essential for SME growth. This includes information on market trends, legal requirements, financing options, and government programs. Enhanced dissemination strategies, such as digital platforms, workshops, and business forums, can bridge the knowledge gap. High operational costs, including taxes, utilities, and compliance costs, can stifle SME growth. Policies aimed at reducing these expenses, such as tax incentives, affordable credit facilities, and infrastructure improvements, can enhance SME competitiveness. Strong leadership and management skills are fundamental for SME success. Capacity-building programs focusing on business planning, financial management, and strategic decision-making can empower SME owners and managers to run their enterprises more efficiently. In an increasingly digital world, technological proficiency is a key driver of SME growth. Training programs on digital marketing, e-commerce, and business automation can improve productivity and market reach. Many SMEs are unaware of the support available from government agencies. Awareness campaigns and advisory services can help businesses take advantage of funding programs, tax incentives, and training opportunities. Access to finance remains a major challenge for SMEs. A coordinated approach involving banks, microfinance institutions, venture capital, and government grants can improve funding accessibility. Additionally, SMEs need tailored financing strategies to align with their business models and growth plans.

The Expected Outcomes will enhance business growth, improve competitiveness and sustainable development. SMEs will experience increased efficiency and expansion due to reduced operational costs and better access to financial resources. With better managerial and technological skills, SMEs can compete effectively in both local and international markets. A well-supported SME sector will contribute to economic diversification, job creation, and long-term sustainability. By implementing this framework, policymakers, financial institutions, and business development organizations can create a conducive environment for SME success, leading to economic prosperity and inclusive growth.

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

The findings from this research underscore the significant role of managerial skills, innovation, shared values, and capital availability in the success of SMEs in Chipata District. SMEs that possess diverse skills across various operational domains are better equipped to navigate challenges and leverage opportunities for growth. Furthermore, the turbulent but predictable operating environment in Chipata provides a relatively safe investment climate, emphasizing the importance of strategic planning and adaptability for sustainable business operations.

Assessing Small and Medium Enterprises' (SMEs') Growth Challenges and Opportunities: A Case Study of Chipata District

The research also highlights the critical contribution of SMEs to employment creation, particularly in developed economies that rely on free-market practices. This reinforces the global significance of SMEs as engines of economic growth and development. In Chipata, however, the high failure rate of SMEs within their first year is often linked to inadequate skills and a lack of proper feasibility studies, compounded by misconceptions about market availability. This finding underscores the need for capacity building and market research as foundational elements for SME success.

Finally, the sustainability of SMEs is not solely dependent on profit margins but also on public perception, employee motivation, and effective market engagement. A customer-focused approach is critical for aligning products and services with consumer needs, thereby enhancing competitiveness and longevity. Additionally, while access to capital remains vital, SMEs must equally pursue strategies for market development, workforce empowerment, and securing government support to ensure long-term resilience and growth.

6.2 Recommendations

- 6.2.1 To address the challenges and opportunities for SMEs in Chipata District, it is essential to prioritize financial inclusion and the provision of affordable infrastructure. Enabling SMEs to access low-cost financing can alleviate the financial constraints that currently hinder their growth. Collaborations with corporate entities to provide affordable business infrastructure will further empower SMEs to operate efficiently. Linking SMEs to both local and international markets is another critical step, ensuring that businesses have access to diverse opportunities for growth and expansion.
- 6.2.2 In response to the high failure rates of start-ups within their first five years, targeted training programs focusing on skills and capacity development are imperative. These programs should emphasize managerial competencies, strategic planning, and adaptability to market changes. Decentralizing the services of entities dealing with SMEs can ensure that support systems are accessible to all, reducing the disparities caused by geographic and bureaucratic barriers. Additionally, reducing the cost of doing business by eliminating prohibitive penalties for defaults can create a more conducive environment for SME growth.
- 6.2.3 For SMEs to achieve long-term sustainability and competitiveness, a holistic approach focusing on innovation and governance is crucial. Creating innovation hubs will provide SMEs with the tools and resources needed to enhance product quality and adapt to changing consumer demands. Establishing managerial training programs in collaboration with higher institutions of learning will equip SME handlers with requisite skills. Furthermore, entrenching governance structures that separate business ownership from management will promote accountability and adaptability, enabling SMEs to respond effectively to societal influences and market dynamics.

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