



## Introduction

### Overview

The small and medium sized enterprises (SMEs) have been a subject of continual interest to both researchers and practitioners (Watson, 2010). This enlightenment research project investigates the pitfalls which has affected the financial performance of the SMEs in Zambia. SMEs despite their significant roles in the economies of scale are however often overshadowed by the big conglomerates. However, SMEs by nature feed into the conglomerates and provide employment resulting into a strong middle class the consumption class which drives the economy. Some businesses which start off as SME graduate into corporates and with time may

a small struggling business operating from a back street establishment. Some SMEs are pretty solid. It may just be that their set-ups have simple processes and few employees.

According to (Subhan et al., 2013), SMEs are the driving force for the promotion of an economy. Due to their significance, all the countries either, developed or developing, are

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another. With privatization of 1991, the economy become 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 (Chiumya, 2006).

At present, the Zambia Development Agency (ZDA) act of parliament of 2006 does seem not to be having any impact at all on the promotion of the Zambian entrepreneur through SMEs, and most SMEs in Zambia are ignorant of the provisions and powers given to them through this act. Given the circumstance how adequate are the provisions contained in the ZDA act to empower the Zambian SMEs and what strategies and methods is the ZDA going to use to ensure that the Zambian entrepreneurs are aware of the various provisions and policies the act brings on board to empower them. Although the SMEs in the private sector in Zambia have such great potential for economic development, equitable wealth redistribution and poverty alleviation, they face many business constraints and challenges which hinder growth and limit their ability to contribute effectively to national economic development.

### **Research questions**

What are the factors effecting the growth and success of small and medium sized enterprises in Lusaka District?

## Literature Review

### 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 payout ratio. Their main aim in doing this is to show that firms that have different dividend payout ratios and therefore belong to different categories, have differential access to finance. Some firms are financially constrained while others are not.

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:

## Research Methodology

### Introduction

This chapter outlines the methodology on how data and information relevant to the research will be gathered and analyzed in order to achieve the objectives of the study.

### Research design

This study will adopt a descriptive survey research which will use the qualitative approach. Descriptive survey design is a method of collecting information by interviewing or administering questionnaires.

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***Managerial Skills***

The study further found out that availability of managerial skills and experience affects

