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Factors Leading To High Business Failure among Unregistered Zambian Owned and Operated SMES against Registered and Operated SMES. A Case Study of Mpika District in Muchinga Province

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ABSTRACT :

This study investigated the factors leading to high business failure among unregistered Zambian-owned and operated small and medium enterprises (SMEs) compared to registered SMEs in Mpika District, Muchinga Province. The research was driven by the persistent challenge that a large proportion of unregistered SMEs in Zambia fail to sustain operations beyond their early stages, despite their vital contribution to local economic growth and employment creation. The main objective was to assess the underlying causes of failure and explore the comparative advantages enjoyed by registered enterprises. A mixed-methods case study design was adopted, integrating both quantitative and qualitative approaches to obtain comprehensive insights from 100 SME owners through structured questionnaires, interviews, and field observations. Data were analyzed using descriptive statistics and thematic content analysis. The findings revealed that unregistered SMEs face greater risks of failure due to poor financial literacy, lack of access to formal credit, weak business management practices, inadequate market research, and absence of legal protection. In contrast, registered SMEs exhibited greater stability and growth potential, largely attributed to better access to finance, formal recognition, regulatory compliance, and business development support. The study concludes that business registration is a key determinant of enterprise sustainability and competitiveness.

***Keywords**:* Business Failure, Unregistered SMEs, Registered SMEs, Entrepreneurial Management, Financial Literacy, Mpika District, Zambia.

Introduction and Rationale

Small and Medium Enterprises (SMEs) serve as vital engines for Zambia's socio-economic development, contributing substantially to job creation, poverty alleviation, and innovation (Burns & Dewhurst, 1996; Rooks & Sserwanga, 2009). In Mpika District of Muchinga Province, SMEs play an essential role in stimulating local economies and supporting community livelihoods. However, a high rate of business failure persists, particularly among unregistered, Zambian-owned enterprises compared to those formally registered under the Patents and Companies Registration Agency (PACRA). Registration often grants legal recognition, access to institutional finance, and participation in formal business networks, yet many Mpika entrepreneurs continue to operate informally, limiting their growth and long-term survival.

In Zambia's wider economic framework, the government continues to emphasize SME development as a means to achieve inclusive growth and diversification. Nevertheless, numerous small businesses remain fragile due to challenges such as poor financial management, inadequate market research, lack of access to credit, and limited entrepreneurial training (World Bank, 1978; Fredland & Morris, 1976). Many unregistered enterprises depend on personal savings or informal lending systems, leaving them vulnerable to poor planning, weak supply chains, and early collapse. The trend aligns with global findings indicating that nearly half of new businesses fail within their first five years of operation (Mason, 2009), raising concerns about the sustainability of Zambia's informal enterprises.

This study sought to investigate the factors contributing to high business failure rates among unregistered SMEs in Mpika District, contrasting them with registered counterparts to identify key differences in sustainability and growth. By examining issues such as access to finance, managerial competence, and institutional support, the research seeks to provide evidence-based recommendations for enhancing SME performance and promoting business formalization. Ultimately, the findings sought to inform policymakers and development practitioners on strategies to strengthen small business resilience, reduce failure rates, and enhance the contribution of SMEs to economic stability in Muchinga Province and Zambia at large.

Literature Review

2.1 Failure Factors of SMEs

Entrepreneurship literature emphasizes numerous factors influencing business performance and failure (Laitine, 2002). Business failure has been defined in diverse ways ranging from bankruptcy and discontinuance to failure to meet stakeholder expectations or achieve profitability (Watson, 2003; Titus, 2008; Honjo, 2000). Scholars note that both internal and external factors contribute significantly. Internal factors include lack of management skills, poor planning, weak financial control, and insufficient customer focus, while external ones involve limited access to finance, competition, economic volatility, and weak institutional support (Mudavanhu et al., 2011; Pratten, 2004; Hiatt & Sine, 2012). The “liability of newness” theory (Stinchcombe, 1965) further suggests that younger, less experienced enterprises are more vulnerable due to limited resources, experience, and networks. Empirical studies such as those by Williams (1986) and Berryman (1983) confirm that over 80% of SME failures stem from internal management inefficiencies, especially poor financial management and inadequate accounting systems.

2.2 Theoretical Framework of the Study: Business Failure Rate

Business failure is often associated with liquidity constraints and inadequate managerial capacity (Dollinger, 1999; Berryma, 1983; Baldwin et al., 2000). The literature presents varied terminologies firm closure, dissolution, insolvency, and bankruptcy reflecting the complexity of defining business failure (Cardozo & Borchert, 2004). Some scholars equate failure with the discontinuance of operations or inability to sustain profitability (Cochran, 1981; Fredland & Morris, 1976; Dun & Bradstreet, 1979). Watson and Everett (1999) highlight that bankruptcy and discontinuance represent two extremes of business failure, while Pretorius (2009) proposes a broader definition, emphasizing a firm’s inability to attract financing or maintain operations under current ownership. Essentially, failure signifies a firm’s inability to adapt, compete, or meet financial obligations, resulting in closure or forced liquidation (Gaskill et al., 1993; Liao et al., 2008).

2.3 Synthesis and Conceptual Implications

From the reviewed literature, it is evident that SME failure arises from intertwined managerial, financial, and environmental challenges. Unregistered businesses in particular may face compounded risks due to lack of institutional support, limited access to credit, and weak legal protection. The theoretical perspectives, including the liability of newness and resource-based views, provide useful frameworks for understanding why unregistered SMEs in Mpika District might fail more frequently than registered ones. This study thus situates SME failure within both internal inefficiencies and external institutional weaknesses, highlighting the need for strategic management, financial literacy, and supportive policy environments to enhance SME survival.

Research Questions

This study sought to investigate the factors contributing to high business failure among unregistered SMEs in Mpika District by addressing the following questions:

1. What are the main types of business failure factors affecting unregistered SMEs in Mpika District?
2. How do these failure factors differ between unregistered and registered SMEs?
3. What role do regulatory compliance, financial management, and business planning play in the sustainability of SMEs?
4. What challenges do unregistered SMEs face in achieving long-term business growth and stability?
5. What strategies or recommendations can be proposed to reduce business failure rates among unregistered SMEs and enhance their sustainability?

Methodology

5.1 Research Design

This study employed a mixed-methods case study design to investigate factors leading to high business failure among unregistered SMEs in Mpika District, contrasting them with registered SMEs. Both qualitative and quantitative approaches were adopted, allowing for complementary insights and triangulation of findings (Tashakkori & Teddlie, 2003). The qualitative approach focused on participants’ perspectives and experiences, while the quantitative component provided measurable comparisons between registered and unregistered SMEs (Bogdan & Biklen, 2003; Merriam, 1998).

4.2 Population and Sampling

The target population comprised 100 SMEs in central Mpika and surrounding areas. Stratified random sampling was employed to ensure representation across different types of SMEs, with proportionate allocation reflecting the population structure (McMillan & Schumacher, 2006). A total of 100 respondents, including business owners and managers, participated, with 55.1 percent females and 44.9 percent males. This approach ensured a balanced and representative sample for comparing successful and unsuccessful business operations.

4.3 Data Collection

Primary data were collected using interviews, observations, surveys, and document reviews (Gill & Johnson, 2002; Cooper & Schindle, 2008; Bryman, 1989; Jankowicz, 2005). Interviews targeted business owners and managers involved in start-up and daily operations, providing rich qualitative insights. Questionnaires complemented interviews by capturing quantitative measures. Ethical procedures, including informed consent, confidentiality, and voluntary participation, were strictly observed throughout data collection.

4.4 Data Analysis

Data analysis involved summarizing, categorizing, and structuring information into meaningful narratives. Descriptive statistics were computed using SPSS and Microsoft Excel, while t-tests and Friedman tests compared the perspectives of successful versus unsuccessful entrepreneurs, based on responses from 105 completed questionnaires. This combination of qualitative interpretation and quantitative testing facilitated a comprehensive understanding of factors influencing SME failure in Mpika (Central Limit Theorem applied for normality in large samples).

Results and Discussion

The study found that nearly half of the SME owners in Mpika District perceived their businesses as deteriorating, while 41.9 percent reported success, and only 2.5 percent described their businesses as very successful. Most owners were aged between 25-34 years, suggesting that SMEs in the district are predominantly managed by young entrepreneurs. Training in business operations showed a positive correlation with performance, as 49.5 percent of trained respondents reported doing well, whereas 60.8 percent of untrained owners indicated poor performance, highlighting the importance of relevant business training.

5.1 Factors Contributing to SME Failure

Lack of Planning

Poor planning remains a central reason for SME failure. Richardson and Richardson (2009) define planning as designing a desired future and developing strategies to achieve it. Niemen (2008) emphasizes planning as a managerial function that guides objective setting and action plans, including business plans and budgets. SMEs often fail because owners lack management training, resulting in poorly designed plans that do not address customer needs or strategic goals.

Financial Management

Inadequate financial management contributes significantly to SME failure. Niemen (2008) describes financial management as planning, organizing, and controlling funds. Start-up SMEs often struggle with resource allocation, recordkeeping, and accountability, limiting access to further funding and growth opportunities (Kambwale et al., 2015).

Lack of Management Skills

Poor managerial competence is another critical factor. Effective SME management requires technical, human, and conceptual skills to plan, organize, lead, and control resources (Sutevski, 2012; Stoner & Freeman, 2006). SMEs led by inexperienced managers often fail to address operational challenges, and owners with business qualifications have a higher survival rate (Victoria et al., 2011; Inkoun, 2008; Arnold et al., 2010). Key managerial skills such as strategic planning, proactivity, and customer orientation enhance SME performance and reduce failure risk (King, 2007; Webster, 2009).

Inability to Manage Growth

Growth pressures often exceed SMEs' financial and managerial capacities. Mienie (2009) notes that resource limitations and cash flow issues hinder business expansion, while lack of prioritization distracts owners from long-term goals, increasing the risk of insolvency (King, 2007).

Lack of Capital and Access to Finance

Capital constraints impede SME growth, as insufficient cash flow limits working capital and acquisition of essential assets. SMEs often lack collateral and understanding of lending processes, exacerbating financial challenges (King, 2007).

Demand-Side and Supply-Side Constraints

SMEs face demand-side limitations due to weak internal structures, limited financing information, and insufficient human resource capacity. Supply-side constraints arise from banks' risk aversion, capacity limits, and bias towards larger firms, reducing access to loans (Kambwale et al., 2015).

Lending Infrastructure, Policy, and Institutional Constraints

Weak lending infrastructure, including inadequate creditor protection, collateral systems, and credit registries, limits SME financing, increasing failure risk (Kambwale et al., 2015).

Training and Education

Training enhances SME performance by improving employee skills, customer satisfaction, productivity, and managerial capacity. However, evidence of training impact is mixed, with successful programs linked to strong management support and proactive implementation (Junaidah, 2013; Storey, 2004, 2007; Huang, 2008; Marshall & Rossman, 2009; Pretorius et al., 2006; Mason, 2006; Nieman, 2006; CMA Management, 2005). SMEs with trained managers and employees are more likely to survive and contribute skilled labor to the broader economy.

Poor Crime Management

Crime, both internal and external, negatively affects SMEs. Theft from employees, suppliers, customers, or criminals can be fatal, especially when businesses lack strict internal controls and a culture of accountability (Resnik, 2008; Hodgetts & Kuratko, 2008).

Poor Business Location

The selection of an unsuitable business location can lead to failure. Convenience or low cost often drives location decisions, ignoring customer accessibility, competition, and product-market fit. A poor location can render a business nonviable regardless of financing or managerial skills (Pickle & Abrahamson, 2009; Siropolis, 2010; Longenecker et al., 2006; All Business, 2009).

Summary of Findings

The study revealed that the high failure rate among unregistered SMEs in Mpika District is largely influenced by inadequate planning, poor financial management, and limited managerial skills. Many SMEs lack the capacity to manage growth effectively, often constrained by insufficient capital, access to finance, and weak lending infrastructures. Demand- and supply-side constraints, coupled with inadequate training and education, further limit their competitiveness and sustainability. Other contributing factors include poor crime management, inappropriate business locations, and a general inability to respond strategically to market demands. Overall, unregistered SMEs face compounded challenges that reduce their survival prospects compared to registered counterparts, highlighting the critical need for enhanced managerial capacity, financial literacy, training, and supportive institutional frameworks.

Conclusions and Recommendations

7.1 Conclusions

The study concludes that high business failure rates among unregistered Zambian-owned and operated SMEs in Mpika District are largely due to poor financial management, lack of planning, inadequate managerial skills, and limited access to capital and training. The findings revealed that unregistered SMEs face more challenges in sustaining growth compared to their registered counterparts, primarily because they operate informally, lack business support services, and struggle to access financial resources. Additionally, poor record keeping, absence of business plans, and lack of training opportunities significantly hinder their development. In summary, business sustainability among SMEs in Mpika depends heavily on sound management practices, financial discipline, training, and access to formal registration and support structures.

7.2 Recommendations

- Based on the findings, the following recommendations are proposed to reduce SME failure and enhance sustainability:
- Encourage business registration to enable SMEs to access financial assistance, government programs, and training opportunities.
- Provide regular entrepreneurship and management training to improve business planning, financial literacy, and leadership skills among SME owners.
- Strengthen financial support mechanisms by promoting microfinance institutions and flexible lending policies tailored to small businesses.
- Enhance government and private sector collaboration in creating incubation programs and mentorship platforms for emerging entrepreneurs.
- Improve awareness on the importance of business planning, record keeping, and compliance with regulatory standards.
- Promote access to affordable training in financial management, marketing, and customer relations to enhance competitiveness.
- Develop community-based initiatives to support SME networking, knowledge sharing, and cooperative financing.
- Implement stronger crime prevention and business protection measures to safeguard SMEs from theft and loss.
- Encourage SMEs to adopt location analysis strategies to ensure accessibility and customer convenience.
- Facilitate continuous policy dialogue between SME owners, local authorities, and business development agencies to address structural barriers affecting small businesses.

7.3 Recommendations for Future Research

Future studies should explore:

- The comparative performance of SMEs across different sectors within Muchinga Province.
- The impact of government policy incentives on SME growth and formalization.
- The role of digital innovation and technology adoption in reducing business failure rates.
- Longitudinal analysis of SME survival trends post-registration.

- The socio-economic effects of business training programs on SME performance and employment creation.

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