

An Assessment of the Factors that Lead to SME Success in the Agro Business Sector: A Case of Ndola District

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ABSTRACT

SME success provides numerous advantages to both the SME owner, the individuals employed by the SME and the country at large as it gives government the needed revenue through assorted taxes that are paid by the SMEs. These paid taxes are in turn used to develop the country through things such as building roads, buying hospital medication, and providing assorted services to the country. However, despite the many benefits that come with SMEs, there are very few SMEs that survive beyond five years and those that do, often struggle to break even. Despite the efforts made by government and various stake holders to help SMEs survivor, only a few of them manage to have success. Therefore, this study sort to analyse the factors that lead to SME success with the focus of SMEs in the agro business sector in Ndola district.

The objective of this study was to examine the SMEs in the agro business sector, to establish the factors that lead to SME business success and finally to evaluate factors that lead to SME success. Using the quantitative approach, data was collected using the structured closed-ended questionnaires which were distributed to 219 people of which 204 responded. This gave a 93% response rate. Probability sampling was used to get the sample to avoid all forms of bias. A pilot questionnaire was first sent out to get views on the validity of the questionnaires and to see if all the questions were making sense and helping answer the objective questions.

Keywords: *small and medium-sized enterprise, sme, internal factors, external factors*

I. INTRODUCTION

For any country to grow and develop its economy, it is imperative that the citizens of that country engage in activities that are going to help foster the growth and development of the economy. For this reason, any sector that helps citizens to actively participate in the promotion of having a sustainable economy should be supported. Barkhatov (2016) postulate that SMEs contribute more than 56% of the economic growth in many countries in the world. In addition to what Pletnev and Barkhatov (2016) state, Abdullahi (2015) writes that SMEs help in providing employment, poverty alleviation and general empowerment of the community and the country at large. Small and Medium Scale Enterprises (SME) are one way of guaranteeing that most of the citizens in the country actively participate in the growth of the economy. Because of the importance that SMEs play in the economy, it is therefore important to understand the factors that lead SMEs to not only survive but also compete favourably in a challenging business environment.

II. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

2.1 AGO Business SMES in Zambia

About 70% of the poor in Zambia live in rural areas, the majority of whom rely on incomes from agriculture and agriculture-related industries, and/or consume domestically produced food. The agriculture sector alone provides means of livelihood for more than 50% of the population and absorbs about 67% of the labour force (Wohlmuth, 2012). This shows that in Zambia, agrobusiness though done at very minimal scale helps people survive and earn a living from the products that are sold.

Agriculture SMES have been in existence for a long time and continue to grow in number. The recent past has seen agro dealerships being established in rural areas and the introduction of the Farmer Input Support Program (FISP) E-voucher programme, which is now being implemented in over 100 districts has also contributed to the increase of agricultural SMEs in Zambia (Chanda et al., 2017).

According to Wohlmuth (ibid., 281,282), the agro business SMEs in Zambia consists of food production sectors (processing staple and export products) and non-food production sectors (leather and leather products, textiles and garments, and furniture and wood products). Zambia has a relatively well-developed agribusiness industry with over

400,000 smallholder households linked to agribusiness firms through vertically integrated out grower programs, primarily for cotton and, to a lesser extent, tobacco and other cash crops (World Bank, 2012).

As can be seen, Agro business SMEs play an important role in the economy of Zambia and are among the major stakeholders in the creation of employment. However, despite the importance of these agro business SMEs in the economy, it is alleged that globally, only 1% of loans from commercial sources go to agrobusinesses. Most money lenders have reservations to loan money to agro businesses because agriculture is prone to production and market risks (FAO, 2017).

2.2 Characteristics of SMES in Zambia

The world bank does not give a word definition of SME however, their SME department report of 2014 categorises SMEs in three groups based on the number of employees, capital investment and annual turnover as shown in the table 1 below.

Table 1: Characteristics of SMEs (World Bank Report, 2014)

SME CHARACTERISTICS	NUMBER OF EMPLOYEES	CAPITAL INVESTMENT IN \$	ANNUAL TURNOVER
MEDIUM ENTERPRISE	50 – 300	< 15,000,000	< 15,000,000
SMALL ENTERPROSE	10 – 49	< 3,000,000	< 3,000,000
MICRO ENTERPRISE	<10	< 1000.00	< 1000.00

The Zambian ministry of commerce, trade and industry in its report on small and medium enterprises survey 2003 – 2004 does not define what an SME is. However, find below what the report gives as characteristics of what qualifies to be an SME.

- Low or no technology in the running of the business.
- Mostly operated by a single person usually with the help of family members.
- Rely largely on social networks for business opportunities.
- Business activities are largely in trading and simple manufacturing.
- Usually not licensed with government agencies.

2.3 Factors that Lead to SME Success and How They Do it

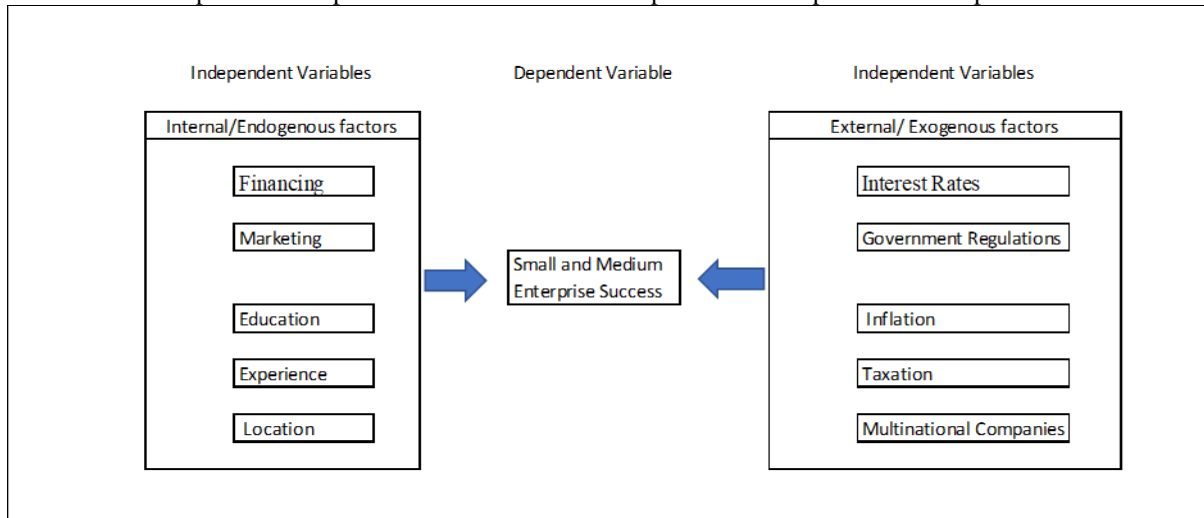
There are several factors that lead to the success of SMEs. In literature, the following factors have been identified and divided into internal and External factors. The internal factors are those things that SMEs do or can do to help them accomplish their business objectives. The following factors have been identified as internal factors, financing, marketing, education, experience, and location of the business (Shangase, 2017, Douglas, 2017, Maina, 2015, Kambone, 2017, Aboagye et al, 2014 and Mumba, 2017).

Literature has also identified the following as factors that are outside the control of an SME but have an impact on its success or failure, Interest Rates, Government regulations, Inflation Rates and Competition from multi nationals (Shangase, 2017, Douglas, 2017, Halim et al. 2017,). These are factors that are outside the control of an SME. External factors are determined by other institutions and SMEs just abide by them. An SME can achieve success by adapting to these factors and finding a way of doing business which is not at odds with the external factors (Miller, 2021 and Bouazza, 2015).

The basis of the framework in Table 2 is developed from a wide range of literature that has been reviewed. The literature identified ten variables that have been classified as internal/endogenous factors and external/exogenous factors based on who the major drivers of the factors are between the SME itself and customers/government.

Even though each of the ten factors has been studied comprehensively, the proposed conceptual framework maybe among the few, if any, that has fused the ten factors into one framework.

Table 2: Proposed Conceptual Framework: Relationship between independent and dependent variables



Therefore, based on the above literature on external and internal factors, the following hypothesis' have been developed to help investigate the factors that lead to ME success.

Hypothesis 1. Internal/endogenous factors are positively related the success of SMES.

Hypothesis 2. external/exogenous factors are positively related the success of SMES.

III. RESEARCH METHODOLOGY

In this research, quantitative research was used and it unearthed trends that exist in relationships between variables. Both primary and secondary methods of collecting data were utilized and the collected data was then analyzed and interpreted in such a way that it highlighted the key issues of the research. Probability sampling was used to come up with the testing units with random sampling as one type of probability sampling. The research comprised of 219 sampled SMEs in the agro business sector based in Ndola district who were given questionnaires from which 204 responded.

IV. RELIABILITY AND VALIDITY

Reliability and validity are very important features in any research as they help the researcher to collect quality and reliable data. Validity and reliability increase transparency and decrease opportunities to insert researcher bias in qualitative research (Singh, 2014). Reliability and Validity were ensured in the sense that the method and measurement technique used were of high quality and targeted to measure exactly what answered the research questions.

V. ETHICAL CONSIDERATIONS

In this research ethical considerations were put into account to ensure that the research was scientifically sound while being respectful toward human beings who participated in the study. Issues of confidentiality, honest, none discrimination and respect for intellectual property were of high importance in this research.

VI. ANALYSIS OF THE RESULTS

4.1 Firm Characteristics

Table 3 below shows that a large proportion of respondents were either engaged in Agric outs or Agric inputs. The others were engaged in Processing agric out and transportation and logistics.

Table 3: SME types

SME TYPE	FREQUENCY	PERCENTAGE
Transportation and logistics	38	18%
Agric Inputs	75	37%
Processing of Agric outputs	16	8%
Agric Outputs	75	37%

As can be seen in Table 4 below, the majority of respondents focused on the specific market niche as their strategy while others used low-cost strategy for them to achieve the desired success they wanted.

Table 4: SME Strategies

SME STRATEGIES	FREQUENCY	PERCENTAGE
Low Price	60	29%
Unique Products	47	23%
Unique and Low Price	27	13%
Focus on a market niche	70	35%

4.2 Correlation Coefficients for Internal

Table 5 below addresses correlation analysis of the variable. A non-parametric measure of the strength and direction of a relationship between two variables, Pearson's Product Moment Correlation, was used. Table 5 displays the findings of the correlation analysis, which reveals a substantial positive association between Financing, marketing, education, experience, location factors and the success of SMEs. The variables are positively correlated with each other, and there was no negative relationship between the variables and SME success.

Table 5: Correlation Coefficients of internal factors

		SMEs enterprise success	Financing	Marketing	Education and experience	Location
SMEs enterprise success	Pearson Correlation	1	.571**	.674**	.555**	.692**
	Sig. (2-tailed)		.000	.000	.000	.000
	N					
Financing	Pearson Correlation		1	.315**	.209**	
	Sig. (2-tailed)		.000	.000	.003	
	N					
Marketing	Pearson Correlation			1	.473**	
	Sig. (2-tailed)			.000	.000	
	N					
Education and experience	Pearson Correlation				1	.330**
	Sig. (2-tailed)				.000	.000
	N					
Location	Pearson Correlation					1
	Sig. (2-tailed)					
	N					

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

4.5 ANOVA for Internal Factors

To determine whether the data used in the study was statistically significant, the study further used analysis of variance. The significance level for the population parameters was determined to be 0.00. Because the p-value (0.00) was less than the chosen significance level, the data was deemed suitable for inferring population parameters (0.05) as can be seen in table 6.

Table 6: ANOVA able for internal factors

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1993.557	4	498.389	163.974	.000 ^b
Residual	604.850	199	3.039		
Total	2598.407	203			

a. Dependent Variable: Small scale and medium enterprise success

b. Predictors: (Constant), Financing, Marketing, Education and Experience and location

The calculated F (163.974) is greater than the critical value for F = 2.546, which is obtained from the F distribution table. This means that Financing, Marketing, Education and Experience and location have a significant effect on the acceptability of SME success. Because the ANOVA value (F value) is significant, the linear regression model is also significant.

4.7 Correlation Coefficients for External

A Pearson correlation analysis was utilized to establish the relationship between the variables and their influence on the success of SMEs. In this study, the coefficient correlation (r) method was used to determine whether the variables under investigation were related positively or negatively. A correlation analysis is performed to discover whether two variables are related or whether covariance exists between two variables of interest (Howell, 2013). Correlation coefficients vary from -1 to 1. A coefficient close to +1 or -1 indicates a strong linear relationship between the two variables. Table 7 displays the correlation coefficient results for this experiment. The study showed a strong positive relation between government relations and SME success, followed by interest rate with SME success (r = 0.666, p<0.01). There was a moderate positive relationship between inflation and SME success. The study also recorded a weak positive relation between multinational companies' and SMEs' success.

Table 7: Correlation Coefficients of external factors

		SMEs enterprise success	Interest rates	Government regulation	Inflation	Taxation	Multinational companies
SMEs enterprise success	Pearson Correlation	1	.666**	.746**	.647**	.227**	.094
	Sig. (2-tailed)		.000	.000	.000	.001	.181
	N						
Interest rates	Pearson Correlation		1	.443**	.287**	.337**	.178*
	Sig. (2-tailed)			.000	.000	.000	.011
	N						
Government regulation	Pearson Correlation			1	.340**	.031	.160*
	Sig. (2-tailed)				.000	.657	.022
	N						
Inflation	Pearson Correlation				1	-.043	.032
	Sig. (2-tailed)					.545	.648
	N						
Taxation	Pearson Correlation					1	.238**
	Sig. (2-tailed)						.001
	N						
Multinational companies	Pearson Correlation						1
	Sig. (2-tailed)						
	N						

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

4.8. ANOVA Table for External Factors

An analysis of variance was performed to determine whether there was a significant relationship, and the results are shown in table 8. The table shows that Multinational companies, Inflation, Taxation, Government regulation, Interest rates have a significant effect on the SME success. Because the ANOVA value (F value) is significant, the linear regression model is also significant.

Table 8: ANOVA Table for external factors

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2207.015	5	441.403	223.300	.000 ^b
Residual	391.392	198	1.977		
Total	2598.407	203			

a. Dependent Variable: Small scale and medium enterprise success

b. Predictors: (Constant), Multinational companies, Inflation, Taxation, Government regulation, Interest rates.

VII. DISCUSSION

The findings revealed that there are different types of SMEs in the agro business sector, and the following were identified, transportation and logistics, agric Inputs, processing of agric inputs and agric outputs. Of these four, the study showed that the type of agro business that most SMEs engage in are those that deal in agric inputs and agric outputs. It was established from the responses that the factors that lead to SME success include but not limited to financing, marketing, experience, education and location. Other factors included taxation, interest rates, inflation, multi nationals and government regulations. These factors were divided into internal and external factors. It was found that that the internal factors have a direct connection to the success of SMEs. The research also showed that an increase in any of the internal factors increased the chances of SME success. It was established that the external factors had an inverse relationship with SME success.

VIII. CONCLUSIONS AND RECOMMENDATION

The research questions that were proposed were answered by the evidence gathered through the data collected and analysed. The first objective of the research was to know the types of SMEs in the Agro business sector, data has showed that Agric inputs, processing of inputs, logistics and agric outputs. The factors that cause SME success were identified and categorised into two being, internal success factors and external success factors. Financing, marketing, location, experience and education were identified as internal success factors while interest rates, inflation, taxation, multi nationals and government regulation were identified as external factors. The research showed that both internal factors and external factors had an influence on the success of SMEs. internal factors had a positive relationship on success while external factors had an inverse relationship on the success of SMEs. Key strategies to be implemented to empower women through access to energy are gender mainstreaming, understanding women's needs and wants, supporting saving and credit schemes, promoting productive use and skill development through training.

The study recommends that government should have a deliberate policy of giving credit facilities to SMEs at cheaper interest rates compared to those of financial institutions. Government should further protect local SMEs against big multi nationals. Other recommendations included SME owners should be coached and trained on how to manage and grow their SMEs and finally, Government to reduce taxes for local companies to promote agro businesses in the country.

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