

The Prevalence of Locally Owned Enterprises and Their Role in Economic Growth and Development in Chipata District of Zambia

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Abstract

Enterprise development is key in driving the growth of the local economies around the global. Economic growth is an important factor when it trickles down and triggers the availability of jobs, wealth creation, and improved standards of living. The study aimed at assessing the role of entrepreneurship in economic growth and development of Chipata district of Zambia. The objectives of the study included; an investigation of the prevalence of locally owned business enterprises in Chipata district, establishment of the types of activities to which entrepreneurs are involved, an examination of the business growth and to find out how the local entrepreneurial activities were helping people in poverty alleviation in Chipata district. The study was limited to Small and Medium Enterprises (SMEs) in Chipata district; town centre. The study implored a case study design to address the research questions. Questionnaires were used as means of collecting data from the business owners. The study sampled 60 business units in Chipata district. The sample was identified by means of specific purposive sampling. All ethical considerations were taken into account. The findings of the study revealed that most business organisations were male gender dominated, sole proprietors and had financial challenges. It was further established that agriculture was the major business activity. Arising from the findings above, the study recommends that Government should devise a deliberate policy that would help finance SMEs, and waive taxes and levies on start-up SMEs.

Keywords: Entrepreneurship, Small Medium Enterprises, Economic Growth.

Background and context

The idea that entrepreneurship and economic growth are very closely and positively linked together has undoubtedly made its way into modern academia. An increase in the number of entrepreneurs leads to an increase in economic growth that would eventually translates into economic development. This effect is as a result of the concrete expression of their (entrepreneurs) skills, and more precisely, their propensity to innovate.

Some scholars of entrepreneurship have had some concerns as to who, why and how the impact of entrepreneurship development would contribute to the general economic advancement of the nation such as developing countries (Bruton et. al, 2008); a state of affairs that can be described as a 'scholarly disconnect'. This discourse matters and is very crucial for a number of reasons. Firstly, it is widely believed that entrepreneurship is beneficial for economic

growth and development. Secondly, entrepreneurship has been remarkably resurgent over the past three decades in countries that achieved substantial poverty reduction, such as in China. Further to that, developed countries such as Germany have taken keen interest in promoting entrepreneurship through the formation of Small and Medium Enterprises commonly known as SMEs. These SMEs have had some financial assistance coming from commercial banks with very reasonable interest rates, just to ensure that small business organisations survive and prosper (CBI Export Planner, 2000). Donor Agencies have also looked at entrepreneurship as the source of making aid to developing countries sustainable and value based (Piotr and Rekowski, 2009).

Accordingly, this descriptive cross-sectional study will provide an overview of the state of the art in terms of development and entrepreneurship in Chipata district of Zambia. As alluded to, the

study would be looking at the theoretical insights from the intersection perspective of entrepreneurship and development studies; with specific justification on empirical evidence on the plausible relationship between entrepreneurship and development; and create new insights for entrepreneurship policy that would assist to develop fresh emerges as opposed to the recent revelations in this area of study.

Problem statement

Entrepreneurship is very important as it contributes significantly to the growth of the economy in any country. An increase in the number of entrepreneurs leads to an increase in economic growth. This effect is as a result of the concrete expression of their (entrepreneurs) skills, and more precisely, their propensity to become more innovative than ever before. To this effect, developing countries, such as Zambia for example, have even introduced entrepreneurship education in certain learning institutions just enhance and develop entrepreneurial thinking. It follows therefore, that the education system incorporates entrepreneurship education so that the nation can raise children with the knowledge, skills and passion to become entrepreneurs thereby contributing to the growth of the economy through creation of enterprises and industries that produce goods and services and create employments. This is why entrepreneurship studies has been included in the curriculum of the Zambian education system.

It should however, be noted that despite having realized the importance of entrepreneurship to economic growth and national development, there has not been extensive and intensive studies conducted and published to clearly spell out and unfold the 'entrepreneurship-development' dichotomy in Zambia, especially in Chipata district of Eastern Province of Zambia. People in developing countries read about the importance of entrepreneurship as it contributes to economic growth and national development in literature, such as case studies conducted in developed countries. As such, there is a lacuna in literature of exactly how entrepreneurship is related to, or how it impacts on economic growth and contributes to national development in developing countries such as Zambia.

On the basis of the above statement, there is need for more studies to be conducted in order to uncover exactly the relationship between

entrepreneurship and economic growth and national development in developing countries, to discover this relationship, one has on one hand understand the role entrepreneurship plays in the economic sector of any given nation, while on the other hand evaluate the impact of its activities in national development. Therefore, this academic research paper, being facilitated and supervised by Texila American University, intends to assess the role of entrepreneurship in economic growth and development of Chipata District of Zambia.

Objectives

The main purpose of this study was to assess the role of entrepreneurship in economic growth and development of Chipata District of Zambia. The specific objectives of this study were to

1. To investigate the prevalence of locally owned business enterprises in Chipata district.
2. To establish what financial and technological support have entrepreneurs accessed in Chipata district.

Significance of the study

This study is justified on the basis of its significance in contributing to the literature (knowledge) on the impact and contribution of entrepreneurship to economic growth and development of Zambia as a nation. The significance of this study lies in its quest to assess the role of entrepreneurship in economic growth and development of Chipata district. This will be arrived at through the four objectives provided above. As such, this study is very important as it will explore and describe the entrepreneurship-development nexus in Chipata, which means that it will generate the knowledge about this topic from the context of our own locally owned business organizations.

This kind of knowledge would not only add to the existing literature on the importance of entrepreneurship in economic growth and development, but would also be very useful as it would act as the knowledge base needed by the relevant authorities and other stakeholders with a role in the formulation and implementation of economic policies in Zambia.

Literature review

The literature was reviewed according to themes of Entrepreneurship, Economic Growth and Development, Theoretical Perspectives on Entrepreneurship in Development, Relationship

Between Entrepreneurship and Economic Growth: Empirical Evidence, Enhancing the Developmental Impact of Entrepreneurship, Importance of Entrepreneurship in The School Curriculum, and Conceptual Framework.

According to Zahra, Gedajlovic, Neubaum, and Shulman (2009), entrepreneurship is the process of designing, launching, and running a new business, which is often initially a small business. The people who create these businesses are called entrepreneurs. Entrepreneurship can be described as the capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit. The most obvious example of entrepreneurship is the starting of new businesses. While definitions of entrepreneurship typically focus on the launching and running of businesses, due to the high risks involved in launching a start-up, a significant proportion of businesses have to close, due to lack of funding, bad business decisions, an economic crisis, lack of market demand – or a combination of all of these (Sharma, 2009).

In economics, entrepreneurship combined with land, labor, natural resources and capital can produce profit. Entrepreneurial spirit is characterized by innovation and risk-taking, and is an essential part of a nation's ability to succeed in an ever changing and increasingly competitive global marketplace. Zahra et al. (2009) explains that in the 2000s, the definition of "entrepreneurship" expanded to explain how and why some individuals (or teams) identify opportunities, evaluate them as viable and then decide to exploit them, whereas others do not and, in turn, how entrepreneurs use these opportunities to develop new products or services, launch new firms or even new industries and create wealth. The entrepreneurial process is fundamentally uncertain because opportunities cannot be discovered or identified prior to their actualization into profits. What appears as a real opportunity ex-ante might actually be a non-opportunity or one that cannot be actualized by entrepreneurs lacking the necessary business skills, financial or social capital.

Economic growth is defined as the increase in the inflation-adjusted market value of the goods and services produced by an economy over time (Todaro & Smith, 2011). The economic growth rate is calculated from data on GDP estimated by countries' statistical agencies. The rate of growth

of GDP/capita is calculated from data on GDP and people for the initial and final periods included in the analysis of the analyst. According to Hamowy (2008), economic growth and economic development have a two-way relationship. The first chain consists of economic growth benefiting human development, since economic growth is likely to lead families and individuals to use their heightened incomes to increase expenditures, which in turn furthers human development. At the same time, with the increased consumption and spending, health, education, and infrastructure systems grow and contribute to economic growth and human development (Hamowy, 2008). In a nutshell, it can be said that the terms economic growth and economic development are used interchangeably because of the close linkage (relationship) between economic growth and economic development which are both a major dimension of the broad concept of development.

Additionally, other reasons for synonymous usage of the terms include the fact that they are social science concepts lacking universal standardized definitions or uniform application.

The evolution in scholarly views of entrepreneurship is reflected in the categories of behavioral, occupational, and synthesis definitions. Acs and Naudé (2013) contends that an entrepreneur is the coordinator of production and agent of change ('creative destruction'). As such, an entrepreneur is above else an innovator. Scholars who share this view of entrepreneurship do not consider entrepreneurship to be very important in earlier stages of economic development; they see the contribution of entrepreneurship to be much more important at later stages of development, where economic growth is driven by knowledge and competition.

At earlier stages of development, entrepreneurship may play a less pronounced role because growth is largely driven by factor accumulation (Acs & Naudé, 2013).

Literature indicates that other behavioral definitions allow for a more substantial role for entrepreneurship in developing countries. Zahra et al. (2009) views the entrepreneur as someone who facilitates adjustment to change by spotting opportunities for profitable arbitrage (and 'disequilibrium' situations in the market). This view has resonated among scholars who emphasize the opportunity-grabbing-for-profit nature of entrepreneurship particularly in

developing countries where market disequilibria may be common.

One of the seminal contributions to development economics has been dual economy models which are utilized to explain the structural transformation of underdeveloped economies. Gries and Naudé (2010) expand the 1954 Lewis-model distinction between a traditional and modern sector with the micro-foundations of optimizing households, firms and labour market matching. They also distinguish between mature and start-up entrepreneurs, between large firms and small firms, and between necessity and opportunity-driven entrepreneurship. In their model the transformation from a low-income, traditional economy to a modern economy involves significant changes to production methods, a process of change where entrepreneurs provide essential roles, including providing innovative intermediate inputs, permitting specialization and raising productivity and employment (Gries & Naudé, 2010).

Entrepreneurs trigger an investment in the modern sector once they have perceived profitable opportunities and facilitate the re-allocation of production factors from the traditional to the modern sector. In 1999, Peretto provided a modified endogenous growth model that implied long-run structural transformation depends on the degree to which an economy can make a transition from a growth path driven by capital accumulation ('the Solow economy') to a growth path driven by knowledge accumulation (the 'innovation-driven' economy).

Improving the quality of entrepreneurial ability means not only improving the skills and education of entrepreneurs, their 'human capital', but focusing on the innovative abilities of entrepreneurs (Brück, Naudé, & Verwimp, 2013). It is innovative entrepreneurship that is most desirable for growth. Innovation policy ought therefore to be a central focus of entrepreneurship promotion in developing countries as it is in advanced economies. Entrepreneurs in developing countries have a much greater propensity for innovation than is often recognized in the literature or by policy-makers.

Reconsidering entrepreneurship's role in development leads to three novel realizations: First it provides fresh perspectives on three of the "grand" ideas in development economics; second, entrepreneurship influences development

outcomes positively as well as negatively; and third, entrepreneurship is in turn significantly determined by the dynamics of development. Entrepreneurship is therefore a valid and important subject of study for development scholars, and development is a worthwhile subject of study for entrepreneurship and management scholars. The growing availability of more and better data from emerging and developing economies, the increasing adoption of rigorous evaluation methods in policy assessments, and likelihood and desirability of closer collaboration across disciplines, are all boding well for on the intersection of development and entrepreneurship.

Conceptual model on entrepreneurship

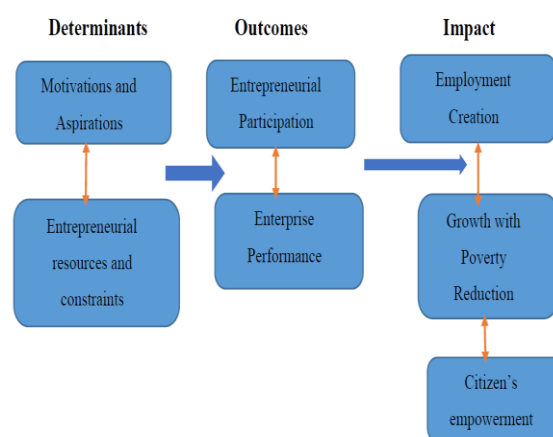


Figure 1: Conceptual model on entrepreneurship

Source: EDGE – UN Statistics Division

Above is a conceptual framework adopted to explain the links between entrepreneurship and economic growth. The conceptual framework looked mainly on the participation of citizens in entrepreneurial activities, and is modified from the Evidence and Data for Gender Equality (EDGE) guide, A UN statistics Division.

Methodology and design

This study used a case study design. According to Ghosh (2012), a case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. The case study design was appropriate for this study because its overall purpose was to assess the role that entrepreneurship plays in economic growth and development of Chipata. For this reason, case

study design facilitated an intensive and in-depth study.

This study used primary data that was collected from the respondents within the study area in Chipata district. Respondents included local women and men in self-employment who were sampled from the population of the study area. These respondents were a source of primary data that was collected using questionnaires and structured interviews. The study sampled men and women who are in business. This is so because those women and men provided first hand data pertaining to the role their entrepreneurial activities have played in growing their income and making their living standards better. A total number of 60 businesses were used as the sample size.

This study employed purposive sampling technique. Purposive sampling involved choosing participants considered to be business men and women. Purposive sampling in this regard ensured that only rich information is gathered for the research as opposed to having a large number of participants.

Questionnaires were used to collect data from the participants. Questionnaires were very helpful in collecting data effectively and efficiently. Data collector were guiding respondents on what information is required of them, they were free even to speak in their local languages.

Quantitative data was analyzed using Statistical Package for Social Sciences (SPSS) and Microsoft excel in order to generate tables, graphs and percentages in an easier way.

The researcher conducted a pilot study to ascertain the validity and reliability of the questionnaires. In the case of the questions in the questionnaires, the researchers measured their validity and reliability by examining individual responses from participants to ascertain their relevance to the objectives of this research

Findings and discussion

Demographics

Table 1. Background data of the businesses

Demographic data	Frequency (No.)	Percentage (%)
Location of Business		
Down Shops	13	22
Shanty Compound	15	25
Town Centre	21	35

Vegetable Market	11	18
Year established		
1-5 years ago,	23	
5-9 years ago,	18	
More than 10 years ago	19	
Business Type		
Corporation	3	5
Partnership	12	20
Sole Trader	45	75
Gender of Proprietor		
Male	38	63
Female	22	37
Nature of Business		
Agricultural Produce	24	40
Beauty and Cosmetics	14	23
General Food	12	20
Hardware	10	17

The findings in the table 1, show that 35 percent of the businesses are located in town centre of Chipata district, 22 percent were located in down shops, 25 percent in shanty compounds and 18 percent in vegetable markets The table also illustrates that 30 percent of the businesses had been in operation for more than 10 years, 32 percent had been in existence between 5-9 years while 38 percent were in business for less than 5 years. A business entity could be registered in different forms of with the regulatory bodies such as Registrar of Companies. The findings showed that 75 percent of businesses sampled were sole traders, 20 percent were partnerships while the remaining 5 percent were corporations. The study was also interested in knowing the gender of the owners or majority shareholders of the businesses. The findings revealed that 37 percent of the businesses were owned by females while 63 percent were owned by males. On the business types, the findings revealed that 40 percent of the businesses were engaged in agricultural produce, 23 percent in beauty and cosmetics, 20 percent in general food stuff and 17 percent in hardware activities. The findings of this study provided important insights for understanding the period the business was established, major business ventures that SMEs get involved and the gender imbalance in the business sector.

Table 2. Financial and technological support

Areas Surveyed	No	(%) Percentage	Yes	(%) Percentage	Total (No.)	Total (%)
Business Computerization	53	88	7	12	60	100
Conduct e-commerce?	34	57	26	43	60	100
Benefited from e-commerce	33	55	27	45	60	100
Business sought for Funds	41	68	19	32	60	100
Satisfied with banking services	34	57	26	43	60	100
Financial Institutions play an important role to businesses	36	60	24	40	60	100
Should the government assist SMEs with loans?	10	17	50	83	60	100

The business organizations were asked as to whether the business operations were computerized or not. The findings showed that 88 percent were not computerized while only 12 percent were at least using computers at their business places. Furthermore, it was discovered that only 43 percent of the businesses conduct some form of e-commerce. This meant that they had at least conducted business through email, and social media. In line with this, it was found out that most of the businesses did not benefit from e-commerce as shown by the percentage of 55 on the table 2. Finances are an important component in making sure that the business grows smoothly. The findings revealed that only 32 percent had sought funds from lending institutions for expansion of business. In examining whether the government should assist small-medium enterprises with loans, the findings showed that 83 percent agreed that the government should assist small- medium enterprises in Chipata District and only about 17 percent of the business organizations were not for the idea that the government should be involved in financing SMEs.

The majority of the SMEs felt the government should be helpful in making loans accessible to

them. The government some businesses stated they have worked hand in hand with government by providing them farming inputs through Farmers Input Support Program (FISP). The study established the SMEs had complained of poor internet connectivity in Chipata town. Chipata landscape is known to be hilly as it is based in the midst of the Luangwa valley this could one the reasons why some places experience, intermittent network.

The study also established that most of the SMEs had used other methods of advertising which included using posters and word of mouth, only 22 percent used social media for advertising. This shows that most of the businesses in Chipata are not embracing technology. Technology is one of the biggest factors of production. The current trending companies around are mostly using technology as their major leverage. It is very difficult for companies to create a larger customer base without the use of technology.

Recommendations

Based on the study conclusions the following recommendations are suggested to the study.

Business owners

The study recommends that

1. Business owners should focus on growing the business in order to continue sustaining the economy of Chipata City.
2. SMEs should learn to market their products on community Radios, Social media, etc.
3. Business owners should join the various business support groups such as the chamber of commerce and industry.

Stakeholders

The study recommends the following to various stakeholders

1. The government should come up with aggressive programs to help entrepreneurs in accessing funds.
2. The community should support the local entrepreneurs through buying locally produced products.
3. The private sector should help in finding solutions for SMEs in Chipata through provision of support and solutions.
4. Taxes and Levies to be revised and give relief to SMEs
5. Universities and Colleges to provide training in business management programmes

Further research

1. Further study to find out the impact of SMEs in poverty reduction and fostering economic Development
2. Further research needs to be conducted to find out why SMEs have no sustainability strategy

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