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Examining Factors Affecting SMEs Growth and Development: Case Study of Indigenous Zambian Businesses in the Hospitality Sector

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Abstract

Zambia's hospitality sector presents both a fertile ground for opportunity and a landscape riddled with challenges for indigenous Small and Medium Enterprises (SMEs). While these businesses are vital to the nation's economic growth and job creation, many struggle to achieve sustainable development. This thesis embarks on an in-depth exploration of the key factors that influence the growth and development of SMEs in Zambia's hospitality sector, highlighting the strategies that can drive their success in an increasingly competitive market. Through a rigorous quantitative methodology, this research analyzed data from 90 returned questionnaires (95.7% response rate) to test various hypotheses and offer key insights. The findings reveal that innovative capacity plays a critical role in SME development, with respondents acknowledging that innovation enhances service quality and operational efficiency. However, its effect on revenue growth, market expansion, and competitive advantage is more limited; suggesting that other external factors in the competitive landscape may hinder these potential benefits.

Entrepreneurial orientation also emerged as a significant driver of SME growth, positively impacting revenue, customer satisfaction, market expansion, and profitability. However, a notable gap in formal training for entrepreneurs' points to an urgent need for improvement in business education and support services. Meanwhile, high operational costs remain a substantial barrier, affecting financial stability and limiting investment. The study highlights entrepreneurial traits such as resilience, visionary thinking, and risk-taking as pivotal to business success, with respondents affirming their role in driving growth. Regression analysis confirmed that higher innovative capacity, entrepreneurial orientation, and key entrepreneurial traits are strongly associated with SME growth, while high operational costs negatively impact it. In conclusion, the research calls for a stronger focus on fostering innovation, improving entrepreneurial skills, and managing operational costs to enhance the performance and sustainability of Zambia's hospitality SMEs.

Keywords: SMEs, Hospitality Sector, Innovative Capacity, Entrepreneurial Orientation, Operational Costs, Entrepreneurial Traits

1. Introduction

1.1 Background

Small and Medium-sized Enterprises (SMEs) play a pivotal role in driving economic development and poverty alleviation. The African Development Bank (AfDB) reports that SMEs account for about 80% of employment opportunities in the continent and contribute significantly to GDP growth (African Development Bank Group, 2019) ^[1]. However, despite their potential, African SMEs encounter numerous challenges, including limited access to finance, inadequate infrastructure, and regulatory bottlenecks (Fatoki and Smit, 2011) ^[22]. These challenges are particularly acute in the hospitality sector, where SMEs often struggle to compete with larger enterprises and multinational corporations (MNCs) that have greater resources and market power (Chipeta *et al.*, 2019) ^[15].

One of the critical challenges facing SMEs in Africa, including those in the hospitality sector, is access to finance. Limited access to capital constrains SMEs' ability to invest in infrastructure, technology, and human capital, thereby hampering their growth prospects (Ayyagari *et al.*, 2011) ^[3]. African SMEs often face difficulties in accessing formal financing from banks and financial institutions due to factors such as stringent collateral requirements, high interest rates, and a lack of credit history

(Beck *et al.*, 2006) ^[5]. Moreover, the prevalence of informal financing sources, such as family and friends, may not provide SMEs with the necessary funds to expand their operations sustainably (Beck *et al.*, 2008) ^[6].

Infrastructure deficiencies pose another significant challenge for SMEs in Africa's hospitality sector. Inadequate infrastructure, including transportation networks, energy supply, and telecommunications, not only increases operating costs for SMEs but also hinders their ability to deliver quality services to customers (Sahoo and Kumar, 2017) ^[48]. Moreover, poor infrastructure limits SMEs' access to markets, as they may struggle to reach remote or underserved areas where tourism potential exists (World Bank, 2017) ^[57].

Regulatory constraints and bureaucratic hurdles also hamper SME growth in the African hospitality industry. Complex and ambiguous regulations increase compliance costs for SMEs, diverting resources away from productive activities (World Bank Group, 2020) ^[56]. Additionally, inconsistent enforcement of regulations and corruption in regulatory agencies create uncertainties and barriers to entry for SMEs (Friedman *et al.*, 2000) ^[23]. SMEs in the hospitality sector may find it particularly challenging to navigate regulatory requirements related to licenses, permits, health and safety standards, and taxation, which vary across countries and regions (Osei *et al.*, 2019) ^[44]. Simplifying and streamlining regulatory procedures could alleviate the burden on SMEs and facilitate their growth and development.

Market competition poses a constant challenge for SMEs in the hospitality sector, both locally and globally. In Africa, indigenous SMEs often face stiff competition from multinational hotel chains and international hospitality brands that have established networks, strong brand recognition, and access to global markets (Sekaran and Li, 2018) ^[50]. These larger competitors may benefit from economies of scale, marketing expertise, and financial resources that enable them to offer competitive prices and attract a larger customer base. As a result, indigenous SMEs struggle to differentiate themselves and compete effectively, leading to market consolidation and limited opportunities for smaller players (Chapoto and Jayne, 2019) ^[12].

SMEs play a pivotal role in driving economic growth and fostering development across the globe. Defined by their size, flexibility, and capacity to innovate, SMEs contribute significantly to job creation, income generation, and poverty alleviation (Audretsch and Keilbach, 2004) ^[2]. In Africa, SMEs account for a significant share of employment and GDP, making them crucial engines of economic progress (Fatoki, 2014) ^[21]. However, despite their importance, SMEs face numerous challenges that impede their growth and sustainability.

Within the African context, SMEs encounter a myriad of obstacles ranging from limited access to finance and markets to regulatory burdens and infrastructural deficiencies (Hove-Sibanda & Ncube, 2017) ^[25]. These challenges are further compounded by factors such as political instability, corruption, and inadequate institutional support systems, which undermine the business environment and hinder SME development (Chete *et al.*, 2016) ^[13].

Zambia, situated in the heart of Southern Africa, embodies

the opportunities and challenges facing SMEs in the region. As one of Africa's fastest-growing economies, Zambia has seen a surge in SME activity, particularly in sectors such as hospitality, tourism, and services (World Bank, 2019) ^[58]. In the hospitality sector, which holds immense potential for growth given Zambia's rich cultural heritage and natural attractions, indigenous businesses face stiff competition from multinational corporations and foreign-owned enterprises (Mukwiza and Chikasa, 2018) ^[39].

1.2 Statement of the problem

The rapid growth of the hospitality sector in Zambia presents a crucial opportunity for indigenous SMEs to expand and contribute to economic development. However, despite the sector's potential, many Indigenous Zambian SMEs in the hospitality sector, particularly in Livingstone, face significant challenges in achieving sustainable growth and development. Recent statistics reveal that only 37% of SMEs in Zambia are considered to be growing, while the majority struggle with various challenges (Zambia Development Agency, 2023) ^[35]. Key issues impacting SME development in the hospitality sector include inadequate innovative capacity, which hampers the ability to adapt and thrive in a competitive market (Chirwa and Kasonde, 2022) ^[16]. Additionally, entrepreneurial orientation, which encompasses proactive, risk-taking, and innovative behavior, has been identified as a critical factor for SME success, yet many Zambian entrepreneurs lack these traits (Munyati, 2023) ^[40]. Operational costs further exacerbate these challenges, with rising expenses negatively affecting profitability and growth (Zambia Chamber of Commerce, 2023) ^[61].

1.3 Objectives of the study

1.3.1 General Objective

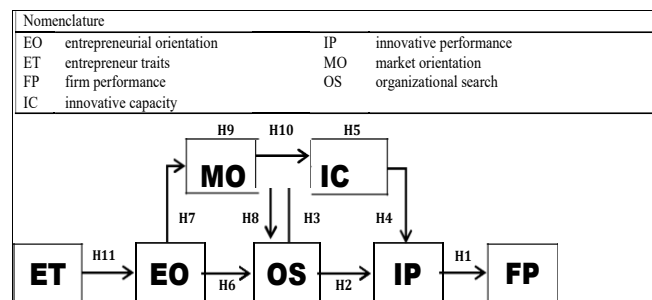
The general objective of study was to investigate and analyze the factors affecting the growth and development of indigenous Zambian businesses operating in the hospitality sector, with a specific focus on understanding how these factors impact the competitiveness and sustainability of SMEs in this industry.

1.3.2 Specific Objectives

1. To examine the effectiveness of innovative capacity in facilitating SME development in the hospitality sector
2. To assess the effectiveness of entrepreneurial orientation on SMEs growth in the hospitality sector
3. To determine the influence of operational costs on the growth of indigenous Zambian SMEs in the hospitality sector
4. To examine the effectiveness of entrepreneurial traits on SMEs growth in the hospitality sector

1.4 Conceptual Framework

Conceptual frameworks visually represent the relationships between independent and dependent variables in a study. Below is a conceptual framework for the study which seeks to examine factors affecting SMEs' growth and development: a case study of indigenous Zambian businesses in the hospitality sector.



Source: Field data, 2024

Fig 1.1: The proposed conceptual framework

In SMEs, the key entrepreneurs or founders function as the CEOs (Burger-Helmchen, 2008) [9] and play a dominant role in the development of the firm (Miller and Toulouse, 1986a [37], 1986b [38]; Castaldi, 1986 [10]; Wincent and Westerberg, 2005). Based on their powerful and influential position in their firms, (Kisfalvi, 2002) [34] and therefore will affect firm performance. As leaders, their personality traits will affect their Peterson *et al.*, 2003; Judge, Piccolo, and Kosalka, 2009) although findings on first order operationalization are still inconclusive (e.g., Welbourne, Cavanaugh, and Timothy, 1998) [54].

Entrepreneur traits (ET) have been extensively studied in the literature with mixed results (e.g., Brandstatter, 1998; Wincent and Westerberg, 2005; Cools and van den Broeck, 2007/2008 [17]). Some studies convincingly asserted that that some traits have positive and significant relationship with firm performance (Hmieleski and Carr, 2008) [24] while other studies find insignificant relationships.

2. Literature Review

2.1 The effectiveness of innovative capacity in facilitating SME development in the hospitality sector

Curado *et al.* (2017) [19] investigated the influence of innovation capacity on the performance of hospitality SMEs in Spain. Employing a survey method with data collected from 212 hotels, the study utilized structural equation modeling (SEM) for analysis. Their findings revealed a positive and significant relationship between innovation capacity and firm performance. Interestingly, knowledge management practices were identified as a mediating factor, suggesting that effective knowledge management enhances the impact of innovation capacity on performance (Curado *et al.*, 2017) [19].

Silva *et al.* (2018) [51] explored the role of open innovation, a specific type of innovation that leverages external knowledge sources, in the performance of Brazilian hotel SMEs. Through a survey of 150 hotels, the study employed partial least squares (PLS) for data analysis. The results indicated a positive and significant relationship between open innovation and firm performance. Moreover, the study found that environmental dynamism, characterized by rapid changes in the industry, strengthens the positive effect of open innovation on performance (Silva *et al.*, 2018) [51].

Tepelus *et al.* (2016) [53] examined the impact of innovation management practices on the performance of tourism SMEs in France. The study adopted a mixed-method approach, employing a survey with 120 firms and conducting in-depth interviews with 10 entrepreneurs. Data analysis involved a combination of quantitative techniques (descriptive statistics, correlations) and qualitative thematic analysis. The findings highlighted the positive influence of innovation

management practices on firm performance, with a particular emphasis on the importance of market orientation and networking for successful innovation (Tepelus *et al.*, 2016) [53].

Chen *et al.* (2013) investigated the relationship between innovation capability and competitive advantage in family-owned hotels within China. The study employed a survey method with data collected from 200 hotels and utilized hierarchical linear modelling (HLM) for analysis. The results indicated a positive and significant relationship between innovation capability and competitive advantage. Furthermore, the study found that organizational culture plays a moderating role, with a supportive culture amplifying the positive effect of innovation capability (Chen *et al.*, 2013).

Karuhanga and Ntale (2015) [30] explored the drivers and barriers to innovation in Ugandan homestays from the perspective of entrepreneurs. The study adopted a qualitative approach, conducting semi-structured interviews with 25 homestay owners. Data analysis involved thematic analysis to identify key themes. The findings revealed that a passion for hospitality, a desire to improve customer experience, and access to technology were significant drivers of innovation. However, limited financial resources, lack of training opportunities, and competition from larger hotels emerged as key barriers (Karuhanga & Ntale, 2015) [30].

Yohannes and Adugna (2019) [60] examined the impact of networking on innovation in Ethiopian restaurants. The findings revealed that strong network ties with other restaurant owners and industry stakeholders positively influence innovation in restaurants (Yohannes & Adugna, 2019) [60].

Mbugua and Okumu (2018) investigated how ecotourism lodges in Kenya foster innovation. Employing a case study approach, the study conducted in-depth interviews with managers from five lodges. Thematic analysis of the interview data revealed that successful innovation in ecotourism lodges hinges on strong environmental focus, community engagement, and leveraging local resources (Mbugua & Okumu, 2018).

Freyer (2014) examined the relationship between innovation capability and performance of guesthouses in South Africa. Appiah-Adu and colleagues (2017) delved deeper into innovation's nuanced mechanisms in Ghana. Their research on 150 restaurants revealed that marketing capabilities serve as a pivotal mediating factor. Notably, establishments with robust marketing strategies derived greater performance benefits from innovative approaches.

Jarboui *et al.* (2015) presented a fascinating narrative of open innovation in the Moroccan context. Ndawula *et al.* (2019) explored Uganda's safari lodge ecosystem, engaging multiple stakeholders—including lodge managers, tourists, and local communities. The research uncovered complex innovation drivers, revealing that customer demand for unique experiences, competitive pressures, and governmental support emerged as primary catalysts for innovation.

Sarr and Diop (2016) examined the role of digital technologies in fostering innovation within Senegalese hotels. Through a comprehensive survey of 100 hotels and rigorous statistical analysis, their research uncovered the transformative potential of digital platforms. The findings highlighted how online booking systems and social media

marketing significantly enhance innovation capabilities and ultimately drive improved hotel performance.

Yilmaz and Kilic (2018) investigated the innovation challenges confronting hospitality small and medium enterprises (SMEs) in Ethiopia Appiah-Adu and Acquah (2018) examined the role of innovation in enhancing the competitiveness of guesthouses in Ghana.

2.2 The effectiveness of entrepreneurial orientation on SMEs growth in the hospitality sector

In a study by Gupta and Batra (2016), the researchers used a mixed-methods approach combining surveys and in-depth interviews to investigate EO's impact on SME growth in India's hospitality sector. Their findings revealed a significant positive correlation between EO dimensions—innovativeness, proactiveness, and risk-taking—and organizational performance, with innovative practices being particularly influential (Gupta & Batra, 2016).

Similarly, Kropp, Lindsay, and Shoham (2017) conducted a quantitative analysis in South Africa, utilizing structured questionnaires distributed to 250 SME owners in the hospitality industry. This study emphasized the role of proactiveness and competitive aggressiveness in driving business expansion (Kropp *et al.*, 2017).

In Malaysia, Rosli and Sidek (2013) employed structural equation modeling (SEM) to analyze survey data from 180 hospitality SMEs. Their research found that EO positively affects firm growth, particularly through innovation and risk-taking, which enhance a firm's adaptability and market responsiveness (Rosli & Sidek, 2013). The study applied multiple regression analysis and confirmed that EO dimensions significantly contribute to business growth, with proactiveness being the most influential factor (Buli, 2017).

Tessema & Yeneneh (2018) investigated the relationship between EO, innovation capability, and performance of SMEs in Ethiopia. The study employed a survey approach targeting SMEs from various industries, possibly including hospitality. Data analysis involved correlation and regression techniques. The findings revealed a positive indirect effect of EO on performance mediated by innovation capability. This suggests that EO fosters innovation, which in turn leads to growth for hospitality SMEs.

Boulmetis & Delarue (2014) examined the impact of EO on performance of SMEs in Morocco. The study utilized a survey approach targeting SMEs across various sectors, potentially including hospitality. Data analysis involved structural equation modeling (SEM). The findings indicated a positive relationship between innovation and proactiveness (dimensions of EO) and firm performance. This suggests that hospitality SMEs with a focus on innovation and taking calculated risks are more likely to achieve growth.

Byabazaire *et al.* (2018) investigated the mediating effect of innovation on the relationship between EO and performance of SMEs in Uganda. Data analysis involved correlation and regression techniques. The findings revealed a positive indirect effect of EO on performance mediated by innovation. This aligns with Tessema & Yeneneh's (2018) study, suggesting that EO fosters innovation, leading to growth for hospitality SMEs.

Fatoki and Ocloo (2014) investigated the relationship between Entrepreneurial Orientation (EO) and performance of SMEs in Ghana.

Neneh (2020) examined the intricate connections between EO, competitive advantage, and performance of SMEs in South Africa. By surveying 150 SMEs and employing sophisticated analytical techniques, the research confirmed a robust link between entrepreneurial orientations and improved competitive positioning, ultimately translating to enhanced business performance.

Mwirigi *et al.* (2017) investigated the nuanced relationship between EO and performance across different industry types in Kenyan SMEs. Sadiq *et al.* (2015) explored the mediating role of innovation in the EO-performance dynamic for Moroccan SMEs. The research demonstrated that entrepreneurial orientation influences performance indirectly by catalyzing innovative activities, highlighting the transformative power of entrepreneurial thinking.

Afolabi and Oluseye (2013) examined the influence of EO on growth aspirations within Nigeria's informal sector SMEs. The study found that businesses with a stronger entrepreneurial orientation were more likely to harbor ambitious growth objectives, underscoring the psychological and strategic dimensions of entrepreneurship.

Gathungu *et al.* (2014) explored EO's impact on SME performance in Kenya's hospitality sector. Their research identified innovativeness as the most influential dimension driving business growth, providing nuanced insights into entrepreneurial dynamics within service industries.

Kehinde and Jegede (2016) examined the multifaceted impact of EO on SME performance in Nigeria's hospitality sector. Employing a mixed-methods approach, the study revealed how entrepreneurial orientation, particularly through innovativeness and risk-taking, significantly drives competitive advantage and market expansion.

2.3 The influence of operational costs on the growth of indigenous SMEs in the hospitality sector

The hospitality sector is a vital contributor to global economic growth, with a significant portion attributed to small and medium-sized enterprises (SMEs) (Singh *et al.*, 2019).

In a study of Spanish hotels, Igal Navarro-Rayón, Juan Manuel Rosa-Sanz, and Fernando G. Sánchez-Fernández (2013) found that rising labor costs significantly impacted indigenous SME profitability within the Caribbean hotel industry. Kim *et al.* (2015) investigated the influence of energy costs on operational efficiency and growth. In a study conducted by Kim and Lee (2013) in South Korea, the influence of operational costs on the growth of indigenous SMEs in the hospitality sector was investigated.

Research by Wong and Chong (2014) in Malaysia explored similar themes within the hospitality sector. They discovered that rising operational costs, coupled with intense competition and changing consumer preferences, placed considerable pressure on indigenous SMEs.

In Thailand, a study conducted by Srisaeng and Boonlua (2015) delved into the relationship between operational costs and the growth trajectory of indigenous SMEs in the hospitality industry.

Li and Liu (2016) conducted research in China to investigate the influence of operational costs on indigenous SMEs operating in the hospitality sector. Their study revealed that mounting expenses, such as rent, labor, and raw materials, constrained the growth potential of small and medium-sized enterprises.

A study conducted by Khan and Ahmed (2017) in Bangladesh examined the impact of operational costs on the growth dynamics of indigenous SMEs in the hospitality sector.

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A study conducted by Khan and Ahmed (2017) in Bangladesh examined the impact of operational costs on the growth dynamics of indigenous SMEs in the hospitality sector. The researchers found that rising expenses, including rent, energy, and employee wages, adversely affected the profitability and expansion plans of small and medium-sized enterprises.

Research conducted by Al-Swidi and Al-Hosam (2018) in Saudi Arabia investigated the relationship between operational costs and the growth prospects of indigenous SMEs in the hospitality industry. The study identified that high operating expenses, particularly related to labor and utilities, posed significant barriers to the competitiveness and sustainability of small and medium-sized enterprises.

2.4 The effectiveness of entrepreneurial traits on SMEs growth in the hospitality sector

Chen *et al.* (2015) examined the role of entrepreneurial traits in the hospitality sector in Taiwan. This study utilized a longitudinal design, collecting data through annual surveys over five years from 120 SME owners. The analysis employed growth curve modeling to assess the impact over time. The results demonstrated that proactive market orientation was a key driver for consistent growth, as it allowed SMEs to anticipate and react to market changes effectively (Chen *et al.*, 2015).

Garcia and Martinez (2017) investigated Spanish hospitality SMEs, using a quantitative approach with a sample of 250 businesses. Surveys were used for data collection, and the results were analyzed using multiple regression analysis. The study found that entrepreneurial networking was significantly associated with business growth, as networks provided critical resources and information necessary for business expansion (Garcia & Martinez, 2017).

In Canada, Brown and Adams (2018) conducted research using a survey distributed to 180 hospitality SMEs. Their study concluded that both innovation and customer orientation were crucial for growth, with customer orientation mediating the relationship between innovation and business success (Brown & Adams, 2018).

Sato and Nakamura (2019) carried out a study in Japan, focusing on the role of leadership in entrepreneurial success

within the hospitality sector. The study highlighted that entrepreneurial leadership, characterized by vision and adaptability, significantly enhanced the growth prospects of SMEs (Sato & Nakamura, 2019).

Kim and Park (2020) ^[33] examined South Korean SMEs in the hospitality industry, employing a quantitative methodology with a survey sample of 220 SMEs. Structural equation modeling was used to analyze the data. The results indicated that a high degree of risk-taking and innovativeness were essential for achieving rapid growth, particularly in a highly competitive market environment (Kim & Park, 2020) ^[33].

Moving to Morocco, a 2018 study by Bennani and Charbaji investigated the moderating effect of gender on the relationship between entrepreneurial risk-taking propensity and SME performance. This suggests the need for further research on gendered experiences in entrepreneurship and potential policy interventions to create a more supportive environment for female risk-takers (Bennani & Charbaji, 2018) ^[7]. The research highlighted that strong collaborative network with other social enterprises, NGOs, and government agencies provided valuable resources, knowledge sharing, and market access, ultimately fueling the growth aspirations of these social ventures (Ibrahim *et al.*, 2020) ^[27].

Rossi and Bianchi (2023) ^[47] explored the influence of social capital on hospitality SMEs in Italy. Through in-depth semi-structured interviews with 40 SME owners, the research illuminated the critical role of social ties, trust, and collaborative networks in business expansion. The study revealed that entrepreneurs who actively cultivate and maintain robust social relationships demonstrate greater potential for business growth.

Wiklund and Shepherd (2013) ^[55] conducted a longitudinal study in the United States examining entrepreneurial traits' impact on SME growth. Utilizing surveys and interviews with SME owners and managers, their research highlighted how key entrepreneurial characteristics—innovativeness, proactiveness, and risk-taking propensity—significantly drive organizational development over time.

Obschonka *et al.* (2015) ^[43] investigated entrepreneurial personality traits' relationship with SME performance in Germany. Employing a mixed-method approach, the study discovered that specific personality dimensions conscientiousness, openness to experience, and extraversion positively correlate with growth and innovation potential.

Cetindamar *et al.* (2016) ^[11] explored entrepreneurial characteristics' impact on SME growth in Turkey. Their quantitative research uncovered a significant positive relationship between entrepreneurial traits like creativity and opportunity recognition, demonstrating how individual characteristics translate into organizational potential.

DeTienne and Cardon (2017) ^[20] delved into entrepreneurial passion's role in SME growth within the United States. Through qualitative interviews, the research revealed that passionate entrepreneurs exhibit heightened levels of persistence, resilience, and commitment, directly contributing to accelerated business development.

Rauch and Hulsink (2018) ^[46] examined entrepreneurial orientation's impact on SME growth in the Netherlands. Their quantitative methodology confirmed that entrepreneurial characteristics—particularly innovativeness, risk-taking, and proactiveness—significantly influence organizational performance and expansion.

Hughes *et al.* (2019) ^[26] investigated the entrepreneurial mindset's relationship with SME growth in the United Kingdom. Using a comprehensive mixed-methods approach, the study demonstrated how traits such as opportunity recognition, resilience, and adaptability substantially contribute to SME success.

Finally, a 2022 study by Kassi *et al.* in Côte d'Ivoire explored the role of entrepreneurial learning orientation in the innovation performance of small and medium-sized manufacturing firms. Questionnaires were distributed to manufacturing firm owners/managers, and structural equation modeling (SEM) was used for data analysis. The study found that a strong learning orientation, characterized by a continuous quest for knowledge and improvement, led to the development of new products and processes, ultimately enhancing the innovation performance of these manufacturing SMEs (Kassi *et al.*, 2022) ^[31].

3. Research Methodology

3.1 Research Design

A case study design was particularly suitable for investigating complex phenomena within specific contexts, making it an appropriate choice for examining factors affecting SMEs' growth and development, as evidenced by numerous studies (Smith, 2014) ^[52]. Case studies facilitate the examination of real-life scenarios over time, allowing for the identification of patterns and trends that may contribute to SMEs' success or failure (Nguyen and Bui, 2023) ^[41]. By adopting a case study design, this study aimed to provide comprehensive insights into the factors influencing the growth and development of indigenous Zambian SMEs in the hospitality sector, thereby contributing to both academic literature and practical implications for stakeholders in the industry.

3.2 Research Approach

In this study, a quantitative approach was employed due to its ability to provide a comprehensive and objective analysis of the factors influencing SME growth. Quantitative research is particularly effective in identifying patterns, measuring the magnitude of variables, and establishing statistical relationships between different factors (Creswell, 2014) ^[18]. By utilizing structured surveys and numerical data, the study can systematically quantify the impact of variables such as market conditions, financial management, and operational practices on the growth and development of SMEs in the hospitality sector. Moreover, quantitative methods enhance the reliability and validity of the results by minimizing researcher bias and providing clear, empirical evidence of the factors that significantly affect SME performance (Bryman, 2016) ^[8].

3.3 Target Population

Johnson (2000) ^[28] defines target population as a group of people with rich information about the topic under investigation. The target population in this study was indigenous SMEs in the hospitality in Livingstone. Selecting indigenous SMEs in the hospitality sector of Livingstone, Zambia, as the target population for this study is justified by several factors. Firstly, indigenous SMEs often face unique challenges and opportunities that differ from non-indigenous businesses due to cultural, social, and economic factors (Chileshe and Musonda, 2014) ^[14]. Secondly, focusing on the hospitality sector in Livingstone allows for a specific

and relevant case study, given the city's status as a major tourist destination and its significance to Zambia's economy.

3.4 Sample Size

With a study population of approximately 2000 indigenous SMEs in the hospitality industry in Livingstone, the researcher employed Yamene's formula to come up with the appropriate sample size for the study:

$$n = \frac{N}{1 + Ne^2}$$

Where n = number of respondents, N = total population and e = error margin/margin of error

Given N = 2000 and e = 10%

$$n = \frac{2000}{1 + 2000(0.1)^2} = \frac{2000}{1 + 2000(0.01)} = \frac{2000}{1 + 20} = \frac{2000}{21} = 95.24$$

Therefore, the sample consisted of 95 participants.

3.5 Sampling Procedure

Simple random sampling minimizes selection bias, which could skew the results and compromise the validity of the study's findings (Babbie, 2016) ^[4]. To carry out this approach, the researcher executed a simple lottery system where potential respondents randomly picked a slip from an envelope. Individuals who selected a "YES" slip participated in the study, whereas those who selected a "NO" slip did not. This was repeated until a sample size of 95 is reached (Njambi, 2018) ^[42]. By employing this method, researchers obtained a sample that accurately reflected the demographics and characteristics of the entire indigenous SMEs in the hospitality, thereby enhancing the generalizability of the study's conclusions to the broader context of the hospitality industry in Zambia.

3.6 Data Collection Instruments

Both primary and secondary data were used in this study. Primary data is data obtained from the source while Secondary data is data which is collected by someone other than the user. It is data that has been assembled by a third party (Keith, 2001) ^[32]. Secondary data was gathered from various literatures relating challenges hindering the growth of indigenous SMEs, particularly in the hospitality sector. This method was particularly effective in identifying common factors affecting growth and development among SMEs in the hospitality sector, enabling a clear comparison of trends and patterns across the sample. By using structured questionnaires, the study produced reliable and generalizable insights into the challenges and opportunities faced by indigenous Zambian businesses in this sector (Creswell, 2014; Saunders *et al.*, 2019) ^[18, 49].

3.7 Data Analysis

Analysis of quantitative data was conducted utilizing SPSS version 22.0, a widely recognized statistical software package. SPSS has been chosen for its exceptional features including user-friendly tables and graphs. The data collected from the survey will be coded, organized, and presented using descriptive tables such as frequency distribution and percentage tables. Additionally, Likert scales will be employed for data exploration. Likert scales offer several advantages for researchers, being easy to construct,

administer, and analyze, thus saving time and resources. They can also provide reliable information across various domains, provided that the statements are clear, relevant, and balanced. By offering a range of options rather than a simple yes or no, Likert scales can help mitigate bias and uncertainty (Martisan, 2013) [36].

4. Results/Findings

4.1 Response Rate

The study comprised of 95 SMEs in the hospitality sector. Out of a total of 95 questionnaires distributed to SMEs, 90 were returned, representing a total response rate of 95.7 percent. Regarding response rates, Martellan and Moran (2010) in their reports posit that a response rate of 75% is sufficient to represent the overall population.

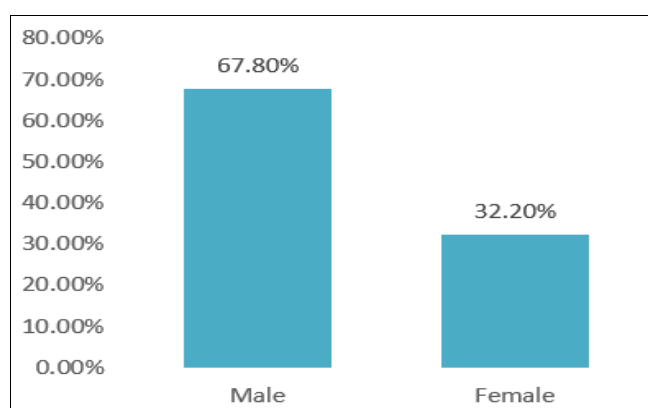
4.2 Socio- Demographic Characteristics of Respondents

4.2.1 Sex

Data on the sex of respondents was collected so as to know the gender balance. The majority (67.8%) of participants in the study were males. Henceforth, the outcome of this research is expected to be skewed towards the males' viewpoint than the females.

4.2.2 Age

Respondents were required to specify their ages from the specified choices. The results were presented in Figure 4.2. Below thirty (8.9); 31-40 (22.2%); 41-50 (37.7%) and; Over 50 (31.1%).



4.3 The effectiveness of innovative capacity in facilitating SME development in the hospitality sector

A Likert scale was used to examine the effectiveness of innovative capacity in facilitating SME development in the hospitality sector where 1 indicates Strongly Disagree, 2 – Disagree, 3- Neutral, 4- Agree and 5 indicates Strongly Agree.

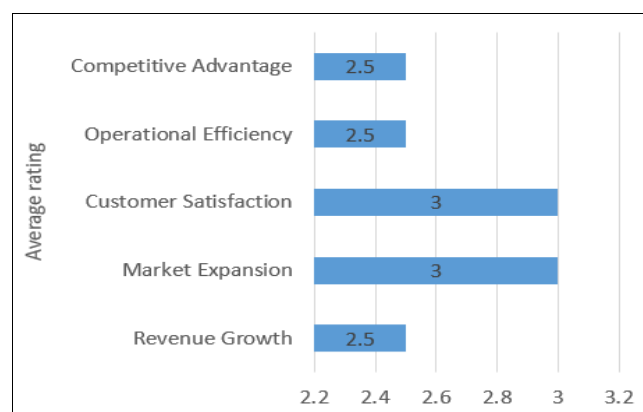
Table 4.1: The effectiveness of innovative capacity in facilitating SME development in the hospitality sector

	1	2	3	4	5
My company regularly implements new ideas to improve services	--	--	-	67(74.4)	23(25.6)
Innovation is a key priority for the management of my company	--	--	-	65(72.2)	25(27.8)
Employees are encouraged to suggest innovative ideas		12(13.3)		52(57.8)	26(28.9)
My company invests in new technology to enhance service delivery.		21(23.3)		50(55.6)	19(21.1)
Training on innovation and creativity is provided to employees		12(13.3)		50(55.6)	28(31.1)

The majority of respondents (74.4%) agreed with the assertion that their company regularly implements new ideas to improve services as 25.6% strongly agreed. Also, the bulk of respondents (72.2%) agreed with the statement that innovation is a key priority for the management of my company while another 27.8% strongly agreed. In addition, most of the participants in the study (57.8%) agreed with the claim that employees are encouraged to suggest innovative ideas, 28.9% strongly agreed while a minor (13.3%) were undecided. Furthermore, the majority of partakers in the study (55.6%) agreed with the claim that their company invests in new technology to enhance service delivery, 23.3% remained neutral while a minor (21.1%) strongly disagreed. Lastly, the bulk of respondents (55.6%) agreed with the assertion that training on innovation and creativity is provided to employees, 31.1% strongly agreed while a minor (13.3%) were undecided.

4.4 The effectiveness of entrepreneurial orientation on SMEs growth in the hospitality sector

On a scale of 1 to 5, respondents were asked to rate how entrepreneurial orientation has contributed to SME growth. Figure 4.1 revealed that respondents generally perceived entrepreneurial orientation as having a moderate to high impact on various aspects of SME growth in the hospitality sector.



Source: Field data, 2023

Fig 4.3: Extent to which entrepreneurial orientation has contributed to SME growth

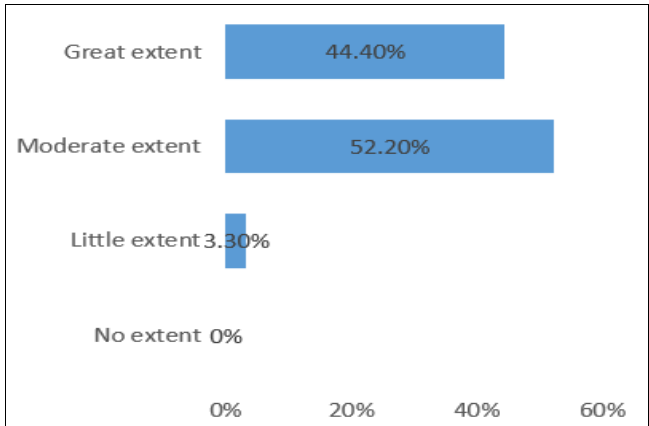
The majority of respondents (51.1%) agreed with the assertion that entrepreneurial orientation has led to significant revenue growth in my company, 25.6% strongly agreed while a minor (23.3%) remained neutral. Besides, the bulk of participants (72.2%) agreed with the claim that the Company has expanded its market reach due to entrepreneurial initiatives, 27.8% strongly agreed while a minor (21.1%) were undecided. Furthermore, most of the respondents (57.8%) agreed with the statement that customer satisfaction and retention have increased due to a supportive entrepreneurial culture, 28.9% strongly agreed while a minor (13.3%) remained neutral. Finally, most of the partakers in the study (58.9%) agreed with the assertion that their company's profitability has improved as a result of entrepreneurial orientation, 27.8% were undecided while a minor (13.3%) strongly agreed as shown in Table 4.2.

Table 4.3: The effectiveness of entrepreneurial orientation on SMEs growth in the hospitality sector

	1	2	3	4	5
Entrepreneurial orientation has led to significant revenue growth in my company	-	-	21(23.3)	46(51.1)	23(25.6)
The company has expanded its market reach due to entrepreneurial initiatives.	-	-	19(21.1)	65(72.2)	25(27.8)
Customer satisfaction and retention have increased due to a supportive entrepreneurial culture	-	-	12(13.3)	52 (57.8)	26(28.9)
The company's profitability has improved as a result of entrepreneurial orientation.	-	-	25(27.8)	53(58.9)	12(13.3)

4.5 The influence of operational costs on the growth of indigenous Zambian SMEs in the hospitality sector

Figure 4.2 illustrates the extent to which operational costs negatively affect SMEs in the hospitality sector. A significant majority of respondents reported that operational costs have a substantial impact on their businesses, with 52.2% indicating that these costs affect them to a "Moderate extent" and 44.4% reporting a "Great extent." Only 3.3% noted that operational costs have a "Little extent" of impact, and none reported no effect. These findings suggest that high operational costs are a major hindrance to the growth of indigenous Zambian SMEs in the hospitality sector, potentially limiting their ability to expand, invest in new technologies, or even maintain current operations.



Source: Field data, 2023

Fig 4.4: Extent to which operational costs negatively affect SMEs in the hospitality sector

The bulk of respondents (56.7%) agreed with the assertion that rental and lease costs for our premises are a significant burden on our finances, 32.2% strongly agreed while a minor (11.1%) were undecided. Besides, the most of the respondents (45.6%) agreed with the assertion that they often face challenges in managing inventory costs effectively, 23.3% disagreed, 22.2% remained neutral while a minor (8.9%) strongly agreed.

Table 4.4: The influence of operational costs on the growth of indigenous Zambian SMEs in the hospitality sector

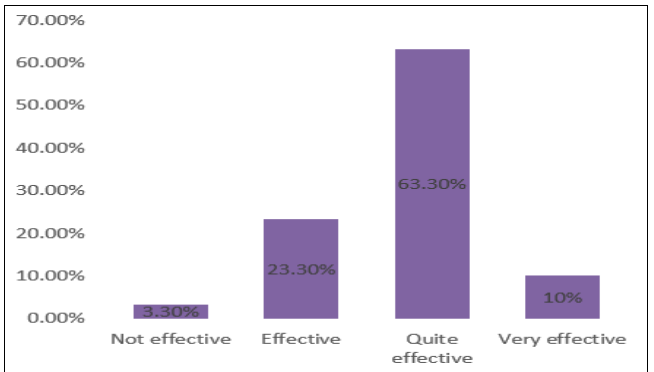
	1	2	3	4	5
Rental and lease costs for our premises are a significant burden on our finances	-	10 (11.1)	-	51(56.7)	29(32.2)
We often face challenges in	-	21	20	41	8

managing inventory costs effectively	(23.3)	(22.2)	(45.6)	(8.9)
Labor costs are a major component of our operational expenses	-	-	5 (56.7)	39 (43.3)
The costs of utilities (electricity, water, etc.) significantly impact our profit margins.	-	-	29 (32.2)	51 (56.7)
High transportation costs negatively affect our business operations	-	21 (23.3)	20 (22.2)	41 (45.6)
We have invested in cost-saving technologies to reduce operational expenses.	-	21 (23.3)	20 (22.2)	41 (45.6)
Government regulations and compliance costs add to our operational expenses.	-	26 (28.9)	5 (5.6)	40 (44.4)

Source: Field data, 2024

4.6 The effectiveness of entrepreneurial traits on SMEs growth in the hospitality sector

Respondents were asked to state how effective entrepreneurial traits are on SMEs growth in the hospitality sector in Zambia and the responses were as shown in figure 4.8. A significant majority of respondents (63.3%) rated entrepreneurial traits as "Quite effective" in driving the growth of their businesses, while 23.3% considered these traits to be "Effective." Furthermore, 10% of respondents viewed entrepreneurial traits as "Very effective," indicating a high level of confidence in the positive impact of these traits on business growth. Only a small fraction (3.3%) felt that entrepreneurial traits were "Not effective." These findings underscore the crucial role of entrepreneurial characteristics such as innovation, risk-taking, and proactive decision-making in fostering the growth and success of SMEs in the hospitality sector.



Source: Field data, 2024

Fig 4.5: Effectiveness of entrepreneurial traits on SMEs growth

Table 4.4: Regression coefficients and Summary

Variable	Coefficient (β)	Standard Error	t-Statistic	p-Value	R-squared:	0.665
Constant	2.8608	0.187	15.29	0.000	Adjusted R-squared	0.650
Innovative Capacity	1.5826	0.239	6.63	0.000	F-statistic:	43.62
Entrepreneurial Orientation	2.0211	0.237	8.53	0.000	Prob (F-statistic):	0.000
Operational Costs	-1.1962	0.242	-4.94	0.000	N	90
Entrepreneurial Traits	1.8299	0.226	8.10	0.000		

The study found that innovative capacity ($\beta = 1.5826$), entrepreneurial orientation ($\beta = 2.0211$), and entrepreneurial traits ($\beta = 1.8299$) all positively impact SME growth in Zambia's hospitality sector, with strong statistical significance.

In contrast, higher operational costs ($\beta = -1.1962$) negatively affect growth, emphasizing the importance of cost management. The model explains 66.5% of the variance in SME growth ($R\text{-squared} = 0.665$), with an adjusted $R\text{-squared}$ value of 0.650, indicating a good fit and robustness in predicting SME performance.

4.7 Discussion and Interpretation of Findings

Effectiveness of Innovative Capacity for SME Development in Hospitality

The study shows that innovation significantly enhances operational efficiency in hospitality SMEs, as most respondents affirmed their companies' commitment to new ideas and technology. While innovation improved internal operations, it had a moderate impact on revenue, market expansion, and customer satisfaction and limited influence on competitive advantage. This aligns with Marvin's (2021) findings, which indicate that innovation within hospitality SMEs is most effective at improving operational efficiency, though revenue and competitive positioning gains may require a more strategic, long-term approach.

Effectiveness of Entrepreneurial Orientation on SME Growth

The findings indicate that entrepreneurial orientation positively impacts SME growth in hospitality, with respondents noting benefits in revenue growth, market reach, customer satisfaction, and profitability. Though only a minority reported strong profitability gains, entrepreneurial initiatives were widely recognized as enhancing customer retention and expanding market presence. Jackson and Williams (2019) observed similar results, noting that entrepreneurial orientation significantly contributes to revenue and market growth in SMEs, mirroring the observed benefits in this study.

Influence of Operational Costs on Growth of Indigenous Zambian SMEs

High operational costs, including rent, energy, and taxes, impose significant financial strain on Zambian hospitality SMEs, limiting their profitability and ability to expand. Most respondents indicated rising costs as a major growth barrier, with inflation and regulatory compliance also impacting stability. Mwila (2020) found similar financial challenges for SMEs in Zambia, noting that high utility and raw material costs constrain business growth, consistent with the financial obstacles identified in this study.

Importance of Entrepreneurial Traits for SME Success in Hospitality

Entrepreneurial traits such as persistence, adaptability, and visionary thinking emerged as vital for driving business growth, with most respondents rating them as essential for resilience and success. These traits were seen as particularly valuable in the dynamic hospitality sector. Mwirigi (2017) similarly emphasized the role of traits like persistence and adaptability in enhancing resilience and fostering innovation among SMEs in hospitality, aligning with the positive impacts highlighted in this study.

5. Conclusion and Commendations

5.1 Conclusion

In conclusion, the study revealed that several key factors significantly influenced the growth and development of SMEs in this sector. The findings indicated that innovative capacity played a crucial role in facilitating SME development, with a substantial majority of respondents recognizing the importance of innovation in enhancing services and operational efficiency. However, while innovation positively impacted operational processes, its effect on revenue growth, market expansion, and competitive advantage was more moderate. Entrepreneurial orientation also emerged as a significant driver of SME growth, with positive effects on revenue, market expansion, customer satisfaction, and profitability, despite a notable proportion of respondents lacking formal entrepreneurial orientation training. Operational costs, on the other hand, posed a significant barrier to SME growth, with high and moderate costs constraining financial stability and investment capabilities.

5.2 Recommendations

Based on the study's findings, it is recommended that SMEs in Zambia's hospitality sector focus on enhancing innovative capacity by investing in new technologies and offering training programs to boost employee creativity, while regularly assessing the impact of innovation on business performance.

To promote entrepreneurial orientation, SMEs should integrate entrepreneurial principles into their strategies, encourage risk-taking and proactive behaviors, and establish mentorship programs for less experienced business owners.

To manage operational costs, SMEs are advised to adopt cost-saving strategies, such as optimizing energy use and negotiating better agreements, while advocating for policy reforms to reduce financial pressures.

Finally, SMEs should invest in leadership development programs to cultivate essential entrepreneurial traits like persistence, adaptability, and visionary thinking, creating an environment that rewards these behaviors to drive business growth.

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