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### Examining Business Failure Among Indigenous Small Businesses: Case Study of Lusaka's Mtendere Township

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#### Abstract

Over the years, people have shifted from being dependent on white collar jobs from the government to starting up their own businesses. This trend has spread across the globe giving rise to entrepreneurship. The main objective of this study was to find out the major challenges that cause business failure among small businesses. The study had specific objectives to achieve such as to assess the effectiveness of marketing in championing the growth of small businesses, to find out whether a business plan affects the overall performance of a business, and to examine the role of financial management in the sustainability of small businesses. The study used descriptive design and the data was collected using structured questionnaires. The sample size for the study was 50 respondents drawn from SMEs

owners in Mtendere Township of Lusaka District. The study found that although marketing is applied in small businesses, there is lack of innovative marketing strategies. The study also revealed lack of a business plan does not cause business failure but does limit businesses from accessing funds from lending institutions as well as support from financial institutions. The study further revealed that financial mismanagement is the major cause of business failure due to lack of financial literacy among most business owners as well as lack of planning on the part of entrepreneurs. The study recommended for government to train small business owners in creative strategies and innovation in order for them to sustain their businesses.

**Keywords:** Failure, Causes, Small Businesses, Marketing, Business Plan, Financial Management

#### 1. Introduction

##### 1.1 Background

It is widely believed that the creation of small businesses contributes greatly to any country's economic growth. The latest statistics show that there are 33.2 million small businesses in the United States which account for 99.9 % of all US businesses. (Small Business Administration, 2022). In Africa, SMEs represent approximately 90% of all businesses. They create between 60% and 80% of jobs and contribute 40% of GDP. (London Stock Exchange Group, 2018). In Zambia, SMEs account for 97% of all businesses. Zambian MSME sector is made up of both formal and informal sector. Zambian Labour Force Survey of 2020 indicated that the formal sector made up of 803,738 in urban areas while the informal sector made up of 860,595 workers in urban areas. The Micro and Small Medium Enterprise (MSME) development policy among other things aims at promoting equity in opportunities and gender equity in its pursuit of outcomes and gives emphasis on the role of women as economic actors in MSME development. However, although MSME sector in Zambia has the potential for economic development, it faces many business constraints. According to the Ministry of Commerce Trade and Industry report of 2006 on MSMEs, these challenges and constraints include limited access to markets, limited access to suitable business financing solutions, limited access to appropriate technology, machinery and equipment.

##### 1.2 Statement of the problem

Small businesses despite being the backbone survival tactic for many people as well as a major economic component continue to fail at an alarming rate. A number of questions have arisen as to why some businesses fail. Why does a seemingly good business venture that was recently established suddenly collapse? Why is it that when two businesses exist in the same location

offering the same product and yet one fail while the other remain? Past statistics indicate that in Zambia, three out of five small scale businesses fail within the first few months of operation. (Bank Of Zambia, 2016). Though this is perceived as a normal thing considering the various economic turmoil the country is facing. What is more alarming is the fact that more and more people still continue to venture into small businesses and yet again still fail. There is an ongoing cycle of startups and failure without much being done to find out how to break the cycle and come up with lasting solutions to the problem.

### 1.3 Objective

#### 1.3.1 General Objective

The main objective of the study is to find out the major challenges that causes business failure among indigenous small businesses.

#### 1.3.2 Specific Objectives

1. To assess the effectiveness of marketing in championing the growth of small businesses.
2. To find out whether a business plan affects the overall performance of small businesses.
3. To examine the role of financial management in the sustainability of small businesses.

### 1.4 Theoretical Framework

#### Personality Based Model

According to this model, entrepreneurs possess certain traits and these specific traits are expected to produce a strong impact on planning the business and on the choice of strategies and actions during the launching phase which will in turn determine the entrepreneur's success in the undertaking. According to Caliendo & Kritikos, (2007) [3], the following traits have been defined as useful in explaining the past success and in predicting the future development of newly founded business: motivational traits such as 'need for achievement', 'internal locus of control' and need for autonomy'. cognitive skills such as 'problem-solving orientation', 'tolerance of ambiguity', 'creativity' and 'risk taking propensity' they further added personality traits such as stress resistance and emotional stability as well as social skills such as interpersonal reactivity and assertiveness.

### 2. Literature Review

#### 2.1 To assess the effectiveness of marketing in championing the growth of small businesses

Pugna *et al* (2006) conducted a study to identify if SMEs managers undertake marketing activities out of need or starting from available resources in Romania. The sample size for the study was 131 Romanian SMEs managers. The findings revealed that financial resources represent a deciding factor in undertaking organized marketing activities. The study recommended that SMEs need simplified marketing tools for coping with the continuous growing market competitiveness.

Scheers (2018) [5] conducted a study to establish which marketing challenges SMEs are facing and whether these challenges contribute to the high business failure rate in South Africa. The study was qualitative research and the sample size was 1000 consisting of small business owners. The findings revealed that a positive correlation exist between lack of marketing skills and business failure in South Africa.

#### 2.2 To find out whether a business plan affects the overall performance of small businesses

Abdullah (2020) [1] carried out a study on the importance of a business plan, its content and provides some rules on what should be taken into consideration during its writing. The study used a case based methodology. The paper provided information on the main aspects of a business plan. It was also an attempt to convince entrepreneurs that they must write a business plan in order to be more effective in managing their businesses in one hand, and convince partner, creditors and investors that they are dedicated to their business and it is worth investing in. the findings revealed that a business plan is used to increase the opportunities for development, growth and raise additional capital.

A similar study was conducted by Chimcheka (2012) to investigate the usefulness of business plans to small, micro and medium enterprises. The study was conducted in Eastern Cape Province of South Africa. The research used simple random sampling to collect data from SMEs. The study revealed the following key findings; not all SMEs know the importance of a business plan, SMEs find it difficult to access bank finance, a business plan is important to SMEs and not all SMEs are aware of independent organizations and government agencies that can assist them with the proper preparation of business plans. The study recommended the need for SMEs to learn to write business plans for themselves and not to rely on consultants.

#### 2.3 To examine the role of financial management in the sustainability of small businesses.

Agyapong & Attram (2019) [2] with a sample size of 132 owner- managers of registered SMEs in Ghana's Cape Coast Metropolis conducted a study on financial literacy of owner-managers and the performance of their businesses citing that owner-managers of SMEs are confronted with complex financial decisions in running their businesses on a day to day basis. The study found a significant positive relationship between financial literacy of owner-managers and performance of their businesses.

### 3. Research Methodology

#### 3.1 Research Design

Research adopted a descriptive case study design. This is because case studies are an in-depth investigation of one particular individual, group, time period or event. It is used to explore a complex phenomenon and, in this case, to examine business failure among small businesses in Lusaka's Mtendere Compound.

The researcher used probability sampling design were samples were chosen randomly from the population. This was in order to ensure that every member of the population had an equal chance of being chosen for the study and also, this ensured an unbiased approach to the research.

The target population for the study was 50 SME owners from Lusaka's Mtendere Township which was an ideal location for this investigation due to the high number of small businesses in the area. The study focused on both the formal and informal sector as many businesses in the area operate under the informal sector. In addition, this helped in bringing a more balanced research from the perspective of both sectors.

The study was based on both primary and secondary data. Primary data was analysed through the use of structured

questionnaires so as to collect specific information and so as to get a more in-depth answer that would be beneficial to the research. This arrangement was also an opportunity for the respondents to clarify questions with the researcher were he/she was not clear.

**4. Results/Findings**

a) Gender distribution of respondents

**Table 1.1:** Gender distribution of respondents

Gender	Percentage(%)
Male	48 %
Female	52%

In this study, it was clear that the majority of respondents were female making it 52% out of the total number of respondents.

b) Age of respondents

**Table 1.2:** Age of respondents

Age	Frequency	Percentage (%)
Below 20	15	30%
20-30	19	38%
30-40	9	18%
Above 40	7	14%
Total	50	100%

The results showed that the majority of respondents fell under the age group of 20-30 years making 38% of the total number of respondents followed by those who were below 20 years with 30% then those who were between 30-40 years of age and lastly with 14% coming from those who were above 40 years.

c) Business registration

**Table 1.3:** Business Registration

Business sector	Percentage (%)
Formal	42%
Informal	58%

The results show that the majority of businesses under study (58%) fell under the informal sector while the rest (42%) fell under the formal sector.

d) Continued Marketing

**Table 1.4:** Continued Marketing

Continued marketing	Percentage (%)
Yes	42%
No	58%

From the results, it was revealed that the majority of respondents (58%) did not continue marketing their business once it was established while 42% continued marketing.

e) The business has a business plan

**Table 1.5:** Business Plan

Business plan	percentage
Yes	36%
No	64%

The results on the findings as to whether the business has a written business plan or not, revealed that the majority (64%) did not have a business plan while 36 % did have a business plan.

f) Diverted funds from the business

**Table 1.6**

Status	Percentage(%)
Returned	28%
Not returned	72%

In this study, it was clear that the majority of businesses (72%) do not return funds which were diverted from the business while only 28% return the funds to the business.

**4.1 presentation of research findings**

From the findings, it was revealed that there were more female respondents (52%) compared to the number of male respondents which was 48%. It was also documented that the majority of respondents were aged between 20-30 years, followed those who were below 20 years then those who were between 30-40 years and lastly those who were above 40 years. The study also revealed that the majority of businesses (58%) fell under the informal sector. The study also revealed that the majority of respondents (58%) did not continue marketing their businesses. From the study, it was also revealed that 64% of respondents did not have a business plan while 36% had a business plan. The study further revealed that 72% of business owners do not return diverted funds to the business while only 28% return the funds.

**4.2 Discussion**

It was revealed that there were more females than males under study making it 52% and 48% respectively. This shows that women in Zambia are taking up an active role in contributing towards economic growth. The majority of business owners were found in the age group 20-30 years making up 38 %. The results are a clear indication that the majority of youths in the country are taking up entrepreneurship. The results also showed that the majority of respondents (58%) were in the informal sector. One of the reasons why some businesses are not registered is because most business owners lack knowledge concerning the procedures on business registration. Another reason has to do with the evading of taxes. The results on marketing revealed that 58% or respondents did not continue marketing. This is because most business owners see marketing as a once off strategy to be implemented only at inception while some simply lack innovative marketing strategies. When it comes to a business plan, the majority (64%) do not have a business plan. This is because many business owners think that a business plan is only necessary when one need to source for external funds. The results also showed that majority of business owners (72%) do not return the money that was diverted from the business. This is one of the causes of business failure as the majority do not view their businesses as a separate legal entity.

**4.3 Conclusion**

Based on the findings, the study revealed that small business owners in Mtendere township lack creative marketing strategies and that hinders them from growing their businesses. The study also revealed that most small business owners do not have a business plan and as a result, there is lack of planning on how activities showed be planned as well as how resources showed be allocated. Lack of a business plan also hinder them from accessing financial

resources from banking institutions. The study further revealed that there is financial mismanagement as the line which separates the owners from the business is blurred resulting in diverted funds not being accounted for.

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