

## Enhancing SMEs Profitability Through Effective Working Capital Management: A Case Study of Lusaka's Central Business District, Zambia

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### Abstract

The aim of this study was to examine how effective working capital management (WCM) practices can enhance the profitability of SMEs in this region, with a focus on evaluating the role of inventory management, accounts receivable, accounts payable, and cash management in improving financial performance. Given the vital role SMEs play in Zambia's economic growth and job creation, the study also explores current WCM practices among these businesses and identifies the key challenges they face in managing working capital efficiently. A cross-sectional design and pragmatic mixed-methods approach were adopted, collecting data from 93 SMEs through structured questionnaires and semi-structured interviews. Quantitative results revealed a strong positive correlation ( $R = 0.740$ ) between WCM components—Inventory Management Practices (IMP), Accounts Receivable Management (ARM), Accounts Payable Management (APM), and Effective Cash Management (ECM)—and SME profitability, with these practices explaining 54.7% of the variance in profitability ( $R^2 = 0.547$ ). ECM ( $\beta = 0.574$ ,  $p < 0.01$ ) and IMP ( $\beta = 0.297$ ,  $p < 0.05$ ) were statistically significant predictors. Although Access to Finance (ATF) was included as a control variable, it was not a significant predictor, indicating that internal financial practices may play a more critical role in driving profitability than external financing. Qualitative findings supported these insights, revealing common challenges such as poor cash flow forecasting, inefficient inventory systems, and limited access to financial management tools. Respondents emphasized the need for structured WCM frameworks, enhanced financial literacy, and better access to affordable credit. The study concludes that improving profitability among SMEs in Lusaka's CBD requires not only better financial access but also stronger internal financial discipline, and recommends targeted capacity-building programs, digital financial solutions, and supportive policy interventions.

**Keywords:** Working Capital Management, SME Profitability, Cash Flow, Lusaka CBD, Financial Practices

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## 1. Introduction

Small and Medium Enterprises (SMEs) are crucial to Zambia's economic landscape, contributing over 70% to the country's Gross Domestic Product (GDP) and employing nearly 88% of the workforce in the private sector (ZDA, 2021). In Lusaka's Central Business District (CBD), SMEs play a central role in providing goods, services, and employment to a rapidly growing urban population. Ideally, these enterprises should generate sustainable profits that enable reinvestment, innovation, and resilience. However, despite their economic relevance, many SMEs in the CBD struggle to remain profitable due to persistent financial and operational inefficiencies.

One of the most pressing financial challenges facing these SMEs is ineffective working capital management (WCM). WCM encompasses the strategic handling of short-term assets and liabilities—such as inventory, receivables, payables, and cash—to ensure sufficient liquidity and maximize profitability (Gitman et al., 2018). Studies have shown that firms with efficient WCM practices experience improved cash flow, reduced financing costs, and higher profit margins (Nguyen, 2015; Raheman & Nasr, 2007). However, in Lusaka's CBD, many SMEs lack structured approaches to managing working capital. According to the Zambia Association of Chambers of Commerce and Industry (ZACCI, 2023), 68% of SMEs in the area report cash flow constraints that are directly tied to poor receivables collection, overstocking, and delays in supplier payments.

The consequences of these inefficiencies are far-reaching. Poor working capital management leads to frequent liquidity shortfalls, missed investment opportunities, rising operational costs, and ultimately reduced profitability. These issues limit the capacity of SMEs to grow, compete, and contribute meaningfully to Zambia's broader economic goals. While general studies on SME finance exist, there remains a gap in localized, empirical research that examines the link between specific WCM practices and profitability in urban business environments such as Lusaka's CBD.

This study, therefore, seeks to explore how effective working capital management can enhance SME profitability in Lusaka's CBD. By analyzing the roles of receivables, payables, inventory turnover, and the cash conversion cycle, the study will generate practical insights into how SMEs can improve financial performance through smarter WCM practices. The findings are expected to inform both SME owners and policymakers on strategies to strengthen the financial health of Zambia's SME sector.

### 1.2 Statement of the Problem

SMEs in Lusaka's CBD are expected to achieve sustainable profitability through sound financial practices, including effective WCM. WCM, which involves the effective control of short-term assets and liabilities, is a core financial strategy that enables firms to maintain operational stability and maximize returns (Gitman et al., 2018; Brigham & Ehrhardt, 2022). When implemented effectively, WCM enhances cash flow, reduces the cost of capital, and strengthens overall business performance. However, in practice, many SMEs face persistent challenges in managing key components of working capital such as inventory, receivables, payables, and cash flows. These inefficiencies contribute to irregular cash cycles, high operational costs, and limited liquidity, ultimately leading to low profitability. Reports from the ZACCI (2023) and the Bank of Zambia (2022) indicate that a significant proportion of SMEs in Lusaka's CBD cite cash flow constraints and poor financial management as key barriers to business growth and profitability. Given these challenges, this study aimed to investigate how effective WCM practices can enhance the profitability of SMEs in Lusaka's CBD. It specifically examined how the management of accounts receivable, inventory, payables, and the cash conversion cycle influenced financial performance. By addressing this gap, the research intended to offer practical insights and recommendations that SMEs could adopt to strengthen their working capital systems and improve overall profitability.

### 1.3 Research Objectives

1. To identify and analyse challenges faced by SMEs in implementing effective WCM.
2. To assess the current working capital management practices among SMEs in Lusaka's CBD.
3. To analyze the relationship between working capital management and SME profitability.

### 1.4 Research Questions

1. What are the current working capital management practices among SMEs in Lusaka's CBD?
2. How does working capital management affect the profitability of SMEs in Lusaka's CBD?
3. What challenges do SMEs in Lusaka's CBD face in managing their working capital effectively?

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## 2. Literature Review

This section focuses on the examination of relevant literature related to the objectives and research questions, establishing a basis for understanding the key issues and the context of the study.

### 2.1 Working Capital Management Practices

WCM is a crucial aspect of financial management that focuses on the strategic control of short-term assets and liabilities to ensure a firm's liquidity and operational efficiency. Its core components—inventory, accounts receivable, accounts payable, and cash reserves—must be carefully balanced to support day-to-day operations without compromising profitability. In the context of SMEs in Lusaka's Central Business District, effective WCM is particularly vital due to the limited access to credit facilities, high operational volatility, and fluctuating cash flows. Efficient inventory management prevents overstocking or understocking, which is critical for SMEs dealing with fast-moving consumer goods. Timely collection of receivables enhances cash inflows, while strategic negotiation of payable terms can extend liquidity. Maintaining adequate cash reserves cushions businesses from unforeseen financial shocks. Given the resource constraints most SMEs face, adopting sound WCM practices is not only a survival strategy but also a catalyst for profitability and sustainable growth (Brigham & Ehrhardt, 2014; Kieso, Weygandt, & Warfield, 2019; Moyer, McGuigan, & Kretlow,

2012).

### **Small and Medium Enterprises Profitability**

In the context of this study, the profitability of SMEs in Lusaka's Central Business District (CBD) is closely tied to the effective management of working capital. Profitability reflects an SME's ability to generate sufficient revenue to exceed its operational costs, and this is significantly influenced by how well it manages short-term assets and liabilities such as inventory, accounts receivable, accounts payable, and cash reserves. SMEs in Lusaka often face challenges such as limited access to finance, volatile cash flows, and inefficient financial systems, which hinder their ability to optimize working capital and, consequently, affect their profitability (ZACCI, 2023). Efficient WCM practices, such as improving the turnover of inventory, reducing the accounts receivable period, and negotiating favorable payment terms with suppliers, can enhance cash flow, reduce financing costs, and ultimately increase profit margins. For SMEs in Lusaka, improving profitability through effective working capital management is crucial not only for sustaining daily operations but also for reinvesting in growth and enhancing long-term financial stability (Brigham & Ehrhardt, 2014; Raheman & Nasr, 2007).

#### **Challenges in Implementing Effective Working Capital Management (WCM) Among SMEs**

SMEs in Lusaka's CBD face considerable barriers when it comes to implementing effective WCM, with limited access to finance being a key challenge (Mutuka, Mutono-Mwanza, Kalenga, 2025). Financial institutions often require substantial collateral, which many SMEs in Lusaka cannot provide due to their small scale and informal business structures. In addition, high interest rates and stringent loan conditions exacerbate the difficulty in securing affordable credit. A study by Chilembo (2021) reveals that SMEs are particularly disadvantaged by these high collateral demands and the accompanying interest rates, making it challenging for them to access the necessary funds to maintain liquidity and meet their operational needs. Similarly, Saidi (2024) emphasizes that the high processing fees associated with loan applications further reduce SMEs' ability to borrow, which limits their financial flexibility and hinders their capacity to invest in growth or cover short-term financial obligations. These financial constraints not only affect their cash flow but also impede their ability to expand, innovate, or take advantage of market opportunities. Ultimately, the inability to manage working capital effectively due to these financing barriers often results in reduced profitability, stunted growth, and limited long-term sustainability for SMEs in Lusaka's CBD.

#### **Assessment of Current WCM Practices Among SMEs in Lusaka's CBD**

The current WCM practices among SMEs in Lusaka's CBD are characterized by informal financial management approaches, with many businesses lacking structured strategies for managing receivables, payables, and inventory. Masaka (2022) observed that a significant number of SMEs operate informally, limiting their access to formal financial services and hindering the adoption of standardized WCM practices. This informality contributes to challenges in accessing credit facilities, as financial institutions often require formal documentation and collateral. Additionally, Chiluba and Hapompwe (2025) found that SMEs with inadequate business management practices, including poor financial management, tend to underperform compared to those employing effective strategies. Enhancing the financial literacy and management skills of SME owners is crucial for improving WCM practices and overall business performance.

#### **Relationship Between Working Capital Management and SME Profitability**

Effective WCM plays a pivotal role in enhancing the profitability of SMEs operating within Lusaka's CBD. In a resource-constrained environment, SMEs that efficiently manage inventory turnover, accounts receivable, and accounts payable often experience improved liquidity, reduced operational disruptions, and higher net margins. According to Munyati (2023), Zambian SMEs that implement structured WCM practices demonstrate stronger financial performance, suggesting a clear link between working capital efficiency and profitability. However, the relationship is not uniform across all businesses. Factors such as the nature of the industry, the scale of operations, and the volatility of cash flows influence how WCM impacts profitability. For instance, retail-based SMEs may prioritize faster inventory turnover, while service-oriented SMEs might focus more on receivables collection. As Afrifa and Padachi (2015) emphasize, maintaining an optimal level of working capital—where liquidity needs are met without tying up excess funds—is essential for maximizing returns. Therefore, SMEs in Lusaka's CBD stand to benefit significantly by adopting tailored WCM strategies that align with their operational realities, ultimately enhancing their capacity for sustainable growth and profitability.

## **2.2 Empirical Review**

Numerous studies have been conducted related to this study. For instance, from a global perspective, Hamid et al. (2017) conducted a study to investigate the relationship between working capital management and profitability in the Pakistani textile sector, using a sample of 92 firms over the period 2006–2014. Employing a quantitative approach with correlation and regression analyses, the study revealed a significant negative relationship between working capital management and profitability, suggesting that excessive investment in working capital components can erode financial performance. While the study offers valuable insights into the potential pitfalls of overextended working capital cycles, it is limited by its focus on large, listed firms within a specific industrial sector and national context. The findings may not be directly generalizable to SMEs, especially in emerging economies like Zambia, where financial constraints and informal business practices dominate the SME landscape. Furthermore, the study did not account for sectoral diversity or environmental factors that influence working capital dynamics. This creates a research gap, as there is limited localized empirical evidence exploring

how working capital components impact the profitability of SMEs in urban business districts like Lusaka's CBD. Addressing this gap, the current study seeks to provide context-specific insights into the optimal management of receivables, payables, inventory, and cash for Zambian SMEs operating in diverse sectors.

Banerjee, Karlan, and Zinman (2015) conducted a large-scale study using randomized controlled trials (RCTs) involving 41,000 individuals across six countries around the globe to assess the effectiveness of microcredit in enhancing SME performance. While the study confirmed that microcredit significantly improves access to finance, it found only modest or inconsistent impacts on income generation and business growth, with outcomes varying widely across different borrower profiles. In the context of this study on SMEs in Lusaka's CBD, these findings suggest that while access to finance is necessary, it is not sufficient to ensure profitability or sustainable growth. The limited impact of microcredit points to the importance of internal financial practices, such as effective WCM, which directly influence liquidity and profitability. This highlights a research gap in localized assessments of how internal financial strategies—rather than just credit availability—can enhance SME performance in Zambia's urban settings.

Afrifa and Padachi (2015) aimed to analyze the relationship between WCM and the profitability of SMEs in the UK. The study employed a quantitative analysis using financial data from 100 SMEs over a 5-year period. The key findings indicated that efficient WCM positively impacted profitability by reducing financing costs and improving cash flow. SMEs that effectively managed their receivables and inventory experienced higher profitability. However, the study mainly focused on UK SMEs, and further research could explore how WCM practices influence the profitability of SMEs in emerging markets, such as Zambia, where financial conditions and business environments differ significantly.

Mwirigi et al. (2018) studied the effect of working capital management on small enterprises' performance in Kirinyaga County, Kenya, focusing on businesses with more than ten employees. Using a cross-sectional and correlational research design, the study sampled 40 firms through simple random sampling. Data was collected via questionnaires and analyzed using multiple regression. The findings revealed that accounts payable had a positive but insignificant effect on profit, accounts receivable had a negative but insignificant effect, and inventory management had a negative but significant effect on profit. The study concluded that improving inventory turnover and reducing accounts receivable days could enhance profitability.

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Mutuka, Mutono-Mwanza, and Kalenga (2025) evaluated strategies for enhancing financial inclusion among 174 SMEs in Solwezi using a mixed-methods approach. Their study found that digital financial services (DFS) such as mobile money improved financial access but were hindered by challenges like poor network coverage, low financial literacy, and limited trust in financial institutions. While the study highlighted the short-term benefits of DFS, it identified a gap in understanding its long-term impact and regional variations. In relation to this study, access to finance remains a key barrier to effective working capital management (WCM) for SMEs in Lusaka's CBD. Despite improved access through DFS, many SMEs still struggle with liquidity, credit, and internal financial inefficiencies, underscoring the need to investigate how tailored WCM practices can enhance profitability even within constrained financial environments.

Furthermore, Chiluba and Hapompwe (2025) aimed to assess the barriers hindering SMEs' access to credit in Lusaka, Zambia. The study utilized a mixed-methods approach, combining both surveys and interviews, with a sample size of 150 SMEs. The key findings of the research revealed that SMEs in Lusaka face significant challenges in accessing credit, primarily due to high collateral requirements, which many SMEs are unable to meet, and high interest rates that make borrowing expensive. Additionally, inadequate financial literacy was identified as a critical barrier, as many SME owners lack the knowledge to navigate the formal financial system effectively, which further limits their ability to secure loans. These barriers contribute to the ongoing financial exclusion of SMEs, thereby impacting their growth and profitability. The study also highlighted the need for further investigation into the role of informal financial networks, such as community lending and family-based loans, and their potential to serve as viable alternatives to formal financial institutions for SMEs. Such research could provide valuable insights into how informal financial mechanisms can be leveraged to support SME growth and financial inclusion in Zambia.

On the other hand, Tembo and Mwansa (2020) investigated the credit constraints that hinder SME growth in Zambia. The study utilized a mixed-methods approach, combining surveys and focus group discussions, with a sample size of 300 SME owners from various regions of Zambia. The key findings of the research indicated that the primary barriers to SME growth were high collateral requirements and high interest rates, both of which significantly limit access to formal credit for SMEs. These financial constraints prevent many SMEs from expanding their operations or investing in growth

opportunities. The study emphasized the need for alternative financing solutions to overcome these barriers. Tembo and Mwansa (2020) highlighted the potential of alternative financing models, such as peer-to-peer lending, but noted that further research is needed to assess the effectiveness and scalability of such models in the Zambian context. By exploring these alternatives, future studies could provide valuable insights into how SMEs can access financing outside traditional banking systems.

### 2.3 Theoretical and Conceptual Framework

This study is underpinned by two key financial management theories: the Cash Conversion Cycle (CCC) theory and working capital optimization models. The CCC theory, introduced by Richards and Laughlin (1980), emphasizes the importance of minimizing the time it takes for a business to convert its short-term assets (such as inventory and receivables) into cash flows. This theory posits that by optimizing inventory turnover, accounts receivable collection, and accounts payable management, firms can enhance their liquidity, operational efficiency, and ultimately, profitability. In the context of SMEs in Lusaka's CBD, this theory is critical as businesses face intense competition and liquidity constraints. By improving the duration of these financial cycles, SMEs can ensure they maintain enough cash flow to meet short-term obligations and reinvest in growth opportunities, which is vital for their survival in a competitive market (Jose et al., 1996). In addition to the CCC theory, working capital optimization models offer a framework for balancing the costs and benefits of holding short-term assets and liabilities. These models, as discussed by Afza and Nazir (2007), suggest that by carefully managing components such as inventory, accounts receivable, and cash reserves, SMEs can reduce operational disruptions and minimize financing costs. Efficient working capital management ensures that SMEs can maintain liquidity while maximizing their returns on assets, which contributes to long-term sustainability and profitability (Lazaridis & Tryfonidis, 2006). This theoretical approach helps understand how SMEs can balance operational liquidity needs with profitability goals, particularly in the context of Zambia's economic environment, where access to finance is often limited and external capital is expensive (Raheman & Nasr, 2007).

The conceptual framework in Figure 1 below of this study, explored the nexus between WCM components and SME profitability, based on the CCC theory. It highlighted four key components: Inventory Management Practices (IMP), Accounts Receivable Management (ARM), Accounts Payable Management (APM), and Effective Cash Management (ECM) as independent variables while access to finance (ATF) came into the nexus as the control or mediating variable. Each component contributed to improving liquidity and operational efficiency, thereby enhancing profitability by managing inventory, accelerating cash inflows, strategically handling payables, and maintaining adequate cash reserves (Deloof, 2003; Shin & Soenen, 1998; Arnold, 2013).

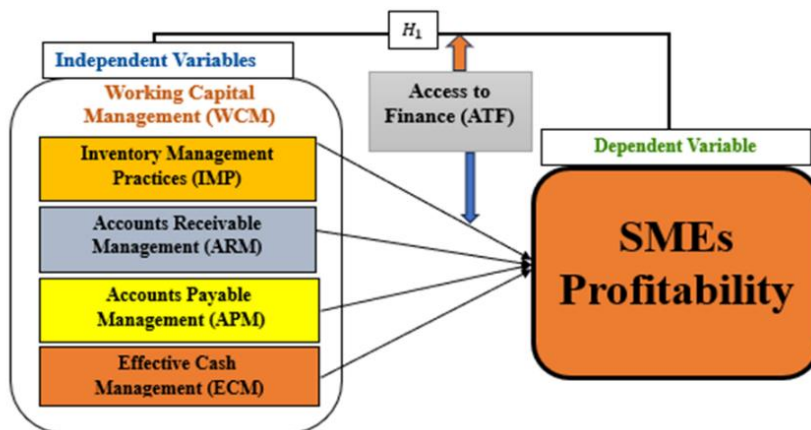


Figure 1: Conceptual Model of Study (Source; Author's Compilation, 2025)

Emanating from the conceptual model above, below is the main research hypothesis for this study:

H<sub>01</sub>: There is no significant nexus between WCM practices and SMEs profitability

H<sub>11</sub>: There is a significant nexus between WCM practices and SMEs profitability

## 3 Research Methodology

This study adopted a pragmatic research philosophy, integrating both qualitative and quantitative research methods to provide practical insights into the nexus between WCM and SME profitability in Lusaka's CBD. The pragmatic approach allowed for a flexible combination of structured surveys and financial data, enabling the study to explore both empirical relationships and the underlying challenges SMEs faced in managing working capital. By combining deductive reasoning through hypothesis testing and qualitative insights from in-depth interviews, the study offered a comprehensive understanding of WCM practices and their impact on profitability (Creswell & Plano Clark, 2017; Tashakkori & Teddlie, 2010).

The research design adopted for the study was cross-sectional, providing an efficient means of examining the relationship between WCM practices and SME profitability at a single point in time. This design was appropriate given the dynamic nature of SMEs and their financial decisions, which were often influenced by immediate market conditions. By capturing current WCM practices, the study provided insights into trends and correlations between working capital components—such as inventory management, accounts receivable, and cash management—and profitability. Although the cross-sectional design did not establish causality, it offered valuable, generalizable insights that could inform strategic decision-making for SME managers (Creswell, 2014; Fink, 2013).

The study was conducted in Lusaka's CBD, an area rich in SMEs that played a vital role in Zambia's economy. The CBD was chosen due to its concentration of businesses across diverse sectors, such as retail, services, and wholesale, which allowed for a broad exploration of WCM practices and their effects on profitability. SMEs in Lusaka's CBD faced unique financial challenges, including access to finance and market competition, making the area ideal for studying how financial management practices influenced profitability (ZDA, 2020). This context provided a valuable setting for understanding the dynamics of WCM within an economically significant urban area.

For the sample, a total of 93 SMEs were selected using Cochran's formula, ensuring statistical reliability with a 95% confidence level and a 5% margin of error. Additionally, a purposive sample of 10 key informants was chosen to provide qualitative insights into the challenges SMEs faced in managing working capital. Stratified random sampling was used to ensure proportional representation from various sectors, such as retail and services, which enhanced the generalizability of the study's findings (Saunders et al., 2019; Etikan, Musa, & Alkassim, 2016). This robust sampling technique minimized bias and provided a comprehensive overview of the financial practices in Lusaka's CBD.

Data was collected using a structured questionnaire, pre-tested on a small sample to ensure clarity and validity. The data collection procedure, spanning three months, involved distributing questionnaires and following up with respondents to maximize the response rate. Regression analysis, supported by descriptive statistics, was employed to model the relationships between WCM components and profitability. This method provided empirical evidence of the impact of inventory management, accounts receivable, accounts payable, and cash management on SME profitability. Statistical software like SPSS was used for data analysis, ensuring the results were both valid and statistically significant (Pallant, 2020; Hair et al., 2010).

Finally, the study followed ethical standards for research conduct. Informed consent was obtained from all participants, who were fully informed about the purpose of the study, their right to anonymity, and the voluntary nature of their participation. Participants were assured that their responses would remain confidential and would only be used for academic purposes. Ethical approval was granted by the University of Zambia's institutional review board to ensure the study complied with ethical guidelines (Bryman, 2016). Additionally, all data collected were securely stored in password-protected files and accessed only by the research team to maintain confidentiality and safeguard participant information. To further uphold ethical integrity, the researcher ensured that no participant was subjected to psychological, emotional, or professional harm throughout the research process.

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## 4 Results and Discussion

### 4.1 Demographic Characteristics

The pie chart (SME types in Lusaka's CBD) in Figure 2 below illustrates the distribution of SME types in Lusaka's CBD. The majority of the respondents (37.7%) operated in the services sector, followed by retail businesses (36.1%). Manufacturing and wholesale businesses made up smaller portions at 23% and 3.3%, respectively. This distribution shows a strong presence of service-oriented and retail businesses, which align with the demand for direct consumer interaction and high foot traffic typical in urban business districts (Kaplan & Norton, 2020). The bar chart (Years of Operation of SMEs in Lusaka's CBD) in Figure 2 below shows the distribution of SMEs based on their years of operation in Lusaka's CBD. The majority of respondents (49.2%) have been in operation for 1 to 3 years, followed by 39.1% who have been operating for 4 to 7 years. Only 11.5% of businesses have been in operation for over seven years, indicating a higher concentration of newer businesses in the area. This trend highlights the dynamic nature of the SME landscape in Lusaka, where entrepreneurial activity is prevalent, but long-term sustainability may be challenging due to market volatility and competition (Creswell & Creswell, 2018).

The pie chart (Annual Revenue of SMEs in Lusaka's CBD) in Figure 2 below depicts the annual revenue distribution among SMEs in Lusaka's CBD. The majority of respondents (63.9%) reported annual revenues of less than 500,000 ZMW, followed by 29.5% earning between 500,000 and 1,000,000 ZMW. A smaller portion (6.6%) reported annual revenues between 1,000,000 and 5,000,000 ZMW. This distribution suggests that most SMEs in the CBD operate on a smaller scale, which may pose challenges for growth and financial sustainability, as many face resource constraints and

limited access to capital (Creswell & Creswell, 2018).



Figure 2: Demographic Characteristics Distribution (Source: Author’s Compilation from Field Data, 2025)

### Challenges Faced by SMEs in Implementing Effective Working Capital Management

The graph below in Figure 3 visually represents the key challenges faced by SMEs in Lusaka's CBD in managing their working capital effectively. The bar chart shows the percentage of SMEs that reported encountering various financial and operational challenges. The most significant challenge, reported by 68% of SMEs, was cash flow constraints, highlighting the critical role of liquidity in effective working capital management. This aligns with the study's findings, which identified cash flow difficulties as a major barrier, largely due to limited access to financing, high borrowing costs, and poor financial management practices (ZACCI, 2023). These constraints prevent SMEs from adopting robust WCM strategies, leading to a cycle of liquidity problems that impair profitability and operational efficiency.

The graph also shows that 60% of SMEs struggled with high borrowing costs, reinforcing the challenges SMEs face when seeking external financing. These high costs further exacerbate cash flow constraints, making it difficult for SMEs to maintain liquidity and invest in growth opportunities. Furthermore, 55% of SMEs reported issues with inventory management, such as overstocking and stockouts. This issue was noted in the study, where inadequate inventory management practices contributed to operational inefficiencies and increased holding costs (Bank of Zambia, 2022). Poor inventory control affects cash flow, as funds are tied up in excess stock or lost due to stockouts, disrupting the ability of SMEs to meet customer demand and reducing profitability.

Additionally, 40% of SMEs faced delays in collecting accounts receivable, and 45% lacked negotiating power with suppliers to secure favorable credit terms. These issues are linked to poor management of accounts receivable and accounts payable, which can strain cash flow. Delayed collections further exacerbate liquidity problems, while limited negotiating power with suppliers reduces SMEs' ability to optimize payment terms, thus affecting their working capital cycle. These findings emphasize the need for SMEs to adopt better financial practices, such as improving cash flow forecasting, inventory management, and establishing stronger relationships with suppliers and customers.

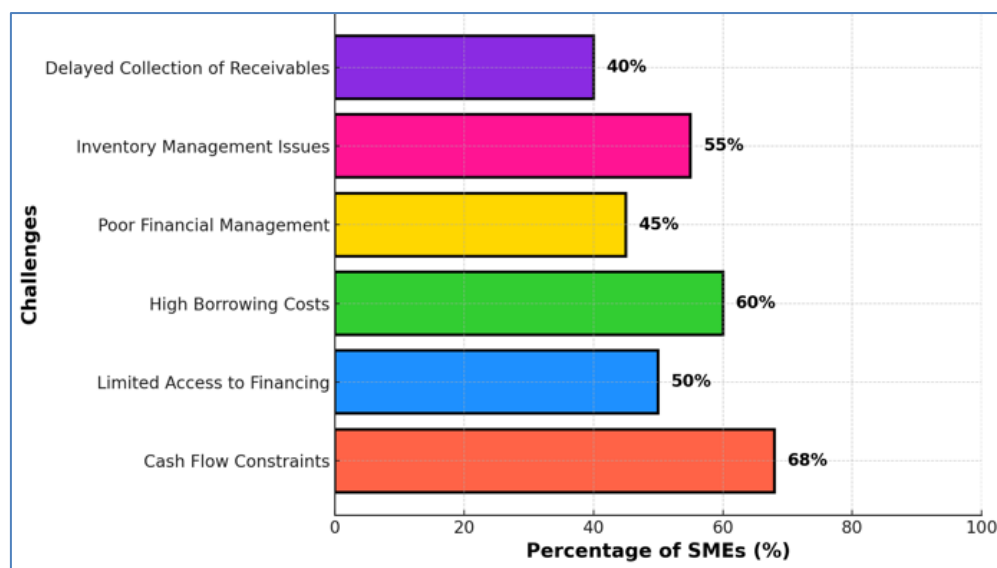


Figure 3: Challenges Faced by SMEs in Lusaka’s CBD in Managing Working Capital  
Source: Author’s Compilation from Field Data, 2025

### Assessment of Current Working Capital Practices Among SMEs in Lusaka's CBD

The bar chart in Figure 4 below illustrates critical inefficiencies in WCM practices among SMEs operating in Lusaka's CBD. According to the data, 75% of SMEs report inefficiencies in cash management, followed closely by 70% in accounts receivable management, 65% in inventory optimization, and 60% in accounts payable management. These figures reflect a significant gap in the adoption of structured WCM strategies. Many SMEs continue to rely on basic financial practices, which often result in poor cash flow forecasting, insufficient liquidity, and delayed collections. Inefficiencies in inventory management frequently lead to either overstocking or stockouts, which in turn strain operational cash flows and negatively affect profitability (Atrill & McLaney, 2022; Deloof, 2003). The high percentage of firms experiencing challenges in managing receivables also suggests weak credit control systems and limited use of digital invoicing or payment tracking tools.

These findings are consistent with broader literature and local assessments, such as those by the Zambia Development Agency (2021), which indicate that most SMEs in the region lack access to advanced financial training, digital financial services, and tailored support systems. As a result, businesses remain vulnerable to liquidity pressures and struggle to finance their day-to-day operations effectively. Studies like Padachi (2006) have long emphasized the link between effective WCM and improved SME profitability, particularly in resource-constrained economies. This underscores the pressing need for interventions—such as financial literacy programs, access to digital financial tools, and customized capacity-building initiatives—to help SMEs strengthen their WCM capabilities. Doing so could unlock greater financial stability and performance among SMEs in Lusaka's CBD and similar urban economies.

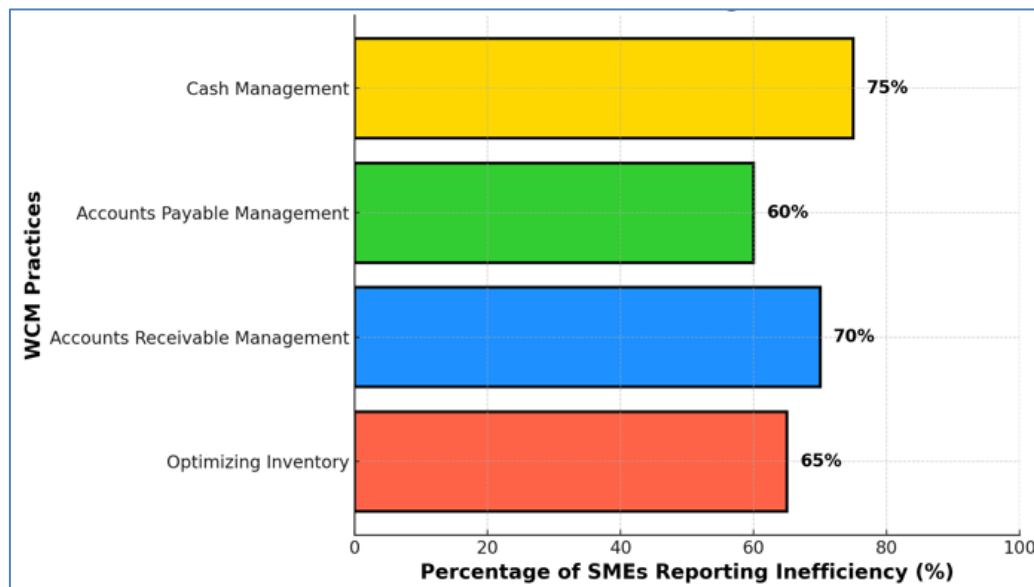


Figure 4: Current WCM Practices Among SMEs in Lusaka's CBD

## 4.2 Relationship Between Working Capital Management and SME Profitability

### Multiple Regression Model Analysis

The model summary in Table 1 below reveals a strong positive correlation ( $R = 0.740$ ) between WCM components—Inventory Management Practices (IMP), Accounts Receivable Management (ARM), Accounts Payable Management (APM), and Effective Cash Management (ECM)—and SME profitability, with Access to Finance (ATF) serving as a control variable. The R Square value of 0.547 indicates that 54.7% of the variability in SME profitability is explained by these WCM components, confirming their substantial influence. However, the remaining 45.3% suggests that other factors—such as macroeconomic conditions, regulatory frameworks, and managerial competencies—also play a role in determining profitability, echoing the findings of Sharma and Kumar (2011).

Additionally, the Adjusted R Square value of 0.506 affirms the model's reliability, showing that the selected predictors meaningfully contribute to SME profitability. The Durbin-Watson statistic of 1.708 further supports the model's robustness by indicating no significant autocorrelation. These results emphasize the importance of structured WCM strategies such as efficient inventory control, timely receivables collection, and sound cash flow forecasting. ATF's role as a control variable highlights the need to improve SME access to finance, while policymakers are urged to promote financial literacy, digital financial tools, and regulatory reforms to enhance SME financial resilience and long-term growth.

Table 1: Model Summary Statistics

Model	R	R Square	Adj. R Square	Std. Error of the Estimate	Durbin-Watson
1	0.740 <sup>a</sup>	0.547	0.506	0.565	1.708

a. Predictors: (Constant), IMP, ARM, APM, ECM, ATF

b. Dependent Variable: SMEP

Source: Author's SPSS 25 Output Compilation, 2025

The Analysis of Variance (ANOVA) results in Table 2 below provides critical insights into the overall significance of the regression model in explaining SME profitability. The F-value of 13.303 indicates that the independent variables and control variable jointly have a statistically significant effect on SME profitability (SMEP). A high F-value suggests that the model explains a substantial proportion of the variation in SME profitability and is not a result of random chance. This aligns with previous studies emphasizing that effective financial management practices enhance SME performance by improving liquidity, reducing financial distress, and optimizing cash flow.

The p-value (Sig.) of 0.000 is highly significant, indicating that there is a near-zero probability that the observed relationship between working capital management and SME profitability occurred by chance. This confirms that at least one of the independent variables significantly influences SME profitability. From a policy perspective, this underscores the importance of strengthening financial literacy, improving access to finance, and promoting best practices in working capital management to enhance SME financial performance. Policymakers should focus on interventions that support SMEs in implementing effective cash flow management strategies, as liquidity constraints are often a major challenge for small businesses (Sharma & Kumar, 2011).

Table 2: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.823	4	5.206	13.303	0.000 <sup>b</sup>
	Residual	17.938	56	0.320		
	Total	38.761	60			

a. Dependent Variable: SMEP

b. Predictors: (Constant), IMP, ARM, APM, ECM, ATF

Source: Author's SPSS 25 Output Compilation, 2025

The coefficient statistics in Table 2 provide valuable insights into the individual contributions of the predictor variables. These results reveal not only the direction and magnitude of each predictor's impact but also their statistical significance in shaping SME financial performance. The constant ( $B = 0.336$ ,  $p = 0.481$ ) suggests that when all independent variables are held at zero, SME profitability remains positive but statistically insignificant. This implies that other unaccounted factors could influence SME profitability, emphasizing the need for a broader financial ecosystem that supports SME growth beyond working capital management components.

Among the independent variables, Inventory Management Practices (IMP) have a statistically significant positive effect on SME profitability ( $B = 0.297$ ,  $p = 0.020$ ). This indicates that for every unit increase in effective inventory management, SME profitability increases by 0.297 units, highlighting the crucial role of inventory control in optimizing financial performance. This finding aligns with prior research suggesting that efficient inventory turnover reduces holding costs and enhances liquidity, thereby improving profitability (Deloof, 2003). Policymakers should encourage SMEs to adopt inventory tracking technologies, such as digital inventory management systems, to optimize stock levels and minimize wastage.

Effective Cash Management (ECM) emerges as the most influential predictor, with a highly significant positive impact on SME profitability ( $B = 0.574$ ,  $p = 0.002$ ). This suggests that a unit improvement in cash management practices leads to a 0.574 unit increase in profitability, reinforcing the importance of liquidity management, proper cash flow forecasting, and timely financial planning. The strong relationship between ECM and profitability supports prior studies (Lazaridis & Tryfonidis, 2006) that highlight how disciplined cash flow management ensures operational efficiency and financial stability. Given this, policymakers should focus on financial literacy programs that enhance SME owners' ability to manage cash flows effectively and avoid liquidity crises.

Conversely, Accounts Receivable Management (ARM) ( $B = 0.014$ ,  $p = 0.935$ ) and Accounts Payable Management (APM) ( $B = 0.127$ ,  $p = 0.302$ ) do not exhibit significant relationships with SME profitability. The negative and near-zero beta coefficient for ARM suggests that inefficient receivables collection may contribute to cash flow constraints, thereby limiting SME financial growth. This finding is consistent with prior research emphasizing the need for timely credit

collection and disciplined credit risk assessment (Sharma & Kumar, 2011). Policymakers should encourage SMEs to implement stricter credit control policies and leverage fintech solutions to improve receivables tracking and collections. Access to Finance (ATF) ( $B = 0.300$ ,  $p = 0.271$ ), while positively related to SME profitability, is statistically insignificant. This suggests that although access to external financing plays a role in SME success, its direct impact may be diminished by challenges such as high interest rates, loan accessibility constraints, and inefficient capital utilization. This aligns with studies highlighting that merely increasing access to finance is insufficient unless complemented by strong financial management capabilities (Beck & Demirgüç-Kunt, 2006). Policymakers should focus on not just expanding SME financing options but also ensuring that SMEs are equipped with the financial skills to use capital effectively.

Table 3: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	0.336	0.473		0.710	0.481
IMP	0.297	0.124	0.284	2.399	0.020
ARM	0.014	0.166	-0.012	-0.082	0.935
APM	0.127	0.157	0.123	0.807	0.302
ECM	0.574	0.181	0.494	3.168	0.002
ATF	0.300	0.270	0.283	1.111	0.271

a. Dependent Variable: SMEP

Source: Author's SPSS 25 Output Compilation, 2025

### Qualitative Analysis

The integration of qualitative insights with quantitative findings provided a comprehensive understanding of WCM practices among SMEs in Lusaka's CBD. Quantitative results indicated a strong positive correlation between WCM components and SME profitability—with an R value of 0.740. An  $R^2$  of 0.547 further confirmed that 54.7% of the variation in SME profitability could be attributed to these components, highlighting the critical role of sound financial management. These findings are supported by participants' views, such as one who stated, "Implement cash flow forecasting and monitoring systems" (Respondent 1). Another emphasized, "To improve profitability, SMEs in Lusaka's CBD should focus on efficient cash flow management. This includes timely collection from customers, negotiating better payment terms with suppliers, and keeping inventory at optimal levels" (Respondent 2). These insights align with recent literature suggesting that efficient cash flow and working capital controls significantly enhance SME financial performance (Mwansa & Phiri, 2022; Zulu & Mweetwa, 2023).

Inventory management emerged as a key theme among participants, who highlighted poor turnover and stock control as major issues affecting liquidity. One respondent noted, "Implementing just-in-time inventory systems, reducing slow-moving inventory, and increasing inventory turnover cycles" (Respondent 3), while another shared, "Optimize inventory management (e.g., just-in-time ordering)" (Respondent 4). These strategies reflect a desire to adopt lean inventory systems to free up cash tied in stock—echoing findings from Nguyen et al. (2023), who argue that optimized inventory practices can significantly improve liquidity and overall profitability. Quantitative results also revealed that inefficient inventory turnover and excess stock were persistent challenges for SMEs in Lusaka's CBD (ZDA, 2021), further validating these qualitative insights.

Credit and receivables management were also widely discussed as areas in need of improvement. One participant recommended, "Implement stricter credit controls and improve cash flow forecasting. Adopt digital payment systems to speed up receivables" (Respondent 5), suggesting that SMEs recognize the importance of reducing collection periods and tightening credit terms. Another echoed this sentiment by stating, "Negotiating better terms with suppliers such as securing longer payment terms" (Respondent 6), which supports the strategy of extending payables to ease cash flow pressures. These responses align with Arnold (2023), who emphasizes the importance of managing the cash conversion cycle to maintain liquidity and improve financial performance.

Additionally, respondents underscored the importance of financial literacy, capacity building, and technology adoption. For instance, one SME owner observed, "Capacity building is needed for most SMEs in terms of education with renowned capital management systems in Lusaka to enable them to be profitable" (Respondent 7). Another noted, "Encouraging the use of digital tools for expense tracking" (Respondent 8), emphasizing the benefits of digitized financial processes. Furthermore, access to affordable finance was raised as a key concern, with one participant stating, "Making available low or zero interest loans to viable SMEs by banks and government lending institutions" (Respondent 9). These insights are consistent with calls for broader financial inclusion, improved access to credit, and digital transformation as essential enablers of SME growth (Bank of Zambia, 2024; UNCTAD, 2023; Chisanga et al., 2023). Together, the qualitative and

quantitative findings underscore the need for an integrated WCM framework tailored to the unique financial challenges of SMEs in Lusaka's CBD.

## 5 Conclusions and Recommendations

This study investigated the influence of WCM practices on the profitability of SMEs in Lusaka's CBD, with the aim of addressing three primary research objectives. The first objective—to identify and analyse challenges faced by SMEs in implementing effective WCM—was addressed through both survey and qualitative responses, which revealed significant obstacles such as poor cash flow forecasting, limited financial literacy, inadequate inventory control, and restricted access to affordable finance. These challenges were echoed by SME owners and managers who emphasized the need for practical solutions including digital tools, capacity building, and supportive financing policies.

The second objective—to assess current WCM practices among SMEs in Lusaka's CBD—was met through a detailed examination of how SMEs manage key components such as inventory, accounts receivable, accounts payable, and cash reserves. The findings indicated that most SMEs had yet to implement structured WCM systems, with practices largely revolving around basic, reactive financial management. Inefficiencies were particularly evident in cash and inventory management, often resulting in liquidity shortfalls, excess stock or stockouts, and delayed receivables. These insights were supported by qualitative feedback, such as the recommendation to implement cash flow forecasting and monitoring systems and to optimize inventory management (e.g., just-in-time ordering).

The third and core objective—to analyze the relationship between WCM and SME profitability—was directly tested through regression analysis. The results revealed a strong positive correlation ( $R = 0.740$ ) and a coefficient of determination ( $R^2$ ) of 0.547, indicating that 54.7% of the variation in SME profitability is explained by WCM practices. Effective Cash Management (ECM) and Inventory Management Practices (IMP) were found to have the most significant positive impact. These results provided empirical support to reject the null hypothesis ( $H_{01}$ ) and accept the alternative hypothesis ( $H_{11}$ ), confirming that there is a significant nexus between WCM practices and SME profitability. Moreover, the adjusted  $R^2$  of 0.506 and a Durbin-Watson value of 1.708 confirmed the robustness and reliability of the model.

Overall, the integration of both quantitative and qualitative findings has underscored the importance of structured WCM strategies in improving SME profitability. The study concludes that while access to finance (ATF) remains a critical enabling factor, it is not a standalone solution. Without efficient internal financial management—especially in managing cash, inventory, and credit—SMEs are unlikely to realize sustainable profitability. The research has answered all three research questions by providing evidence-based insights into current practices, challenges, and the direct link between WCM and financial performance. These findings hold significant implications for SME owners, policymakers, and financial institutions in designing interventions that promote financial efficiency, profitability, and long-term business sustainability.

### Recommendations

To SMEs Owners and Managers, based on the study findings, it was recommended that there is need to:

- Invest in financial literacy and cash flow forecasting tools to improve liquidity management and strategic planning.
- Adopt inventory optimization techniques such as just-in-time systems to reduce holding costs and free up working capital.
- Implement credit control systems and digital invoicing to speed up receivables collection and manage default risks.

To Policymakers and Financial Regulators, it was recommended that there is need to:

- Develop tailored training programs in working capital management for SMEs, especially targeting informal businesses transitioning to formal operations.
- Expand financial inclusion initiatives by supporting low-interest credit lines and simplifying loan processes for SMEs.
- Promote digital infrastructure and encourage fintech innovations that support SMEs in automating WCM practices.

To Financial Institutions, it was recommended that there is need to:

- Relax collateral requirements and offer SME-specific products designed for short-term financing needs.
- Collaborate with government agencies to provide blended financing solutions that combine technical support with accessible capital.

### Area for Future Research

Future studies could examine the longitudinal effects of WCM practices on SME profitability to establish causality over

time. Additionally, comparative research across different regions of Zambia or sectors (e.g., agriculture, manufacturing, services) would provide more granular insights. Researchers may also explore the role of informal financial networks and digital financial inclusion in shaping WCM effectiveness among unbanked or underserved SMEs.

### Limitations of the Study

This study was limited to SMEs within Lusaka's CBD, and its findings may not fully reflect the experiences of SMEs in rural or peri-urban settings. The use of a cross-sectional design limits the ability to infer long-term effects of WCM practices on profitability. Additionally, while qualitative insights enriched the study, responses may have been influenced by self-reporting bias, and the relatively small sample size (n=93 with only 65 answered questionnaires) could affect the generalizability of the findings.

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### Conflict of Interest

The authors declare that they have no conflicting interests

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### Ethical considerations

The article followed all ethical standards appropriate for this kind of research.

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