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Original Article

Performance Factors Contributing Enterprise Development: Finding from Survey in Kavre District

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Abstract

Regarding the acknowledged importance of micro and small enterprises to both the developed and developing world, this research focuses on the factors contributing successful performance of micro-enterprises at Kavrepalancowk district promoted under the Micro-Enterprise Development (MED) model of the Ministry of Industry. Theories and researches on entrepreneurship development have indicated certain performance factors responsible for enterprise success or failures. Therefore, the general objective of this study is to analyze the effect of performance factors contributing to micro-enterprise development. Kavrepalanchok district is selected on the basis of purposive sampling due to its richness in information holdings, experience, and closer to field visit. Micro-entrepreneurs are selected based on simple random sampling. Descriptive research designed is applied in this research and the collected data is analyzed using both descriptive and inferential statistical tools. The article's rationality is backed by its usefulness to the Government of Nepal in taking policy and program level decisions, beneficiary micro-entrepreneurs for using the benefits of this model, and other training providers to replicate the whole or useful components of this model. This research finding reveals that entrepreneurial knowledge, skills and technological access, credit facility, and access to the market have positive relationship with micro-enterprise performance significantly

Keywords: *MSEs, Enterprise Performance, Development, Micro-Enterprise.*

Background Information

Micro and Small Enterprises (MSEs) have gained universal recognitions in economic development and sustainability due to their capabilities to income and employment generation through absorbing local level skills, resources, and technology. Compared to medium and large enterprises, they are easy to establish and operate. Governments of various countries have also provisioned various incentives to promote them with respect to their economic importance. Karki (2020) has also stated that due to characterized by huge investment, large market, sophisticated technology for operation, big enterprises are less likely established in Nepal. Therefore, he also sees the importance of micro

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and small enterprises for the economic development of Nepal due to their capacities in utilizing local level skills, technologies and resources. Despite the importance of MSEs, Kharel and Dahal (2020) have identified various challenges that significantly affect their performance. They have portrayed that performance factors like poor access to credit, lack of information and coordination regarding input supply and marketing linkage, lower productivity etc. are some common challenges facing by Nepalese MSEs.

Chitrakar and Kang (2023) have also identified that MSEs play a significant role in job creation and contributing to GDP. According to Gibbens (2020; cited by Chitrakar and Kang, 2023) two-third of the global jobs and half of world's GDP is generated by micro, small, and medium size enterprises (MSMEs). In Nepal, MSMEs composed of 99% of total industries generating 95% industrial employment. With respect to such important contribution of MSEs, they have revealed that MSEs need strong handholding regarding establishing, growing, and sustaining the enterprise business and suggested to apply suitable business development service models to help overcome the challenges MSEs are facing for their successful performance. They have also identified that Nepal faces dearth to the design and application of such effective enterprise development models. Therefore, one of the main objectives of this article is to analyze the effectiveness of the enterprise development tool called the Micro Enterprise Development (MED) model.

The MED model is composed of six components of micro enterprise performance support to assist them grow and develop. The MED model is implemented by the Ministry of Industry for poverty alleviation in the country by helping overcome challenges of micro-enterprises for their performance improvement.

Different criteria have been applied by nations while defining MSEs. The used criteria to define MSEs are quantitative, qualitative, or mix of both. In Nepal, the term micro-enterprise was not addressed as separate category of industry prior to the Industrial Policy 2010. Currently, the legal definition of micro-enterprise as a separate category of industry is available with the commencement of the Industrial Act 2016. Industrial Act (2016) has defined micro-enterprises on the basis of employed number of employees (not more than 9 employees including owner), invested capital (maximum five hundred thousand except the cost of land and building), annual sales turnover (not exceeding five million), and consumption of energy (maximum 20 Kilo Watt). All such criteria are quantitative in nature. Since Nepal has also recognized the importance of MSEs for the development of the national economy, it has provisioned various incentives to promote them.

The recognized importance of MSEs has been revealed by various research for their contribution in generating employment, creating wealth and promoting innovation. But Abebaw, Mulate, and Nigussie (2018) have stated that their growth and sustainability is doubted by particular weaknesses performance like innovation; lack of financial access and management; marketing linkage; entrepreneurial knowledge, skill human resources etc. Such lacking are causing them performing out of full potential and subjected for fail to grow (p. 71). Therefore, MSEs should be facilitated for overcoming their performance growth constraints like lack of access to credit; entrepreneurial know-how for opportunity identification, motivation, and commitment; information; working premises; skills and management expertise, access to appropriate technology etc. by handholding them with suitable enterprise support tools and techniques.

Micro-Enterprise Development (MED) model is a package of six enterprise creation and development supports including group formation and saving mobilization, entrepreneurship development and skill training, technology grant support, support linkage to financial institution, and marketing and market linkage (Neupane, 2024). Based on these backgrounds showing importance of micro-enterprises for the economy, their challenges to achieve growth performance, and their requirement for the hand holdings with suitable tools and techniques, this study is very significant to assess the effectiveness of the supporting tools for improving the performance factors of developing micro-enterprises. There is death of such studies in Nepal. Therefore, the finding of this study will be helpful to adopt and promote suitable tools by the government to develop MSEs in the country. Similarly, such findings could be also applied by other skills and entrepreneurship development training providers from private sectors.

Literature Review

Theoretical Review:

Micro and Small Enterprises

Regarding the definition of small firms, Bolton (1971) report has indicated that it is not easier. Their report has highlighted that mere quantitative criterion like the number of employments generated or the amount of invested assets cannot properly define small firms. They have insisted that the definition of small firms should be emphasized on their characteristics which is not similar to larger firms or significantly different. Importance of micro and small enterprises has been evidently documented for their contribution in the contemporary world economy (Barton, 1997). Bolton's paper has summarized that supports designed to micro and small firms should be market driven which helps them sustain longer. Their report has indicated that properly identifying challenges of SMEs is a very tough task due to their varied nature. The report has recommended handholding them by suitable business development tools for their performance growth.

Ghimire (2011) has stated that criterion used to define MSEs differs worldwide. Criterion used to define micro and small enterprises are influenced by their size of economies, policy of government, and external environment to some extent. He has further stated that MSEs are also recognized as backbone of national economy in Asia with respect to their importance in generating income and employment by utilizing locally available resources. He has identified that MSEs faces various challenges for their growth and opined on their need to be supported by conducive policies and institutional mechanisms.

The official introduction and definition of micro enterprises is provisioned for the first time in Nepal by the Industrial Policy (2010). Industrial Enterprise Act (IEA) 2016 has defined micro enterprises on the basis of energy consumption, employment generation, annual sales turnover, and investment (except the value of land and building). All such criteria are quantitative. Nepal government has also recognized the importance MSEs for its economic development thereby provisioned various funds and incentives for micro, cottage, and small enterprises. Government of Nepal has given high importance to prepare conducive policies and institutional environment to promote them.

Department of Cottage and Small Industry (DCSI) was constituted with the aim of promoting and fostering various kinds of cottage and small industries to enhance industrial productivity in Nepal as similarly emphasized by the Sixth Plan (1980-1985). This sector was kept in priority also by eighth and ninth plans. United Nations Development Program (UNDP) had started to fund Micro-Enterprise Development Program (MEDEP) for implementation of the Micro-Enterprise Development (MED) model in 1998 in the flagship of Ministry of Industry (MoI).

Garments and carpets, Pashmina and silk, Dhaka and Allo, metal craft, Thanka, ceramics, crafts from stone, metal, and bamboo are products of Nepal popular in Europe, United States, and Asia having possibility of large export market. Poverty alleviation is the main aim of all the periodic plans of Nepal. Majority of periodic plans of Nepal have given importance to reduce poverty through the promotion of micro and cottage industries. By promoting MSEs, periodic development plans of Nepal have targeted to reduce income inequality (Ghimire, 2011). Currently DCSI offices are supporting MSE sector from all districts of Nepal. Similarly, MEDEP now has successfully graduated to Micro-Enterprise Development Program for Poverty Alleviation (MED-PA) and fully undertaken by the MoI. The MED program is going to be expanded in all 753 local Governance to support micro-enterprises under the Ministry (Neupane, 2024).

Conceptual Review on Challenges of Micro and Small Enterprises (MSEs)

Kharel and Dahal (2020) have identified number challenging constraints that hindering fostering of MSEs in Nepal. According to their report, the majority of the constraints are related to production, international linkage and finance. They have portrayed two types of Nepali firms i.e. exporting and non-exporting. According to them, the constraints faced by MSEs are lower product quality, lack of recognition in the national and international market, and suffering from small market size of Nepal. Lack of technology, dependency on foreign inputs, direct access to importers, and lack of financial access are other major challenges of Nepalese MSEs hindering their performance

improvement.

The MSEs should also be ready to timely and quickly adapt to the ever-changing business environment so that they can face their growth challenges properly. Lemma and Kebede (2018) have identified that the cost per job created by MSEs sector is lower than those of big businesses. MSEs found played vital role in promoting technology and other innovative activities. Despite the high importance of MSEs for accelerating economic growth of the countries, lack of sources or access to finance, lacking assistance in identifying market and business opportunities, and lack of skill and technology are major constraints MSEs are facing. Arage (2025) has identified limited access to capital and technology, insufficient training opportunities, and inadequate working space as major challenges facing MSEs causing negative impact in their performance growth.

Performance Success Factors of MSEs

Lemma and Kebede (2018) have identified internal and external factors to determine successful performances of MSEs as well as causing obstacles to performance improvement. Efficient utilization of available resources like skills, appropriate technology, and raw materials are internal factors lead to successful performance. Similarly, access to input supply and financial market, level of competitive rivalry, and local business environment are external factors that determine successful performance of MSEs. They have identified that inadequate borrowing assistance, shortage of raw materials, lack of skills; machinery; technology, inadequate marketing skills and linkage, lack of planning and implementation skills, lack of access to information, poor infrastructure, poor research skills for identifying market opportunities are obstacles of MSEs for their successful performance. Therefore, they have stated that if MSEs are supported regarding the challenges they face in these factors, their performance will certainly improve.

Arage (2025) has revealed Seven key performance factors significantly impact profitability of MSEs. Based on the identified challenges of MSEs, he has recommended to improve access to technology, market, credit, and adequate training including favorable policies for performance of MSEs. Based on the reviewed literature, a conceptual framework has been developed to lead this study.

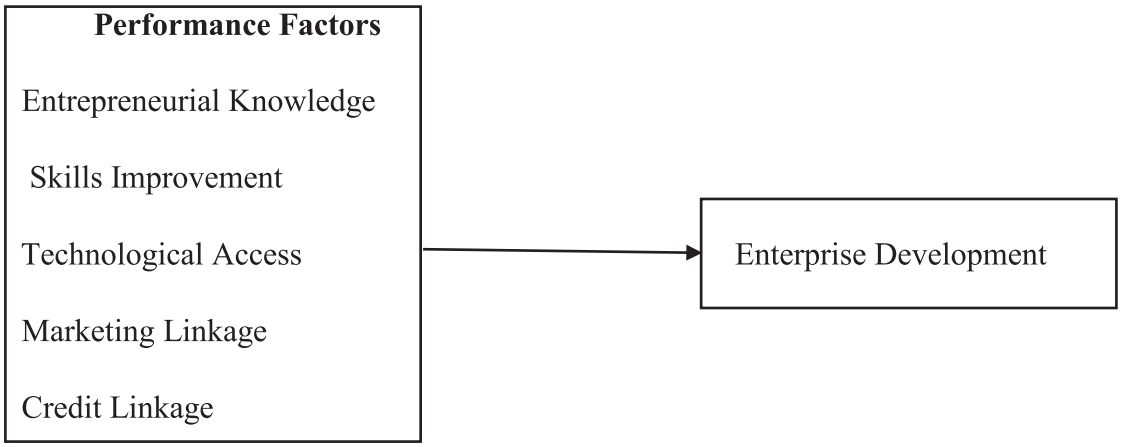

Figure 1: Conceptual Framework

Note: Researcher's Construct, 2025

Research Methodology

Research Design

This study applies a descriptive research design to analyze perceived opinion of micro-entrepreneurs on their performance factors as well as their enterprise development. This research has employs correlational research design to assess the relationship among performance factors and enterprise development. A Mixer of both quantitative and qualitative approaches is used in this study. A quantitative approach is used for measurement of quantitative data using statistical analysis whereas a qualitative approach is used with respect to deep insights in

the field observation and interviews.

Study Area and Justification for Selection of Kavrepalanchok District

Kavrepalanchok district is situated in mid-hilly area covering 1396 square Kilo Meter of the land area at an elevation range of 280 – 3018 meters. According to census report 2021, Kavrepalanchok district has population of 364039. Among them, number of female populations is 185130 (50.9%) and 178909 (49.1%) is the number of male population (cbc.gov.np).

The study areas for this research are representing all 6 municipalities and 7 Village Palikas of the Kavrepalanchok district. They are divided into two proportionate strata for the sampling purpose. Kavre is very information oriented regarding implementation of the MED model. The service provider of the MED model has also continuously working since 2007 in the district covering all VDCs and Municipalities of Kavre during those years. So, the service provider is in touch with all the created micro-entrepreneurs making the researcher convenient to contact the sampled micro-entrepreneurs at field. Many municipalities and VDCs of the district are accessible to road and transport. The district is quite convenient for the researcher for field visits. These are the reasons behind selecting the Kavre as a sample district based on purposive sampling method.

Micro-Entrepreneurs' Population and Sample

The MED model had developed total 2904 micro-entrepreneurs from 2007 to 2018 as shown in Table 1.

Table 1

Target Population of Micro-Entrepreneurs at Kavrepalanchok District

	Name of Local Level	No. of Created MEs
Municipalities	Dhulikhel	180
	Banepa	430
	Panauti	241
	Panchkhal	222
	Namobudhha	46
	Madan Deupur	267
	Total	1386
Village Palikas	Khanikhola	213
	Chaunri Deurali	456
	Temal	NA
	Bethanchok	372
	Bhumlu	223
	Mahabharat	86
	Roshi	168
	Total	1518
	Grand Total	2904

Yamane (1967:886 as cited by Israel; 1992, p. 4) has provided a simplified formula to calculate sample size assuming 95% confidence interval and P = 0.5 which has also used by Adjei (2014) in a similar nature of population as follows.

$$\frac{N}{1+N(e^2)} = \frac{2904}{1+2904(.05^2)} = \frac{2904}{8.26} = 352$$

Where;

n = sample size

N = population size

e = level of precision or margin of error in sampling

Israel (1992) has found that, sample size is often increased by '10%-30% to compensate for persons the researcher possibly be unable to contact' (p. 5). Due to this reason, he has further concluded that the number of mailed surveys or planned interviews can be substantially larger than the number required for the intended level of confidence and precision. Since the time horizon of the unit of analysis (micro-entrepreneurs) covered by this study was more than 12 years, only 75% response rate was expected due to possibilities like abroad employment, migration, and death of entrepreneurs. So, to meet the above calculated sample size, 469 micro-entrepreneurs i.e. (352/0.75) were sampled. Finally, it was possible to interview 435 micro-entrepreneurs at the field.

Sampling and Data Collection Techniques

Pant (2012) has stated that simple random sampling is the purest form of probability sampling in which samples can be drawn by using a random number table or lottery method. While selecting micro-entrepreneurs, a simple random sampling technique was applied. The list of MEs created in Kavre was obtained. Then samples were selected using random numbers. The total population was divided into two strata and sample sizes were determined proportionately from each stratum as in Table 3.5.

Table 3

Population Strata and Sample Size

Strata	Population	Weightage	Sample Size
Municipality Areas	1386	0.48	225
Village Palikas	1518	0.52	244
Total	2904	1.00	469

Note: Researcher's construct, 2021

Among those who could not be interviewed, 14 persons could not be contacted, 13 were migrated and 7 were dead. For the collection of data, questionnaires were structured in Five Point Likert Scale. Collected data were analyzed using statistical software SPSS.

Ethical Considerations

All the participants were well informed on the study purpose, assured for the confidentiality of their business information, and not participated forcefully in the study at any sense.

Result and Discussion

Table 4

Descriptive Summary of Performance and Enterprise Development n=435

Variables	M	SD	Cronbach's α
Entrepreneurial Knowledge (EK)	3.43	1.02	0.944
Skill Improvement (SI)	3.74	0.90	0.901
Technological Access (TA)	4.12	0.79	0.943
Credit Access (CA)	2.86	0.81	0.901
Market Linkage (ML)	3.02	1.05	0.866
Enterprise Development (ED)	3.26	1.37	0.953

Technological access performance has the highest mean value of 4.12. During the field visits micro-entrepreneurs (MEs) were provided woven machines, work-shop facilities, agricultural tools, tractors, Thanka painting brushes etc. Similarly, Interest of technical skills was already assessed during the selection and group formation. Therefore, MEs were found to have delivered skills of their own interest as well as need. Regarding marketing linkages, MEs were provided opportunities to participate in trade fairs, exhibitions, and link with local retail and wholesale trades. Similarly, many of them have been assisted in forming product associations.

Regarding Entrepreneurial knowledge, MEs expressed that they have gained knowledge on opportunity identification of profitable business with increased commitment to do business. They also knew techniques of business selection and customer identification. Regarding access to credit, many MEs were arranged the needed fund from their relatives, savings, and group savings. So, only few MEs with the need of large capital have linked with local co-operatives.

Regarding the enterprise development, the mean value 3.26 indicates that MEs opined that the performance supports from the MED model has helped them to a large extent. Therefore, to a large extent, they expressed that their sales is continuously increasing, they are re-investing part of their profit in business, they are also able to employ more employee in some extent and are able to diversify portfolios or add varieties of products.

Correlational Relationship Among Performance Variables and Enterprise Development

Correlation analysis result is presented in Table 5 below showing the associations among performance variables as independent variables and enterprise development as dependent variable.

Table 5

Correlation among Performance Variables and Enterprise Development

	EK	SI	TA	ML	AC	ED
EK	1					
SI	.893	1				
TA	.799	.816	1			
ML	.728	.681	.593	1		
AC	.825	.798	.778	.573	1	
ED	.906	.871	.720	.742	.801	1

The correlation analysis result sows that there are significant positive relationships among all the performance variables and enterprise development. It means, all the performance variables influence the enterprise development significantly. Therefore, the components of the MED model help performance improvement in various categories for assisting enterprise development.

These finding are also matched with the results of Arage (2025). He has also identified that performance factors like training, access to finance, access to technology, entrepreneurial education, and market linkages have played vital role for enterprise development of MSEs.

Discussions

The supports under the MED model are designed according to the need of micro-entrepreneurs. The effects of such supports have helped MEs to improve their performance regarding entrepreneurial opportunity identification and commitment towards doing business. Similarly, it has helped them improve skills of their area of knowledge, ability, and interest. MEs are helped to obtain technological grants needed to operate their business. Their produces are supported to have access to market through various means. Overall, such supports have helped them to develop their enterprise.

Conclusion

Micro-enterprises are productive by utilizing local skills, raw-materials, and appropriate technology. They help in generating employment and self-employment. They also help in reducing imports and make the economy more sustainable. Such utilities of MEs have attracted government of various countries to facilitate and incentivize them for their promotion. With the similar reason, Government of Nepal also launched the MED program since 1998 to promote micro-enterprises for poverty alleviation. The program continuously extended in all 75 districts of Nepal till the year 2018. Now the MoI is extensively extending this model to all the 753 local levels. Therefore, it should be conscious on maintaining the effectiveness of this model. Massive extension of this model to all local levels

is a very ambitious job. Therefore, there is a chance of deterioration of the past success of this model. The ever changing socio-cultural, demographic, and political environmental adaptation is also a challenge to maintain the success of this model.

Implications and Scope for Future Research

Based on the finding of the significant impact of the MED model on the performance improvement of MEs, government can replicate this model in its other employment and income generation programs. Because, the importance of promoting MSEs is widely accepted and practiced around the developed and developing nations due to their role in economic development. The other NGOs and private sector's skill and entrepreneurship development programs should also focus on utilizing the effectiveness of this model by replicating the procedures and design in their curricula.

The finding of this research is based on the survey of one district only. Therefore, the similar study can be undertaken in other districts also since there is still dearth of study in this topic in Nepal. Other research can focus on service providers, policy interventions, and other institutional structures too rather than focusing on the beneficiaries. Some researchers can focus on the appearing changes in socio-cultural and political sectors and advise on the possible changes in the process and design of the MED model itself.

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