
Factors Influencing the Sustainability of SMEs in Marginalized Areas: A Study of Dullu Municipality, Dailekh

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Abstracts

This research scrutinizes the underlying factors influencing the sustainability of SMEs in marginalized areas, with a particular focus on dimensions such as creativity and innovation, resource availability, regulatory compliance, networking and collaboration, and market competitiveness. It is conducted in Dullu Municipality, Dailekh, and employs an explanatory research design complemented by quantitative methods. Convenience sampling methodology is employed to gather data from a sample of 225 SME proprietors, who are selected as respondents for the study, utilizing survey questionnaires. Inferential statistics, including correlation and regression analysis, reveal the significant impact of creativity and innovation, efficient resource availability, regulatory compliance, networking and collaboration, and market competition on sustainable SMEs. The findings of the study recommend that owners of SMEs give more priority to innovation, optimal utilization of resources, and fostering networks and collaboration among SMEs. Furthermore, policymakers are urged to design initiatives supporting regulatory compliance and incentivizing innovation. Future research is recommended to explore market dynamics and compliance barriers, informing strategies for sustainable SMEs in marginalized locales.

Introduction

The emerging concept of Small and Medium-Sized Enterprises (SMEs) in the global arena underscores their pivotal role as engines of economic growth, innovation, and employment generation, despite facing various challenges. As SMEs navigate the complexities of international markets, their adaptability, innovation, and strategic positioning become increasingly crucial for sustainable success and competitiveness on a global scale (Audretsch et al., 2024). Understanding the nuanced dynamics of SMEs within marginalized areas is crucial for policymakers, stakeholders, and entrepreneurs to cultivate an inclusive environment that nurtures their growth and resilience amidst evolving economic landscapes (Suthar, 2024; Gil-Cordero et al., 2024). Similarly, SMEs are vital drivers of economic growth, innovation, and employment globally (Gurbuz et al., 2023; Du et al., 2023). Despite their limited scale and resources, they contribute significantly to national and regional development (Maroufkhani et al., 2023).

SMEs, defined by various criteria depending on country and industry, serve as important contributors to job creation, innovation, and economic development (Abuhussein et al., 2023). Particularly, SMEs exhibit flexibility and responsiveness to market changes due to their lean organizational structures (Derhab & Elkhwesky, 2023). With objectives ranging from growth to social development, SMEs operate in diverse industries and markets (Tjahjadi et al., 2022; Clampit et al., 2022). Pillars or fundamental aspects play a critical role in SMEs' success, impacting factors like efficiency, accessibility, and compliance (Anderson, 2011). Striking a balance between cost and facility quality is crucial, as non-compliance can lead to penalties and disruptions (Yadollahi Farsi & Toghraee, 2014). Furthermore, SMEs face challenges such as limited access to financing, inadequate infrastructure, and cumbersome bureaucratic processes (Poudel et al., 2017; Gyanwali et al., 2022; Bhandari & Amponstira, 2021). Encouraging entrepreneurship and improving access to support services and a favorable policy environment are essential for SME growth (Chitrakar, 2019). However, SMEs face numerous challenges that impede their growth and success, necessitating a comprehensive examination to establish sustainable strategies that contribute to their viability. Various factors directly influence the sustainability of SMEs in marginalized regions. Therefore, empirical studies are required to identify and analyze the most impactful factors on the effective functioning of SMEs.

The sustainability of SMEs hinges on factors such as creativity, resource availability, regulatory compliance, networking, and market competition. However, there is a dearth of comprehensive research on sustainable SMEs in marginalized areas. This study aimed to fill this gap by analyzing the key elements underpinning sustainable SMEs in Dullu Municipality, Dailekh. By focusing on creativity, resources, compliance, networking, and competition, the research provided valuable insights to enhance SME sustainability within the region. The findings offer significant implications for policymakers, stakeholders, and SME proprietors. By elucidating the dynamics of SME sustainability, this study facilitates the development of targeted strategies to enhance innovation, optimize resource utilization, ensure regulatory compliance, and bolster market competitiveness. Consequently, it underscores the importance of cultivating a supportive environment for SME growth, thereby advancing the economic development of marginalized regions.

Review of Literature

The literature review critically examines existing theories and empirical studies, synthesizing them to guide methodology, hypothesis formulation, and analytical procedures. Through integration of theoretical and empirical insights, it shapes the research direction. Therefore, this study aims to construct a robust conceptual framework by meticulously analyzing both theoretical and empirical research.

Theoretical perspectives

SMEs, integral to modern economies, are vital for economic growth, innovation, and job creation (Ghimire, 2011). Their definition varies globally based on factors like size and financial metrics, yet they consistently exhibit streamlined structures and limited resources (Chen et al., 2014). Often founded by passionate entrepreneurs, SMEs serve local markets, fostering community-specific goods and services (Classen et al., 2012).

The study of SMEs encompassed various theories and models that offered valuable insights into their behavior, challenges, and contributions to the economy. According to the Resource-Based View (Barney, 1991), an SME's competitive advantage stemmed from its unique bundle of resources and capabilities, which could be leveraged for sustained success. Transaction Cost Economics (Williamson,

1993) explored decision-making processes regarding internal production versus external transactions, based on efficiency considerations and asset specificity. Stage Models of Growth (McMahon, 1998) proposed that SMEs progressed through distinct stages, each with its own challenges and management requirements, as demonstrated by the Greiner Growth Model. The Innovation Adoption Theory (Rogers, 2002) elucidated how SMEs adopted new technologies, considering factors such as resource constraints and risk aversion.

Moreover, Network Theory (Bower, 1981) underscored the importance of relationships and networks in SMEs' access to resources and market opportunities. Environmental Uncertainty Theory (Downey et al., 1975) examined how SMEs adapted to dynamic external environments. Entrepreneurial Orientation Theory (Lumpkin et al., 2009) highlighted SMEs' strategic orientation toward innovation and risk-taking. Lastly, Resource Dependency Theory (Pfeffer, 1987) explored how SMEs managed their relationships with external stakeholders to ensure a stable resource flow and operational support. These theories collectively provided a comprehensive framework for understanding and supporting SME growth and sustainability.

SMEs are vital for global economies, driving job creation, economic growth, and innovation (Becherer et al., 2001). They excel in adapting to market shifts, fostering employment opportunities (Clark et al., 2004), injecting dynamism into economies, and diversifying markets (Ramdani et al., 2013; Muda & Rahman, 2016). Additionally, they engage in global trade, expand market reach (Linan et al., 2020), and contribute to social cohesion and entrepreneurship (Knight, 2000; Khaerani et al., 2023). Recognizing their significance, governments implement strategies to support SMEs, harnessing their potential for socioeconomic progress. Recognizing their far-reaching impact, governments and policymakers implement tailored strategies to fortify SMEs, realizing their potential as agents of socioeconomic progress and prosperity.

Nepal's SME sector, crucial for employment and GDP growth (Bhandari & Amponstira, 2021), encounters hurdles like limited finance, infrastructure gaps, and policy complexities (Das et al., 2018; Chitrakar, 2019). Skills shortages and market access barriers further impede progress (Shrestha, 2005; Kharel & Dahal, 2020). Energy costs, innovation constraints, and climate risks amplify challenges (Baniya & Thapa, 2021; Ghimire, 2011; Poudel et al., 2017). Despite obstacles, SMEs

demonstrate resilience and growth potential, necessitating collaborative action for an enabling environment (Gyanwali et al., 2022).

Empirical perspectives

The research landscape concerning SMEs revealed diverse challenges and opportunities across various fields. Zahoor et al. (2023) conducted an extensive review, identifying gaps and paving the way for future research, particularly focusing on the internationalization of SMEs from Africa. Khaerani et al. (2023) concentrated on the hurdles encountered by SMEs venturing into global markets, providing insights into surmounting obstacles such as limited market knowledge and financial constraints. Rasul et al. (2021) delved into the connection between corporate social responsibility and profitability among SMEs in Nepal, stressing the importance of ethical responsibilities and suggesting policy enhancements. Basnyat and Sharma (2021) shed light on the challenges faced by small service providers during the COVID-19 crisis in Nepal, highlighting the absence of government support. Kharel and Dahal (2020) discussed barriers impeding the integration of Nepali manufacturing SMEs into global value chains, offering policy interventions. Biswakarma et al. (2020) scrutinized innovation within Nepal's hospitality SMEs, underscoring the significance of innovation drivers for overall effectiveness. Haddad et al. (2020) investigated innovation strategies among Dubai SMEs, emphasizing the pivotal role of management and its implications for economic growth. Haryati et al. (2019) analyzed the impact of market competition on SMEs, highlighting challenges and opportunities across various sectors.

Valaei and Rezaei (2017) explored the correlation between Web 2.0 utilization and organizational outcomes in Malaysian SMEs, stressing the role of sense-making in fostering creativity. Emezie (2017) examined the prospects and challenges for African SMEs, with a focus on funding and infrastructure issues. Karadag (2015) assessed financial management challenges in Turkish SMEs, underscoring their strategic importance. Abdulsaleh and Worthington (2013) examined the impact of regulatory compliance on SMEs, revealing intricate complexities. Kinyua (2013) explored the relationship between market competition and SME performance, highlighting its dual effect on innovation and productivity. Csath (2012) explored the nexus between learning orientation, culture, and innovation achievements in SMEs, emphasizing the importance of appropriate learning environment. Abu Hassim et al. (2011) stressed the role of networking and

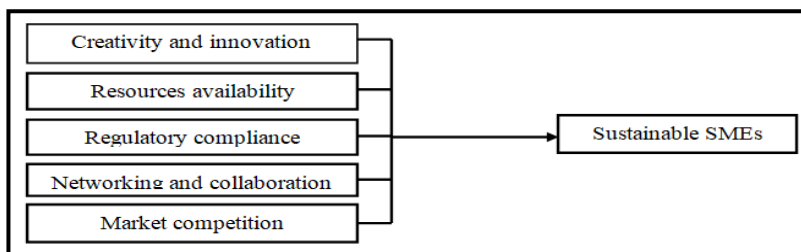
collaboration in SME growth and performance, suggesting policy interventions to foster partnerships. Thun et al. (2011) compared supply chain risk management approaches between SMEs and large enterprises, uncovering differences in strategy focus and effectiveness.

Theoretical framework

Developing a theoretical framework for sustainable SMEs in marginalized areas entailed identifying essential factors affecting like creativity and innovation, resource availability, regulatory compliance, networking and collaboration, and market competition. This framework served as a tool for researchers to evaluate current SMEs, identify areas needing improvement, and craft interventions aimed at nurturing long-term viability and generating positive community impact.

Figure 1

Theoretical Framework



Hypotheses formulation

This study seeks to delve into the fundamental pillars of sustainable SMEs, concentrating on dimensions such as creativity and innovation, resource availability, regulatory compliance, networking and collaboration, and market competitiveness. Each dimension is underpinned by hypotheses derived from existing literature:

Creativity and innovation, which are recognized as pivotal for SME success (Ramdani et al., 2013; Clark et al., 2004), form the basis of the first hypothesis (H1) positing that fostering creativity and innovation significantly ensures sustainable SMEs.

Resource availability, as evidenced by previous studies enabling SMEs to overcome constraints and achieve resilience (Thakkar et al., 2009; Knight, 2000), forms the

foundation of the second hypothesis (H2), proposing that efficient resource availability significantly enables sustainable SMEs.

The third hypothesis (H3) is built upon the understanding that regulatory compliance is essential to prevent penalties and foster sustainability in SMEs (Khaerani et al., 2023; Bhandari & Amponstira, 2021), emphasizing that regulatory compliance significantly fosters sustainability in SMEs.

Networking and collaboration, acknowledged as vital for SME growth by offering opportunities and resources (Chitrakar, 2019; Das et al., 2018), provide the premise for the fourth hypothesis (H4), suggesting that networking and collaboration significantly contribute to ensuring sustainable SMEs.

Lastly, the fifth hypothesis (H5) stems from the understanding that SMEs must navigate competition effectively by understanding markets and leveraging strengths (Gyanwali et al., 2022; Dahal & Sharma, 2004), thus positing that the growing rate of market competition significantly contributes to sustainable SMEs.

Materials and Methods

In this section, the researcher succinctly described the materials used and the procedures undertaken during the study. It outlined the experimental design or methodology employed, including any instruments or techniques utilized. This section served to provide clarity and transparency, allowing readers to understand how the study was conducted and to replicate the procedural desired.

Research design and methods

This study endeavored to examine the foundational aspects of sustainable SMEs within marginalized areas such as Dullu Municipality, Dailekh. Employing an explanatory research design complemented by a quantitative research methodology, the investigation aimed to delve into the nuanced dynamics shaping SME sustainability. Through the strategic adoption of convenience sampling, participants were thoughtfully chosen, and data were meticulously collected via survey questionnaires. These methodological preferences were instrumental in elucidating key determinants influencing SME performance within the specified geographic domain.

Population and sample size

In delineating the scope of this investigation, the target population comprises all proprietors of small and medium-sized enterprises domiciled in Dullu Municipality, Dailekh. In pursuit of the study's objectives, convenience sampling was employed to ascertain participants among SME proprietors in the aforementioned region. Drawing upon datasets furnished by the Dullu Nagar Udyog Banijya Sangh Office, the research constrained the total sample size to 225 respondents, drawn from a population of 516 SMEs. Notably, Yamane (1967) formula for sample size determination was instrumental in delineating the requisite sample size, adhering to rigorous methodological standards as follows.

$$n = \frac{N}{1+Ne^2} \quad n = \frac{516}{1+516(0.05)^2} \quad n = \frac{516}{2.29} \quad n \approx 225.33$$

Survey questionnaires

The survey questionnaire, segmented into two sections, effectively collected data from the target population. The initial section concentrated on demographics, while the subsequent part captured responses regarding study variables, employing a five-point Likert scale. Researcher administered the survey to gather data from respondents between January 15th and 25th, 2024.

Tools of data presentation and analysis

Likewise, the questionnaire provided reliable quantitative data, which was analyzed using SPSS software version 20. Statistical tools such as frequency analysis, percentages, correlation, and regression analysis were employed to present findings through tables and diagrams. Meaningful implications were derived from the results after careful examination. Besides that, the researcher ensured ethical data collection, obtaining informed consent and adhering to APA 7th guidelines for citation and referencing. Confidentiality of participant responses was maintained, with a commitment to academic integrity upheld throughout the study.

Measurements of normality, validity and reliability

In assessing the normality of the dataset, various statistical tests were employed, including Skewness, Kurtosis, and the Shapiro-Wilk Test. The computed

values of Skewness and Kurtosis were found to be within acceptable limits, falling below the critical thresholds (Skewness > 2 and Kurtosis > 7). This indicates the absence of significant deviations from normality assumptions within the data. Furthermore, the Shapiro-Wilk Test, utilized to corroborate the normal distribution, yielded statistically significant results, with p-values exceeding 0.005 (at the 5% significance level), affirming the normality of the dataset. Moreover, examination of Cronbach's Alpha for all variables revealed values exceeding the recommended threshold of 0.6. This suggests a high level of internal consistency within the collected data, enhancing its reliability for inferential statistical analyses. Similarly, the study conducted an assessment of Variance Inflation Factor (VIF) for independent variables, observing values below the critical threshold of 10. This indicates the absence of multicollinearity issues, thereby ensuring the validity of the study's regression analyses.

Results

In this section, the researcher provides a comprehensive analysis of results derived from respondents' demographic and variable-related insights. The findings are systematically categorized into two sub-sections. The demographic analysis offers a foundational understanding of the respondent population, examining key variables such as age, gender, educational background, and years of SME management experience. The results highlight the diversity within the respondent group. The inferential analysis delves into core variables related to SME sustainability, focusing on creativity, resource availability, regulatory compliance, networking, and market competition.

Descriptive statistics of demographic responses

The descriptive statistics from a 2024 researcher survey, featuring 225 participants, illuminate various demographic aspects. Age distribution reveals a predominant range of 21 to 60 years, with 44.4 percent aged 21-40 and 39.2 percent aged 41-60. Additionally, 7.1 percent are under 20, while 9.3 percent are 61 and above. Males dominate participation at 69.3 percent, with females at 30.7 percent. Education-wise, 52.0 percent have secondary education, 28.9 percent hold bachelor's degrees, and 12.0 percent have primary education, with 7.1 percent having masters or above. Business nature varies, with trading leading at 44.0 percent, followed by service

(26.2 percent), agriculture (20.5 percent), and manufacturing (9.3 percent). Experience levels span diverse brackets: less than 5 years (20.9 percent), 6-10 years (46.7 percent), 11-15 years (15.1 percent), and 16 years and above (17.3 percent). These statistics provide a holistic view of respondent demographics, offering insights for further analysis.

Inferential statistics of study variables

In accordance with the research methodology, inferential statistical techniques were deployed to elucidate the interrelations and impacts of the independent variables on the dependent variable. Both correlation and regression analyses were employed as methodological tools for this investigation. Subsequently, the outcomes derived from the regression analysis were utilized to scrutinize and assess the formulated hypotheses within this section of the study.

Table 1

Correlation Analysis

Variables	Mean	Std.	VIF	CI	RA	RC	NC	MC	SSMEs
Creativity and innovation (CI)	3.7454	.58164	1.418	1					
Resource availability (RA)	4.0075	.51464	1.767	.370**	1				
Regulatory compliance (RC)	4.0194	.49451	4.677	.403**	.528**	1			
Networking and collaboration (NC)	4.0194	.49451	4.892	.403**	.528**	.927**	1		
Market competition (MC)	4.0120	.66113	6.524	.527**	.651**	.882**	.882**	1	
Sustainable SMEs (SSMEs)	3.9996	.43197	-	.448**	.595**	.663**	.663**	.727**	1
Sample Size (N)	225	225	225	225	225	225	225	225	225

*Note: ** Correlation is significant at the 0.01 level (2-tailed).*

Table 1 presents the outcomes of the correlation analysis conducted among the variables under consideration. Robust positive correlations are observed between resource availability, regulatory compliance, networking and collaboration, market competition, and sustainable SMEs, indicating concurrent enhancements across these factors. Importantly, all correlations attain statistical significance at the 0.01 level (2-tailed), underscoring the robustness of the identified relationships within the sample size of 225 for each variable.

Table 2*Model Summary of Regression Analysis*

Model Summary						
Model		R	R Square	Adjusted R Square	Std. Error of the Estimate	Model
1		.752 ^a	.565	.561	.43791	1
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	114.601	5	22.920	56.902	.000 ^b
	Residual	88.212	219	.4028		
	Total	202.813	224			

Note: Level of Significance=0.05; N=225

Table 2 demonstrates a strong positive correlation, with an R Square value of .565, suggesting that approximately 56.5 percent of the variance in the dependent variable is explained by the independent variables. The adjusted R Square value of .561 accommodates the influence of predictors in the model, reinforcing its reliability and robustness. Additionally, the low standard error of the estimate (.43791) indicates a good fit of the model to the data. The ANOVA results support the significance of the model, with a very low p-value (.000b), suggesting that the observed relationship is unlikely to be due to random chance. In conclusion, these findings imply that the regression model offers a dependable mechanism for predicting the dependent variable, leveraging the independent variables scrutinized within the analysis.

Table 3

Results of Liner Regression Analysis

Model	Unstandardized and Standardized Coefficients			t-value	Sig.	Status
	Unstandardized Beta	Std. Error	Standardized Beta			
Creativity and innovation (CI)	.111	.042	.097	2.655	.008	Accept
Resource availability (RA)	.282	.053	.220	5.377	.000	Accept
Regulatory compliance (RC)	.233	.089	.174	2.622	.009	Accept
Networking and collaboration (NC)	.239	.096	.185	3.215	.000	Accept
Market competition (MC)	.579	.120	.379	4.820	.000	Accept

Note: Dependent Variable i.e. Sustainable Small and Medium-Sized Enterprises (SSMEs)

Table 3 presents the results of a linear regression analysis examining the relationship between several independent and the dependent variable. The regression analysis investigated various factors influencing the sustainability of Small and Medium-Sized Enterprises (SMEs), aiming to test several hypotheses regarding these factors' roles. Firstly, the study's findings support the hypothesis that fostering creativity and innovation significantly contributes to sustainable SMEs. This is evident from the regression coefficient for Creativity and Innovation (0.111) with a p-value of 0.008, indicating a statistically significant relationship. Similarly, efficient resource availability is shown to enable sustainable SMEs, as indicated by a regression coefficient of 0.282 and a p-value < 0.001, supporting another hypothesis. Furthermore, regulatory compliance is found to foster sustainability in SMEs, with a regression coefficient of 0.233 and a p-value of 0.009, supporting a separate hypothesis. Additionally, networking and collaboration are demonstrated to significantly contribute to ensuring sustainable SMEs, with a regression coefficient of 0.239 and a p-value < 0.001. Lastly, a growing rate of market competition is shown to significantly contribute to sustainable SMEs, supported by a regression coefficient of 0.579 and a p-value < 0.001. In summary, the regression analysis provides robust evidence supporting all alternative hypotheses, highlighting the critical importance of creativity and innovation, resource

availability, regulatory compliance, networking and collaboration, and market competition in fostering SME sustainability.

Discussion

The study's analysis of various factors impacting Small and Medium-Sized Enterprises (SMEs) sustainability reveals key insights in line with previous research. Creativity and innovation, a cornerstone for SME success according to Ramdani et al. (2013) and Clark et al. (2004), were reaffirmed as significant contributors to sustainability, emphasizing the enduring importance of innovation in fostering long-term growth. Moreover, efficient resource management, as underscored by Thakkar et al. (2009) and Knight (2000), emerged as a critical factor enabling SME resilience, highlighting the necessity of optimal resource allocation and utilization. Regulatory compliance, echoed by Khaerani et al. (2023) and Bhandari & Amponstira (2021), was identified as pivotal for SME sustainability, emphasizing the need for adherence to regulations to ensure operational continuity and avoid penalties.

Furthermore, the study underscores the vital role of networking and collaboration, supported by Chitrakar (2019) and Das et al. (2018), in SME success, offering avenues for accessing resources and fostering growth opportunities. Lastly, the study aligns with Gyanwali et al. (2022) and Dahal & Sharma (2004) in emphasizing the significance of comprehending market dynamics and adeptly navigating competition for SME sustainability, underscoring the strategic imperative of market positioning and leveraging strengths within competitive landscapes. Overall, these findings deepen our understanding of the multifaceted nature of SME sustainability, providing valuable insights for practitioners seeking to fortify their enterprises against challenges and foster enduring success in a dynamic business environment. Ultimately, the convergence and divergence of findings across studies enrich researchers understanding of SME sustainability by highlighting both universal principles and context-specific considerations. Such insights not only underscore the complexity of sustaining SMEs but also provide valuable guidance for practitioners and policymakers seeking to foster resilient and successful SME ecosystems in diverse economic landscapes.

Conclusion and Implications

In conclusion, this research, conducted in Dullu Municipality, Dailekh, aimed to investigate the impact of factors influencing the sustainability of SMEs in marginalized areas. The factors examined included creativity and innovation, availability of resources, regulatory compliance, networking and collaboration, and market competition, with the objective of informing targeted interventions for enhancing SME sustainability. The analysis of this study yielded significant insights consistent with prior research, underscoring the critical roles of creativity and innovation, effective resource management, regulatory adherence, networking capabilities, and market understanding in bolstering SME sustainability. These findings contribute to a deeper understanding of the multifaceted nature of sustainable SMEs, offering valuable insights for practitioners aiming to strengthen their enterprises against challenges and promote enduring success in a dynamic business landscape. Moreover, the study proposes various policy and managerial implications aimed at ensuring the long-term sustainability of SMEs in underdeveloped or marginalized regions, based on the findings derived from this research.

Furthermore, the study underscores the decisive role of creativity and innovation, resource availability, regulatory compliance, networking, and market competition in fostering SME sustainability. Managers should cultivate innovation, optimize resource use, ensure regulatory adherence, and engage in strategic networking to enhance business resilience. Policymakers should support these efforts by providing innovation incentives, facilitating resource access, simplifying compliance processes, and fostering a competitive yet fair market environment. These combined efforts will drive sustained SME growth and contribute to the economic development of marginalized regions. Furthermore, future research should delve deeper into understanding market competition dynamics, investigate barriers to regulatory compliance, and explore the role of networking and collaboration in SME success, informing best practices for sustainable growth. The study's limitations encompassed its exclusive geographic focus on Dullu Municipality in Dailekh, potentially limiting the transferability of results to wider geographical areas. Methodologically, the reliance on self-reported data from SMEs and the study's temporal scope may introduce biases and overlook long-term trends in sustainability factors. Future research endeavors could enhance validity by

employing broader geographic sampling and diversifying data sources, thereby augmenting the robustness and generalizability of findings across diverse contexts.

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