

Strategic Approaches to Enhancing Growth and Sustainability of Micro, Cottage, and Small Enterprises in Nepal

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Abstract

Micro, cottage, and small-scale enterprises (MCSEs) play a vital role in Nepal's socio-economic development by generating employment, reducing poverty, and supporting local economies. However, their growth is constrained by structural challenges, including limited access to finance, weak market linkages, inadequate managerial capacity, inconsistent policy implementation, and low levels of innovation. This study examines strategic approaches to enhance the competitiveness and sustainability of Nepali MCSEs using a mixed-methods design, incorporating purposive sampling of 24 enterprises across seven provinces. The findings indicate a moderate positive relationship ($r=0.487^*$) between access to financial resources and business growth, although 82% of enterprises depend on informal financing, revealing significant credit access gaps. Only 38% of entrepreneurs reported receiving managerial training, and strategic decisions are often intuitive rather than data-driven. Market expansion shows a strong association with improved performance ($r = 0.821^{**}$), but logistical constraints and competition continue to hinder progress. Government support exhibits a significant positive relationship with perceived effectiveness ($r = 0.925^{**}$), yet uneven implementation reduces its overall impact. Workforce skill shortages, employee turnover, and limited investment in innovation further restrict scalability. The study recommends policy reforms promoting financial inclusion, infrastructure development, skill enhancement, and digital adoption, alongside stronger public-private collaboration to foster sustainable and inclusive economic growth.

Keywords: MCSEs, strategic management, financial inclusion, market access, innovation

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Introduction

Strategy is defined as an organization's long-term direction and scope, enabling it to gain an advantage in a dynamic environment by effectively utilizing its resources and capabilities

to meet stakeholder expectations (Gerry et al., 2008, p. 3). Strategy consists of goal-oriented actions undertaken by a firm to achieve and sustain a competitive advantage over its rivals (Rothaermel, 2015, p. 4). Furthermore,

Ketchen and Short (2012) emphasize the importance of understanding strategy as a plan, a ploy, a position, a pattern, and a perspective. Additionally, business strategy encompasses the plans, decisions, and actions that guide a company toward increased profitability and long-term success (Kourdi, 2015). According to Grant and Jordan (2015), competitive strategy emphasizes differentiation by deliberately selecting unique activities to deliver a distinct mix of value.

Business is a key element of societal well-being, influencing employment, spending, quality of life, and environmental sustainability, all of which are vital for economic revitalization (Khanal et al., 2023). In this context, Micro, Cottage, and Small-scale Enterprises (MCSEs) play an essential role in job creation, fostering economic growth, alleviating poverty, and improving people's daily lives (Kharel & Upadhyaya, 2021). Additionally, locally-based businesses contribute to society by providing products at lower prices than imports, addressing customer concerns directly, fostering social harmony, generating local employment, increasing municipal revenue, promoting urban development, and supporting the circulation of money (Rai, 2020). As of mid-March 2023, Nepal had 682,191 registered industries, of which 98.69% were micro, cottage, and small-scale industries, while large, medium, and small industries comprised 0.20%, 0.30%, and 0.81%, respectively. In terms of employment generation, micro, cottage, and small-scale industries accounted for 83.47% of jobs, followed by small (7.43%), medium (4.57%), and large industries (4.52%) (MoF, 2023). The report shows that in Bagmati Province, 29.17% of total micro, cottage, and small-scale industries (MCSEs) generate 33.77% of employment, while in Madhesh Province, 17.65% of MCSEs

account for 14.53% of employment, and in Lumbini Province, 16.17% of MCSEs contribute to 15.90% of employment. The Department of Industry (2022) reports that 16.66% of micro, cottage, and small-scale industries are located in Kathmandu, Lalitpur, and Bhaktapur districts, with Kathmandu accounting for 11.58% of the total national MCSE registrations, and these districts hosting 19.36% of micro, 30.14% of cottage, and 15.78% of small industries.

MCSEs have encountered numerous challenges that have led many enterprises to shut down. According to a report by Rastriya Samachar Samiti (2023), 177 industries in Parsa district closed during the fiscal year 2022/23. Ojha (2021) noted that micro, cottage, and small industries have experienced significant financial losses due to reduced demand for their products and services, along with difficulties in production and market access. These problems are largely driven by transportation disruptions and restricted mobility, resulting in shortages of raw materials, intermediate goods, and other essential production inputs. Consequently, MCSEs are struggling to expand and sustain growth in Nepal.

Business constraints in Nepal include factors such as the ease of doing business, GDP growth, FDI inflows, labor force participation, corruption, and business registration procedures. Key challenges involve limited access to finance, inadequate infrastructure, shortages of skilled labor, regulatory hurdles, political instability, small market size, and limited technological access. At the same time, opportunities arise from the country's strategic location, emerging economic sectors, favorable trade agreements, government support initiatives, a growing middle class, and untapped natural resources. The government's role is therefore crucial

in infrastructure development, regulatory streamlining, financial support provision, incentives and tax concessions, human capital development, trade facilitation, and innovation promotion (Chhetri, 2023; Khanal, 2023).

Commercial banks have extended 9.5% loan in the small, cottage, and micro-enterprises sector during mid-January 2023, whereas 11.0% loan must be disbursed to the small, cottage, and micro-enterprises sector up to mid-July 2023 (MoF, 2023). However, UNESCAP (2020) reports that the financing gap for Micro, Small and Medium Enterprises (MSMEs) in Nepal amounts to USD 3.6 billion. The study further indicates that micro-entrepreneurs typically require loans averaging around NPR 0.5 million (USD 4,400), yet 64.4% of micro-enterprises lack access to credit. As a result, MCSEs remain highly dependent on day-to-day operations and sales to sustain their businesses. The literature identifies several key challenges hindering the growth of MCSEs in Nepal, including: (a) macroeconomic constraints such as interest rates, trade and tariff structures, taxation, inflation, and exchange rates; (b) legal and regulatory barriers including registration and licensing procedures, bankruptcy and exit policies, labor and environmental regulations, and patent protection; (c) infrastructure limitations such as land use, energy supply, water availability, transportation, and cold storage facilities; and (d) business service challenges related to finance, research and development, innovation, capacity building, and market access. Aryal (2021) similarly identified major obstacles to MCSE growth, including inadequate financing, ineffective government policies, limited market access, insufficient government support, weak managerial capabilities, corruption and bureaucratic red tape, high import tariffs on machinery, weak monetary and fiscal policies,

insufficient training programs, and limited technological adoption. Against this backdrop, the present research aims to examine (1) policy gaps, (2) institutional and structural gaps, (3) internal organizational issues, and (4) marketing challenges in order to foster a strategic and innovative culture.

Holt (2020) notes that many developing and emerging economies are increasingly focusing on informal sectors as key elements of their economic growth strategies. These informal and micro enterprises hold the potential to evolve from small, informal businesses into medium and large-scale enterprises. To achieve such growth and integrate new technologies, these enterprises must develop systems that encourage and support innovation (UNCTAD, 2005). This system helps generate new ideas, adopt new techniques, or adjust their businesses to meet changing customer preferences, demands, and tastes, ensuring they stay competitive and grow (Dess et al., 2014; Gerry et al., 2008). Leveraging both public and private sector resources is crucial for developing and spreading successful models and sustainable, eco-friendly solutions. It is also important to foster a national network of management and sustainable development training providers to encourage shared learning and collective innovation among MCSEs (Gerry et al., 2008). However, for sustained technological progress, local innovation by domestic actors can offer a competitive advantage (Porter, 1990). Productive combinations and innovations become crucial drivers, continually creating new competitive advantages and opportunities for profit and growth, enabling businesses to thrive and expand (Dess et al., 2014; Rothaermel, 2015; Ryszard, 2018; Schilling, 2015; Wheelen et al., 2015). The rapidly changing environment and growing competition require managers and strategic decision-makers to be more analytical

and forward-thinking rather than relying on intuition and reactive approaches; however, this trend is not evident in Nepal, where political and economic uncertainty hinders organizations from forecasting trends and making long-term plans (Shrestha & Gnyawali, 2013).

For businesses to expand, they must adopt competitive strategies, as innovations can lead to the creation of entirely new businesses and reshape the scope of existing ones (Dess et al., 2014). To drive innovation and growth, strategic management, which is influenced by an organization's resources, capabilities, strategies, and external analysis, is essential (Hitt et al., 2011).

Ojha (2021) developed strategies for Micro, Cottage, and Small Enterprises (in a post-pandemic context) on behalf of National Business Initiatives (NBI) Nepal, outlining a comprehensive action and implementation plan. The plan outlines contextual strategies for improving MCSEs post-COVID-19, addressing the specific problems and challenges they face. Abosede et al. (2016) argued that strategic management positively influences SME development in developed, emerging, and Nigerian economies, with firms that have clear strategies performing better than those without. However, most SMEs do not engage in formal strategic planning, and when they do, it is often informal, inconsistent, and hindered by limited resources, lack of expertise, and reliance on reactive decision-making.

Research conducted by Shrestha and Gnyawali (2013) examined strategic management approaches and identified key variables such as goal setting and planning, managerial involvement, proactive and reactive strategies, strategic implementation processes, implementation barriers, and the benefits of

strategic management. Addressing start-ups and MSMEs also requires consideration of macroeconomic and microeconomic linkages, legal and institutional frameworks, operational management practices, emerging challenges such as climate change, and entrepreneurial dynamics (Khanal et al., 2023). MCSE entrepreneurs develop innovative strategies based on their skills and experiences, but experience slow progress due to multitasking, while integrating local and global concepts in products, skills, and technology, positioning themselves at the intersection of localization and globalization (Rai et al., 2020). However, according to Shrestha and Gnyawali (2013), strategic management practices in Nepalese organizations differ significantly from those in Western contexts. Furthermore, the role of digital transformation, organizational agility, risk and resilience, and strategic thinking in driving competitive advantage is crucial (Kathayat, 2023).

The study aims to analyze the strategic approaches that Nepalese Micro, Cottage, and Small Enterprises (MCSEs) can adopt to overcome existing challenges, enhance competitiveness, and achieve sustainable growth.

Methodology

The process of capturing an individual's experiences involves listening, observing, sharing moments, and interpreting narratives as they are both lived and told (Clandinin & Rosiek, 2007). Narrative inquiry views knowledge as subjective and emphasizes understanding experiences from the perspective of those directly involved rather than interpreting them from an external viewpoint (Denscombe, 2010).

Abosede et al. (2016) have applied resource-based theory, survival-based theory, dynamic capability innovative theory, and ownership theory for studying strategic management.

Eyanuku (2021) investigated the relationship between strategic management activities and MSME performance by testing the hypothesis that no significant link exists between strategic management, organizational structure, and SME performance.

Kathayat (2023) identified four essential strategic factors—strategic thinking, organizational agility, digital transformation, and risk and resilience—as vital for strengthening business competitiveness in Nepal. He emphasized that these elements help analyze challenges and offer valuable insights for businesses, policymakers, and stakeholders to formulate effective strategies. The study

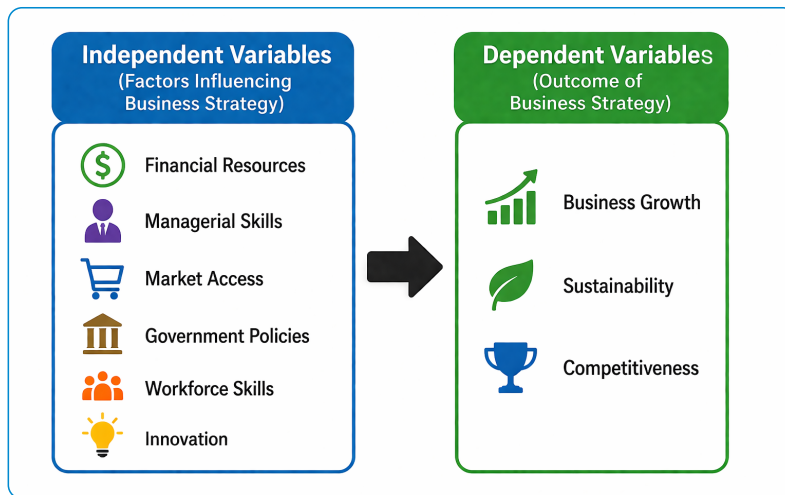
specifically examines the influence of strategic mastery on Nepal's business environment, with a focus on enterprises of all sizes. He formulated a working hypothesis to explore and clarify the possible connection between strategic thinking and competitive advantage within Nepal's context. A sample of 324 participants was selected using convenience sampling, comprising proprietors from various business sectors, each with at least three years of operational experience, specifically for this study.

Conceptual Framework

The variables, according to the literature, were determined as follows.

Figure 1

Description of Variables



Alternative Hypotheses (H_1) of the research are as follows:

- H1: Access to financial resources has a significant positive impact on the growth and sustainability of MCSEs.
- H2: Effective managerial skills and strategic planning positively influence the success and long-term viability of MCSEs.

- H1: Market access and customer engagement significantly contribute to the profitability and expansion of MCSEs.
- H4: Government policies and support programs have a significant effect on the performance and survival of MCSEs.
- H5: A lack of skilled labor negatively impacts the operational efficiency and sustainability of MCSEs.

H1.6: Businesses that implement innovation strategies perform better in terms of revenue growth and competitiveness than those that do not.

The strategic management process involves the following steps: (1) identifying the business scope and formulating a mission statement, (2) establishing goals, (3) designing a strategy to meet performance targets, (4) executing the strategy effectively, and (5) assessing outcomes and making necessary adjustments (Chaneta, *n.d.*). According to the Department of Industry (2022), Nepal has 41,099 micro-enterprises, 23,374 cottage industries, and 488,239 small-scale industries.

This research employed purposive sampling, as it is a non-random method that does not require pre-existing theories or a fixed number of participants and allows the selection of information-rich cases, ensuring

effective use of available resources (Etikan et al., 2016). Accordingly, 24 enterprises from the manufacturing, service, retail, and agriculture sectors were purposively selected across seven provinces of Nepal.

The collected data were analyzed using both quantitative and qualitative methods, and the findings are presented in a narrative format. The study incorporates independent and dependent variables to evaluate the strategic approaches of Micro, Cottage, and Small Enterprises (MCSEs). Descriptive statistical tools, along with other relevant analytical methods, were applied in line with the study's objective of analyzing the strategic approaches adopted by MCSEs.

Characteristics of Research Participants (RPs)

Characteristics of research participants (business enterprises) have been presented in the table below.

Table 1

Characteristics of Research Participants

Provinces	No. of RPs	Percentage	Operated Period	No. of RPs	Percentage
Koshi	3	13%	Less than 1 year	0	0%
Madhesh	3	13%	1-2 Years	0	0%
Bagmati	3	13%	3-5 Years	6	25%
Gandaki	3	13%	More than 5 Years	18	75%
Lumbini	3	13%	No. of Employees		
Karnali	4	17%	1 to 5	10	42%
Sudurpaschim	5	21%	6 to 10	9	38%
Business Sector			11 to 20	5	21%
Manufacturing	7	29%	More than 20	0	0%
Service	3	13%	Business Type		
Agriculture	5	21%	Micro	12	50%
Retail	9	38%	Cottage	3	13%
			Small	9	38%

Note. Interview, 2024 and 2025

Results and Discussion

Business enterprises have to adopt a certain process of strategy formulation. As per Schilling (2015), most emphasis on the strategy formulation process is (1) Setting Vision, Mission, Goal and Objectives (VMGO), (2)

formulating strategy, (3) executing strategy, and (4) assessing outcomes and making necessary adjustments. Study revealed that a formal strategy is not formulated by MCSEs, but an informal and ad hoc strategy is on hand with the Nepalese MCSEs. The following table reveals the dealings of MCSEs with business strategy.

Table 2

Actions of Mcses to Business Strategy

Components of Business Strategy	Yes	No
Setting VMGO	29%	71%
Formulating strategy	4%	96%
Executing the strategy	96%	4%
Assessing outcomes and making necessary adjustments	100%	0%

Financial Resources and Business Growth

All MCSEs have used their personal savings, 83% have received a loan from a bank, 25% have received a government grant, which works

in the agricultural sector, and none of them have used an investment funding mechanism. 82% of MCSEs feel difficulty in managing financial resources for the growth of the business.

Table 3

Correlation Between Additional Financial Resources and Business Growth

Variables	Measure	Additional Financial Resources	Business Growth
Additional Financial Resources	Pearson Correlation	1	0.487*
	Sig. (2-tailed)		0.016
	N	24	24
Business Growth	Pearson Correlation	0.487*	1
	Sig. (2-tailed)	0.016	
	N	24	24

Note. *. Correlation is significant at the 0.05 level (2-tailed).

The correlation analysis between access to additional financial resources and business growth reveals a moderate positive relationship, with a Pearson correlation coefficient of 0.487. This suggests that as financial resources increase, business growth also tends to improve. The significance level (p-value) of 0.016 indicates that this correlation is statistically significant at the

0.05 level, meaning the relationship is unlikely to have occurred by random chance. Based on a sample size of 24 observations, the findings suggest that additional financial resources contribute to business growth. However, although this correlation is meaningful, it does not imply causation, as other factors may also influence business growth.

Managerial Skills and Strategic Planning

Managerial skills and strategic planning play a pivotal role in enhancing business performance, as evidenced by a study on small and medium-sized enterprises (SMEs) in Caquetá, Colombia, which found that effective management skills significantly influence organizational performance and contribute to competitive advantage (Guzmán et al., 2023). Approximately 38% of entrepreneurs and employees received training in managerial skills and planning. Approximately 38% of entrepreneurs and employees received training in managerial skills and planning. However, most entrepreneurs rely

primarily on experience, ad hoc market analysis, and intuition when making decisions rather than systematic data analysis. They generally agree that strong managerial skills contribute to improved business performance.

Market Access and Customer Engagement

MCSEs engage with customers through both physical stores and online platforms, with Facebook serving as a key channel for advertising and communication. The main obstacles to expanding market reach include intense competition, transportation and logistical constraints, and a lack of effective marketing strategies and customer awareness.

Table 4

Correlations Between Customers' Feedback And Launching a New Product

Particulars	Customers' Feedback	Launching a New Product
Pearson Correlation	1	-0.266
Sig. (2-tailed)		0.208
N	24	24

Note. Questionnaire, 2024 and 2025, SPSS calculation

The correlation analysis between “customer feedback” and “launching new product” shows a weak negative relationship with a Pearson correlation coefficient of -0.266. This suggests that as feedback on market research before launching new products increases, the likelihood of launching new products tends to decrease, but the relationship is not strong. The p-value is 0.208, which is not statistically significant at the common 0.05 threshold. This means there is a high probability that the observed correlation is

due to chance rather than a meaningful pattern. With a sample size of 24, the data do not provide strong evidence to suggest a real relationship between the two variables. Further research with a larger sample size and additional factors considered may be necessary to draw more definitive conclusions.

The result reveals the following status of the effect of expanding market access on business performance.

Table 5

Correlations Expanding Market Access And Business Performance Improvement

Variables	Measure	Expanding Market Access	Business Performance Improvement
Expanding Market Access	Pearson Correlation	1	0.821**
	Sig. (2-tailed)		0.000
	N	24	24

Variables	Measure	Expanding Market Access	Business Performance Improvement
Business Performance Improvement	Pearson Correlation	0.821**	1
	Sig. (2-tailed)	0.000	
	N	24	24

Note. Questionnaire, 2024 and 2025, SPSS calculation

The correlation analysis between expanding market access and business performance improvement reveals a strong positive relationship, with a Pearson correlation coefficient of 0.821. This indicates that businesses that expand their market reach tend to experience significant improvements in their performance. The p-value (< 0.001) confirms that this correlation is highly statistically significant at the 0.01 level (1%), meaning the likelihood of this result occurring by chance is very low.

Overall, this result highlights the importance of expanding market access as a key factor in driving business success. Further analysis, such as regression modelling, could help determine

the extent to which market expansion directly influences business performance.

Government Policies and Support

MCSEs seek financial access, infrastructure development, training, capacity building, marketing, and export support from the government to maximize their benefits. However, some policies implemented are neither effective nor equally beneficial for all. That is why the government support for MCSEs in Nepal has been minimal. The correlation between government assistance and the enhancement of MCSEs' performance has been analyzed, yielding the following results.

Table 6

Correlations Receiving Government Support and the Perceived Performance

Variables	Measure	Government Support	Enhanced Performance
Government Support	Pearson Correlation	1	0.925**
	Sig. (2-tailed)		0.000
	N	24	24
Enhanced Performance	Pearson Correlation	0.925**	1
	Sig. (2-tailed)	0.000	
	N	24	24

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

The correlation analysis reveals a strong positive relationship between receiving government support and the perceived effectiveness of that support, with a Pearson correlation coefficient of 0.925. This high

correlation suggests that individuals who receive government support are more likely to evaluate its performance favorably. The significance level ($p < 0.001$) indicates that this relationship is statistically significant and unlikely to have

occurred by chance. With a sample size of 24, the findings demonstrate a meaningful association between these variables, highlighting that recipients of government support tend to hold more positive perceptions of its effectiveness.

Skilled Workforce and Business Performance

Existing literature indicates that Nepalese MCSEs face persistent shortages of skilled labor. The lack of adequately trained human resources poses a major challenge, limiting their ability to compete in both domestic and international markets (Ghimire, 2011; Rai et al., 2024; Singh & Kharel, 2023). The findings of this research support these observations. Major workforce challenges include high employee turnover and a shortage of skilled workers, which reduce productivity due to reliance on unskilled labor. However, labor costs remain moderate rather than excessively high. MCSEs often hesitate to invest in workforce development because of concerns about employee retention. Nevertheless, all MCSE investors acknowledge that developing a skilled workforce contributes positively to business growth.

Innovation and Business Expansion

The study found that 17% of MCSEs, all of which are retail enterprises, regularly innovate their products every 6 months to 1 year. Businesses in the manufacturing, services, and agriculture sectors tend to innovate occasionally, typically every 1 to 3 years. Additionally, 46% of MCSEs engage in innovation rarely, with manufacturing and retail enterprises being the most prominent in this category. Meanwhile, 25% of MCSEs, particularly those in the agriculture sector, do not engage in innovation at all. Furthermore, almost all MCSEs do not allocate funds for research and innovation, despite unanimously acknowledging that innovative strategies contribute to gaining a competitive advantage in business.

Micro, Cottage, and Small-scale Enterprises (MCSEs) are vital to Nepal's economy, contributing significantly to employment generation, poverty alleviation, and local development. However, this study highlights several systemic challenges that constrain their growth, including financial limitations, restricted market access, shortages of skilled labor, and uneven government support.

Financial Resources and Growth

A moderate positive correlation ($r=0.487$) exists between financial access and business growth, highlighting the critical need for improved credit access and investment mechanisms. Despite this, 82% of MCSEs struggle with financial management, relying heavily on personal savings and loans rather than structured funding.

Managerial Skills and Strategy

While 38% of participants received managerial training, strategic planning remains informal and intuition-driven. Formalizing strategic processes, such as setting vision/mission goals and data-driven decision-making, could enhance long-term viability.

Market Access and Performance

Expanding market access strongly correlates with performance improvement ($r = 0.821$), emphasizing the need for robust marketing strategies and digital platforms. However, competition and logistical barriers limit growth.

Government Support

A significant positive correlation ($r = 0.925$) between government assistance and performance underscores the potential impact of policy interventions. Yet, support remains uneven and inadequate, necessitating targeted

programs for financial aid, infrastructure, and export facilitation.

Skilled Workforce

Persistent skill gaps and high turnover hinder productivity, though MCSEs recognize workforce development as crucial. Hesitation to invest in training due to retention concerns exacerbates this challenge.

Innovation

Rarely prioritized, innovation is sporadic and underfunded, yet acknowledged as a competitive driver. Retail sectors lead in periodic innovation, while agriculture lags, indicating sector-specific disparities.

Implications

Policymakers must prioritize financial inclusivity, skill development programs, and infrastructure upgrades. MCSEs should adopt formal strategic planning and leverage digital tools for market expansion. Public-private partnerships could foster innovation ecosystems and scalable solutions.

Limitations and Future Research

The small sample size and purposive sampling limit generalizability. Future studies should employ longitudinal designs, larger samples, and experimental approaches to explore causation and sector-specific dynamics.

Conclusion

Micro, Cottage, and Small-scale Enterprises (MCSEs) are integral to Nepal's economic progress, contributing to job creation, poverty reduction, and community development. However, this research identifies systemic obstacles impeding their scalability, such as financial limitations, restricted market reach, underdeveloped managerial capabilities, inconsistent policy backing, and sporadic innovation efforts.

Access to finance emerges as a crucial determinant of growth, yet most MCSEs rely on informal funding sources rather than structured financial systems. Similarly, although some managerial training is available, the absence of formal strategic frameworks weakens long-term resilience. Market expansion significantly enhances performance, but logistical challenges and competitive pressures continue to restrict progress. While government interventions demonstrate potential to improve outcomes, inconsistent implementation calls for more coordinated and sector-specific policies. Workforce challenges—including persistent skill shortages and high staff turnover—further reduce productivity. Innovation, although recognized as a competitive necessity, remains irregular and insufficiently funded, particularly within the agricultural sector.

To strengthen MCSE sustainability, policymakers should prioritize financial inclusion, workforce upskilling, and infrastructure modernization. Businesses need to adopt structured strategic roadmaps and embrace digital platforms to expand market engagement. Collaborative efforts between public and private sectors can foster innovation ecosystems that support scalability and long-term competitiveness. Future research should explore causal relationships and sectoral variations through expanded datasets and longitudinal analysis.

In conclusion, addressing these challenges through collaborative and evidence-based strategies can unlock the transformative potential of Nepal's MCSEs, fostering sustainable economic growth and resilience in an increasingly competitive global environment.

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