Impact of Human Capital and Financial Sustainability on Performance Measurement in Nepalese Microenterprises

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Abstract

Background: Microenterprises (MEs) play an important role in creating employment and livelihood diversification in Nepal; however, they are facing persistent challenges in various aspects of management. Most of the studies on microenterprises often focus on larger SMEs, overlooking the unique constraints of microenterprises, particularly their limited resources, informal structure, and weak human capital capabilities. Hence, there is an instant need to analyze how motivation, skills, innovation, and profitability influence performance measurement within Nepalese microenterprises to aid in developing more appropriate frameworks for sustainability and development programs.
Objectives: The aim of this study is to examine the impact of motivation, skills, innovation, and profitability on the performance measurement of Nepalese microenterprises (MEs) and to determine ways of improving their development process.
Methods: This study adopted a single reality and positivist epistemology. This research incorporated descriptive and causal research designs. A structured questionnaire was utilized to gather primary data from 124 employees working in microenterprises (MEs). Descriptive and inferential analyses were done. A multiple linear regression models were utilized to test the hypotheses.
Results: The analysis revealed that motivation, skills, and profitability positively impact the performance measurement and account for 91.5% of the variance. On the other hand, the absence of innovation is noted. Hence, enhancing financial practices coupled with employee motivation and entrepreneurial skills can significantly advance Mes' performance in Nepal.
Conclusion: Policymakers and development organizations could concentrate on the potential of customized training programs, incentive structures, and personalized financial management measures to enhance microenterprise resilience and promote sustainable economic growth. Sustainability dimensions (motivation, skills, and profitability) are essential for performance measurement, but they are less prioritized in the Nepalese context.

Implication: The Nepalese microenterprises could consider the dominant factors for better performance. Moreover, this study suggested that motivation, skills, and profitability play a significant role in enhancing performance in the Nepalese microenterprises sector. With the help of this study, the decision maker and the researchers could identify the sustainable dimensions and the root causes for better performance.

Keywords: Microenterprises, sustainability indicators, performance measurement, entrepreneurial motivation, profitability.

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Introduction

Sustainability, comprising economic, social, and environmental dimensions, refers to meeting present needs without compromising or depleting future resources (World Commission on Environment and Development, 1987). This study assumed that employee motivation is critical for long- term organizational survival (Herzberg, 1959), human capital skills are a strategic resource (Barney, 1991), innovation is for tailoring the firm to respond to environmental change (Schumpeter, 1934), and profitability is for consistent sustainability. Building upon these premises, this study assumed that motivation, skills, innovation, and profitability are forms of human capital for financial sustainability. In prior research, sustainability was described based on the Triple Bottom Line (TBL) framework (Elkington, 1997), and this study assumed that the motivation (people), skills (people), innovation (planet), and profitability (profit) are the sustainability dimensions.

Microenterprises (MEs) contribute tremendously to job creation, while also diversifying local livelihoods in low-income and developing countries through their flexible nature in the rural as well as urban informal development sphere (Chittithaworn et al., 2011; Muzenda, 2014)management and know-how, products and services, Customer and Market, the way of doing business and cooperation, resources and finance, Strategy, and external environment. The theoretical framework has been drawn out and questionnaire was designed based on the factors chosen. Eight hypotheses were developed to find out factors that are affecting Business Success of SMEs in Thailand. The entire hypotheses were successfully tested with SPSS and five hypotheses were accepted. The regression analysis result shown that the most significant factors affecting business success of SMEs in Thailand were SMEs characteristics, customer and market, the way of doing business, resources and finance, and external environment."Factors affecting business success of small & medium enterprises (SMEs. Since they are of a low capital nature, these enterprises can absorb labor, provide income opportunities for groups that are disadvantaged, and balance regional disparities in economic activity (Swierczek & Thanh Ha, 2003). For this reason, decision-makers usually link microenterprise promotion to poverty-alleviation and employment policies; however, the small nature and informalities of many microenterprises give rise to concerns that can hinder growth and the usual pecuniary performance measurement (Abdulmelike et al., 2018; Fjose et al., 2010).

The international experience shows how access to finance, managerial capacity, and local support structure could affect MEs outcomes: targeted regional programs in some African and Asian setups have generated employment gains, where supportive institutions existed alongside skills development initiatives, while areas lacking adequate networks coupled with deep-rooted skill gaps have already constrained impact (Fjose et al., 2010; Haile et al., 2025; Sharma & Shenoy, 2025). In Nepal, domestic initiatives such as the microenterprises development program and later government fund indicate attention towards the sector for a long time, but the combined output seems to overshadow persistent matters relating to marketing, recording-keeping, and systems for observing enterprise performance (Pun et al., 2010; Australian Embassy, 2013; Ministry of Industry, Commerce and Supplies, 2008).

Despite these efforts, youth-led microenterprises suffer from another kind of vulnerability. Young entrepreneurs often lack enough managerial experience, adequate networks, and consistent access to formal finance, making it challenging to apply training or innovative thoughts to real corporate performance (Thapa, 2015). At the same time, these sustainability and performance studies have been too worried with comparatively bigger SMEs or manufacturing settings and hence concentrating on economic indicators while treating the social and environmental dimensions as secondary or mere compliance issues. This might not be the correct method considering the scarcity of resources microenterprises face and their simple, non-formalized governance (Choi & Lee, 2017; Trianni et al., 2019). This, in turn, brings about the practical evidence gap: Unless better knowledge is built around the relative influence of human, innovation, and financial aspects, youth-run MEs will remain an ill-fitted target for support packaging and measurement systems earmarked for larger firms.

Hence, three interconnected objectives are followed in this research. The first is to statistically determine the

relationships of motivation, skills, innovation, and profitability with performance measurement in youth-led microenterprises. Second, the study focuses on the relative contribution of motivation and skills as human capital factors, along with innovation capacity and profitability, in shaping performance measurement within the operational environment of microenterprise conditions. The study also aims to develop practitioner-based recommendations for performance measurement and support mechanisms that youth-run microenterprises in Nepal can reasonably implement. By explicitly focusing on youth-led enterprises together with a stable set of sustainability dimensions, the research aims to generate contextualized evidence that will inform the design of programs as well as performance measurement frameworks. Thus, this study investigates how motivation, skills, innovation, and profitability influence the performance measurement of youth-led microenterprises in Nepal.

Review of Literature

The major theoretical foundation for this study is the Resource-Based View (RBV) (Barney, 1991). RBV posits that a firm's performance and sustainability are determined by its internal resources, specifically those that are valuable, rare, inimitable, and non-substitutable. In the context of Nepalese microenterprises, Human Capital (motivation and skills) and financial sustainability (profitability) are critical resources.

Schumpeter (1934) recognized the entrepreneur as the facilitator for innovation. RBV describes how the sustained integration of human and financial capital enables an enterprise to move beyond mere survival toward formal performance excellence. This framework bridges the gap between individual psychological drivers (Herzberg, 1959) and organizational results (Freeman, 1984), suggesting that performance measurement is not just a tool, but a capability developed through resource abundance.

Human capital in microenterprises is a synergy of psychological drive and technical capability. According to Herzberg's (1959) motivation-hygiene theory, intrinsic factors are crucial for long-term engagement. In the Nepalese context, Thapa (2015) found that achievement and owner motivation towards human capital predict the profit of a firm. This is supported by neuro-leadership viewpoints, which recommend that motivated employees support more closely with organizational goals, thereby refining the diligence with which performance is measured and acted upon.

Nevertheless, motivation must be attached to technical expertise. Chakravarty et al. (2019) revealed that vocational training significantly expands productivity among Nepalese youth. Their findings imply that higher skills and trainings leads to more perfect and better performance measurement in an organization. Thus, human capital acts as the "engine" that drives the reinforcement of measurement systems.

Financial sustainability is the "slack" resource that allows a microenterprise to invest in measurement infrastructure. UNESCAP (2020) acknowledged access to finance and formal accounting systems as the two key elements of profitability for MSMEs in Nepal. Profitability is not just an outcome; it is a foundation for reinvestment. Without it, enterprises cannot tolerate the "proper accounting systems" necessary for high-quality performance measurement.

Likewise, educated youths and capitalists pave the way for grabbing opportunities and challenges in small-scale and cottage industries in Assam. A regular approach is needed; apart from the Government, the capitalist class and the educated youth must come forward with a new vision and energy to break the vicious circle of non-industrialization in the State (Sarkar, 2017). This energy is finest directed through financial literacy. Kumari et al. (2024) found that combining financial literacy with innovation boosts business performance in Indian microenterprises. But, they caution that in resource-scarce environments like Nepal, innovation may only be unsuccessful unless it is backed by the financial literacy needed to assess risk and attain tangible success.

The literature shows a "Resource-Performance Loop," wherein motivation and skills (Human Capital) enrich productivity and innovation, which, when coupled with financial literacy, result in profitability (financial

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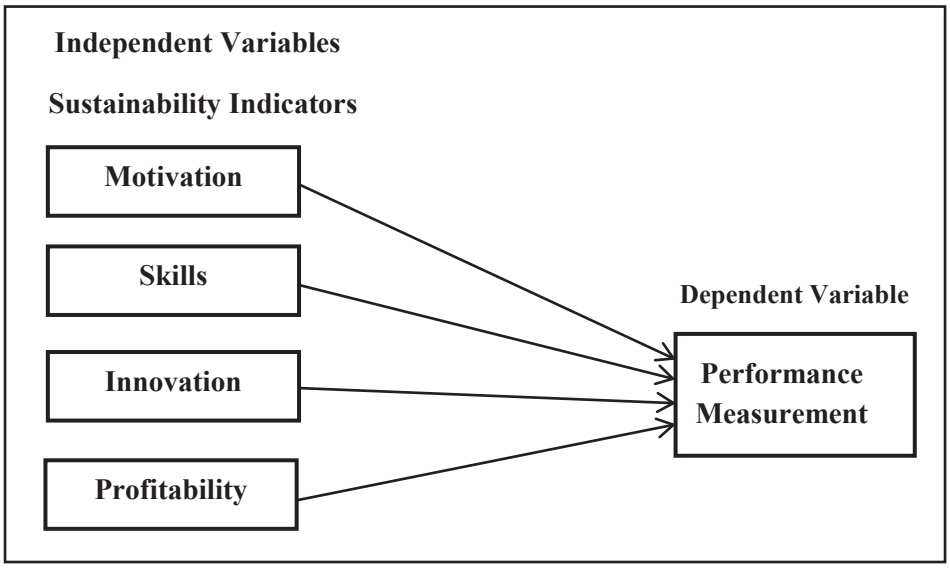
sustainability). This financial stability, hence, supplies the resources necessary for the carrying out of formal Performance Measurement systems.

Prior research has regularly observed these variables independently. This study discloses a gap by incorporating these factors into the RBV framework to determine how the sustainability of human and financial capital directly influences the systems by which Nepalese young micro entrepreneurs monitor and measure their success.

Figure 1

Conceptual Framework



Methods

The study joined descriptive and causal-comparative research designs to answer questions on how internal dimensions of sustainability affect tangible performance in youth-led microenterprises. The descriptive design was employed in mapping extant conditions, describing respondent characteristics, and specifying measures of central tendency and distributions for the constructs under study. The causal-comparative strand was applied to test hypothesized directional relationships and estimate the magnitudes of effects between predictor variables (motivation, skills, innovation, and profitability) and the outcome (performance measurement). The two approaches lend the study the ability to help portray an empirically clear picture of the sector and examine plausible cause-and-effect relationships while remaining candid about the observational nature of survey data (Lewis & Thornhill, 2012).

Population, Sampling, and Sample Size

The empirical data stem from a primary survey of employees in Nepalese microenterprises. A total of 124 valid responses were received between November and December 2024. A non-probability sample, i.e., convenience sampling supported by judgmental selection, was used, given the practical realities of having to locate and recruit youth-run microenterprises in multiple informal settings over the time available. The convenience and purposive sampling strategies are well-accepted methods for examining research on small and hard-to-frame populations for which probability sampling is not feasible (Lewis & Thornhill, 2012; Black, 2010).

The sample size decision was based on regression conventions and practical constraints. Usually, larger samples are better for conducting regression (Hair et al., 2010; Kline, 2015). The sample of 124 offered enough power as suggested by Green (1991), i.e., $N \geq 104+$ for conventional multiple regression of four predictors (Cohen, 1992; Hair et al., 2010) and for the stable estimation of coefficients along with diagnostic checks. Given the observed number of parameters and the explanatory nature of the study, regression was

deemed more appropriate.

Instrumentation

The instrument consists of two parts: (1) demographic/background questions (gender, age, education, tenure, position) and (2) Likert-type items (five items per construct) to measure motivation, skills, innovation, and profitability and performance measurement. Items were constructed from the literature regarding microenterprise performance and sustainability indicators and thereafter adapted to local language and contexts through iterative drafting.

To establish content validity, the draft questionnaire was observed by the academic supervisors and two consultants with microenterprise experience, whose comments triggered slight changes in wording aimed at better clarity and contextual fit. These were simple changes; the items never drifted away from theoretical links with pertinent, well-known measures where practicable, but they simplified comprehension for working in the field. A small pilot pre-test was conducted using a convenience set of respondents drawn from outside the final sample frame to test comprehension, item ordering, and response timing. The input from the pilot led to several slight rewordings but no changes to the constructs themselves.

Data Collection and Analysis

Questionnaires remained distributed both on paper and via Google Forms to gather responses from geographically isolated youth-run microenterprises. The researchers circulated questionnaires in person and involved local contacts within the firms to widen response coverage and reduce nonresponse bias. The completed questionnaires were exported to Microsoft Excel for cleaning and coding and later imported into IBM SPSS (version 20) for analysis. All items were numerically coded using a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) and then checked for entry errors before any statistical procedures were performed.

The study combined descriptive statistics, Pearson correlation analysis, and multiple linear regressions to assess the hypothesized linkages among the study variables. Based on the SPSS output, the Multiple Linear Regression equation for this study is:

$PM = \beta_0 + \beta_1{}^{*}M + \beta_2{}^{*}S + \beta_3{}^{*}I + \beta_4{}^{*}P$

Where PM denotes Performance Measurement and M, S, I, and P stand for Motivation, Skills, Innovation, and Profitability, respectively. All inferential procedures were executed in SPSS, version 20. The transformation of independent and dependent variables into standardized variables took place before the regressions. Initially, this study diagnosed univariate normality by checking skewness/kurtosis values and Q – Q plots (with robust standard errors for non-extreme departures); linearity and homoscedasticity by residuals-vs-fitted plots; independence of errors by Durbin–Watson statistic; and multicollinearity by variance inflation factor (VIF) and tolerance statistics, with usual cutoffs (i.e., < 10 for VIF and > 0.1 for tolerance). These diagnostics support the use of ordinary least squares estimation with the cross-sectional survey data at hand.

Variables and Hypothesis

Dependent Variable

Performance Measurement

A modern business performance management system allows tracking in real time happiness in the company, bringing agility to the decisions and the possibility of quick adjustments to achieve goals more efficiently and effectively, by reducing costs and increasing profitability (Axson, 2010). Another significant aspect of business performance management is to enable continuous improvement of processes through the management of activities to make it easier.

Motivation and Performance Measurement

Motivation in the workplace is described as the willingness to exert high levels of effort toward organizational goals conditioned by the effort's ability to satisfy some individual needs (Salleh et al., 2016). It has been reviewed for more than a century by psychologists, sociologists, economists, organizational development

experts, and others for a simple reason. Capitalizing on understanding why people do what they do and fostering a motivated workforce means better organizational performance. The authors assumed that motivation leads to performance measurement. On these premises, the researchers hypothesize the following

H_1: There is a positive relationship between motivation and performance measurement.

Skills and Performance Measurement

Acting as a business manager is a challenging job. It is a role with incredible responsibility, from reaching goals in terms of sales to managing office efficiency. While some specific duties can vary from company to company, all business managers are tasked with keeping their departments making progress and working at peak efficiency (Ghoshal & Bartlett, 1995). The Above premises support the effect of skills on performance measurement. Hence, the researchers hypothesize:

H_2: There is a positive relationship between skills and performance measurement.

Innovation and Performance Measurement

Innovation is a team sport. It needs excellent collaboration among siloed business and functional units and across geographies, as well as with external partners. Finding the best resources inside and outside your organization and combining them is a hallmark of successful innovation (Rekers, 2013). Internally, to find the best solutions, one needs to leverage the full range of expertise across your organization. This requires you to pull capabilities from across the company; this doesn't happen when people are working separately instead of collaboratively, which eventually enhances the performance measurement. On this ground, the researchers hypothesize:

H_3: There is a positive relationship between innovation and performance measurement.

Profitability and Performance Measurement

Profitability is one of four building blocks for evaluating financial statements and company performance as a whole. The additional three are efficiency, solvency, and market prospects (Olayinka, 2022). Investors, creditors, and managers use these key concepts to analyze how well a company is doing and the future potential it could have if operations were managed properly, which leads to improved performance measurement. Based on this, the researchers posit the following hypothesis:

H_4: There is a positive relationship between profitability and performance measurement.

Results

Socio-Demographic Characteristics of Respondents

The demographic characteristics of the sample respondents, a 124-person survey of Nepalese microenterprise employees designed to investigate how motivation, skills, innovation, and profitability sustain performance, reveal two critical demographic patterns. Approximately 72% of individuals surveyed were men, while females comprised only about 28%; hence, most of the insights and experiences we analyzed were those of men. Secondly, half of the camp participants were between 26 and 30 (50%), while 22% were younger than 25 and 4.8% were older than 35.

Approximately 94% of them hold at least a bachelor's degree (47% hold a Bachelor's degree and 47% hold a Master's degree), while very few have only an intermediate (2%) or secondary (0.8%) education. There is also a small "Other" category (3%). They were generally well-educated, which implies that respondents would be conversant with advanced business practices, including new skills and innovations. On the other hand, worker tenure has trended toward relative newcomers: nearly 74% reported working at the present enterprise from 1 to 4 years (35% for 1-2-year duration and 39% for 3-4-year stint) and 26% above 4 years. This combination of highly educated individuals and mostly early-career workers likely means that our results for motivation and skills reflect a knowledgeable working population that is still gaining experience on the job. Most respondents held middle management positions: 41% were officers, 33% were supervisors, 20% were managers, and the remaining 5.6% held senior "above-manager" positions. That concentration at the officer and supervisor

levels means our insight somewhat captures the understanding and experiences of those working at the sharp end of implementing day-to-day operations and performance systems, as opposed to high-level strategists.

Reliability Test

The importance of research depends on the reliability of the instrument; therefore, researchers can verify the instrument's reliability and data before conducting the research work (Adhikari & Pandey, 2018).

Without the agreement of independent observers able to replicate research procedures or the ability to use research tools and methods that yield consistent measurements, the researcher would be unable to satisfactorily conclude, formulate theories, or make claims about the generalizability of the research. Therefore, the survey was assessed using Cronbach's Alpha Coefficient. If Cronbach's Alpha is higher than 0.8 up to nearly 1, the scale is usually good; between 0.7 and 0.8 is acceptable. A researcher also suggests that a Cronbach's Alpha of 0.6 or higher is sufficient when the researched concept is new or new to the respondents in the research context. Table 1 provides information about Cronbach's Alpha Coefficient statistics for four independent and dependent variables.

Table 1

Reliability Analysis of Study Constructs

Subscales	Cronbach's Alpha (α)	Number of items
Motivation	0.729	5
Skills	0.641	5
Innovation	0.741	5
Profitability	0.713	5
Performance Measurement	0.786	5

The highest Cronbach's Alpha was for performance measurement (0.786), and the lowest was for skills (0.641). The study's reliability is confirmed because all the variables' Cronbach's Alpha was at the fit level of 0.60 and above.

Descriptive Analysis of Computed Variables

Table 2

Descriptive Analysis of Computed Variables

Variables	Mean	Standard Deviation
Motivation	3.694	0.9916
Skills	3.72	1.0216
Innovation	3.626	0.0902
Profitability	3.672	0.9572
Performance Measurement	3.698	0.9362

The descriptive investigation for the study involved five intended variables, with motivation, skills, innovation, and profitability helping as independent variables and Performance Measurement as the dependent variable. Data exposed that skills achieved the highest mean score of 3.72, followed by Motivation at 3.694, demonstrating that respondents regarded human aptitude and drive as the most substantial aspects within the surveyed microenterprises.

Profitability and Innovation had mean scores of 3.672 and 3.626, respectively. Significantly, Innovation demonstrated the lowest standard deviation of 0.0902, indicating a substantial level of consistency and consensus among respondents concerning the inventive capabilities of their organizations. The dependent variable, Performance Measurement, showed a mean of 3.698, signifying healthy overall alignment with the independent factors of human capital and financial sustainability. The comparatively low standard deviations across all metrics specified that the responses were consistent and that the mean values exactly represented the data set.

Correlation dealings the scale and direction of a linear relationship between two variables, with values ranging from -1 (a perfect negative correlation) to +1 (a perfect positive correlation) and values near zero representing a lack of any linear relationship. From our Pearson correlation matrix, where all p-values were less than 0.01, it is obvious that motivation has a slight positive correlation with performance measurement (r = 0.307), indicating that more motivated employees tend to perceive the performance measurement systems marginally more favorably. Skills (r = 0.489) and innovation (r = 0.500) show moderately strong positive relations, representing that satisfactory commercial and ICT abilities, along with an encouraging environment for innovation, are closely connected to more explicit goal-setting and assessment procedures. Profitability is, however, exceptionally highly correlated (r = 0.954) with performance measurement, which means that a strongly profitable firm almost always has a more effective performance measurement system. The relationships among the forecasters, such as skills with profitability (r = 0.490) and innovation with profitability (r = 0.538), further strengthen how financial health, capabilities, and a culture of innovation drive rigorous performance measurement.

Table 3

Correlation Analysis

Characteristics	Motivation	Skills	Innovation	Profitability
Motivation	1			
Skills	0.446**	1		
Innovation	0.289**	0.349**	1	
Profitability	0.372**	0.490**	0.538**	1
Performance Measurement	0.307**	0.489**	0.500**	0.954**

Note. ** Correlation is significant at the .01 level (2-tailed)

Regression Coefficients of Study Variables

Table 4

Multiple Linear Regressions

Multiple Linear Regressions									
Variables	B	Standard Error	t-value	p- value	F	Sig.	R-Square	Collinearity Statistics	
								Tolerance	VIF
(Constant)	0.086	0.133	0.645	0.520	322.017	<0.001	0.915		
Motivation	-0.071	0.030	-2.348	0.021				0.765	1.307
Skills	0.058	0.034	1.692	0.001				0.674	1.483
Innovation	-0.014	0.029	-0.478	0.633				0.697	1.435
Profitability	1.011	0.036	27.829	<0.001				0.595	1.682

Dependent Variable: Performance measurement

Table 4 illustrates a strong association between the predictor variables (motivation, skills, innovation, and profitability) and the performance measurement, indicated by a correlation coefficient of R = 0.975 (not included in the table). The R^2 value of 0.915 indicates that 91.5% of the variance in performance measurement scores among 124 microenterprise employees can be explained by these four variables, whereas 8.5% is due to other unmeasured factors. The adjusted R^2 value of 0.913 (not included in the table) marginally modifies this result for the number of predictors, confirming that almost all of the enhancement in fit is not due to random variation. The standard error estimate of 0.203 indicates that, on average, the model's predicted performance measurement values deviate from the observed scores by approximately 0.20 on a 5-point scale. ANOVA for regression checks if our overall model explains significant variability in the outcome compared

to a model with no predictor variable. The regressions row yields an F-statistic of 322.017 ($df_1 = 4$, $df_2 = 119$; $p < 0.001$), indicating that the chance for all four regression coefficient terms, motivation, skills, innovation, and profitability, to be simultaneously zero is practically zero. On the other hand, the complete set of predictor variables significantly improves the explanation of performance measurement beyond the null model. The regression sums of squares (53.204, not shown in the table) versus the residual sum of squares (4.915, not shown in the table) further demonstrates that our four indicators account for most of the total variation in performance measurement (58.120, not shown in the table).

We have three significant drivers in our regression model that aim to predict performance measurement based on motivation, skills, innovation, and profitability. Profitability has the most considerable effect: an increase of one unit in profitability scores brings along an increment of 1.011 points on the performance measurement ($p < 0.001$), and the standardized error of 0.036 shows it to be, by far, the strongest predictor. Motivation is a second contributor ($\beta = 0.071$, $p = 0.001$), indicating that greater motivational support is positively associated with performance outcomes. Meanwhile, skills make a minor but crucial positive contribution ($\beta = 0.058$, $p = 0.001$). Contrarily, innovation does not have a statistically significant effect ($\beta = –0.014$, $p = 0.633$), indicating that variation in innovation perception within our sample does not translate into measurable differences in performance measurement.

In addition, the Variance Inflation Factors (VIF) for each independent variable were assessed to evaluate possible multicollinearity. Despite a strong bivariate correlation between independent and dependent variables, all VIF values from 1.307 to 1.682 were significantly lower than the conservative limit of 5.0, suggesting that multicollinearity does not distort the regression results.

Summary of Hypothesis Testing

Table 5

Summary of Hypothesis Testing

Hypothesis	Expected Sign	Actual Sign	p-value	Measurements	Results
H_1	+	+	0.001	p-value < 0.05	Supported
H_2	+	+	0.001	p-value < 0.05	Supported
H_3	+	-	0.633	p-value > 0.05	Not Supported
H_4	+	+	<0.001	p-value < 0.05	Supported

Discussion

Many studies from India and Nepal largely support the view that human factors, such as the motivation and skills of microentrepreneurs, are vital factors driving business success. However, they differ in the extent to which innovation plays its part. For instance, studying 501 randomly sampled micro firms in Nepal, Thapa (2015) reveals that the managerial skills of the owner and the need for achievement (motivation) were among the most significant predictors of performance. Profits for microenterprises grew at an average rate of 51.9% (2011-2013), which is the highest among all performance indicators, reinforcing that profitability is the standard measure of success. These results align closely with the researchers' line of thought: This study found that motivation and skills have a significantly positive effect on performance. Thapa (2015) focuses on entrepreneurship training and planning (managerial foresight) as causes that align with our thinking, which suggests that outcome improvement goes hand in hand with building owner capability. This research supports the consideration that motivation is the strongest positive factor affecting performance measurement, aligning with Shrestha (2023), who states that employee motivation significantly impacts SMEs' productivity in Nepal. In contrast, the UNESCAP (2020) report pressures access to finance as the crucial determinant of performance for microenterprises. The impact of skills found significant in this study corresponds to the findings by Chakravarty et al. (2019), stating that enhancement in youth non-farm employment outcomes

through vocational training programs occurred in Nepal by way of upgrading technical skills; however, it contradicts Rai (2021), who held Nepali MSE innovativeness to be more important than skills per se for competitive positioning. An analysis conducted in the field among microcredit clients in Nepal suggests that skill-building training can significantly enhance enterprise performance (Thapa et al., 2024)micro saving services, and skill development training. Microfinance programs that include skills acquisition training have increased profits, sales growth, and employment in rural Nepalese areas (Thapa et al., 2024)micro saving services, and skill development training. Therefore, imparting some business skills to micro entrepreneurs has, in a tangible way, increased revenues and profits. This evidence aligns with our skills finding: both data sets show that when micro-owners acquire new competencies (such as financial planning and marketing), their enterprises achieve measurable gains. Moreover, it can be concluded that profit (and factors that augment it) is currently the center of "sustainability" or long-term viability in the microenterprise sector.

Our finding that innovation does not contribute positively to performance measurement is inconsistent with Thapa (2015), who highlighted creative tendency and innovation capability as key factors for microenterprise success in Nepal. Moreover, this study aligns with Feela (2020) in Ghana and South Africa, who noted that regulatory and financial constraints often negate the benefits of innovation investments in SMEs. Studies supporting micro firm performance have demonstrated that innovation favors micro firms, while this paper states that innovation has no significant effect. Kumari et al. (2024) established in an Indian MSME environment that microentrepreneurs with a high innovativeness level had better business outcomes. Financial literacy within their Delhi-NCR sample positively impacted business performance and innovative practices, suggesting that increased innovation leads to higher profits (Kumari et al., 2024). This contradicts our findings. One explanation could be context: The Delhi micro entrepreneurs might have had better access to markets and resources; thus, new product or process innovation could be a direct means of growth. The moderate role of profitability observed here corroborates the UNESCAP (2020) findings that microfinance services foster profitability improvements in Nepalese MSMEs by promoting financial stability and efficient practices, while it contrasts with Thapa (2015), who identified initial financial constraints as a persistent barrier with limited follow-on effects on long-term profitability.

On the other hand, most Nepalese micro firms operate at a subsistence level with highly constrained resources. Therefore, even if the owners have creative ideas, they may lack avenues and resources for implementation, thereby reducing the innovation's effect on performance. Hence, while motivation-bearing skill sets seem to drive growth anywhere, innovation's reward is far more dependent on the nature of the economic setting and the firm's capacity.

Conclusion

This research proves that motivation, skills, and profitability are three key factors affecting the sustainability and performance measurement of microenterprises in Nepal, with special focus on the youth. These factors have a positive and measurable effect on the results of the enterprise, which implies that developing entrepreneurial skills and financial efficiency must be priorities for any sustainable progression. Even though innovation as a factor has no statistical significance in Nepal, the potential of innovation as a factor cannot be completely ruled out, particularly because of the diverse results innovation provides in resource-poor settings. The findings signal the microenterprises' need for structured and targeted supportive and capacity-building activities in that particular area. For the inclusive economic growth to happen in Nepal, a combination of activities centered on the micro entrepreneur's entrepreneurial skills, motivation, and financial practices will be essential.

Implication

The Nepalese microenterprises could consider the dominant factors for better performance. Moreover, this study suggested that motivation, skills, and profitability play a significant role in enhancing performance

in the Nepalese microenterprises sector. With the help of this study, the decision maker and the researchers could identify the sustainable dimensions and the root causes for better performance. This study suggested that profitability plays a major role in better performance. In addition, the Nepalese microenterprises could focus on stable revenue growth, consistent return on investment (ROI), sustainable earnings over a period of time, and focus on long-term value creation for long-term profitability. In this connection, waste reduction and sustainable supply chain management could be beneficial for optimum utilization of resources.

Future Research

This study was cross-sectional in nature, but one possible approach to validate these results could be a longitudinal study. Also, given the focus on Nepalese data and microenterprises, it is too early to generalize the results from this study. Therefore, future research could focus on different sectors to validate the findings of this study. Furthermore, this research could be strengthened by the use of a larger sample, a qualitative method, and the use of random sampling.

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Authors Contributions

The data analysis, interpretation and first draft of the manuscript were carried out by the first author while the second and third authors dealt with the conceptualization of the study, design of the research and the final signoff.

Ethical Considerations

The authors will appreciate any reasoning for us as to the ethical considerations we could adopt when writing our paper.

Consent Statements

a) Consent to Participate

Written informed consent was achieved from all participants earlier to their participation in the study.

b) Consent for Publication

For every relevant anonymous data set, the necessary written informed consent was obtained.

Declaration of Conflicting Interests

The authors confirmed no possible struggles of interest concerning this paper's research, authorship and publication.

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