Factors Influencing Small Business Start-Ups in Kathmandu Valley

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Abstract

This study examines the factors influencing small business start-ups in Kathmandu Valley. Performance of small business is the dependent variable. The selected independent variables are financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition. The primary source of data is used to assess the opinion of respondents regarding financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition. The study is based on 125 respondents from Kathmandu Valley. To achieve the purpose of the study, structured questionnaire is prepared. The correlation and multiple regression models are estimated to test the significance and importance of factors influencing small business start-ups in Kathmandu Valley.

The result shows that the financial resources are positively correlated to business performance. It indicates that better financial resources lead to increase in business performance of small business start-ups. Likewise, socio-cultural factor is positively correlated to business performance. It indicates that socio-cultural factor leads to increase in business performance of small business start-ups. Similarly, entrepreneurial skills are positively correlated to business performance. It indicates that entrepreneurial skills lead to increase in business performance of small business start-ups. Further, country's business laws are also positively correlated to the business performance. It indicates that supportive country's business laws lead to increase in business performance of small business start-ups. Likewise, competition is positively correlated to business performance. It implies that healthy competition leads to increase in business performance of small business start-ups.

Keywords: financial resources, socio-cultural factor, entrepreneurial skills, country business law, competition

1. Introduction

Small businesses are privately owned corporations, partnerships, or sole proprietorships that have fewer employees and/or less annual revenue than a regular-sized business or corporation. According to Abor and Quartey (2010), small business means a separate and distinct business entity, including cooperative enterprises and non-governmental organizations that is managed by one owner or more which include its branches or subsidiaries. Similarly, Bayati and Taghavi (2007) assessed that a strong small and medium enterprises (SMEs) sector contribute highly to the country's economy. It contributed to

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the gross domestic product (GDP) by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activity. The role of small business in the development of the country is significant. Likewise, Fang *et al.* (2009) found that small businesses have the ability to make a meaningful reduction in the high level of unemployment and contribute to the GDP of the local economy. Further, Gnyawali and Fogel (1994) stated that there are three key distinguishing features between large and small firms. Firstly, there is a greater external uncertainty of the environment. The small firm operates and the greater internal consistency of its motivations and actions. Secondly, small firms produce something marginally different, in terms of product or service which differs from the standardized product or service provided by large firms. A third area of distinction between small and large firms is the greater likelihood of evolution and change in the smaller firm which becomes large and undergoes a number of stage changes. Many entrepreneurial perceptions of their own capabilities appear false or unimportant, with the exception of organizational features and systems (Reid, 1993).

Thompson and Strutton (2019) investigated the role of social media and online presence in small business startups. The study found that social media and online presence are important for small business startups to establish a brand identity, engage with customers, and promote their products or services. Similarly, Fitzsimmons and Douglas (2011) investigated the impact of family background on small business startups. The study found that entrepreneurs from families with a history of business ownership are more likely to start and succeed in their own businesses. Likewise, Hyytinen and Lahtonen (2010) explored the role of location and regional characteristics on small business startups. The study stated that location play an important role for start-up business. Further, Levy (1993) explained that the study of entrepreneurship has relevance today, not only because it helps small business or entrepreneurs. Similarly, Agbonifor (1998) stated that small business is a crucial factor in economic development. The study indicated that it is a means by which productive activities are indigenously owned and controlled which is a means by which productive resources and talents that might not otherwise be put into productive uses. Similarly, Storey (1994) explored the impact of government policies and regulations on small business startups. The study found that government policies, such as taxation, regulation, and access to finance, significantly influence small business startups.

Wennekers and Thurik (1999) examined the impact of cultural and social factors on small business startups. The study found that cultural and social factors, such as attitudes toward entrepreneurship, social norms, and values, significantly influence small business startups. Moreover, Gnyawali and Fogel (1994) investigated the importance of external resources, such as financial capital, social capital, and industry knowledge, in small business startups. The study found that access to external resources significantly influence the success of small business startups. In addition, Cooper and Dunkelberg (1986) explored the role of personality traits in small business startups. The study found that entrepreneurs with high levels of self-efficacy and risk- taking propensity are more likely to succeed in their small business startups. Similarly, Davidsson and Wiklund (1997) investigated the importance of innovation in small business startups. The study found that innovation is a key factor in the success of small business startups, as it helps to differentiate the business from competitors and meet customer needs. Likewise, Wong *et al.* (2005) stated that access to finance, entrepreneurial skills and experience, and the regulatory environment are identified as key factors that affect the success of small business start-ups. In addition, Lee *et al.* (2020) argued that market research, product innovation, and digital marketing capabilities are found to be important factors that contribute to the success of small businesses.

Ratten (2017) investigated the impact of technology and digitalization on small business startups. The study found that technology and digitalization enabled new business models and opportunities for small business startups, but also pose challenges in terms of skills and infrastructure. Similarly, Stam and Wennberg (2009) explored the role of entrepreneurial ecosystems on small business startups. The study found that supportive entrepreneurial ecosystems, characterized by strong networks, institutions, and resources, positively influence small business startups. Likewise, Shane (2000) explored the role of opportunity recognition in small business startups. The study found that entrepreneurs who are able to identify and exploit new opportunities are more likely to succeed in their small business startups. Moreover, Shane (2009) investigated the role of entrepreneurial experience and expertise on small business startups. The study found that prior entrepreneurial experience and industry-specific expertise positively influence small business startups, highlighting the importance of human capital and industry knowledge in entrepreneurship. Similarly, Sorensen and Stuart (2000) explored the role of industry experience and network connections on small business startups. The study found that entrepreneurs with industry experience and strong network connections are more likely to succeed in their small business startups. Likewise, Shane (2000) investigated the role of prior experience in small business startups. The study found that entrepreneurs with prior industry experience are more likely to succeed in their small business startups.

Baum and Locke (2004) investigated the impact of social capital on small business startups. The study found that social networks and relationships play a significant role in facilitating access to resources, information, and opportunities for small business startups. Moreover, Brush *et al*. (2018) examined the impact of regulatory environments on small business startups across different countries. The study found that regulatory burden and corruption negatively impact small business startups, while access to financing, human capital, and technology infrastructure positively affect small business startups. Further, Davidsson and Wiklund (1997) investigated the importance of innovation in small business startups. The study found that innovation is a key factor in the success of small business startups, as it helps to differentiate the business from competitors and meet customer needs. Similarly, Wong *et al.* (2005) stated that access to finance, entrepreneurial skills and experience, and the regulatory environment are identified as key factors that affect the success of small business start-ups. Likewise, Lee *et al.* (2020) argued that market research, product innovation, and digital marketing capabilities are found to be important factors that contribute to the success of small businesses.

In context of Nepal, Bhatta and Maharjan (2017) examined the factors influencing small business startups in Nepal. The study found that access to finance, entrepreneurial skills and education, government policies, and cultural and social factors significantly influence small business startups in Nepal. Similarly, Khanal and Dahal (2016) explored the challenges faced by small and medium-sized enterprises (SMEs) in Nepal. The study found that access to finance, inadequate infrastructure, corruption, and complex regulations are major barriers to SME development in Nepal. Further, Koirala and Koirala (2018) examined the role of government policies and programs in supporting entrepreneurship in Nepal. The study found that government policies, such as tax incentives and access to finance, are important for promoting entrepreneurship and small business startups in Nepal. In addition, Adhikari and Acharya (2019) examined the challenges faced by women entrepreneurs in Nepal. The study found that lack of access to finance, limited business networks, and social norms and values are major challenges for women entrepreneurs in Nepal.

Karki and Koirala (2018) explored the role of entrepreneurship education in promoting small business startups in Nepal. The study found that entrepreneurship education is important for developing entrepreneurial skills and attitudes among aspiring entrepreneurs in Nepal. Likewise, Thapa and Adhikari (2016) investigated the factors influencing youth entrepreneurship in Nepal. The study found that lack of access to finance, inadequate business skills and knowledge, and social norms and values are major barriers to youth entrepreneurship in Nepal. Further, Shrestha and Shakya (2018) examined the role of technology in promoting small business startups in Nepal. The study found that technology, such as e-commerce platforms and social media, is an important tool for promoting small business startups in Nepal. Similarly, Lamichhane and Bista (2020) stated that accessed to finance, government policies and regulations, entrepreneurial skills and training, market demand and competition, and social and cultural factors are identified as the major factors influencing small business start-ups. Similarly, Bhattarai (2017) argued that government policies and regulations that promote entrepreneurship, such as tax incentives and simplified business registration procedures, can help to create a more favorable environment for small business start-ups. Moreover, Dahal and Parajuli (2020) stated that entrepreneurial skills and training are also important for the success of small business start-ups. The lack of skills and knowledge among entrepreneurs can lead to poor decision-making and management, which can negatively impact the success of the business.

The above discussion shows that empirical evidences vary greatly across the studies on the factors influencing small business start-ups. Though there are above mentioned empirical evidences in the context of other countries and in Nepal, no such findings using more recent data exists in Nepal. Therefore, in order to support one view or the other, this study has been conducted.

The major objective of the study is to examine the factors influencing the business performance of small business start-ups within Kathmandu Valley. Specifically, it examines the relationship of financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition with business performance in Kathmandu Valley.

The remainder of this study is organized as follows: section two describes the sample, data, and methodology. Section three presents the empirical results and final section draws the conclusion.

2. Methodological aspects

The study is based on the primary data which were collected from 125 respondents through questionnaire. The study employed convenience sampling method. The respondents' views were collected on financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition. This study is based on descriptive as well as causal comparative research designs.

The model

The model used in this study assumes that business performance depends upon small business start-ups. The dependent variable selected for the study is business performance. Similarly, the selected independent variables are financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition. Therefore, the model takes the following form:

Business performance = f (FR, SCF, ES, CBL, and C)

More specifically,

$$BP = \beta_0 + \beta_1 FR + \beta_2 SCF + \beta_3 ES + \beta_4 CBL + \beta_5 C + e$$

Where,

BP = Business performance

FR = Financial resources

SCF = Socio-culture factor

ES = Entrepreneurial skills

CBL = Country business law

C = Competition

Performance of business was measure using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “The performance of the business depends on the financial resources”, “Socio-cultural factor affects the business performance” and so on. The reliability of the items was measured by computing the Cronbach’s alpha (a = 0.858).

Financial resources were measure using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include “Lack of financial resources impact on small business startup”, “It is important to access funding for small business startups” and so on. The reliability of the items was measured by computing the Cronbach’s alpha (a = 0.839).

Socio- cultural factor was measure using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include "Cultural barriers or biases affect to start small business", "The cultural expectations and norms in the community or region support entrepreneurship and small business startups" and so on. The reliability of the items was measured by computing the Cronbach's alpha (a = 0.838).

Entrepreneurial skills were measure using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include "Entrepreneurial skills are important for the success of a small business", "Entrepreneurial skills help to expand the business areas" and so on. The reliability of the items was measured by computing the Cronbach's alpha (a = 0.856).

Country business law was measure using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include "Country's business laws are clear and easy to understand for small business owners", "Penalties for non-compliance with the country's business laws reasonable and fair for small businesses" and so on. The reliability of the items was measured by computing the Cronbach's alpha (a = 0.805).

Competition was measure using a 5-point Likert scale where the respondents were asked to indicate the responses using 5 for strongly agree and 1 for strongly disagree. There are 5 items and sample items include "A unique value proposition is needed for the success of a small business in a competitive market", "Analyze the challenges or obstacles from larger businesses while starting your small startups" and so on. The reliability of the items was measured by computing the Cronbach's alpha (a = 0.870).

Financial resources

Financial resources are the resources from which the enterprises obtain the funds they need to finance their investments, capital and current activities. Ngugi and Bwisa (2013) suggested that in most cases small business enterprises are not in a position to account for the purchases and expenses on a daily basis due to low goodwill. This limits them from accessing loans in the banks and most of the entrepreneurs are in rural areas that are far from reaching the banks. Similarly, Kinyua (2014) found that there is a significant relationship between financial resources and start-ups of small-scale business. Further, Kim and Rhim (2017) found that financial resources positively influence the growth and survival of small startups. Likewise, Patel and Patel (2015) concluded that lack of financial resources is one of the primary reasons for business failure in small startups. Similarly, Kshetri (2015) found that external financing can positively influence the innovation and performance of small startups. Based on it, this study develops the following hypothesis:

$H_{1:}$ There is a positive relationship between financial resources and performance of business.

Socio-culture

Socio-culture refers to rules, shared values, beliefs, norms and code of conduct that is culturally rooted. According to Felicia *et al*. (2013), social and cultural values and beliefs regarding entrepreneurship have an important influence on motivational antecedents of entrepreneurial intention and business start-ups. Similarly, Shane (1993) suggested that environmentally relevant patterns of behavior lead to the creation of different cultural values in different societies, some of which influence the decision to create new businesses. Therefore, culture as distinct from political, social, technological or economic contexts, has relevance for economic behavior and business start-ups. Likewise, Weeraratna and Geeganage (2014) concluded that socio-culture factor has a significant relationship with performance of business. Further, Bae *et al.* (2014) found that entrepreneurial culture positively influences the performance of small startups. Likewise, Guzman and Kacperczyk (2019) found that local culture, such as the level of trust and social capital within a community, positively influences the performance of small startups. Similarly, Williams and Shepherd (2016) concluded that social identity, such as a shared sense of belonging or a common purpose, can positively influence the performance of small startups. Moreover, Yunus *et al.* (2017) found that social entrepreneurship, which aims to create social or environmental impact alongside financial returns, can positively influence the performance of small startups, particularly in emerging markets. Further, Huang *et al.* (2016) found that cultural intelligence, or the ability to navigate and adapt to different cultural contexts, can positively influence the performance of small startups. Likewise, Fernhaber *et al.* (2016) found that cultural diversity positively influences the innovation and performance of small startups. Based on it, this study develops the following hypothesis:

H_2: There is a positive relationship between socio-culture and business start-ups performance.

Entrepreneurial skills

Entrepreneurial skill is ‘an individual’s ability to turn ideas into action

(Low and MacMillan, 1988). Similarly, Cromie and John (1983) concluded that starting a business is different from managing since the skills required are different from the skills for starting. Entrepreneurship is seen to be changing and is appreciated in society. Likewise, Hisrich and Drnovsek (2002) found that there is a significant positive relationship between entrepreneurship skills and start-ups of small-scale business. Likewise, Rauch and Hulsink (2015) found that entrepreneurial skill positively influences the performance of small startups. Similarly, Kickul *et al.* (2016) found that entrepreneurial networks positively influence the performance of small startups. Moreover, Thorgren and Wincent (2018) found that entrepreneurial team diversity positively influences the performance of small startups. Likewise, Nabi *et al*. (2018) found that entrepreneurship education and training positively influence the performance of small startups. Further, Shane and Venkataraman (2000) found that entrepreneurial skills such as opportunity identification, resource acquisition, and team building positively impact business performance in small start-ups. Covin and Slevin (1989) found that entrepreneurial skills such as strategic planning, market orientation, and risk-taking positively impact business performance in small start-ups. Based on it, this study develops the following hypothesis:

H_3: There is a positive relationship between entrepreneurial skills and performance of business.

Country business law

Business law as the body of law that governs business transactions and activities. It encompasses both the laws and regulations that apply to businesses, as well as the legal principles that shape the way businesses operate, including contract law, employment law, intellectual property law, and corporate law. McFarland and Seeger (2010) stated that a government should bring in regulations that protect individual businesses and eliminate confusing laws that affect start-ups of business. Similar, Djankov *et al.* (2002) analyzed a well-designed legal system. The study found that countries with stronger legal systems have more efficient and dynamic markets. Likewise, Kaufmann *et al.* (1999) found that corruption can undermine the impact of business law on business performance in small start-ups also suggests that countries with strong legal systems but high levels of corruption may not see the expected positive impact on entrepreneurship and economic growth. Further, La Porta *et al*. (1999) concluded that legal system effectiveness, as measured by the enforcement of contracts and protection of property rights, is more important for business performance in small start-ups than legal origin.

Likewise, Love *et al.* (2014) stated that legal institutions, such as the strength of property rights and the efficiency of the legal system, have positive impact on the survival and growth of small firms in developed countries. Similarly, Brush *et al.* (2009) revealed that the regulatory environment has a significant impact on the types of businesses that are started by women entrepreneurs. Moreover, Beck *et al.* (2003) found that legal origin has a significant impact on the development of financial markets, which can in turn impact the availability of financing for small firms. Further, Aidis *et al*. (2010) found that the quality of business regulation has a positive impact on the performance of small and medium-sized enterprises (SMEs) in European countries. Moreover, Li and Liang (2019) concluded that the quality of business law has a significant impact on the innovation performance of small and medium-sized enterprises (SMEs) in China. Based on it, this study develops the following hypothesis:

$H_{4:}$ There is a positive relationship between country law and performance of business.

Competition

Debra (2006) defined competition is the ability to win the other party in a situation. According to Naliaka (2009), competition includes all the actual and potential people offering complements and substitutes that buyers might consider. The marketing decision influences its market and is in return affected by competitors. Similarly, Saleemi (1997) found that competition as the interactive process that occurs in the marketplace. Likewise, Bandyopadhyay (2001) concluded that competition has a significant relationship with the start-ups of small businesses. Further, Amara and Landry (2005) found that competition can stimulate innovation and encourage small firms to engage in R and D activities. Further, Gulati (1998) found that strategic alliances with competitors can lead to improve business performance and increased market share. Moreover, Baumol (1993) concluded that monopolistic markets can lead to decreased innovation and a lack of incentives for small firms to improve their business performance. Based on it, this study develops the following hypothesis:

H_5: There is a positive relationship between competition and performance of business.

3. Results and discussion

Correlation analysis

On the analysis of data, correlation analysis has been undertaken first and for this purpose, Kendall's Tau correlation coefficients along with the mean and standard deviation has been computed and the results are presented in Table 1.

Table 1

Kendall's Tau correlation coefficient matrix

This table presents Kendall's Tau coefficients between dependent variable and independent variables. The correlation coefficients are based on 123 observations. The dependent variable is BP (Business performance). The independent variables are FR (Financial resources), SCF (Socio-cultural factor), ES (Entrepreneurial skills), CBL (Country business laws), and C (Competition).

Variable	Mean	S.D.	BP	FR	SCF	ES	CBL	C
BP	3.785	0.899	1					
FR	3.705	0.903	0.525**	1				
SCF	3.448	0.858	0.542**	0.456**	1			
ES	3.731	0.861	0.569**	0.567**	0.515**	1		
CBL	3.416	0.861	0.465**	0.401**	0.550**	0.451**	1	
C	3.750	0.925	0.516**	0.525**	0.465**	0.648**	0.408**	1

Notes: The asterisk signs (**) and (*) indicate that the result are significant at one percent and five percent levels respectively.

Table 1 shows that financial resources are positively correlated to business performance indicating that better financial resources lead to increase in business performance of small business start-ups. Likewise, socio-cultural factor is positively correlated to business performance. It implies that socio-cultural factor leads to increase in business performance of small business start-ups. Similarly, entrepreneurial skills are positively correlated to business performance. It indicates that entrepreneurial skills lead to increase in business performance of small business start-ups. Further, country's business laws are also positively related to the business performance indicating that supportive country's business laws lead to increase in business performance of small business start-ups. Likewise, competition is positively correlated to business performance. It implies that healthy competition leads to increase in business performance of small business start-ups.

Regression analysis

Having indicated Kendall's Tau correlation coefficients, the regression analysis has been carried out and the results are presented in Table 2. More specifically, it shows the regression results of financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition in performance of small business start-ups in Kathmandu.

Table 2

Estimated regression result of financial resources, socio-cultural factor, entrepreneurial skills, country business laws, and competition on business performance of small start-ups in Kathmandu valley in Kathmandu Valley

The results are based on 123 observations using linear regression model. The model is BP = $\beta_0 + \beta_1$ FR + β_2 SCF + β_3 ES + β_4 CBL + β_5 C + e where the dependent variable is BP (Business performance). The independent variables are FR (Financial resources), SCF (Socio-cultural factor), ES (Entrepreneurial skills), CBL (Country business laws), and C (Competition).

Model	Intercept	Regression coefficients of					Adj. R_bar2	SEE	F-value
		FR	SCF	ES	CBL	C			
1	0.985 (4.420) **	0.756 (12.491) **					0.573	0.587	167.464
2	1.133 (4.973) **		0.769 (11.994) **				0.535	0.613	143.854
3	0.859 (3.601) **			0.784 (12.599) **			0.561	0.597	158.726
4	1.391 (5.661) **				0.701 (10.051) **		0.446	0.669	101.023
5	1.157 (4.926) **					0.701 (11.527) **	0.515	0.626	132.862
6	0.552 (2.572) **	0.48 (6.656) **	0.422 (5.548) **				0.656	0.527	119.393
7	0.356 (1.652)	0.321 (3.758) **	0.336 (4.312) **	0.29 (3.216) **			0.681	0.508	89.138
8	0.284 (1.305)	0.299 (3.491) **	0.263 (3.015) **	0.268 (2.968) **	0.143 (1.785)		0.686	0.503	68.858
9	0.282 (1.293)	0.285 (3.080) **	0.262 (2.989) **	0.245 (2.338) *	0.138 (1.705)	0.042 (0.418)	0.684	0.505	54.742

Notes:

i. *Figures in parenthesis are t-values.*

ii. *The asterisk signs (**) and (*) indicate that the results are significant at one percent and five percent level respectively.*

iii. *Business performance is dependent variable.*

The regression results show that the beta coefficients for financial resources are positive with the business performance of small start-ups. It implies that financial resources have positive impact on business performance of small start-ups. This finding is consistent with the findings of Kinyua (2014). Likewise, the beta coefficients for socio-cultural factors are positive with the business performance of small start-ups. It indicates that socio-cultural factors have positive impact on business performance of small start-ups. This finding is consistent with the findings of Weeraratna and Geeganage (2014). In addition, the beta coefficients for entrepreneurial skills are positive with the business performance of small start-ups. It indicates that entrepreneurial skills have positive impact on business performance of small start-ups. This result is consistent with the findings of Abebaw *et al.* (2018). Further, the beta coefficients for country's business laws are positive with the business performance of small start-ups. It indicates that country's business laws have positive impact on the business performance of small start-ups. This finding is consistent with the findings of McFarland and Seeger (2010). In addition, the beta coefficients for competition are positive with the business performance of small start-ups. It indicates that competition has a positive impact on the business performance of small start-ups. This finding is similar to the findings of Bandyopadhyay (2001).

4. Summary and conclusion

The small-scale business is a start-up at minimum level of financial capital requirement. This has impact on the country's economic growth. The financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition are some of the major dimensions of the performance of small-scale business in Kathmandu valley. It means that better the financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition increase the performance of small-scale business.

This study attempts to examine the factors that affect the performance of small-scale business in Kathmandu valley. The study is based on the primary data of 125 respondents.

The study shows that financial resources, socio-cultural factor, entrepreneurial skills, country business law, and competition have positive impact on the performance of small-scale business. The study also concludes that entrepreneurial skills is most significant factor followed by financial resources and socio-cultural factor that determines the change in small business start-ups in Kathmandu valley.

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