Competitive Strategies on the Performance of Small and Medium-Sized Enterprises in Nepal

Dilli Raj Sharma[1], Surendra Prasad Joshi[2*], Merika Shakya[3]

[1] Professor, Tribhuvan University, Faculty of Management, Kathmandu, Nepal
[2] Faculty Member, Tribhuvan University, Thames International College, Kathmandu, Nepal
[3] MBA Graduate, School of Management, Tribhuvan University, Kathmandu, Nepal
surendrajoshi20@gmail.com (Corresponding author)

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ABSTRACT

Small and medium-sized enterprises (SMEs) are the foundation of Nepal's economy, but their competitive strategies significantly impact their success. The primary goal of this research is to investigate the effects of cost leadership and focus strategy on the performance of SMEs in Nepal. To address this, the study examined whether implementing cost leadership or focus strategies significantly impacts SME performance. Using a descriptive and causal research design, this study used a quantitative method with structured questionnaires distributed to 385 SMEs from various industries, including manufacturing, service, and retail. Structured-administered surveys were used to collect data, and statistical tools such as correlation, regression, and hypothesis testing were used to analyze the results. The findings indicate that the cost leadership strategy has a weak but statistically significant negative effect on performance. Although not a primary focus, the differentiation strategy had a slight positive effect. The focus strategy also had a weak negative impact on performance. These findings show that no single strategy significantly improves SME performance in isolation. Instead, a hybrid strategic approach is required for contextual challenges like high import dependence, limited scalability, and aggressive competition. The study suggests that SMEs in Nepal combine cost efficiency with innovation and market-specific targeting, while policymakers should create supportive environments through infrastructure, training, and strategic incentives. An operational, integrated strategic model is required for SME sustainability and growth in Nepal.

Keywords: Competitive advantage, enterprise growth, financial outcomes, market segmentation

JEL Classification Codes: L10, L20, L25, M10, M13

1. Introduction

Generic strategies of cost leadership, differentiation and focus are generally used in an abundant field where organizations must manage competitive strategies to become industry leaders to be considered successful (Porter,1980). These strategies (cost leadership, differentiation, and focus) guide firms in positioning themselves effectively to outperform competitors and meet market demands. Their applicability spans various sectors, including small and medium-sized enterprises (SMEs), which are pivotal to economic development in Nepal. Cost is the primary interest where organizations develop strategies to maintain cost levels with both manufacturing and sales costs considered. With cost advantage tactics, activities, and operations like mass production, mass distribution, economies of scale, technology, product design, input cost, and access to raw materials, direct the leadership's attention at the competitive level (Johson et al., 2005). In the context of SMEs in developing economies, implementing cost leadership can be challenging due to limited resources and access to technology. When SMEs effectively manage Porter's Five Forces, such as supplier power and competitive rivalry, they can enhance their competitive advantage and sustainability through cost leadership (Nyokabi & Waweru, 2019).

Product differentiation helps cater to customers' needs and wants by preparing strategies that help attract customers. This is done when organizations provide product quality, features, or after-sales support (Allen & Helms, 2006). This strategy mainly focuses on offering unique products or services that provide value beyond competing offerings, allowing firms to command premium prices (Dahal et al., 2024; Shahi et al., 2022). This uniqueness can stem from superior quality, innovative features, or exceptional customer service. For SMEs, particularly in regions like Nepal, differentiation may involve leveraging local craftsmanship, cultural heritage, or personalized services. Research indicates that SMEs adopting differentiation strategies can improve business performance by fostering customer loyalty and reducing price sensitivity (Amunga et al., 2020).

Generally, combining the strategies mentioned above helps guide the company's operations to focus only on a specific aspect of the market, whereby the products and services are demanded with unique niche availability (Gatimu & Amuhaya, 2022; Ghimire & Dahal, 2024). Further, the segmentation generated with these aids in managing customers in the market, developing a loyal clientele that keeps other competitors at bay, with the possibility of lower production costs to cater for the focused market. Often, companies are observed to have higher prices but are supported due to low levels of substitution possibility (Barney, 2007). This strategy involves concentrating on a specific market niche and tailoring products or services to the unique needs of that segment. This strategy can be subdivided into Cost Focus, where a firm seeks cost advantage in its target segment, and Differentiation Focus, which offers specialized products. SMEs often adopt focus strategies to compete against larger firms by serving niche markets effectively. For instance, in Nepal, SMEs might concentrate on niche tourism services, offering personalized experiences that larger operators may overlook. The success of this strategy depends on a deep understanding of the target market and the ability to meet its specific demands (Karki et al., 2024; Mwangi et al., 2021). Organizational performance levels will be maintained with implications of strategies that manage differentiation, cost leadership, focus to attract customers and improve competition.

Porter’s strategies and their applications in Nepal are often seen in the operations of SMES and large corporations seeking to navigate a competitive yet resource-constrained environment. For example, cost leadership is employed by local manufacturing firms that utilize economies of scale and low-cost labor to compete with imported goods. At the same time, differentiation strategies are evident in Nepal’s thriving handicrafts and tourism industries, where cultural uniqueness is a key selling point. However, the essence of Porter’s strategy in Nepal is often challenged by factors such as limited infrastructure, political instability, and financial constraints (Karki & Subedi, 2020). Furthermore, while competitive strategies contribute to organizational performance, they are not the sole determinants.

Leadership, organizational culture, and external macroeconomic conditions are critical in shaping outcomes (Karki et al., 2023). For instance, a focus strategy targeting a niche market may falter without effective governance and a stable policy framework. As such, the critical discourse in Nepal emphasizes that Porter's strategies must be integrated with a holistic view of organizational and environmental factors to ensure sustainable performance. Porter's competitive strategies significantly impact the organizational performance of SMEs by providing a clear framework for achieving competitive advantage. Organizational performance refers to how effectively an organization achieves its goals and objectives, encompassing financial, operational, and behavioral aspects (Dahal et al., 2023). It is often assessed through profitability, market share, employee satisfaction, and customer retention (Kaplan & Norton, 1996). Performance is influenced by internal factors such as leadership, culture, and strategy, as well as external factors like market conditions and regulatory frameworks. High-performing organizations demonstrate adaptability, innovation, and effective resource management. In today's competitive landscape, a strategic approach that aligns organizational goals with market demands is critical to sustaining performance and achieving long-term success (Venkatraman & Ramanujam, 1986).

SMEs contribute economically to the nation as they capture significant area in employment and the GDP, which is no different in the case of Nepal, with the generation of jobs to various levels of skilled professionals and the production of consumer goods and services (Adhikari et al., 2021). Businesses face industry rivalry and competition, with market position capture playing an important role (Thompson et al., 2008). For instance, the European Union (EU) defines SMEs as businesses with fewer than 250 employees and an annual turnover not exceeding €50 million (European Commission, 2020). Similarly, in the United States, the definition varies by industry, but it typically includes businesses with fewer than 500 employees (Small Business Administration, 2019). Despite these variations, SMEs worldwide share common features such as adaptability, resource constraints, and their critical role in fostering economic resilience, especially in developing economies.

In the context of Nepal, well growth of SMEs has been constant with the production of food items, textiles, and household and consumer goods for both domestic and international markets (Adhikari et al., 2021). SMEs operating in Nepal are vital to the country's socio-economic status, accounting for a significant portion of employment and industrial production. The Industrial Enterprise Act 2016 defines small enterprises as those with fixed assets up to NPR 50 million and medium enterprises as those with fixed assets ranging from NPR 50 million to NPR 250 million. Nepal, being the economic hub of Nepal, houses a large concentration of SMEs operating in diverse sectors such as tourism, handicrafts, retail, and information technology. These enterprises are instrumental in reducing unemployment and preserving cultural heritage through traditional industries like woodcraft and metalwork. Despite their importance, SMEs in Nepal face challenges like limited access to finance, inadequate infrastructure, and the need for innovation to compete in a globalized market (Ghimire et al., 2023; Karki & Subedi, 2020). Addressing these issues is essential for empowering SMEs to drive sustainable development in Nepal.

Despite their effectiveness, critics argue that the rigid adherence to one strategy can limit innovation and adaptability in rapidly changing markets (Mintzberg, 1987). Adopting Porter's strategy among SMEs in Nepal has shown mixed results due to contextual challenges such as inadequate infrastructure, financial constraints, and policy instability (Karki & Subedi, 2020). Cost leadership is prevalent in manufacturing, while differentiation is evident in the tourism and handicraft industries. However, the fragmented market and reliance on traditional business practices often hinder the full realization of these strategies' benefits. In Nepal's dynamic business ecosystem, integrating Porter's strategies with innovations and strong governance can potentially enhance SME performance while addressing localized challenges.

Thus, this research report highlights the aspects of competitive strategies and their impacts on the performance of SMEs in Nepal as they play an essential role in contributing to employment, economic development, and market advancements as there are minimal studies in the past that relate specific strategies such as cost leadership, differentiation, and focus with organizational performance. This study further addresses the existing gap in research that helps to understand potential opportunities or challenges for business owners of SMEs within the context of localized perspectives of organizations in Nepal.

SMEs exist and operate to continuously provide economic growth and develop different industries all over Nepal as the business sector continues to expand (Mukti, 2019). Growth and proper establishment of business come from continued industrial growth, where SMEs continue to prevail depending on the economic conditions in various sectors like manufacturing, retail, and services (Khatri, 2020). The majority of SMEs contribute to 45 percent of employment and 33 percent of GDP in developing countries, characteristically employing about 10-15 employees and operating to fulfill market needs and provide products and services with the limited finances available with the use of strategies to improve the performance of the organization (Khan, 2023).

In the context of Nepal, research and studies on SMEs and their development are limited but growing across different fields. Research reports about Shrestha and Bista (2018) mention the various challenges that impact SMEs operating in Nepal, which can be linked to limited access to financial resources and rising market competition due to international and large conglomerates. In addition, a report by the Federation of Nepalese Chambers of Commerce and Industry (FNCCI, 2020) highlights the inadequacy of strategic planning as a significant issue that impacts the growth of SMEs in Nepal.

However, there are limited studies focused on how SMEs have been operating and implementing competitive strategies and the impact on the performance of the organization that contributes to different types of markets, which makes this sector of development understudied, especially in the context of Nepal, Nepal which is a city of business hustle and bustle. Though SMEs operate on a large scale and contribute to the economy of Nepal and Nepal they face many issues in operations, financing, resource utilization and overall management of strategies. The limited availability of context-specific studies on SMES in Nepal leaves business owners, managers, and policymakers with insufficient knowledge of which competitive strategies are most effective in this unique market environment and limits the knowledge implications of challenges faced in operation and in Nepal.

This research report includes the study of SMEs that operate with managed business strategies, which include various competitive tactics, as the business sector is constantly growing and evolving. The major research question in this study is what are the effects of cost leadership strategy on the performance of SMEs in Nepal District and whether a focus strategy has an impact on the performance of SMEs or not?

To address this issue, the study attempts to investigate the effects of the Cost leadership strategy on performance and the effects of the focus strategy on the performance of SMES in Nepal.

2. Literature Review

This study was founded on Porter's competitive strategy theory (1998), which states that the primary goal is to obtain a competitive advantage. This means that the organization will concentrate on creating a benefit to help it outperform its rivals and increase sales of its goods and services (Porter, 1998). This means that selecting the ideal generic strategy is crucial because it will support the company's other strategic decisions and increase the value of allocating the right amount of time to the right things. Therefore, it is important to consider the organization's strengths and skills while the firm is selecting three generic strategies (Rangan et al., 2012).

For the industry to comprehend the benefits provided by the unique company, an organization must also concentrate on robust research that incorporates development and innovation, the ability to deliver high-quality products or services, and efficient sales and marketing (Porter & Lee, 2013). The main technique used by SMEs is differentiation, in which the offered product or service differs from those that are currently available on the market. According to Hay & Kamshad (1994), this is often further tailored to a specific market niche.

A company may boost earnings by lowering expenses and setting prices comparable to the industry norm. The second strategy is to increase market share by raising sales and lowering prices (Porter & Lee, 2013). In cost leadership, a company aims to become the industry's lowest-cost manufacturer, according to Porter (1998). Cost advantage comes from various sources, depending on how the business is set up. Selling a "standard or no-frills" product together with "aggressive pricing" is necessary for the cost leadership approach (Porter, 1989). Accordingly, the tactic entails producing a somewhat uniform product and lowering everyone else's prices (Kiechel, 1981).

Businesses that use the focused approach primarily target a specific niche market and make an effort to comprehend the industry's characteristics and the unique requirements of its clients (Porter & Lee, 2013). Additionally, the business concentrates on creating a distinctively low-cost and precisely defined product or service (Rangan et al., 2012). According to Luiz and Geoff (2006), the market sector and the kind of goods a firm provides are crucial because they dictate where a business can be successful. Selecting a limited competitive scope within an industry is the foundation of the generic strategy of focus (Luiz & Geoff, 2006).

According to Rangan et al. (2012), focus strategies allow organizations to tailor their marketing mix decisions to the needs of particular customer groups. They do this by targeting activities to a specific market segment, offering goods or services at a lower cost or providing a differentiated product or service for that segment's needs.

Structured cooperative agreements between businesses, such as marketing alliances, R&D alliances, and buyer-supplier alliances, are examples of cooperative tactics. Such collaboration might enable these enterprising companies to reach international markets through distribution agreements, boost product and process innovation through R&D partnerships, increase production capacity through cooperative production agreements, and split marketing costs and expertise through long-term marketing arrangements (Larson, 1991). Critical resources of a company may be integrated into inter-firm resources and procedures as well as cross-firm borders. Relationships between businesses are becoming a more significant unit of analysis for comprehending competitive advantage. According to Dyer and Singh (2016), there are four possible sources of inter-organizational competitive advantage: (1) relation-specific assets, (2) knowledge-sharing practices, (3) complementary resources/capabilities, and (4) effective governance.

These alliances differ from single-transaction market partnerships because they are more long-lasting cooperative arrangements, regardless of their purpose (Steensma et al., 2000). SMEs are capable of surviving and competing with chain retailers. Chain shops threaten SMEs' market positions in the retail industry (Sterna & El-Ansury, 1988). A common limitation many small entrepreneurial businesses face is a comparatively limited resource base compared to bigger, more established rivals (Jarillo, 1989). Cooperation with other entrepreneurial enterprises or even with bigger, more established, resource-rich firms is one way for these entrepreneurial firms to get over this restriction (Suarez-Villa, 1998). According to Pec and Henriques (2006), SMEs that are part of networks and clusters tend to be more inventive than those that operate alone, which increases their likelihood of expanding. Through networking, SMEs may combine the benefits of increased flexibility and smaller size with economies of scale and scope in bigger markets on a regional, national, and international level.

The resource-based perspective has its roots in the previous studies of Seiznick (1957) and Penrose (1959), among others. This school of thinking strongly focuses on the value of resources and how they affect a company's success. This approach only highlights the notion that to generate value and hence get a competitive edge, an organization has to be seen as a collection of resources and capabilities (Barney, 2001; Shrestha et al., 2023). According to the resource-based concept, businesses may attain overall performance and competitiveness if they have valuable, uncommon, unique, and non-replaceable physical or non-physical. Penrose's (1959) resources strategy focuses on managers who are "good-will builders", "product-minded", and "workmanship-minded." By enhancing the quality of current goods, cutting expenses, creating superior technology, and launching new items where they are likely to have a competitive edge, these managers want to support the profitable expansion of their companies. However, according to Newbert (2008), resources and capacities are useless when used alone and have no intrinsic value. Bitar and Hafsi's (2007) assertion that resources and capabilities are sources of competitive advantage but do not always contribute to it lends more credence to this viewpoint. Thus, resource-based theory focuses on the connection between a company's capacity to maintain competitiveness via strategy creation and the stability of its internal resources. Grant (1991) expanded RBV to include a competitive strategy as well. Grant claims that RBV Theory connects value creation to competitive strategies and capabilities.

Ansoff's concept expands upon Porter's generic strategies by emphasizing the void the marketing mix-related subsidiary goals serve. A strategic marketing tool called the Ansoff matrix connects a company's marketing plan to its overall strategic plan. The Ansoff matrix is a planning method for making informed decisions regarding a company's expansion via networks of product and market extension (Beamish & Ashford, 2005). The Ansoff matrix is a helpful tool for examining potential tactics to close the gap between the company's current and desired future (Proctor, 1997). In addition to offering the choices of introducing new goods and entering untapped markets, the Ansoff matrix also examines the potential for exiting specific markets and entering unrelated ones (Lynch, 2003). Marketers with courage utilize this matrix to expand their market share and get a competitive edge. To achieve these goals, the Ansoff matrix provides strategic options (Hussain et al., 2013).

Furthermore, research has shown that many businesses effectively use hybrid product market strategies that integrate elements of various scope, distinctiveness, and cost-minimization components (Vorhies et al., 2009). According to Longenecker et al. (2006), inadequate management, inadequate funding, and a lack of planning have been identified as the primary reasons small businesses fail. It has been proposed that certain strategy options are generally better suited for small businesses, including building strong client connections and product adoption while avoiding direct rivalry with bigger businesses (Storey & Sykes, 1996). According to Perry (1987), in the precise terminology of Ansoff's Matrix, market penetration, product development, and market development are the best growth methods for SMEs.

Many theoretical stances may explain the expansion of SMEs and related tactics. Still, according to Dobbs and Hamilton (2004), no one theory can fully account for the phenomenon. According to Gupta et al. (2013) citation of Greiner's (1972) organic/evolution theory, businesses learn about their efficiency over time and go through several phases, including a management crisis and a comparatively peaceful development period. According to the paradigm, organizations are created, developed, and eventually fail. The phases of the iterative life cycle aid in choosing the kind of growth strategy to use (McMahon, 1998). development factors may form a pervasive "laundry list" of elements that may help or impede development, according to the evaluation of growth research (Penrose, 1959/95; Gilbert et al., 2006; Garnsey et al., 2006; Davidsson et al., 2010; Senderovitz, 2010; Wright & Stigliani, 2013). Although it may sometimes be difficult to distinguish between what is external and what is internal, growth factors may be broadly classified as internal (inside the company) and external (environmental) variables (Davidsson et al., 2010). In a Porterian universe, industry affiliation is seen as a company's strategic decision, whereas industry growth is often viewed as an external influence (Porter, 1980, 1985). Similarly, opportunities may be seen as internal or external aspects that the company should grow and produce (Dew et al., 2009; Shane & Venkataraman, 2000; Shrestha & Dahal, 2023).

The 1960s and 1970s saw the development of the configuration school, which views strategy creation as a process of change. Chandler (1962), Mintzberg and Miller (1979), and Miles and Snow (1978) are essential figures in the configuration school. According to configuration theory, an organization's ability to function relies on how well its environment and organizational design mesh. The theory's fundamental premise is that optimal performance may be attained when organizational structure aligns with external contingency factors. Maximum production is only achieved by those firms that match their operations with the existing environment. According to the general model implied in configuration theory, an organization's structure, strategy, and environmental context must all be appropriately aligned to succeed (Fincham & Rhodes, 2005). According to empirical research on configuration, fit between organizational traits is a significant predictor of company success (Slater & Olson, 2001). Any firm's external environment is exogenous. Thus, it must modify its strategy by the limits imposed by the environment, claim Gao et al. (2007). As a result, no two firms have the same best strategic options.

Game theory emphasizes how crucial it is to be proactive or look ahead, weigh options, and predict how rivals and other participants in the game, the industry or the competitive environment will respond (Brandenburger & Nalebuff, 1995). In cases of fierce rivalry, when one company wins and another loses within an immutable total of market share and characteristics, game theory has been applied to how businesses compete in a certain industry, as well as their relationships and interactions. Each party must choose between two or more potential strategies predicated on many assumptions (such as utility) that foster strategic thinking (Gibbons, 1992; Brandenburger & Nalebuff, 1995). There are only two participants in the zero-sum game, and the only way to improve one person's situation is to make the other player worse off. Despite its applicability to oligopolistic enterprises, this theory has not gained much traction (Brandenburger & Nalebuff, 1995; Prahalad & Hamel, 1990; Murphy, 2005).

The expansion of SMEs has been the subject of several studies. Rai et al. (2020) conducted an in-depth qualitative study on the strategic actions of micro and small enterprises (MSEs) in Nepal using a social practice perspective. The study emphasized the need for structured business planning and greater support for innovation to ensure sustainable growth among SMEs in Nepal. Shakya et al. (2024) highlighted significant barriers, including limited access to formal credit, external risk factors, and inconsistent government support. Financial challenges were exacerbated by globalization and a lack of robust financial policies, leaving many SMEs reliant on informal credit systems.

Bhattarai (2024) revealed that strategic implementation, environmental scanning, and robust evaluation mechanisms positively impact SME performance. With the alignment of their internal capabilities with environmental changes, to thrive in competitive markets. Khan et al. (2023) analyzed the characteristics of better-performing SMEs in Nepal, highlighting that firms leveraging organizational and technical knowledge at the inception stage showed higher growth and export success. Yadav (2024) highlighted those robust organizational structures and the integration of strategy formulation, implementation, and evaluation lead to sustainable business performance. A World Bank survey cited in Khan et al. (2023) noted that inadequate support systems and a lack of skilled personnel are primary barriers to SME growth in Nepal. While business services like grants and advisory support have potential, they are often ineffective due to systemic inefficiencies.

Gyanwali and Bunchapattanasakda (2020) explored the relationships between customer, market, entrepreneurial, and innovation orientations and business success. Their findings revealed that MSMEs benefitted from proactive strategies, opportunity focus, and innovation but highlighted a need for broader regional research to confirm Paudel (2020) concluded that transformational leadership had a more substantial positive impact on EO and business performance than transactional leadership. Gautam (2016) observed that EO significantly influenced the performance of handicraft MSMEs in Nepal, emphasizing innovation and calculated risk-taking as critical elements. Similarly, Kesinro et al. (2016) noted that proactive marketing and risk management were essential for improving MSME outcomes in Nigeria.

Women-owned businesses were less likely to innovate in terms of services, markets, and raw material sources Kiraka et al. (2013). The research found no evidence of considerable variations in innovation and growth amongst businesses across age groups, borrowing streams, and geographic locations. Anyanga and Nyamita (2016) looked at the growth tactics used by SMEs in Kenya at which the majority of entrepreneurs, according to the report, used a product development approach that focused on specific market niches. Additionally, the survey discovered that most businesses used innovation extensively to adapt to changing consumer preferences and tastes. Mburu and Guyo (2015) reported client base and access to the Women Enterprise Fund are positively correlated in Kenya.

The impact of WEF on MSE performance in Kericho County was investigated by Chepkwony and Sang (2017), where the majority of respondents were young, according to the data, which suggests that young individuals operate the majority of women-owned micro businesses. According to earlier research by Coleman (2007) and Headd (2003), older firm owners are more likely to see enterprise development than younger ones. In terms of their marital status, the results indicate that the number of married people was about equal to that of single people. According to Philbrick and Fitzgerald (2007), marriage not only raises the probability that women would own their own companies but also has the potential to improve the growth potential of such enterprises. Furthermore, the results indicate that most respondents had finished secondary school (Chepkwony & Sang, 2017). Barringer et al. (2005) assert that effective business management requires education.

Research by Hassan and Mugambi (2013) examined the factors influencing the expansion of women-owned microbusinesses in Garissa. Three important factors included social networking, business education and training, and access to finance and financial resources. According to the survey, many women, mostly survivalists, operated micro businesses to support their families (Hassan & Mugambi, 2013). Ijaza et al. (2014) aimed to comprehend women's difficulties while applying for microcredit obtained via WEF. Additionally, this research discovered that women who had used this fund encountered certain obstacles that hindered the expansion of their businesses. One specific consequence of the development process is that the entrepreneur must adjust and transform after it has begun (Kiraka et al., 2013). According to Perry (1987), several strategy options are often better suited for small businesses. These include avoiding rivalry with bigger companies, cultivating strong client connections, and adapting products. Anyanga and Nyamita (2016) looked at the growth tactics SMEs use in Kenya, particularly emphasizing artisans working in the Kibuye market, one of the largest in the nation. Mburu and Guyo (2015) used the Dagoretti Constituency in Nairobi County as a case study and highlighted that the client base and access to the Women Enterprise Fund are positively correlated.

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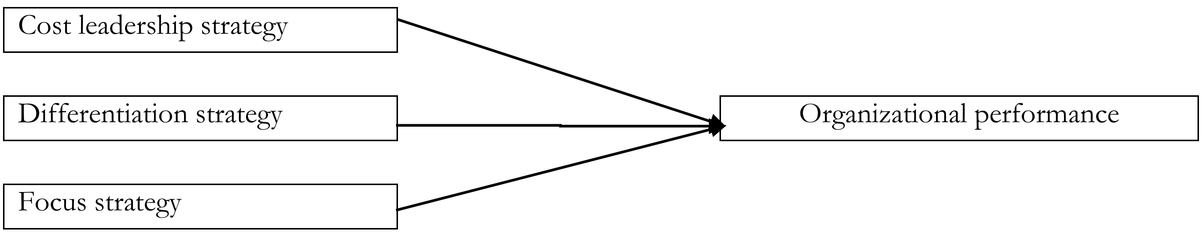
(2005) assert that effective business management requires education. The results support Stevenson and St-Onge (2005a), who found that funding plays a significant role in creating and developing women-owned businesses in Kenya and that policy support significantly mediates their effectiveness.

According to Muruingi (2012), SMEs contribute significantly to the Kenyan economy by generating jobs. However, they also face significant obstacles like discrimination, a lack of funding, issues with the city council, having to juggle multiple responsibilities, poor access to justice, and a lack of education. Although microenterprises are often the source of innovation, they are particularly susceptible to competition from rivals that launch comparable goods or services, which causes the market to become oversupplied with the same kind of goods (Ijaza et al., 2014). According to Longenecker et al. (2006), inadequate management, inadequate funding, and a lack of planning have been identified as the primary reasons small businesses fail. It was evident from Anyanga and Nyamita's (2016) analysis that the majority of businesses had implemented growth plans. Notably, Kiveu and Ofafa's (2014) analysis suggests that there is rising worry over Kenya's SME growth's ongoing stagnation and decrease. If this is not addressed, this will have a clear detrimental impact on the nation's ability to create jobs. Bowen et al. (2009) discussed the difficulties facing small and medium-sized manufacturing businesses in Kenya and found that there was little information provided on tactics that may promote competitiveness and development. While Kipyegon (2009) conducted a study on positioning tactics used by Kenyan enterprises, Atieno (2001) examined the expansion of SMEs with a bias on "credit access" as a driver for the survival of the Juakali industry in Kenya.

Research for empirical studies is also limited, adding less evidence and results to study the impact of SMEs on competitive strategies using cost leadership, differentiation, and focus impact their overall performance. The research studies have incorporated some aspects of competitive strategies not focused on the adoption of competitive strategies impacting the performance of organizations while referring to the scalability of performance, improvement of profitability, and long-term adaptability as well as sustainability in the overall dynamic market. With evaluations of studies on this research topic, there is a lack of research details referring to the competitive strategies and their impact on the performance of SMEs. Therefore, to bridge the gap in research. This study will help to closely examine the effect on performance and competitive strategies in the context of SMEs in Nepal.

The conceptual framework that aims to include the primary elements of the competitive strategies theory and SME development is presented in this section.



Source: Gatimu and Amuhaya, (2022)

Figure 1: Conceptual Framework

Performance of SMEs refers to the ability of small and medium enterprises to achieve their business objectives, which can be measured through both financial and non-financial indicators. Financial performance is often assessed using revenue growth, profitability, and return on investment, while non-financial performance considers factors like customer satisfaction, market share, and employee retention (Kaplan & Norton, 1992). For SMEs in Nepal, performance is influenced by a combination of internal capabilities and external market conditions.

Research Hypotheses

This study makes the following alternative hypothesis that assumes the relationship between competitive strategies and the performance of SMEs.

H1: Cost leadership does have a significant effect on the performance of SMEs.
H2: Differentiation strategy does have a significant effect on the performance of SMEs.
H3: Focus Strategy does have a significant effect on the performance of SMEs.

3. Research Methodology

This research report adopts a descriptive and casual research design to help examine the relationship between competitive strategies and the performances of SMEs in Nepal. A quantitative approach has been used that helped focus on numerical data, their interpretation, and analysis to help study the impact of competitive strategies on the financial performance of SMEs.

The research report mainly focuses on the implementation of strategic level operation and analysis of the organization's performance so the population of this research is targeted at the managers and business owners of SMEs in Nepal that help to identify the usage of different strategies. A sample size of 385 SMEs, ensuring representation across key industries will be utilized, incorporating sectors like manufacturing, service, and retail.

It possesses the most significant concentration of industries and business activities among the major economic centers in Nepal (FNCCI, 2020), so it is also expected that a substantial share of Nepal's 275,433 registered SMEs operates in this district categorized with the financing capital required for SMEs that range from 150 million to 500 million Nepalese Rupees.

The collection of data for this research report uses a primary method. The primary data will be collected using a close-ended structured questionnaire. The data were gathered by using self-administered questionnaires that were sent to 385. SMEs individually by physical distribution. The secondary data is based on the reviews of articles and journals based on the concept of competitive strategies and SME performances. Data has been analyzed using statistical tools such as standard deviation, correlation and regression analysis to identify relationships between competitive strategies and SME performance. Additionally, hypothesis testing has also been conducted along with its analysis. Multiple linear regression was implemented to examine the relationship between competitive strategies (independent variables) and the performance of SMEs (dependent variable). The model is structured as follows:

$Y = \alpha + B_1X_1 + B_2X_2 + B_3X_3 + \varepsilon$ Where:
Y = Organizational Performance of SMEs (dependent variable)
X_1 = Cost Leadership Strategy (independent variable)
X_2 = Differentiation Strategy (independent variable)
X_3 = Focus Strategy (independent variable)
α= Constant
B_1, B_2, B_3 = Coefficients representing the effect of each strategy on SME performance
ε = Error term accounting for variability not explained by the model

All of the included research and scholarly work included in the reports have been appropriately credited and the respondents who participated in the research have been informed of the confidentiality and have voluntarily participated in the survey along with being informed about the academic usage of the data.

Table 1: Details of Statements

Variables	Statements	Mean	SD.
Cost Leadership	Our organization provides cost-effective services/products that meet customer expectations.	4.008	.7198
	We focus on offering products/services with competitive pricing to attract customers.	3.927	.7603
	We actively manage and reduce production costs to maintain profitability.	3.969	.7353
	Our organization achieves economies of scale to minimize operational expenses.	4.031	.7353
	We prioritize resource efficiency to reduce wastage and unnecessary expenses.	4.044	.7112
Differentiation	Our brand identity us from competitors in the market.	3.418	.7102
	Marketing and branding efforts increase customer loyalty to our products/services.	3.621	.7716
	We focus on providing higher quality products/services compared to competitors.	3.517	.6962
	Product innovation and superior quality are key aspects of our business strategy	3.571	.7365
	Our pricing reflects the unique value of our products/services.	3.561	.7685
	Customers are willing to pay a premium for the differentiated features we offer.	3.465	.7104
Focus Strategy	Our organization specializes in serving a specific and unique market segment.	3.823	.7324
	We develop strategies to meet the demands of a particular group of customers.	3.826	.7523
	Marketing efforts are tailored to appeal to the specific needs of our focus market.	3.761	.7535
	Our promotional activities are designed to attract and retain niche customers.	3.777	.7374
Organizational Performance	The strategies implemented by our organization align with our business goals.	4.171	.7193
	Strategic planning has positively impacted our overall organizational performance.	4.151	.6870
	Our profitability has increased due to effective strategy implementation.	4.138	.6917
	Cost-saving measures and innovative strategies have improved financial performance.	4.151	.7276
	Our revenue has consistently grown over the past few years.	4.213	.6625
	Customer acquisition and retention efforts have contributed to revenue growth.	4.122	.7276

Table 1 summarizes the descriptive analysis of statements about cost leadership, differentiation, focus strategy, and organizational performance. Regarding cost leadership, most respondents agreed that their organization prioritizes cost-effective service delivery while maintaining customer satisfaction. There is also a strong preference for competitive pricing, cost management, economies of scale, and resource efficiency, indicating a firm commitment to reducing operational costs. Regarding differentiation, the responses indicate moderate agreement. While branding, product quality, innovation, and unique offerings are recognized as strategy components, agreement is lower than cost leadership. This suggests that, while differentiation exists, it may not be as strongly emphasized or well-perceived as a strategic priority.

The data for the focus strategy show a fair level of agreement that the organization targets specific market segments. The organization appears to tailor strategies, promotional efforts, and marketing approaches to niche markets, implying a focused approach to competitive advantage. The statements about organizational performance demonstrate a high level of agreement. Respondents understand that their strategies align with business objectives and improve overall performance. The responses show increased profitability and financial outcomes due to cost-cutting, innovative strategies, consistent revenue growth, and effective customer retention initiatives. This suggests that strategic implementation is thought to have significantly benefited the organization. Table 2 presents the study's demographic information.

Table 2: Respondents' Profile

Groups	Nos	%	Groups	Nos	%
Position			*Age group*		
Manager	197	51.2	25–34 years	172	44.7
Owner	188	48.8	35–44 years	107	27.8
			45 years and above	52	13.5
			Below 25 years	54	14.0
Types of industries			*Types of Fitness Apps Used*		
Manufacturing	143	37.1	Less than 10 years	79	20.5
Retail	141	36.6	1–5 years	193	50.1
Service	101	26.2	6–10 years	113	29.4
Total of each section	385	100.0	Total of each section	385	100.0

As shown in Table 2, the respondents are individuals in managerial and ownership roles in their respective organizations, with a nearly equal distribution; slightly more than half are managers, with the remainder being owners. In terms of age distribution, most respondents are between the ages of 25 and 34, followed by those aged 35 to 44. Individuals under the age of 25 make up a smaller proportion, as do those aged 45 and older. The sample includes three major industry types: manufacturing, retail, and service, with the manufacturing and retail sectors nearly evenly represented and the service sector having a smaller share. In terms of fitness app experience, most users have 1-5 years of experience, followed by those with 6-10 years of experience, and a smaller segment has used fitness apps for less than a year. The profile represents a diverse range of positions, ages, industries, and fitness technology experience.

Table 3: Reliability Results

Variables	No. of Statements	Cronbach's Alpha (Pilot Survey)	Cronbach's Alpha (Sample Survey)
Cost Leadership Strategies	5	0.823	0.686
Differentiation Strategies	6	0.849	0.774
Focus Strategies	4	0.822	0.695
Organizational Performance	6	0.868	0.758

Table 3 displays the proportion of systematic variation in a scale, which can be done by determining the association between the scores obtained from different scale administrations. Thus, if the association in reliability analysis is high, the scale yields consistent results and is, therefore, reliable. After collecting data from 40 pilot surveys and 385 samples, the internal consistency of construct items showed the following result. The score of the alpha value obtained on average is 0.8631 for the pilot survey and 0.775 for the sample survey, which indicates that the Questionnaire is valid and reliable. The reliability test was also done for 27 individual SMEs with variables and showed the study to be valid and dependable. The result of the reliability test is exhibited in the table. The study report mainly concentrated on the relationship between competitive strategies and the performance of SME organizations, which was conducted with the help of structured questionnaires, which helped the participants under the usages of the data, which was related based on the objectives and introduction to the research report. The researcher adhered to high ethical standards, ensuring transparency and professionalism by completing the process from data collection to report preparation.

4. Data Presentation and Analysis

This section includes a study's findings, which include descriptive results, correlation, regression analysis, and an explanation of the outcomes related to the research objectives.

Table 4: Descriptive Results

Variables	Minimum (Min.)	Maximum (Max.)	Mean	SD
Cost Leadership	3.00	4.80	3.9960	.3185
Differentiation	2.83	4.50	3.5255	.2982
Focused	2.75	5.00	3.7968	.3697
Organizational Performance	3.33	4.83	4.1578	.2838

Table 4 displays a mean of 3.996; cost leadership strategies are moderately emphasized, focusing on minimizing costs. The relatively low standard deviation of 0.3185 suggests that responses are consistently aligned in recognizing the importance of cost-effective operations within organizations. The mean for differentiation is 3.5255, indicating a moderate focus on offering unique products or services. The standard deviation of 0.29882 shows a slight variation in responses, suggesting that businesses vary somewhat in how much they prioritize differentiation strategies.

Focused strategies show a mean of 3.7968, strongly emphasizing catering to specific market niches. The standard deviation of 0.36987 indicates a higher degree of variation in responses, suggesting that some companies place more emphasis on niche targeting than others. With a mean of 4.1578, organizational performance is the highest-rated category, showing that organizations prioritize performance outcomes such as profitability and growth. The low standard deviation of 0.28328 indicates strong agreement among respondents regarding aligning operations to achieve positive performance outcomes.

Correlation Results

The correlation matrix evaluates the relationships between Porter’s competitive strategies and organizational performance.

Table 5: Relationship Among Dependent and Independent Variables

	Variables	Cost Leadership	Differentiation	Focused	Organizational Performance
Pearson Correlation	Cost Leadership	1			
	Differentiation	.132	1		
	Focused	.056*	.042*	1	
	Organizational Performance	.057*	.021*	.032*	1

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

Table 5 shows a weak negative relationship between all three strategies and organizational performance. Cost leadership shows a slight negative correlation with performance (-.057, significant at 90%), Differentiation has a similar weak negative correlation (-.021, significant at 90%), and focused strategy also shows a minor negative relationship (-.032, significant at 90%). Although statistically significant, these negative correlations indicate that simply adopting any of these strategies in isolation does not strongly enhance organizational performance. This could suggest that the strategies may not be enough to drive success without other supporting factors, such as market conditions, operational execution, or external influences. While cost leadership and differentiation share a moderate positive correlation (.132, significant at 95%), the other relationships among the strategies are notably weak. Cost leadership and focused strategy show a slight positive correlation (.056, significant at 90%), while differentiation and focused strategy exhibit an even weaker positive relationship (.042, significant at 90%). These weak correlations suggest that the strategies do not strongly align, and organizations may face challenges in implementing one strategy without significant overlap or complementary aspects from the others. The minimal interrelations among the strategies imply that firms may need to adopt a more nuanced, integrated approach rather than relying on a singular strategic focus.

Regression Analysis

In this section, the study looked at how each independent variable affected the participants' overall well-being by applying a regression model.

Table 6: Regression Results

Items	Unstandardized Coefficients(b)	P-Value
(Constant)	4.432	0.001
Cost Leadership	-0.046	.032
Differentiation	0.009	.042
Focused	-0.013	.050

Table 6 provides insights into the relationship between cost leadership, differentiation, focus, and organizational performance predictors and the dependent variable. The constant has a B value of 4.432 with a significant p-value of 0.001, indicating a baseline or intercept for the model. This suggests that when all independent variables are held constant (at zero), the outcome variable remains significantly influenced, contributing a notable baseline effect.

For the independent variables, cost leadership has a coefficient of -0.046 with a p-value of 0.032, indicating a negative and statistically significant impact. Adopting cost leadership strategies could slightly reduce the outcome variable, although the magnitude is small. Differentiation has a positive coefficient of 0.009 with a p-value of 0.042, which is statistically significant. It highlights that differentiation strategies can positively influence organizational outcomes, but the effect size is minimal. Similarly, the Focused strategy has a coefficient of -0.013 with a borderline significance of 0.050, indicating a weak negative relationship. Lastly, Organizational Performance has a coefficient of -0.021 with a p-value of 0.049, showing a significant negative influence on the outcome variable.

Table 7: Normality Test of Data

Items	Skewness	Kurtosis
Cost Leadership	-.293	.332
Differentiation	.161	-.253
Focused	.116	.358
Organizational Performance	-.184	.129

Results from Table 7 suggest that it is approximately normally distributed. Cost Leadership has a slight negative skew (-0.293), while Differentiation and Focused exhibit small positive skewness values (0.161 and 0.116, respectively), indicating a near-normal distribution with only mild asymmetry. The kurtosis values for all items fall near zero, with Cost Leadership (0.332) and Focused (0.358) showing slightly positive kurtosis, indicating moderate peakness, while Differentiation (-0.253) and Organizational Performance (0.129) exhibit near-normal kurtosis. According to statistical guidelines, a skewness between -1 and 1 and kurtosis between -2 and 2 are typically acceptable for normality (George & Mallery, 2016). These results suggest that the data distribution is sufficiently close to normal, supporting parametric statistical methods.

Table 8: Summary of Hypothesis

Hypothesis	Result
H1: Cost leadership has a significant effect on SME performance.	Accepted
H2: Differentiation strategy has a significant effect on SME performance.	Accepted
H3: Focus strategy has a significant effect on SME performance.	Accepted

The correlation analysis indicates a weak negative relationship between Cost Leadership and organizational performance (-0.057, significant at 90%), suggesting that solely adopting cost leadership strategies may not strongly enhance performance. Regression analysis supports this with a negative coefficient (-0.046, p = 0.032), indicating a slight but statistically significant reduction in performance.

The differentiation strategy shows a weak negative correlation with performance (- 0.021, significant at 90%) in the correlation matrix. However, regression results reveal a positive coefficient (0.009, p = 0.042), indicating that differentiation strategies can positively influence performance, albeit with minimal impact.

The focused strategy exhibits a weak negative correlation with performance (-0.032, significant at 90%) and a small negative coefficient (-0.013, p = 0.050) in the regression model. This suggests a weak but borderline significant negative impact on performance when implemented in isolation.

The hypotheses are partially supported, with mixed results across analyses. Cost Leadership and Focused Strategy show slight negative impacts on performance, while Differentiation demonstrates a minimal positive effect. These findings emphasize the limitations of relying on any single strategy and highlight the importance of integrating complementary approaches and considering contextual factors for improved organizational outcomes.

In Nepal, the analysis reveals that competitive strategies have mixed impacts on SME performance due to unique market challenges and conditions. Cost Leadership shows a weak negative impact (-0.057, significant at 90%; coefficient: -0.046, p = 0.032), highlighting the difficulties of minimizing costs amidst high import dependencies and fluctuating expenses. Differentiation strategies focusing on cultural and niche products have a minimal positive effect (coefficient: 0.009, p = 0.042) but face barriers such as limited scalability and inadequate branding efforts. Focus strategies targeting specific segments exhibit a slight negative correlation (- 0.032, significant at 90%; coefficient: -0.013, p = 0.050), as the limited market size and high competition restrict growth. These findings emphasize that no single strategy suffices in isolation. Instead, a hybrid approach integrating cost efficiency, innovation, strategic focus, and supportive policies is essential for SME sustainability in Nepal.

5. Discussions

The findings of this study provide a significant understanding of the impact of competitive strategies on the performance of SMEs in Nepal. Despite the theoretical importance of cost leadership, differentiation, and focus strategies, none demonstrated a statistically significant positive correlation with SME performance. These results align with and diverge from existing research in several key ways.

Cost leadership strategies, characterized by resource efficiency, economies of scale, and production cost management, showed a weak negative correlation with performance. These findings resonate with Bhattarai (2018), who emphasized that excessive focus on cost reduction can undermine innovation and quality, thereby limiting competitive advantage. Similarly, Khan et al. (2023) observed that SMEs prioritizing operational efficiency over customer engagement often struggled to sustain long-term growth. However, this study's findings challenge Rai, Bhattarai, and Shrestha's (2020) conclusion that cost leadership strategies significantly enhance performance in resource-constrained environments. The inconsistency may reflect Nepal's diverse SME landscape, where rigid cost-cutting might not effectively address the dynamic market needs.

Differentiation strategies demonstrated a positive but minimal impact on organizational outcomes (B = 0.009, p = 0.042), highlighting the importance of innovation and tailored solutions. This aligns with Shakya et al. (2024), who found that product uniqueness and customer-centric innovations significantly contribute to financial performance in Nepali SMEs. However, the limited emphasis on branding and premium pricing, as noted in this study, diverges from the findings by Bhattarai (2018), who argued that differentiation is most effective when combined with a strong brand identity. The discrepancy could stem from Nepal's market characteristics, where affordability and practicality often outweigh premium branding.

Focus strategies exhibited a weak negative relationship with performance (B = - 0.013, p = 0.050). This finding contrasts with Paudel's (2020) assertion that niche targeting enhances SME performance through better market alignment. While Paudel emphasized the role of entrepreneurship orientation in amplifying focus strategies' effectiveness, this study's results suggest that resource limitations and narrow targeting might restrict SMEs' ability to scale or diversify, particularly in Nepal's competitive landscape.

The weak relationships between individual strategies and performance underscore the importance of integrated approaches. As Yadav (2024) highlighted, strategic planning, which blends cost efficiency, differentiation, and adaptability, is critical for sustaining competitive advantage. This perspective aligns with the observation that hybrid strategies addressing external market dynamics and internal operational alignment are more effective (Khan et al., 2023). Moreover, this study's findings suggest that reliance on singular strategic paths may overlook the complexities of SME ecosystems, a notion supported by Shakya et al. (2024).

Based on the international context, Gatimu and Amuhaya (2022) found that cost leadership alone was insufficient for sustained SME performance in Kiambu County, Kenya, suggesting the need for supplementary strategic approaches. Dyer and Singh (2016) highlighted the importance of inter-organizational cooperative strategies, suggesting that SMEs combining focus strategies with partnerships may better address resource constraints.

Similarly, Steensma et al. (2015) argued that cooperative strategies leveraging inter-firm relationships could amplify competitive advantage by pooling resources and addressing market complexities. Adding more theoretical context, these findings contribute to understanding competitive strategy implementation in resource-constrained settings, emphasizing the need for context-specific adaptations. Practically, the study highlights the necessity for SMEs to adopt flexible, integrated strategies. For instance, balancing cost efficiency with customer-focused differentiation can enhance both financial outcomes and market positioning. Policymakers should also consider supporting SMEs through training programs and infrastructure improvements to enable effective strategy implementation, as Gatimu and Amuhaya (2022) suggested. Theoretically, these findings contribute to understanding competitive strategy implementation in resource-constrained settings, emphasizing the need for context-specific adaptations. Practically, the study highlights the necessity for SMEs to adopt flexible, integrated strategies. For instance, balancing cost efficiency with customer-focused differentiation can enhance financial outcomes and market positioning. The findings highlight the importance of adopting an integrated approach to competitive strategy for SME managers in Nepal. In isolation, managers should avoid relying on a single strategy, such as cost leadership or differentiation. Instead, they are encouraged to combine cost efficiency with innovative practices and market responsiveness. This hybrid approach can help businesses balance operational sustainability with the flexibility to meet customer demands. For instance, while maintaining cost efficiency, managers can invest in customer-focused innovations that differentiate their offerings without incurring excessive branding costs.

6. Conclusion

In conclusion, the report aims to examine the impact of cost leadership, differentiation, and focus strategies on the performance of SMEs in Nepal. The findings revealed that none of these strategies demonstrated a statistically significant effect on performance at the 5% level. While cost leadership strategies emphasize resource efficiency and production cost management, their weak negative correlation with performance suggests that over-reliance on cost reduction may hinder innovation and quality. Similarly, differentiation strategies, though positively correlated with performance, showed minimal impact, indicating that innovation alone is insufficient without a stronger emphasis on branding and market positioning. Focus strategies targeting specific niches also demonstrated weak effectiveness, likely due to resource limitations and scalability challenges.

These findings contribute to the broader understanding of competitive strategies by underscoring the importance of an integrated approach. Isolated strategies may not yield significant outcomes, as the consistently weak correlations and regression results indicate. Instead, a hybrid approach combining cost efficiency, customer-focused differentiation, and strategic adaptability appears more suitable for SMEs operating in dynamic environments like Nepal. From a practical perspective, this research highlights actionable insights for SMEs and policymakers. SMEs are encouraged to adopt flexible strategies that address internal operational efficiency and external market demands. Policymakers should focus on supporting SMEs through capacity-building programs, infrastructure development, and access to resources that enable effective strategy implementation. These measures could help SMEs better navigate the complexities of competitive environments and achieve sustainable growth.

7. Future Scope

Future research should build on these findings by exploring the role of external factors, such as market dynamics, market volatility, regulatory policies, and cultural influences, in shaping the effectiveness of competitive strategies. Additionally, longitudinal studies could provide a deeper understanding of how SMEs evolve their approach in response to changing market conditions. Such research would offer valuable insights into achieving long-term competitiveness and resilience for SMEs in diverse contexts.

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