



Social Enterprise Ecosystems and Sustainable Growth of Small Businesses in Nepal: The Role of Government Support, Entrepreneurial Networks and Innovation Capability

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Abstract

Small businesses are widely recognised as engines of employment and social value creation in emerging economies, yet their capacity to grow sustainably depends heavily on the ecosystem of institutional and relational support surrounding them. This article develops a conceptual model of how social enterprise ecosystems shape the sustainable growth of small businesses in Nepal, focusing on three constructs highlighted in the literature: government support, entrepreneurial networks, and innovation capability. Drawing on a synthesis of secondary sources – no interviews or other primary data were collected – spanning entrepreneurial ecosystem theory, social capital and network theory, dynamic capabilities and absorptive capacity research, and government support policy literature, together with Nepal-specific empirical evidence, the article proposes that entrepreneurial networks and innovation capability act as the proximate drivers of sustainable growth, while government support operates largely indirectly, by strengthening networks and innovation capability rather than acting as a strong direct driver in its own right. This proposition is consistent with recent Nepali survey evidence showing that entrepreneurs perceive government support as the least effective ecosystem factor, while entrepreneurial capability and socio-cultural support show significant positive effects on growth intentions. The article presents a conceptual framework, five propositions, and a discussion of theoretical and policy implications, offering researchers a testable model and policymakers a more nuanced understanding of where ecosystem investment is likely to yield the greatest returns for small business growth in Nepal.

1. Introduction

Small businesses form the backbone of Nepal's economy, contributing significantly to employment and value creation despite persistent structural constraints – low per capita income, high youth outmigration, a large informal sector, and geographic isolation across much of the country's hill and mountain regions (Prajapati & Khanal, 2023). For these businesses, growth is rarely a matter of individual effort alone; it depends on the surrounding ecosystem of institutions, relationships, and capabilities that either enable or constrain entrepreneurial activity (Isenberg, 2010; Stam, 2015). Over the past decade, the entrepreneurial ecosystem concept has become one of the dominant lenses through which scholars and policymakers analyze small business development, and a growing sub-stream applies this lens specifically to social enterprises – ventures that combine commercial activity with an explicit social or environmental mission (Bozhikin, 2019; Klimas & Wronka-Pośpiech, 2022).

This article focuses on three ecosystem-related constructs that recur across the literature as drivers of small business growth: government support, entrepreneurial networks, and innovation capability. Government support encompasses the financial and nonfinancial policies through which the state seeks to stimulate entrepreneurial activity – grants, credit schemes, regulatory simplification, and technical assistance (Prasannath et al., 2024). Entrepreneurial networks refer to the web of formal and informal relationships – with suppliers, customers, peer entrepreneurs, donors, and community members – through which entrepreneurs access information, resources, and legitimacy (Granovetter, 1973; Uzzi, 1997). Innovation capability refers to a firm's ability to recognize, absorb, and apply new knowledge to develop new products, processes, or business models (Cohen & Levinthal, 1990; Teece et al., 1997). Each of these constructs has an extensive independent literature, yet they are rarely integrated into a single model that also accounts for the broader ecosystem context in which small businesses operate, and rarely tested or theorized specifically for Nepal.

This gap matters because the limited Nepal-specific evidence available complicates any simple assumption that more government support automatically produces more small business growth. In one of the few quantitative studies of entrepreneurial ecosystem factors in Nepal, Prajapati and Khanal (2023) found that entrepreneurs perceived government support as the least favorable ecosystem factor and that its statistical association with growth intention was not significant, whereas entrepreneurial capability and socio-cultural support both showed significant positive effects. This finding is consistent with a wider international literature reporting mixed and context-dependent effects of government support programmes on SME outcomes (Prasannath et al., 2024; Doh & Kim, 2014). It suggests that government support's contribution to small business growth in Nepal may operate less through a strong direct effect and more through its capacity to strengthen the relational and capability-based resources – networks and innovation capability – that more proximately drive growth.

This article addresses this puzzle by developing a conceptual model, grounded entirely in secondary literature, in which entrepreneurial networks and innovation capability are positioned as the more proximate drivers of sustainable small business growth in Nepal, while government support is theorized to operate substantially through these two mechanisms rather than through a strong independent path. The social enterprise ecosystem provides the overarching frame within which these relationships are embedded and through which their strength is expected to vary. No interviews, questionnaires, or other primary data were collected for this article; the model and its propositions are derived from a synthesis of the entrepreneurial ecosystem, social capital, dynamic capabilities, and government policy literatures, together with the limited body of Nepal-specific empirical research currently available.

Sustainable growth, as used throughout this article, is not treated as synonymous with revenue expansion alone. Following the broader sustainable entrepreneurship and SME performance literatures, it is conceptualized as encompassing at least three dimensions: economic viability (revenue, employment, and survival over time), continuity of social or community value where the business has an explicit social mission, and resilience – the capacity to withstand and adapt to shocks such as natural disasters, remittance volatility, and political and regulatory transition, all of which are recurring features of the Nepali operating environment (Gilbert, McDougall, & Audretsch, 2006; Hussain, Ahmad, & Mia, 2023). A model that explains only revenue growth, without attending to resilience and social value continuity, would capture only part of what “sustainable” growth means for the kind of small, often family-owned and community-embedded businesses that dominate Nepal's private sector.

The remainder of the article proceeds as follows. The Materials and Methods section describes the review methodology used to construct the conceptual model. The Results section presents the literature synthesis, the conceptual framework, and five propositions. The Discussion section considers theoretical and policy implications together with the article's limitations, and the Conclusion summarizes the article's contribution.

2. Material and Methods

This article's contribution is conceptual and is built entirely from secondary sources; no questionnaires, interviews, or other primary data were collected, and no human or animal subjects were involved at any stage. Accordingly, the checklist items in the journal's submission guidelines concerning Institutional Review Board or Ethics Committee approval, participant informed consent, and clinical trial registration are not applicable to this article. The model and its five propositions were developed through a narrative, thematically organized synthesis of four literatures – entrepreneurial and social enterprise ecosystems, government support policy, social capital and network theory, and dynamic capabilities/absorptive capacity – together with the small but growing body of Nepal-specific empirical research.

Sources were identified through targeted searching using combinations of the terms “entrepreneurial ecosystem,” “social enterprise ecosystem,” “government support,” “SME performance,” “entrepreneurial networks,” “social capital,” “innovation capability,” “absorptive capacity,” and “Nepal.” Priority was given to peer-reviewed journal articles, systematic reviews, and foundational theoretical works, supplemented by the one directly relevant Nepal-specific quantitative study identified (Prajapati & Khanal, 2023), which anchors several of the article's propositions.

Synthesis proceeded thematically rather than through a fully systematic, PRISMA-style protocol: each construct in the conceptual model guided the coding and grouping of sources, with particular attention to any study addressing Nepal or offering comparable emerging-economy evidence. This approach is consistent with the narrative synthesis method used in comparable ecosystem and social entrepreneurship reviews (Bozhikin, 2019; Gupta & Srivastava, 2024) and is appropriate for a theory-building article whose purpose is to generate testable propositions rather than to report an exhaustive, quantitatively coded systematic review of every published study on each construct. As a synthesis of previously published, publicly available literature, this article required no ethics committee approval; the applicable standard is academic integrity in attribution and representation of cited sources, both of which have been observed throughout, including explicit disclosure where a source's claims rest on a single study rather than a broad evidence base.

3. Results

3.1. Social Enterprise Ecosystems: Concept and Components

The entrepreneurial ecosystem concept describes the interdependent set of actors, institutions, and resources within a region that jointly enable productive entrepreneurship (Stam, 2015; Stam & Spigel, 2016). Isenberg (2010) offered an early, practitioner-oriented account identifying six domains – policy, finance, culture, support, human capital, and markets – that together determine an ecosystem's vitality, while Acs, Stam, Audretsch, and O'Connor (2017) traced the concept's intellectual lineage back to earlier work on industrial clusters and regional innovation systems. Spigel (2017) emphasized that ecosystems are fundamentally relational rather than merely structural: what matters is not simply the presence of resources but the quality of the relationships through which entrepreneurs access them, a point of direct relevance to the network-based mechanisms examined below. Malecki (2018) and Alvedalen and Boschma (2017) both caution, however, that ecosystem research risks conceptual looseness unless it specifies the causal mechanisms linking ecosystem components to entrepreneurial outcomes rather than simply listing ingredients – a caution this article addresses by disaggregating the ecosystem into three theoretically distinct mechanisms (government support, networks, innovation capability) rather than treating “ecosystem quality” as a single undifferentiated construct. Audretsch and Belitski (2017) demonstrate empirically how city-level framework conditions shape ecosystem outcomes, and Autio, Nambisan, Thomas, and Wright (2018) show how digital affordances are reshaping the geography of ecosystems, a development of growing relevance as Nepali small businesses adopt low-cost digital tools for networking and market access.

A distinct but overlapping literature applies the ecosystem concept specifically to social enterprises. Bozhikin (2019) reviewed the most-cited studies on social entrepreneurship ecosystems and identified recurring key players – government, financial institutions, educational bodies, and civil society organizations – alongside the social problems these ecosystems are typically mobilized to address. Klimas and Wronka-Pośpiech (2022) examined the conceptual fit between social entrepreneurship and entrepreneurial ecosystem theory, concluding that the frameworks are compatible but require adaptation to account for the dual social and commercial logics social enterprises pursue, echoing the hybrid organizing literature. O'Shaughnessy and Olmedo (2023) situated the Irish social enterprise ecosystem within the wider European landscape, illustrating how national policy and funding architecture shape which ecosystem functions are strong or weak in a given country – a comparative logic this article extends to Nepal. At the level of individual social enterprise outcomes rather than ecosystem structure, Gupta, Chauhan, Paul, and Jaiswal (2020) reviewed the broader social entrepreneurship literature and called for greater integration of institutional and resource-based perspectives, while Gupta and Srivastava (2024), reviewing social enterprise research from an emerging-economy perspective specifically, found that the interplay between social enterprise growth and its surrounding institutional and cultural environment remains under-theorized outside a small number of well-studied countries such as India – a gap into which Nepal-specific theorizing, including the present article, can contribute. Hussain, Ahmad, and Mia (2023) reviewed social enterprise performance measurement and found that most studies emphasize either financial or social performance in isolation, reinforcing this article's decision to conceptualize sustainable growth multi-dimensionally rather than through revenue growth alone.

Applied to Nepal specifically, the ecosystem lens is useful precisely because it resists reducing small business growth to any single cause. Nepal's ecosystem includes state actors (the federal government and, since Nepal's transition to federalism, provincial and local governments with their own, sometimes overlapping, enterprise promotion mandates), financial institutions (commercial banks, microfinance institutions, and a nascent venture

capital and angel investment sector), educational and training bodies (university entrepreneurship programmes and private incubators), and civil society and donor organizations that have historically played an outsized role relative to many other South Asian economies. The ecosystem lens directs attention to how well these actors coordinate with one another, rather than treating any one actor's investment in isolation – a framing directly relevant to the model developed below, in which government support's effect on growth is theorized to depend on its interaction with network- and capability-building actors elsewhere in the ecosystem.

3.2. Government Support and Small Business Growth

Government support for small businesses is theorized to operate through two broad channels: direct, targeted support – grants, subsidized credit, tax incentives – and indirect, non-targeted support that shapes the general regulatory and institutional environment in which firms operate, such as business registration procedures, competition policy, and contract enforcement (Prasannath et al., 2024). Beck, Demirgüç-Kunt, and Levine (2005) provided influential cross-country evidence that a larger SME sector is associated with faster economic growth, though they caution that the relationship is correlational rather than clearly causal, while Ayyagari, Beck, and Demirgüç-Kunt (2007) documented substantial cross-country variation in the size and contribution of the SME sector that appears closely tied to the quality of the surrounding business environment, including government policy.

Empirical evidence on the effectiveness of government support programmes is decidedly mixed. In a systematic review of sixty-five studies, Prasannath, Adhikari, Gronum, and Miles (2024) found that government support policies can improve SME performance both directly and indirectly, by fostering entrepreneurial orientation, but that the effectiveness of specific policy instruments varies considerably by sector, firm size, and national context, and that non-targeted, institution-building support is often harder to link to firm-level outcomes than direct financial support. Doh and Kim (2014), studying government financial support programmes for SME innovation in South Korea, found generally positive effects on regional innovation outcomes, but noted that the benefits were unevenly distributed across firms with different levels of absorptive capacity – firms better able to use external knowledge captured more value from government support, a finding directly relevant to this article's proposed link between government support, networks, and innovation capability. Zaato, Ismail, Uthamaputhran, and Owusu-Ansah (2020), studying SMEs in Ghana, proposed that government support policies function best as a complement to, rather than a substitute for, social capital, suggesting that the two operate through overlapping but distinct mechanisms rather than as independent, additive drivers of performance.

Nepal-specific evidence on government support is limited but instructive. Prajapati and Khanal (2023), surveying 158 established entrepreneurs in Nepal using structural equation modelling, found that perceived government support had a statistically insignificant, slightly negative association with growth intention, and interpreted this as reflecting a mismatch between government schemes and entrepreneurs' actual needs, alongside continuing bureaucratic and regulatory friction despite recent reforms. This finding does not imply that government support is irrelevant to small business growth in Nepal; rather, consistent with Doh and Kim's (2014) South Korean evidence and Zaato et al.'s (2020) Ghanaian evidence, it suggests that government support's effect may be substantially mediated by other ecosystem factors – particularly the networks and capabilities that determine whether a given firm can actually make productive use of the support on offer.

3.3. Entrepreneurial Networks and Social Capital

Entrepreneurial networks are theorized through the broader lens of social capital, understood as the resources – information, trust, legitimacy – that accrue to actors by virtue of their position within a network of relationships (Granovetter, 1985). Granovetter's (1973) foundational concept of the strength of weak ties argues that loosely connected, non-redundant contacts are often more valuable for accessing novel information and opportunities than tightly bonded strong ties, because weak ties bridge otherwise disconnected social groups. Burt (1992) extended this insight through the concept of structural holes, arguing that entrepreneurs who occupy brokerage positions bridging otherwise unconnected groups gain disproportionate access to information, resources, and opportunities for innovation. Uzzi (1997) complicated this picture by showing that embeddedness – dense, trust-based relationships – can also generate significant advantages, including fine-grained information transfer, joint problem-solving, and preferential resource allocation, though excessive embeddedness can eventually reduce access to novel external information, a tension relevant to understanding when Nepali entrepreneurs benefit most from close community ties versus more diverse external connections.

Applied specifically to entrepreneurship, Aldrich and Zimmer (1986) argued that entrepreneurship is best understood as embedded in social networks rather than as a purely individual act, since access to resources, information, and legitimacy depends on an entrepreneur's network position. Aldrich and Fiol (1994) extended this to the institutional level, showing that new industries and organizational forms – a category that plausibly includes social enterprise in an emerging market like Nepal – depend on networks of legitimation among early entrants before broader institutional acceptance is achieved. In the SME and innovation literature specifically, network diversity has been linked empirically to firms' capacity to access varied resources and to enhance their capacity to innovate, while relational quality – trust, reciprocity, shared goals – facilitates the collective action and resource exchange on which small businesses in resource-constrained settings depend.

In the Nepali context, entrepreneurial networks appear to matter a great deal in practice even where they remain under-theorized in the academic literature. Prajapati and Khanal (2023) found that individual entrepreneurial capability – itself partly a product of network-based learning and support – was the strongest predictor of growth intention among the ecosystem factors tested, and that socio-cultural support, closely related to community and family networks, was the only other ecosystem factor to show a significant positive effect. This is consistent with the broader emerging-economy literature suggesting that where formal institutions and government support are weak or inconsistently experienced, entrepreneurs substitute family, community, and peer networks for the resources that formal institutions elsewhere provide (Aldrich & Zimmer, 1986). This substitution logic underlies this article's proposition that entrepreneurial networks act as a more proximate and reliable driver of small business growth in Nepal than government support acting alone.

3.4. Innovation Capability and Sustainable Growth

Innovation capability is theorized within the dynamic capabilities and absorptive capacity literatures as a firm's capacity to sense opportunities, seize them through the reconfiguration of resources, and adapt continuously to a changing environment (Teece, Pisano, & Shuen, 1997). Cohen and Levinthal (1990) introduced the closely related concept of absorptive capacity, defined as a firm's ability to recognize the value of new external information, assimilate it, and apply it to commercial ends, arguing that firms lacking this capacity fail to benefit from external knowledge even when it is freely available – a point directly relevant to understanding why government support or network access alone may not translate into growth without a complementary internal capability to exploit them. Zahra and George (2002) refined this concept by distinguishing potential absorptive capacity, the capacity to acquire and assimilate external knowledge, from realized absorptive capacity, the capacity to transform and exploit it – a distinction useful

for understanding why some Nepali small businesses may access government schemes or network connections without converting them into innovation or growth.

For resource-constrained small businesses specifically, innovation capability is unlikely to take the form of radical, high-cost innovation; it more often manifests as incremental adaptation – modest product adjustments, new supplier relationships, small process improvements – that nonetheless cumulatively determine competitiveness and survival. For illustration, incremental innovation of this kind is visible across several sectors that dominate Nepal's small business landscape. In agriculture and agro-processing, small firms adapt packaging, storage, or distribution methods to reduce post-harvest losses and reach urban markets; in tourism and hospitality, small operators adjust service offerings in response to shifting visitor demand and, increasingly, to digital booking platforms; and in handicrafts and textiles, producers adapt designs and materials to appeal to export and diaspora markets. In each case, the innovation involved is modest in scale but depends on the same underlying capability – the ability to notice a change in the external environment, evaluate its relevance, and adjust the business accordingly – that the absorptive capacity literature identifies as the foundation of more ambitious innovation activity later on (Cohen & Levinthal, 1990; Zahra & George, 2002). This suggests that policies and network structures that build this general capability are likely to have broader payoffs than sector-specific interventions targeted at any single industry.

What matters for this article's model is that innovation capability functions as the mechanism through which external inputs – government support, network-derived information and resources – are converted into the kind of concrete changes in products, processes, or business models that produce sustainable growth, rather than growth resulting automatically from access to those inputs.

3.5. The Nepali Context: Evidence and Gaps

Nepal's small business ecosystem operates within a distinctive set of structural conditions: a largely remittance- and agriculture-dependent economy undergoing a gradual shift toward services and entrepreneurship, particularly among youth (Prajapati & Khanal, 2023); a fragmented and still-developing institutional support infrastructure, comprising government schemes alongside a growing number of private incubators, accelerators, and donor-backed organizations; and significant geographic constraints, with poor transportation and infrastructure access in hill and mountain districts limiting market reach for many small businesses. Within this context, the small number of Nepal-focused studies available offer a consistent, if still preliminary, picture: individual entrepreneurial capability and socio-cultural (network-related) support show the clearest positive associations with growth-related outcomes, while government support, access to finance, and infrastructure support show weaker or statistically insignificant associations, despite continued government investment in enterprise promotion programmes (Prajapati & Khanal, 2023).

This pattern echoes findings from the broader social enterprise ecosystem literature: O'Shaughnessy and Olmedo (2023) show that national ecosystem architecture varies substantially even within relatively similar European institutional contexts, and Bozhikin (2019) finds that government is consistently identified as a key ecosystem player but that its practical effectiveness depends heavily on how well its programmes are coordinated with other ecosystem actors – financial institutions, educational bodies, and civil society organizations – rather than on the scale of government investment alone. Gupta and Srivastava's (2024) review of emerging-economy social enterprise research similarly concludes that institutional support functions differently in emerging markets than in the well-studied contexts of Europe and North America, often working through informal, relationship-based channels rather than the formal regulatory channels assumed in much of the foundational literature. Taken together, this evidence base motivates this article's central theoretical move: rather than modelling government support as a strong direct driver of small business growth in Nepal, it is more consistent with the available evidence to model it as an input that must pass through entrepreneurial networks and innovation capability to produce growth – the conceptual model developed below.

4. Conceptual Framework

Integrating the literatures reviewed above, this article proposes a conceptual model of sustainable small business growth in Nepal in which entrepreneurial networks and innovation capability act as the proximate drivers of growth, government support acts substantially through these two mechanisms rather than through a strong independent path, and the whole system is embedded within, and its strength conditioned by, the maturity of the local social enterprise ecosystem (see Figure 1).

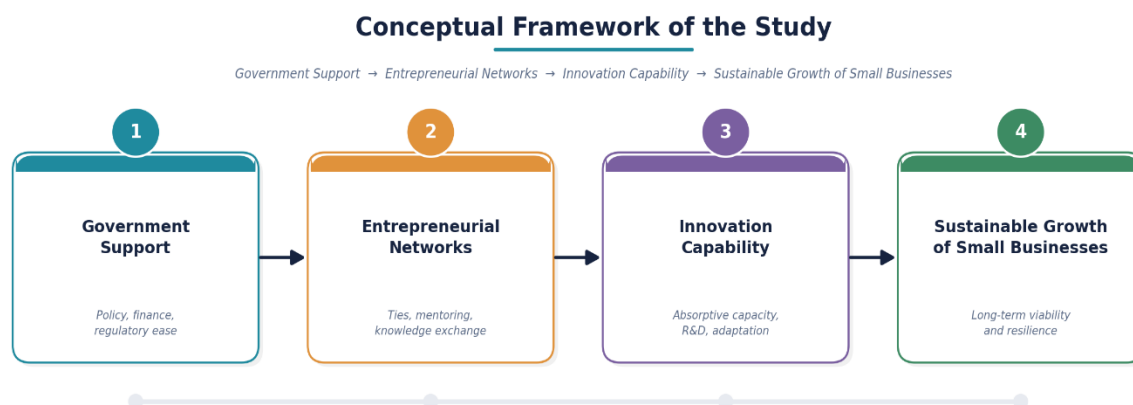


Figure 1: Conceptual Framework of the Study

Government Support → Entrepreneurial Networks → Innovation Capability → Sustainable Growth of Small Businesses, with a direct but comparatively weak path also drawn from Government Support to Sustainable Growth, and a direct path from Entrepreneurial Networks to Sustainable Growth alongside its path through Innovation Capability. The entire model is enclosed within a boundary labelled [Social Enterprise Ecosystem Maturity], shown with a dashed arrow moderating the strength of all paths within the model. As shown in Figure 1, government support is modelled primarily as an indirect input rather than a strong direct driver of growth.

Proposition 1 (P1): Entrepreneurial networks are positively associated with the innovation capability of small businesses in Nepal.

The entrepreneurial networks provide small business owner-managers with access to a wide range of knowledge, information, skills, and resources that are often difficult to gain in resource-scarce environments. Grounding their argument in network theory (Granovetter, 1973; 1985), structural hole approach of Burt (1992), and embeddedness of Uzzi (1997), broader and more diverse network ties provide entrepreneurs with exposure to new kinds of information and perspectives, and hence contribute to knowledge acquisition and creation of new opportunities. The external access to knowledge facilitated by networks is especially relevant to the notion of absorptive capacity, defined as firm's capability to identify, absorb and exploit valuable external knowledge (Cohen & Levinthal, 1990).

In addition, according to Aldrich & Zimmer (1986), entrepreneurship activities are embedded in networks of social and economic relationships, from which entrepreneurs gather information, receive advice, get resources and support. Specifically in the case of Nepal, where resources are scarce and institutions are developing, entrepreneurial networks can serve as an alternative to the lack of internal resources and allow a firm to become more effective in acquiring and utilizing external knowledge. Hence, firms with broader and more diverse entrepreneurial networks are expected to develop higher innovation capability through better access to knowledge and resources.

Proposition 2 (P2): Innovation capability is positively associated with the sustainable growth of small businesses in Nepal.

The ability to innovate allows small firms to create, adopt and implement innovations, which may be in terms of products, services, processes, and management practice changes according to changing market and environmental dynamics. According to the dynamic capabilities approach, firms able to sense new opportunities in the market, to seize them through innovation, and reconfigure their resources and capabilities become more likely to sustain competitiveness and grow over time (Teece et al., 1997). The ability to innovate also implies the acquisition and assimilation of external knowledge by firms, which is emphasized in the absorptive capacity approach (Zahra & George, 2002).

For small firms working under Nepalese market conditions, innovation capability becomes an important way to cope with constantly changing customer needs, to improve their performance, create new opportunities and add more value. Instead of making use of limited resources and current business model, a firm with higher innovation capability would be able to constantly adapt its resources to meet new opportunities and threats.

Therefore, innovation capability is supposed to contribute not only to the short-term performance gains but also to the long-term sustainability and growth of small firms. The firms that would be able to successfully translate innovative knowledge and ideas into product innovations, service innovations, process innovations or business model innovations will have higher growth capabilities.

Proposition 3 (P3): Government support is positively associated with entrepreneurial networks and innovation capability, but its direct association with sustainable growth is weaker and more context-dependent than its indirect association through these two mechanisms.

Government support could offer small firms financial, training, informational, mentoring, institutional, and market support. The kind of support provided serves to improve entrepreneurial networks through fostering linkages between the firms' owners and government agencies, financial organizations, business organizations, mentoring, supplies, customers, and other entrepreneurs. Moreover, government support could boost innovation capability through providing knowledge, skills, finances, technology, and other resources for developing and implementing innovations (Doh & Kim, 2014; Zaato et al., 2020).

The case of Nepal shows that government support might not necessarily affect firms' growth directly. For example, the results presented by Prajapati and Khanal (2023) suggest that perceived government support was not significantly associated with growth intention. Therefore, the provision of the government support alone is not enough to drive sustainable growth of firms if they do not have capabilities and networks to effectively exploit this kind of support.

Hence, the effect of government support on sustainable growth is likely to be achieved mainly through the mechanisms of entrepreneurial networks and innovation capability. Government actions will be effective if they foster a firm's capability to get knowledge, build relationships, and access and transform resources into innovation. Thus, the direct relationship between government support and sustainable growth is likely to be less important than the indirect one through entrepreneurial networks and innovation capability.

Proposition 4 (P4): Entrepreneurial networks mediate the relationship between government support and innovation capability.

Government support helps in improving innovation capability by ensuring access to financial, training, information, mentoring, technology and other kinds of help. However, there are other reasons why such support helps in the improvement of innovation capabilities, apart from provision of those resources. For example, the initiatives taken by governments provide opportunities to entrepreneurs to build relations with other entrepreneurs, business associations, mentors, financial institutions, incubators and other supportive organizations.

Entrepreneurial networks are one of the key ways how government support can be transformed into innovative knowledge and resources. Participation in training programs, incubators, business development programs and sector association allows entrepreneurs to exchange knowledge, experience, get advice and access innovative resources. Thus, government support can facilitate building of networks where entrepreneurs can use their knowledge about innovation (Zaato et al., 2020).

This point is consistent with the idea that is expressed by the network perspective of entrepreneurship. The importance of networks in provision of access to knowledge, information and other resources to entrepreneurs is emphasized by that theory (Aldrich & Fiol, 1994). Given the lack of resources in the case of small enterprises in resource-limited countries such as Nepal, entrepreneurial networks might become especially important.

Thus, the relationship between government support and innovation capability can be expected to work via entrepreneurial networks. As a result, government support should have more impact on innovation capability when it helps entrepreneurs to build productive relationships with other firms and supportive organizations.

Proposition 5 (P5): The strength of the relationships specified in Propositions 1–4 is positively moderated by the maturity of the local social enterprise ecosystem, such that these relationships are stronger in regions or sectors of Nepal with more developed ecosystem infrastructure (incubators, professional associations, donor coordination).

The effectiveness of entrepreneurial networks, innovation capability, and government support may depend on the wider ecosystem in which small businesses operate. A mature social enterprise ecosystem provides an environment in which government agencies, financial institutions, educational organizations, incubators, professional associations, donors, and civil society organizations are better connected and coordinated. Such an environment can facilitate the flow of knowledge, resources, finance, expertise, mentoring, and market opportunities among ecosystem actors (Isenberg, 2010; Stam, 2015).

In relation to P1, a more developed ecosystem is expected to strengthen the positive relationship between entrepreneurial networks and innovation capability. Where incubators, professional associations, educational institutions, and other support organizations are well established and connected, entrepreneurs are likely to have greater opportunities to access diverse knowledge, expertise, resources, and collaborative relationships. Consequently, the innovation benefits of entrepreneurial networks are expected to be stronger in more mature ecosystems.

In relation to P2, ecosystem maturity is expected to strengthen the relationship between innovation capability and sustainable growth. Small businesses with strong innovation capabilities may be better able to convert innovative ideas into sustainable business outcomes when the surrounding ecosystem provides access to finance, markets, skills, technology, institutional support, and collaborative opportunities. Therefore, innovation capability is expected to contribute more strongly to sustainable growth where ecosystem infrastructure is well developed.

In relation to P3 and P4, ecosystem maturity is also expected to strengthen the effectiveness of government support and the mediating role of entrepreneurial networks. Government programmes are more likely to generate meaningful outcomes when they are effectively coordinated with financial institutions, educational organizations, incubators, professional associations, donors, and other ecosystem actors. Such coordination can increase entrepreneurs' ability to access and utilize government-provided resources and can strengthen the network mechanisms through which government support contributes to innovation capability.

This argument is consistent with ecosystem perspectives developed by Isenberg (2010) and Stam (2015), which emphasize the importance of interconnected institutional, financial, knowledge, and support structures in shaping entrepreneurial outcomes. Similarly, Bozhikin (2019) and O'Shaughnessy and Olmedo (2023) highlight the importance of ecosystem coordination rather than simply the scale of investment by individual actors. Malecki (2018) and Alvedalen and Boschma (2017) further emphasize the importance of recognizing that entrepreneurial relationships and outcomes can vary according to the characteristics and development of the surrounding ecosystem.

Therefore, ecosystem maturity is proposed as a contextual moderator of the relationships specified in the conceptual framework. The relationships between entrepreneurial networks, innovation capability, government support, and sustainable growth are expected to be stronger where Nepalese regions or sectors have more developed ecosystem infrastructure, stronger institutional connections, and greater coordination among ecosystem actors. Table 1 summarises how each construct in the model is conceptualized and its principal theoretical grounding.

Table 1. Model Constructs and Theoretical Grounding

Construct	Role in Model	Theoretical Grounding
Government Support	Antecedent (largely indirect)	Beck et al. (2005); Prasannath et al. (2024); Prajapati & Khanal (2023)
Entrepreneurial Networks	Proximate driver / mediator	Granovetter (1973, 1985); Burt (1992); Uzzi (1997); Aldrich & Zimmer (1986)
Innovation Capability	Proximate driver / mediator	Teece et al. (1997); Cohen & Levinthal (1990); Zahra & George (2002)
Social Enterprise Ecosystem Maturity	Moderator	Isenberg (2010); Stam (2015); Bozhikin (2019); Malecki (2018)
Sustainable Growth of Small Businesses	Outcome	Gilbert et al. (2006); Hussain et al. (2023); Gupta & Srivastava (2024)

5. Discussion

Theoretically, this article makes three contributions. First, it integrates four literatures – entrepreneurial ecosystems, government support policy, social capital, and dynamic capabilities – that are rarely combined into a single model, by specifying entrepreneurial networks and innovation capability as the proximate mechanisms through which government support and ecosystem quality translate into small business growth. Second, it responds to Malecki's (2018) and Alvedalen and

Boschma's (2017) call for ecosystem research to specify causal mechanisms rather than simply listing ecosystem ingredients, by disaggregating "ecosystem support" into three theoretically distinct constructs with different expected roles (antecedent, mediator, moderator). Third, by grounding the model in the one available Nepal-specific quantitative study (Prajapati & Khanal, 2023) rather than assuming that findings from better-studied contexts transfer automatically, the article follows the broader methodological argument, echoed throughout the entrepreneurship-in-emerging-economies literature, that context must be built into theory rather than treated as a control variable.

Practically, the model offers a more nuanced starting point for policy than a simple call for "more government support." If government support's effect on small business growth in Nepal operates substantially through networks and innovation capability rather than directly, then the design of support programmes may matter more than their scale: programmes structured to build peer networks (cohort-based training, incubator programmes, sector associations) and to strengthen firms' capacity to absorb and apply new knowledge (technical assistance paired with mentorship, rather than grants alone) are likely to be more effective than unconditional financial transfers. For donor organisations and private ecosystem actors – incubators, accelerators, and civil society organizations – the model suggests that their comparative advantage may lie precisely in building the networks and capabilities that government programmes alone struggle to generate, positioning them as complements to, rather than substitutes for, government support. For small business owner-managers themselves, the model suggests that investment in relationship-building and in absorbing and applying new knowledge is likely to be a more reliable growth strategy than reliance on government schemes alone, particularly given the ambivalent evidence on the direct effectiveness of such schemes in the Nepali context to date.

The model also has implications for the sequencing of policy interventions. If, as Proposition 3 suggests, government support's effect on growth is substantially mediated by networks and innovation capability, then introducing financial support before the networks and capability needed to use it productively are in place risks disappointing outcomes of the kind Prajapati and Khanal (2023) documented – support that entrepreneurs receive but do not perceive as having improved their prospects. This implies a sequencing logic in which network-building and capability-building interventions (mentorship, cohort-based training, peer learning) are introduced alongside, or even ahead of, purely financial support, rather than financial disbursement being treated as the primary or first policy lever. This is consistent with Doh and Kim's (2014) South Korean finding that government support benefits accrue disproportionately to firms with higher pre-existing absorptive capacity, and suggests that capability-building should not be treated as a secondary complement to financial support but as a precondition for it to work.

As a conceptual article built entirely from secondary sources, its principal limitation is the absence of primary empirical data to test the five propositions advanced; they should be read as hypotheses for future research rather than established findings. A further limitation is the thinness of the Nepal-specific evidence base: the article draws heavily on a single quantitative study (Prajapati & Khanal, 2023), and while its findings are consistent with the broader international literature on the conditional effectiveness of government support, a single study cannot establish the generalizability of the proposed mediation pattern across Nepal's diverse regions, sectors, and firm types. Future research should priorities empirical testing of Propositions 1–5, ideally through a survey of small business owner-managers across multiple Nepali provinces analyzed via structural equation modelling with mediation and moderation analysis; such a study would require its own ethics committee approval, informed consent procedures, and appropriate anonymization of small and potentially identifiable firms, none of which were required for the present secondary-source synthesis. Comparative research examining whether the proposed mediation pattern – government support operating through networks and capability rather than directly – holds in other South Asian contexts would help establish whether this is a Nepal-specific finding or a more general feature of government support in institutionally similar emerging economies. Future work might also usefully examine digital networks and digitally enabled innovation capability as an emerging sub-mechanism, given the growing role of digital platforms in connecting Nepali entrepreneurs to markets and peer networks.

6. Conclusion

This article has synthesized secondary literature spanning entrepreneurial and social enterprise ecosystems, government support policy, social capital and network theory, and dynamic capabilities to develop a conceptual model of sustainable small business growth in Nepal. Rather than treating government support, entrepreneurial networks, and innovation capability as independent, additive drivers of growth, the model proposes that networks and innovation capability act as the proximate mechanisms through which growth is achieved, while government support operates substantially, though not exclusively, through these two channels – a proposition consistent with the limited but instructive Nepal-specific evidence currently available. The whole system is theorized as embedded within, and conditioned by, the maturity of the local social enterprise ecosystem. No interviews or other primary data were used in developing this model; its contribution is a synthesis of existing literature into a single, testable framework intended to guide future empirical research and to offer policymakers, donor organizations, and small business owner-managers in Nepal a more precise understanding of where ecosystem investment is likely to yield the greatest returns.

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