

## Navigating Institutional Voids and Informal Networks in Nepalese Entrepreneurship

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### Abstract

*This study examines the process through which Nepali entrepreneurs work their way around institutional shortcomings by applying informal networks and the subsequent effects on business results. Thus, the study utilized a quantitative strategy where data collection was achieved via surveys with 350 entrepreneurs within Nepal's small and medium-scale enterprises (SMEs). Findings of this research show that although entrepreneurs experience constraints emanating from regulatory obstacles, corruption, and limited access to finance, informal networks based on their size, trust, and dependence on kinship relations have an important role to play in promoting sales growth, profitability, and firm survival. Furthermore, this research makes a contribution to theoretical understanding by emphasizing the connection between institutional deficiencies and social networks in emerging economies, and provides practical implications for entrepreneurs and policymakers interested in improving entrepreneurial outcomes in situations of institutional weakness. Finally, this research offers empirical proof on how social capital is employed by entrepreneurs to overcome the weakness of formal institutions in emerging economies, as is the Nepalese situation.*

### 1. INTRODUCTION

In the emerging economy setting, the entrepreneurs can face extreme difficulties arising from the institutional deficiencies, i.e., poor regulatory frameworks, large-scale corruption, and limited access to financial capital (Mair & Martí, 2008; Moulick et al., 2019; Webb et al., 2019). These deficiencies create institutional voids-gaps in the institutional framework where formal institutions fail to provide adequate support for market transactions and entrepreneurial activities (Doh et al., 2017). Such institutional voids can severely hinder the initiation, operation, and growth of entrepreneurial ventures, necessitating the development of new strategies to overcome the constraints (Madzikanda et al., 2021; Ofili, 2014). One significant strategy entails the use of informal networks, which are characterized by relationship founded on trust, family ties, and common experiences, to gain resources, information and assistance (Mitchell et al., 2022). The utilization and effectiveness of informal networks can differ considerably according to the particular context, being influenced by aspects like the size and diversity of the network, the level of trust within it, and the degree to which family ties are

exploited (Xheneti et al., 2018). The interplay between institutional voids and informal networks is especially important in the context of Nepal, where entrepreneurs tend to work through a dense network of both formal and informal institutions to pursue their business goals (Khoury & Prasad, 2015). While entrepreneurs struggling to establish new ventures may perceive waiting for the development of such institutional settings as time-taking and discouraging (Aidis, 2017; Moulick et al., 2019); but a high volume of start-ups are emerging in setting with weak institutions, challenging the widely accepted notion that strong institutions contexts are preconditions for initiating new ventures (Yang, 2004).

The unique socio-economic and political environment of Nepal provides an important background for examining the role of informal network in entrepreneurship (Escandón-Barbosa et al., 2019). Political instability in the nation throughout its history, along with widespread corruption and bureaucratic inefficiencies, has fostered weak formal institutions that do not offer much support to businesses (Samara & Terzian, 2020). As a result, Nepalese entrepreneurs have come to depend on informal networks for obtaining required resources, including money, market information, and regulatory advice (Kharel & Dahal, 2020; Mitchell et al., 2022). These informal networks manifest in various forms, from tightly interwoven family and kinship ties to broader network encompassing friends, colleagues, and community members (Eijdenberg et al., 2018). The intensity of such bonds and the trust within them largely influences the resources informal entrepreneurs require to mitigate their difficulties and exposure to risk, then subsequently influencing their financial and social outcomes (Villanueva et al., 2018). The extent to which entrepreneurs use informal networks is also influenced by their personal traits, including their social capital, prior experience, and access to formal institutions (Jagannathan et al., 2017).

The composition and size of an entrepreneur's informal network can considerably affect their capacity to mobilize resources and bridge institutional voids (Berrou & Combarnous, 2011; Webb et al., 2009). While larger networks provide access to diverse information, resources, and potential collaborators, smaller, more cohesive networks may offer high levels of trust and support (Jeong et al., 2024; Upton et al., 2019). Kinship networks, common in most developing nations, can offer a solid anchorage point for entrepreneurial action by facilitating access to household resources, collective knowledge, and an inbuilt sense of mutual responsibility (Chang et al., 2024). However over-reliance of kinship of networks may have some drawbacks, including limited diversity of views and resistance to the adoption of new ideas or technology (Fahed-Sreih et al., 2010). Trust is the key to the success of informal networks. Entrepreneurs are likely to exchange confidential information, engage in joint projects, and offer mutual assistance when there is trust among the members of their networks (Jagannathan et al., 2017). In contexts with institutional voids, trust becomes even more critical, serving as a substitute for formal legal and enforcement mechanisms. Trust develops over time through repeated interactions, shared experiences, and demonstrated commitment to reciprocity.

This research provides useful contributions in the context of the practices employed by Nepalese entrepreneurs to overcome institutional voids and use informal networks to leverage business success, thereby addressing the existing dearth of comparative research. Understanding the dynamics of informal networks and institutional voids is essential for developing entrepreneurship and enhancing economic progress in Nepal and similar context.

Comprehending the interaction between institutions, networks, and entrepreneurial action is vital for policymakers who aim to stimulate entrepreneurship in emerging economies. First, entrepreneurship is an economic growth and job creation driver, particularly for young people in Nepal. Second, informal networks can facilitate or constrain business and development depending on their makeup and accessibility. Thirdly, it is essential for policymakers and development organizations to obtain empirical evidence in order to formulate effective institutional reforms that enhance, rather than detract from, the existing informal support mechanisms. This research employs a dual theoretical framework that synthesizes the Resource-Based View (Barney, 1991) and Social Capital Theory (Coleman, 1988) to investigate the strategic utilization of informal networks by Nepalese entrepreneurs in navigating institutional voids. The study aims to address the central question: In what ways are Nepali entrepreneurs leveraging informal networks to overcome institutional voids, and how does it affect business performance? In order to tackle this question, the research sets forth several specific objectives: a) To recognize the most critical institutional voids that impede entrepreneurial action in Nepal; b) To analyze the structure, nature, and roles of informal networks used by entrepreneurs in Nepal; c) To establish the correlation between institutional void mitigation measures and informal network types used. By examining the specific approaches and outcomes associated with the utilization of informal networks in Nepal, this study offers important insights that have the potential to inform both theoretical foundations and practical implementations. The importance of both formal and informal institutions for determining their impact on entrepreneurship rates in developing economies is highlighted, thus informing the body of literature.

## 2. LITERATURE REVIEW

Research on entrepreneurship in developing nations has largely examined the joint effects of formal and informal institutions on economic activity ([Dau & Cuervo-Cazurra, 2014](#); [Melnik et al., 2021](#); [Qin & Chen, 2023](#)). To establish clarity in terminology, it is essential to distinguish between institutional deficiencies and institutional voids. Institutional deficiencies refer to the inherent weakness or inadequacies in formal institutional systems, such as poor regulatory framework, ineffective enforcement mechanisms, and limited institutional capacity ([Evrensel, 2021](#); [Henok & Hu, 2021](#)). Conversely, informal institutions entail cultural traditions, social norms, and practice-based trust that support commercial and personal transactions ([Henok & Hu, 2021](#); [Pereira & Steenge, 2021](#)). When informal institutions exhibit significant deficiencies or weak enforcement, institutional voids emerge, leading to high transaction costs due to inefficient market mechanisms and causing high uncertainty ([Amoako & Lyon, 2013](#); [Doh et al., 2017](#)). Therefore, entrepreneurs look for other alternative methods for resource mobilization and attaining organizational legitimacy, where they use informal networks to successfully overcome these gaps ([Webb et al., 2019](#)).

Recent research has greatly enhanced our knowledge about entrepreneurship strategies that emerge as a response to institutional voids in emerging economies ([Chang et al., 2024](#)). The evidence from these studies suggests that entrepreneurs in these environments exploit informal networks intentionally as alternatives to formal institutional support, thus gaining access to essential resources in spite of market scarcities ([Boafo et al., 2022](#)). The results highlight the overarching need for entrepreneurs to develop innovative strategies in managing the uncertainties of such environments ([Alnassai, 2023](#); [Chang et al., 2024](#)). More precisely, dependence on credible network partners becomes essential due to the institutional voids that

characterize developing nations ([Soluk et al., 2021](#)). Existing research emphasizes that the presence of institutional voids in emerging economies significantly affects capital, product, and labor markets by elevating information asymmetry and contracting inefficiencies ([Andrews & Luiz, 2024](#)). Existing academic literature indicates that these deficiencies compel entrepreneurial organizations to develop substitute resource mobilization approaches that bypass the limitations of formal institutions ([Alnassai, 2023](#)). They include intentional reliance on informal networks as substitutes for formal support infrastructure, thereby allowing entrepreneurs to access essential resources under weak institutions. Such networks, especially those with connections to government officials, have the potential to assist companies in dealing with institutional voids by compensating for deficiencies due to ineffective legal enforcement, corruption, bureaucratic compliance, and inconspicuous governance systems ([Nguyen, 2021](#)). Social network theory provides an extensive model for describing entrepreneurial adaptations to institutional voids ([Alnassai, 2023; Busch & Mudida, 2023](#)). Contemporary research highlights that both the structural and relational dimensions of strong and weak ties are similarly crucial in enabling information exchange, the development of social capital, and the attainment of resources ([Chang et al., 2024](#)). In the contexts of institutional voids, accessing bonding and bridging capital acquires particular significance for entrepreneurial success ([Xie et al., 2021](#)).

The Nepalese setting is a representative case study for the aim of examining the dynamics between institutional gaps and informal networks. The socio-economic setting in Nepal is characterized by persistent institutional gaps, i.e., limited access to finance, ambiguous regulatory environments, and political instability, cumulatively leading to profound institutional voids ([Andrews & Luiz, 2024; Mittal, 2021](#)). Recent studies have indicated that Nepalese entrepreneurs have developed sophisticated methods to utilize available informal networks, including family and community networks, to bypass bureaucratic constraints and obtain necessary resources ([Shamim, 2022; Soluk et al., 2021](#)). Recent studies have indicated that Nepalese entrepreneurs have developed sophisticated methods to utilize available informal networks, including family and community networks, to bypass bureaucratic constraints and obtain necessary resources ([Chang et al., 2024; Nguyen, 2021](#)). Specifically, these networks bolster business performance by alleviating the limitations imposed by regulatory barriers, corruption, and constrained access to finance, ultimately enhancing sales growth, profitability, and firm survival rates. Recent theory has enhanced our understanding of how the extent and type of institutional deficiencies shape the structure and use of informal networks ([Cull et al., 2024](#)). Informal networks, in turn, significantly affect various dimensions of entrepreneurial performance, such as growth, profitability, ability to innovate, and long-term viability ([Busch & Mudida, 2023; Callais et al., 2021; Xie et al., 2021](#)). This holistic perspective highlights the interconnected relationship between entrepreneurial networking tactics and their institutional backdrop, furnishing both theoretical insights and practical recommendations for nurturing supportive ecosystems in emerging economies like Nepal.

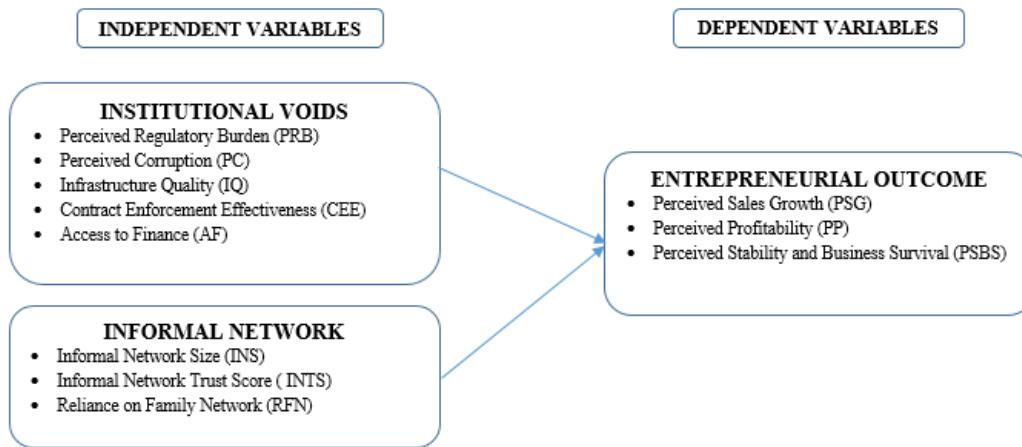
### **3. METHODOLOGY**

This study follows a quantitative approach to research, adopting survey techniques and a cross-sectional study to quantify the dynamics of the current state with regard to traversing institutional voids through informal networks. This is a suitable methodological decision when

attempting to understand the phenomenon appropriately from a diversified sample of entrepreneurs, thereby deriving insightful information on how they manage to overcome institutional obstacles. The quantitative approach facilitates statistical testing of the hypothesized relationships in the conceptual model with a view to coming up with generalizable findings.

The population of interest for the sake of this research is entrepreneurs operating small and medium-sized enterprises in different sectors in Nepal. Since there is no updated database that contains information on the number of SMEs in Nepal, it was not feasible to create an overall sampling frame. The study thus utilized convenience sampling on the basis of entrepreneurs who were readily accessible via online platforms. Participants were chosen on the basis of readiness and willingness. 419 entrepreneurs were approached, and of these, 368 started the survey, while 350 gave complete responses. The resulting sample size of 350 was considered adequate to provide sufficient statistical power for regression and correlation analysis, as noted in comparable studies in entrepreneurship research. Data gathering was carried out using a standardized online questionnaire disseminated through Google Forms to increase efficiency and accessibility. Prior to participation, informed consent was secured from all participants, and promises of anonymity and confidentiality were provided to uphold ethical research practices.

The formal questionnaire was designed to measure the primary constructs in the conceptual model. For the analysis of institutional voids, the questionnaire applied adapted items from tested instruments employed in World Bank Enterprise Surveys that measure entrepreneurs' views of regulatory burden, corruption prevalence, access to financial capital, infrastructure quality and reliability, and the effectiveness of contract enforcement mechanisms. The qualities of informal networks are measured by indicators of the size and density of business contacts between entrepreneurs, the degree of trust and reciprocity within such networks, and the degree of dependence on various forms of informal networks—family, community, and business associations—to facilitate entrepreneurship in various ways. Entrepreneurial performance was assessed through the application of subjective measures that gauged perceived growth in sales in the previous year, profitability levels, the extent of innovation in the business (in terms of new product or service launch), the perceived stability and survival chances of the firm to stay in business, as well as the presence of key resources such as finance, market information, and talent. Most of the measures were assessed on a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). The survey instrument also contained a section to record demographic details and firm-level control variables like the entrepreneur's age, gender, level of education, industry type, firm age, and number of employees.



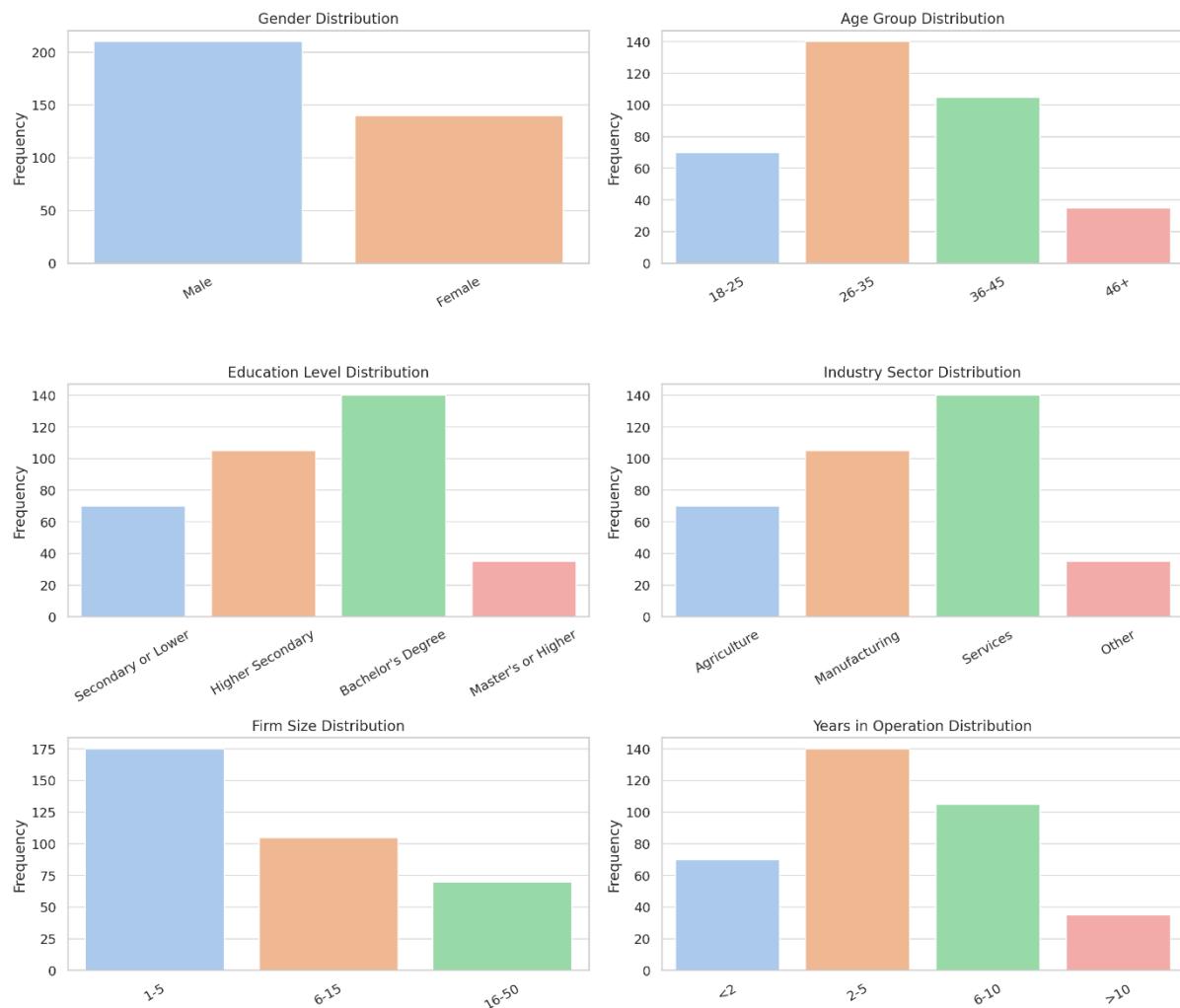
***Figure No. 1. Proposed Conceptual Framework***

For the questionnaire to be valid and reliable, a pilot study was carried out on a small sample of Nepali entrepreneurs ( $n=30$ ) to check for any problems regarding item clarity, comprehensibility, or cultural relevance. The reliability of the scales was also tested by applying Cronbach's alpha, wherein a coefficient of 0.70 or higher represents acceptable internal consistency. Content validity was ascertained by expert judgment, wherein feedback was received from academics and practitioners with experience in the entrepreneurial ecosystem in Nepal about the degree to which the questionnaire items adequately capture the intended constructs. Construct validity was examined by using Exploratory Factor Analysis (EFA), wherein the underlying dimensions of the constructs were attempted to be discovered and verified that the items pertain to their supposed factors.

The data gathered were examined utilizing a variety of statistical techniques. Descriptive statistics allowed the summary of the sample characteristics and response distribution for the major variables to be reported. Correlation analysis allowed the examination of the bivariate relationship among institutional voids, informal network characteristics, and entrepreneurial performance. The main technique used in quantitatively examining the effect of informal network attributes on entrepreneurial outcomes was multiple linear regression analysis, while controlling for the effects of institutional voids and other applicable control variables at the same time. All data analysis procedures were conducted through the statistical software package SPSS.

#### **4. RESULTS AND DISCUSSION**

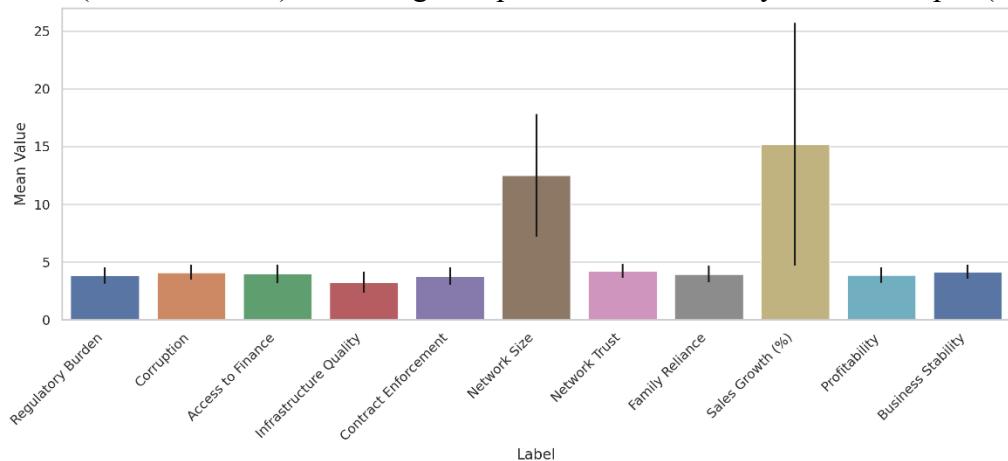
The study looks at how Nepali entrepreneurs navigate institutional voids through the use of informal networks and the impact these strategies have on business performance. The population was 350 entrepreneurs, 60% of whom were men, between the ages of 26–35 (40%). They were predominantly bachelor's degree holders (40%) with micro- and small-sized firms founded primarily in the services sector.



**Figure No. 2. Demographic Breakdown of the Participants**

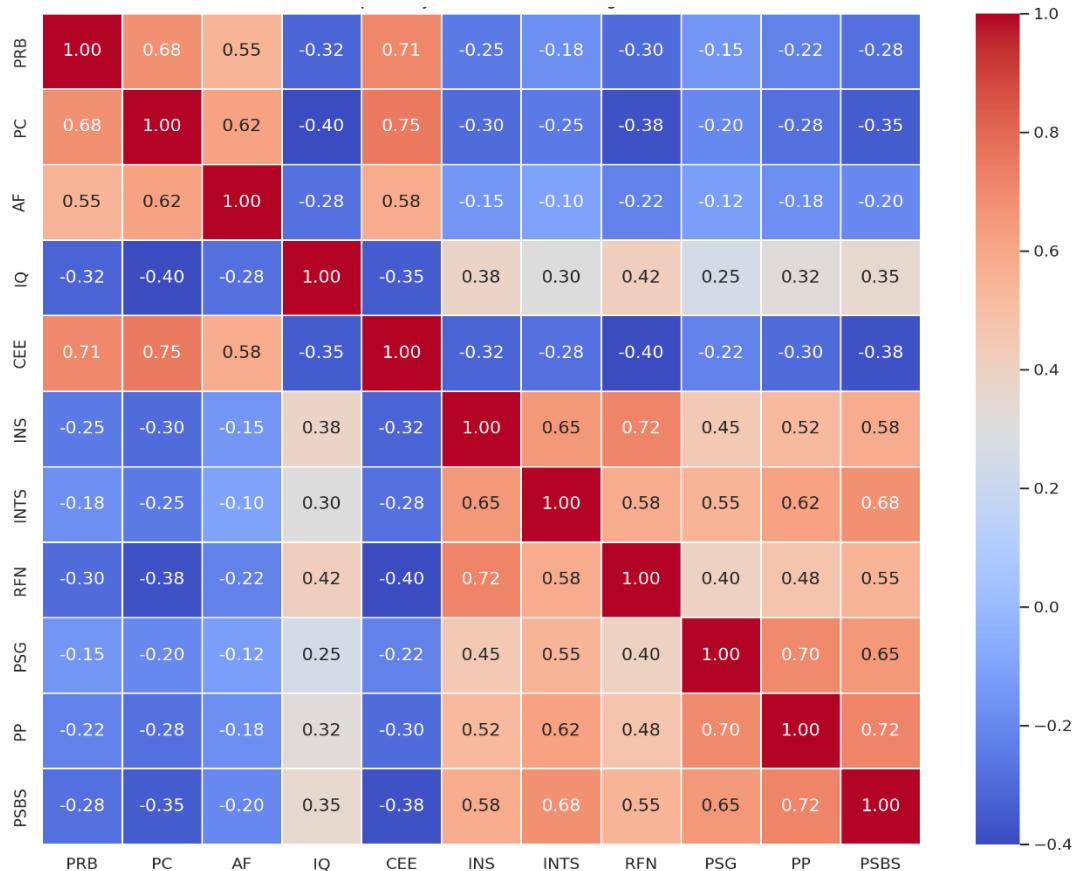
(Each subplot shows the distribution by gender, age group, educational level, industry sector, firm size, and years in operation)

Entrepreneurs perceived major difficulties arising from regulatory bottlenecks (Mean = 3.85), corruption (Mean = 4.12), and finance access (Mean = 3.98). Infrastructure quality was moderately assessed (Mean = 3.25), whereas contract enforcement trust was comparatively high (Mean = 3.78). Informal networks were very strong with an average of 12.5 contacts, high trust (Mean = 4.21), and high dependence on family relationships (Mean = 3.95).



***Figure No. 3. Descriptive Statistics of Key Variables***

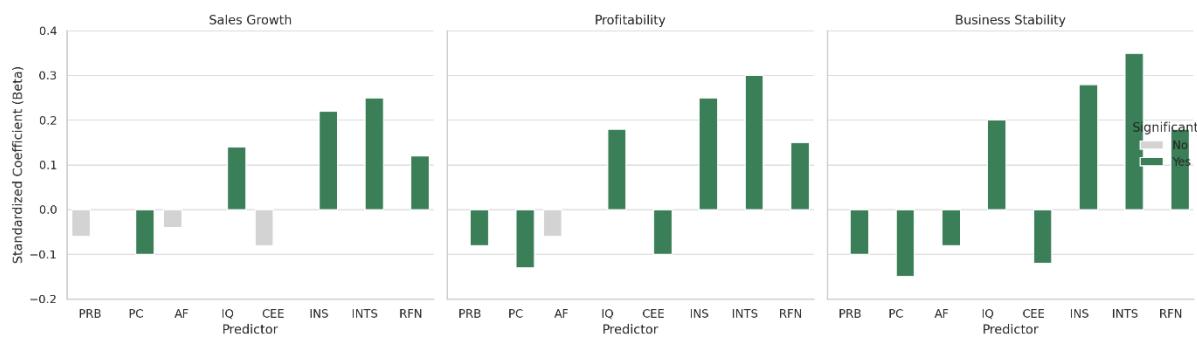
Institutional voids such as regulatory burden and corruption were strongly positively correlated ( $r = 0.68$ ). Informal network measures also intercorrelated highly (e.g., network size and family dependency,  $r = 0.72$ ; network size and trust,  $r = 0.65$ ). More importantly, informal network attributes were positively associated with business performance such as sales growth ( $r = 0.45$ ), profitability ( $r = 0.55$ ), and business survival ( $r = 0.68$  for trust).



***Figure No. 4. Correlation Heatmap***

(Warm color indicates strong positive correlations, while cool colors show negative correlations)

Regression analysis was used to test the effects of informal networks on business performance while holding institutional voids and demographic characteristics constant. The regression equations explained large percentages of variance in all of the outcome measures, with informal networks consistently being a significant predictor of business success.



**Figure No. 5. Regression coefficient predicting entrepreneurial outcomes**

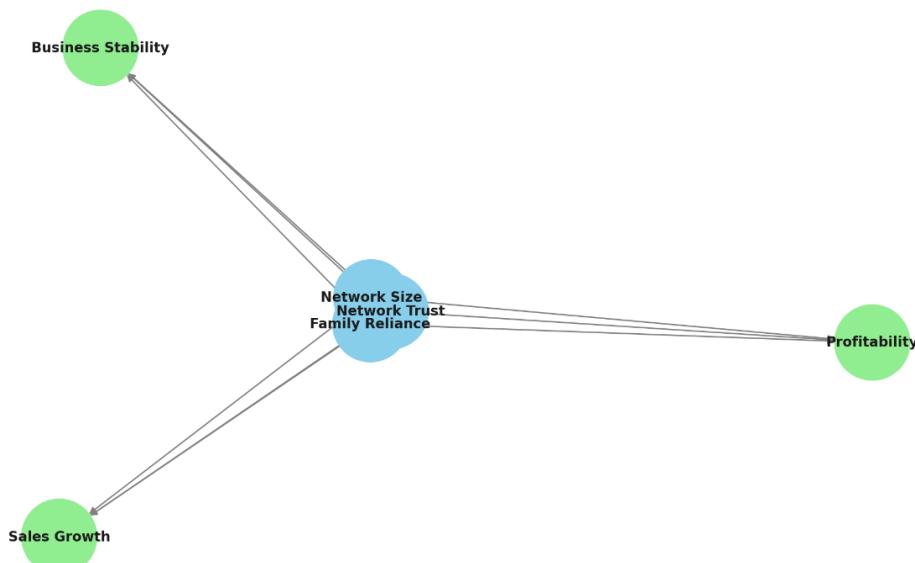
(Green bars represent statistically significant predictors ( $p < 0.05$ ), while gray bars indicate non-significant effects.)

A number of regression tests validated the predictive significance of institutional voids and informal networks. Corruption consistently had a negative impact on all entrepreneurial results. In contrast, network size, trust, and dependence on family measures exhibited a positive and statistically significant association with perceived sales growth, profitability, and business longevity.

*Sales growth is positively predicted by infrastructure quality ( $\beta = 0.14$ ), network size ( $\beta = 0.22$ ), trust ( $\beta = 0.25$ ), and family dependence ( $\beta = 0.12$ ).*

*Profitability is strongly predicted by infrastructure ( $\beta = 0.18$ ), network size ( $\beta = 0.25$ ), trust ( $\beta = 0.30$ ), and family dependence ( $\beta = 0.15$ ).*

*Business stability is highly influenced by Trust ( $\beta = 0.35$ ), network size ( $\beta = 0.28$ ), and family dependence ( $\beta = 0.18$ ) were the most significant positive predictors. Corruption and regulatory costs were negatively affecting this outcome.*



**Figure No. 6. Informal Network influence on Entrepreneurial Outcomes**

*(Exhibited here is a network diagram recording the connections among the three informal network characteristics—Network Size, Network Trust, and Family Reliance—and their corresponding entrepreneurial outcomes: Sales Growth, Profitability, and Business Stability. One-way arrows show the influence each dimension of social capital exerts, highlighting their supportive contributions to various dimensions of business performance in Nepal's challenging institutional environment.)*

The results demonstrate that Nepali entrepreneurs bridge severe institutional voids through the utilization of informal networks. The entrepreneur sample pointed to significant regulatory and corruption issues, yet they are engaged in moderately sized, trust-based networks with frequent use of family. The study finds that these networks have a strong positive effect on performance: larger network size, more trust, and more familial ties each result in greater sales growth, profitability, and perceived business stability. Formal voids, specifically corruption, however, decrease these performances significantly. Informal networks thus emerge as crucial strategic assets allowing firms to overcome institutional deficiencies.

Findings in this research confirm the prevailing literature on entrepreneurship in emerging markets, underlining the pivotal function of social capital in environments with weak formal institutions. Prior research has also shown that trust-based relationships and kinship ties enable entrepreneurs to access required resources and gain legitimacy in environments with unregulated frameworks and financial systems that are unreliable. The positive correlations derived between network size and performance in this study affirm the same, and the negative impacts of corruption and regulatory inefficiencies support existing research on how such inefficiencies stifle business growth. Interestingly, our correlation analysis also revealed that some voids (e.g., high corruption) are actually negatively correlated with network formation, suggesting that very unfavorable conditions may even inhibit entrepreneurs from developing strong networks—a phenomenon worthy of investigation in the future.

This study contributes to theory by integrating institutional and network theories of entrepreneurship. It illustrates how entrepreneurs undertake "institutional work" by developing informal networks to cross formal gaps. By quantifying the effect of network size, trust, and family membership on firm performance, the findings build on social capital theory by delineating how such network characteristics serve as valuable resources that confer competitive advantage in the scenario of institutional constraints. In parallel, the results enrich institutional theory by presenting the way that different types of voids (corruption and infrastructure lack) affect entrepreneurial strategies and their ensuing outcomes. For instance, better infrastructure not only directly improves performance but also shows correlation with more effective network support, hence meaning complementary interactions between formal conditions and social capital.

## **5. CONCLUSIONS**

This research presents empirical findings indicating that Nepalese entrepreneurs adeptly cope with institutional deficits—namely corruption, regulatory hurdles, and restricted access to finance—through the use of informal networks that are based on trust, family ties, and relational depth. These kinds of informal strategies function not merely as reactive responses but as strategic assets that play a major role in improving firm-level performance, including sales growth, profitability, and long-term survival. Trust networks specifically have been

identified as the strongest predictors of business resilience. On the other hand, systemic corruption and over bureaucratic constraints were frequently observed to stifle entrepreneurial performance and obstruct the advancement of networks.

The evidence confirms the hypothesis that where the formal institutions do not function, the informal networks take dominance as drivers of entrepreneurial behavior. But this use of informal channels also leads toward the inherent weaknesses of Nepal's business model, where the issues of sustainable growth and inclusiveness become a concern. Thus, while informal relationships are helpful in the short run, they must not be assumed to be an alternative to institutional development but a gateway to it.

### **Policy and Practice Recommendations**

**Formalize Productive Informal Structures:** Decision-makers should institutionalize productive elements of informal networks. For instance, the reframing of kinship-based lending groups into community credit cooperatives or microfinance consortia can enhance access to capital for underserved entrepreneurs while preserving regulatory oversight and financial literacy.

**SME-Specific Infrastructure Investment:** The research confirmed a positive relationship between the quality of infrastructure and firm performance. Focused infrastructure investment (rural road systems, reliable internet access) should, therefore, receive high priority in SME-concentrated areas, which will also alleviate operating stresses and enhance the effectiveness of informal support systems at the same time.

**Develop Networked Support Ecosystems:** It is essential that development organizations invest in scaling peer mentoring networks, enhancing local entrepreneurial ecosystems, and strengthening incubators that infuse trust and reciprocity into their formal programming. Moreover, training modules for navigating both formal and informal institutional frameworks must be accessible through business development services (BDS).

**Combat Corruption through Localized Reforms:** Since corruption has been revealed to have a very negative effect on entrepreneurial performance, anti-corruption initiatives must transcend top-down audits. Localized integrity networks—comprising SMEs, municipal government officials, and civil society organizations—can provide bottom-up oversight of regulatory processes and reduce informal transactional costs.

### **Future Research Directions**

Longitudinal and mixed-methods designs that follow the development of informal networks over time and across institutional changes should be used in future research. Research must also address threshold effects that determine when strong family ties might stifle innovation or limit market access. A comparative design across regions (e.g., terai versus hilly) or industries (e.g., technology versus agriculture) within Nepal would also enable a better grasp of

contextual differences. Finally, understanding how informal entrepreneur's transition into the formal economy can be utilized to create more inclusive institutional reform processes.

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