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Discovering the effect of Financial and Strategic Factors on sustainable Business Performance of Small and Medium Enterprises in Sidama Regional State of Ethiopia with the mediating role of Entrepreneurial Competency

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Abstract

The objective of this study was to examine the effect of financial and strategic factors on sustanable business performance of small and medium enterprises in Sidama regional state of Ethiopia with mediating role of entrepreneurial competency. An explanatory method with cross-sectional design and multi-stage sampling was used to collect data. This study employed the structural equation modeling technique to evaluate the hypothesis formulated using empirical data collected from 320 owners and managers operating within the region. The data collection was carried out using the Kobo Toolbox from small and medium enterprises' managers and owners. The collected data were tested for the hypothesized relationship using the SEM analysis technique within the framework of SPSS and AMOS Version 23. The collected data were analyzed using the covariance-based SEM (CBSEM) technique with the maximum likelihood method. The stratified simple random technique was also used to determine the selection criteria for SMEs. The findings indicate that financial and strategic factors statistically significantly influence SMEs' performance. Entrepreneurial competency was also found to mediate the influence of financial and strategic factors on the performance of SMEs. This research identifies a relationship between the availability of external resources and internal competence in management; more specifically, it underlines management practice, paired with financial access, for the improvement of SME performance. The findings offer practical implications by emphasizing the need to improve access to finance and strengthen production capacity. Policymakers should design targeted financial support mechanisms, while SME managers should prioritize efficient utilization to enhance productivity and performance.

1. Introduction

Small and Medium sized enterprises (SMEs) have usually been considerd as the dynamic force

for sustained economic growth and job creation in developing countries and play a crucial role in developing the economy (Dorasamy and Kikasu, 2924). They play multifaceted role such as boosting competition, innovation, as well as development of human capital and creation of a financial system. The participation of SMEs in economic development and achieving sustainable development goals (SDGs) is highly vital (Dasaraju & Tambunan, 2023). They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of engine of technological innovations and export diversification (Gherghina et al., 2020). SME in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people particularly women and youth, which serves as a forum to drag a large number of youths out of poverty (Tekola & Gidey, 2019). Federal Micro and small Scale Enterprises Development Agency (FeMSEDA) of Ethiopia, acknowledged that improving SMEs' productivity is the spur to the growth and development of SMEs, which are highly important for poverty reduction due to increased productivity (FeMSEDA, 2015).

Taking the above discussion into consideration, the present research aims at examining the effect of financial resources, entrepreneurial orientation, and managerial practices on SME performance, where

entrepreneurial competency plays the mediator role. Financial resources, entrepreneurial orientation, and managerial practices play a crucial role in determining the SMEs performance (Khan et al., 2022: Herlinawati, 2019). Availability of financial resources contributes positively towards in achieving growth and innovations (Owusu et al., 2021), of SMEs despite the fact that tend to use informal sources because of lack of access to formal funding opportunities (Nguyen & Canh, 2021). Lack of access to financial resources may have adverse consequences for the poor seeking to escape poverty.

Entrepreneurial orientation increases innovativeness, proactivity, and risk-taking (Corrêa et al., 2022; Khan et al., 2021), while management practices increases productivity and profitability (Forth & Bryson, 2019; Somathilake& Pathirawasam, 2020), Entrepreneurial competency comprises skills, knowledge, and abilities serves as an importatnt mediator between play a vital role in identifying business opportunities, flexibility, and growth and act as a critical mediator between financial and strategic factors and SME performance (Goyal & Mishra, 2024; Mohamad & Sidek, 2013; Raymond & Selamat, 2023; Seraj et al. 2022; Sualeh et al., 2020).

Past studies have shown contextual, theoretical and empirical gaps. Empirical evidence on SME business performance remains limited on financial and strategic factors (Henok and Abdulkadir, 2024; FeMSEDA, 2015), and management practices (Ramzi, et al. 2022), which negatively affect sustainability and competitiveness (Ahmed & Canarslan 2023; Karadag, 2015; Moscalu et al. 2020; Muriithi, 2017), indicating a clear research gap and the other gap concerns the lack of attention paid to mediating variable.In Ethiopia, particularly in the Sidama Regional State, Access to finance remains one of the most critical constraints facing SMEs despite their significant contribution to employment and income generation (Moscalu et al., 2020; Ullah, 2020). Other barriers include insufficient entrepreneurial skills, and limited access to strategic knowledge, which hinder SME performance and expansion Gwadabe & Amirah, 2017; Karadag, 2015).

In globally and regionally, SMEs also numerous obstacles in related to limited access to financial resources, technology barriers, collateral requirements, high interest rates, lack of relevant information, and intense competition, all of which affect their sustainability and competitiveness (Deng et al., 2019; European Commission, 2020; Quartey et al., 2017; Leitner,2016). Findings from the World Bank (2015 and FeMSEDA (2015) further confirm that financial and strategic constraints are also a serious challenges for SMEs in Sidama, Ethiopia. Therefore, the current research addresses existing gaps in the literature and required to enhance SME performance by empirically examining the key factors influencing their outcomes and addressing and examines the mediation effect of entrepreneurial competency on the relationship between the key factors and business performance of SMEs.

2. Review of related literature

2.1 Theoretical Foundation

The theoretical foundation of this study integrates Resource-Based Theory (RBT), Dynamic Capabilities Theory (DCT), and Entrepreneurial Competency and Contigency theory to examine the relationship between Finacial and Strategic factors and SMEs performance as discusses below.

This study proposes and integrated framework for investigating SME performance. Resource-Based Theory explains that the performance of SMEs is determined by their capacity to accumulate and develop valuable, rare, imitable, and non-substitutable resources (Barney, 2018). Resource based theory describes the strategic and financial resources that create competitive advantage, while Dynamic Capability Theory represents the extension of the theory of RBT by highlighting the importance of the capabilities of firms to integrate, reconfigure, and renew the resources (Teece, 2016). This theory explains how SMEs restructure and integrate these resources in response to environment turbulence.

Entrepreneurial competency theory emphasizes that the entrepreneurs' knowledge, abilities, and skills such as strategic thinking, organizing, commitment, and relationship building are critical determinants of enterprise performance (Man et al., 2022). These competencies enable SMEs to effectively utilize financial resources and transform strategic factors into better performanc. Entrepreneurial competency emphasizes the entrepreneur's ability to mobilize and effectively integrate for superior performance.

2.3. Hypothese Development

2.3.1. Effects of financial resources and Strategic Factors on Entrepreneurial Competencies

Entrepreneurial competency can be defined as the competencies that help entrepreneurs perform business functions effectively and contribute to SME success (Man et al., 2022). From the perspective of Resource Based Theory, financial resources are strategic assets that enhance firms' competitiveness and performance.There is considerable empirical literature showing that entrepreneurial competency play an important role in influencing the performance of SMEs (Oka, et al., 2023Tehseen & Ramayah, 2015). Sufficient financial resources will assist the entrepreneurial competencies by helping small and medium enterprises be in a position to develop innovations and make better decisions through skills and strategies (Khan et al., 2022; Owusu et al., 2021), however, when there are no financial resources available, adaptability is adversely affected (Karadag, 2015; Moscalu, et al., 2020).

Entrepreneurial orientation is another factor that positively affects entrepreneurial competency because it helps to foster the qualities of innovativeness, proactivity, and risk-taking behavior, thus improving the competitive ability of SMEs (Corrêa et al., 2022; Khan et al., 2021). Also, management practice contributes to the development of leadership, organizational and relational competencies through effectiveresource allocation among employees (Forth & Bryson). Thus, financial resources and entrepreneurship orientation are crucial in building entrepreneurial competencies (Nwachukwu, et al., 2017). Therefore, based on the empirical evidence presented clearly, this study suggested the following hypothesis:

H1: **Financial Resources and strategic Factors** *has* **a significant effect on Entrepreneurial Competency**

The study operationalized financial resources and strategic factors in terms of financial resources, entrepreneurial orientation, and management practice. On top of this, the hypothesis (H1) is supported by the following sub-hypotheses:

H1: Financial resources have a significant effect on Entrepreneurial competency

H2: Entrepreneurial orientation has significant effect on Entrepreneurial competency

H3: Management practice has a significant effect on entrepreneurial competency

2.3.2. The effect of Financial Resources and Strategic factors on SMEs' performance

The financial and strategic issues play an important role in determining the performance of SMEs (Khan et al., 2022). Consistent with Dynamic Capabilities Theory, entrepreneurial orientation enables firms to adapt, innovate, and respond to changing market conditions, thereby improving performance (Teece et al., 2016). The financial resources ensure resource optimization, innovativeness, and innovation, and allow SMEs to deal with business problems more efficiently (Khan et al., 2021). Performance of the SMEs is related to how effectively the organizations mobilize their financial resources from different sources in order to attain their financial and non-financial goals (Khan et al., 2022; Owusu et al., 2019). Access to formal financial resources, such as bank loans and micro finance schemes is difficult and expensive, especially in emerging economies due to lack of regulations, and thus SMEs have to depend on informal sources of financing (Nguyen & Canh, 2021; Khan et al., 2022).

Innovation, being proactive, and taking risks which is termed as entrepreneurial orientation, have been recognized as the key factors that promote success and competitive advantages of SMEs (Corrêa et al., 2022; Goyal & Mishra, 2024). Entrepreneurial orientation supports proper decision-making processes, as well as promotes better performance of SMEs (Wahyuni & Sara, 2020).

Effective management practice is another important element that promotes productivity and performance of SMEs because of efficient management of activities and utilization of available resources (Forth & Bryson, 2019; Somathilake & Pathirawasam, 2020). Based on the empirical evidence, the following hypotheses are proposed:

H2: **Financial Resources and strategic Factors hav***e* **a significant effect on SMEs peformance**

The study operationalized financial resources and strategic factors in terms of financial resources, Entrepreneurial orientation, and management practices. Hence the hypothesis (H2) is supported by the following sub-hypotheses:

H4: Financial Resources have a significant effect on SMEs' performance

H5: Entrepreneurial Orientation has a significant effect on SMEs performance

H6: Management practice has significant effect on SMEs performance

2.3.3. Effects of Entrepreneurial Competency on SMEs Performance

Entrepreneurial competences are the ability ies and experience for successful entrepreneurial activities (Oka et al., 2023). Entrepreneurial competency is a critical determinant of SMEs growth and success (Sakib et al. 2022; Bayle and Singh, 2019). Studies by Man et al. (2022), indicates that entrepreneurs with higher competency levels achieve greater business growth than those with lower competencies. (Man et al. 2022), identified entrepreneurial competencies as key strategic resources that are crucial for SMEs expansion and success. Overall, the literature strongly supports the positive impact of owners' and managers' competencies on SMEs success (Sakib et al. 2022).

Therefore, strengthening entrepreneurial competencies through targeted training and supportive policies can significantly improve SMEs' growth, competitiveness, and sustainability (Sakib et al., 2022). Hence, based on the well articulated empirical evidence, current study proposed the following hypothesis:

H7: Entrepreneurial competencies has significant effect on SMEs performance

2.2.4. Entrepreneurial competencies mediates financial resources, Strategic factor and SMEs performance

Entrepreneurial competency is one of the most important mechanisms for improving the performance of SMEs through the use of financial and strategic resources (Man, et al., 2022; Sakib et al, 2022). According to the theory of resources, successful acquisition and utilization of resources can help organizations gain a competitive advantage and perform better (Barney et al., 2018). Financial resources, both formal and informal, are instrumental for the success of SMEs when there is the competency in their mobilization and utilization among the entrepreneurs (Gudov, 2013; Seraj et al., 2022). The existing literature indicates that the impact of entrepreneurial competency improves the performance of SMEs through the development of capabilities of entrepreneurs regarding the identification of opportunities, resource management, and decision making (Khan, 2020; Oka et al., 2023).

In the same way, entrepreneurial orientation involving innovativeness, proactiveness, and risk-taking enables the firms to develop a strategic framework that helps them perform better and maintain a competitive advantage (Nwachukwu et al., 2017; Raymond and Selamat, 2023). Nevertheless, the performance improvement through entrepreneurial orientation becomes even more effective when complemented with entrepreneurial competency (Khan et al., 2020; Goyal & Mishra, 2024).

The ability of entrepreneurial competency allows SME managers to possess capabilities for the acquisition of resources, utilization of opportunities, and growth Hence, entrepreneurial competency acts as an important mediator between financial and strategic factors and SMEs' performance (Nwachukwu

et al., 2017; Raymond and Selamat, 2023). Based on the empirical evidence, the following hypotheses are proposed:

H4: Entrepreneurial Competency significantly mediates the relationship between financial Resources, Strategic Factors and SMEs performance

As financial Resources and Institutional Factors measured through three sub-variables, we formulated the following sub-hypotheses showing the mediation relationship of the study.

H8: Entrepreneurial Competency has a significant mediating relationship between financial resources and SMEs performance in Sidama Region

H9: Entrepreneurial Competency has a significant mediating relationship between entrepreneurial orientation and entrepreneurial performance

H10: Entrepreneurial Competency has a significant mediating effect between management practices and SMEs' performance in the study area

2.3. Conceptual Framework

The relationship of the variables is displayed in the Fig. 1 below.

Source: Developed for this study, 2025

3. Methodology

3.1 Description of Study

This investigation took place in Sidama Regional State, situated in the southern part of Ethiopia, which is part of the Horn of Africa.

3.2 Study Design

The study used an explanatory research design to investigate the relationships that exist between the study variables. Explanatory research is used to establish and investigate relationships that exist between two or more variables. The cross-sectional approach was used because it is suitable when collecting a vast amount of data from a large population at a given point in time, which is very helpful in analyzing relationships that exist between various study variables (Cooper & Schindler, 2014).

3.3. Target population and desired sample size of study

The study population encompassed 887 officially licensed and registered SMEs in different sectors in Sidama Regional State, Ethiopia. Within 887 SMEs there are 1600 employes/owners and managers. The sample size used for the research study was determined by using a formula that was given by Yamane (1967).

no = N / 1 + N(e)2

n = 1600 / 1 + 1600(0.05)2

n = 320.

According to the above formula, the required sample size for the research study is 320. The formula was preferred for using this study because it is simple to use, scientific, and applicable to use.

3.4. Sampling Strategy

In this study, multi-stage sampling techniques incorporating probability sampling and non-probability sampling were used (Saunders et al., 2019). Probability sampling allows for the possibility of every target population unit to be chosen equally, whereas non-probability sampling is a non-random process of selection in which an equal opportunity is not offered to all units to be a part of the sample. A multi stage sampling strategy incorporating both purposive and probability sampling was used for the purpose of this study to ensure feasibility & representation (Hibberts et al., 2021; Roy, 2019; Saunders et al., 2019; UN, 2005). First, the Sidama Regional State, as well as in the second stage, different sites of towns (Hawassa city, Dayye, Aleta wondo, Yirgalem, Lekku, and wondo genet towns) were purposively selected based on the high density and concentration of SMEs in the respective regions. In the third stage, since the SMEs sector in Sidama is not homogenous, stratified sampling was employed to obtain from various categories of businesses (Cooper & Schindler, 2008).

Hence, the SMEs or industries were stratified according to their respective sectors such as agro-processing, manufacturing, textile industry and urban agriculture and proportionate simple random sampling was used for the purpose of selecting the sample of SMEs. Finaly, the data was obatained using Kobotool box. The selection criterion of industrial zones was based on high density of small and medium enterprises (SMEs) which exist in Sidama.

3.5. Data Analysis

Upon completion of the Survey, the entire analysis was done. Then the data were also analyzed using covariance based structural equation modeling (CB-SEM) with the Analysis of Moment Structure (AMOS) and employing Maximum Likelihood Estimation (Byrne, 2016). Maximum likelihood estimation is a method of estimating the parameters of an assumed probability distribution, given some observed data (Hair et al., 2017). It allows testing whether or not hypothesized hypotheses are consistent with the data; hence making CB-SEM a structure-testing technique of a confirmatory nature. The model has two parts, measurement model and structural model.

3.6. Measurement Model

The SEM analysis was conducted using the two-stage approach recommended by Byrne, (2013). The first phase consists of a measurement model analysis conducted to show how the observed dependent variable relate to the underlying theoretical constructs (Hair et al., 2017).. Confirmatory factor analysis

for this investigation was conducted using AMOS, version 23. In the second stage, a structural model analysis was carried out to show how the underlying constructs are interconnected and to check the research hypotheses. The study employed reflective measurement model to quantitative analysis using CB-SEM. Each construct was measured with multiple observed indicators, assumed to be caused by the latent constructs (Brown, 2015).

4. Findings and Discussion

After checking for missing values, a total number of 320 questionnaires were completed out of the initial sample of 320. This indicates that response rate is 100 percent. This is supported by (Sataloff &Vontela, 2021), who regarded a 50 percent response rate and above as acceptable in a social research survey. Therefore, it is considered high and acceptable in this study.

4.1 Measure of Reliability and Validity

Cronbach's alpha and composite reliability tests were conducted to test the reliability of the questionnaire. Cronbach`s alpha and composite reliability tests are commonly used indicators of internal consistency (Hair et al., 2017). The value of the Cronbach's alpha coefficients of the constructs ranged from 0.823 to 0.957 which exceeds above the 0.70 threshold is acceptable. Composite reliability values ranged from 0.826 to 0.958, which is above the 0.70 threshold is also acceptable (Oluwatayo, 2012).

This shows that all constructs of the current study have good internal consistency. Convergent and discriminant validity were used to test instrument validity. To check convergent validity, inter-item correlation for all scale items was performed using confirmatory factor analysis. As a result, in the current study, the values range from 0.68 to 0.94, which is above 0.50 the threshold (Byrne, 2013). This indicates the unidimensionality of the items in the constructs. Furthermore, average variance extracted (AVE) was used to check discriminant validity. The AVE values ranged from 0.72 to 0.98, which were above 0.5 thresholds (Oluwatayo, 2012; Byrne, 2013). This result provides evidence that the research scale is acceptable.

4.2. Checking for Reliability and Validity

To check how reliable variables are, Cronbach’s alpha and composite reliability methods were used. These are standard ways to check how consistent the items in a tool are (Hair et al., 2017). Usually, if Cronbach’s alpha is 0.70 or higher, the tool is considered reliable. Similarly, the composite reliability score should be over 0.70 (Oluwatayo, 2012). In this survey, the Cronbach's alpha coefficients for all the items ranked 0.823 to 0.957, showing the measures had acceptable levels of consistency. Likewise, composite reliability of measures ranged from 0.826 to 0.928, all of which are above 0.7. This shows all constructs of current studies have good internal consistency (Oluwatayo, 2012).

To check if variables are valid, convergent and discriminant validity tests were conducted. Convergent validity assessed examining the correlations between items from the confirmatory factor analysis, which

indicated that the items measure a single concept. In this study, the values ranged from 0.593 to 957, which is above the 0.50 minimum (Byrne, 2013). Based on previous studies (Hair et al., 2017), these values are acceptable. Discriminant validity was checked using average variance extracted (AVE). The AVE values were between 0.545 to 0.765 which are above the 0.5 threshold (Oluwatayo, 2012; Byrne, 2013). These values provide indication that the measurements scale is appropriate Discriminant validity ensures that different constructs are distinct from each other (Hair et al., 2017). This showed that the research scale is acceptable.

For all constructs to meet these criteria, they must have more variance with their own indicators than with others. In this survey, a matrix showing connections between different constructs was used to test discriminant validity. As shown in Table 1, all correlation values were below 0.875, which is under the 0.89 recommended limits. This confirms the presence of discriminant validity (Zohrabi, 2013).

In addition, Table 1 showed that all values in the diagonal field were greater than the values in the table. The maximum value in the table has a value of 0.245 is also smaller than the minimum value on the diagonal of 0.738, which means that the latent variables in the research satisfied the condition of discriminant validity.

Table 1
Inter-construct correlation matrix

Research constructs	**BP**	**EC**	**MP**	**FR**	**EO**
BP	**0.875**				
EC	0.168**	**0.852**			
MP	0.245***	0.181**	**0.817**		
FR	0.123*	0.033	0.039	**0.791**	
EO	0.174**	0.135*	0.236***	0.173*	**0.738**
Source: Own survey, 2025					
Note: FR= Financial resource; EO= Entrepreneurial orientation, MP= Management practices; EC= Entrepreneurial competency; BP= Business performance					

4.3. Exploratory Factor Analysis (EFA)

For the current study Kaiser- Meyer-Olkin (KMO) test value was 0.881 which was greater than the 0.60 threshold indicating that the data was adequate for factor analysis (Malesios et al., 2020). Also, Bartlett`s test was significant (P = 0.000) as mentioned in Table 2 indicating that the data were suitable for factor analysis. All the commonalities values were greater than 0.60, except EC6 value was 0.599, which is appromimately 0.60. The recommended threshold of commonalities greater than 0.6 which is considered the extracted components represents the variable very well (Byrne, 2013). The KMO and Bartlett's Test is displayed Table 2 below.

Table 2
Kaiser-Meyer-Olkin Measure (KMO) and Bartlett's Test of Sphericity

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.881
Bartlett's Test of Sphericity.	Approx.Chi-Square	6003.915
	Df	300
	Sig.	.000

Source: Own survey, 2025

4.4. Confirmatory factor analysis (CFA)

As part of SEM, confirmatory factor analysis (CFA) was used to objectively evaluate and develop estimable variables that specified a series of associations, suggesting how measured variables represented the latent construct (Byrne, 2013). Similarly, Owolabi et al. (2020) mentioned that CFA is a measurement model used for assessing the relationships between a set of manifest and latent variables. Sometimes CFA is known as the 'covariance structure' and provides various goodness-of-fit or model fit measures that are utilized to evaluate the model (Byrne, 2013). In evaluating the appropriateness of the measurement model fit concerning the data collected, CFA was used in this study

Confirmatory factor analysis was performed essentially to develop and specify the measurement model and scale accuracy of the multiple items construct measures using AMOS 23. It is recommended that various model fit criteria be used in combination to assess model fit (Kline, 2023). Some of the model fit criteria used in this study were the Chi-square/degrees of freedom, Goodness of Fit Index (GFI), Normed Fit Index (NFI), Incremental Fit Index (IFI), Tucker-Lewis Index (TLI), Composite Fit Index (CFI), and Root mean square error of approximation (RMSEA). Results of CFA were summarized as follows.

The factors obtained from the EFA were validated using CFA. The result of the initial EFA was problematic with model fit requirements and some of the items were deleted to improve it. Thus, the author repeated the CFA without including those items. The results of this new analysis confirmed model fit requirements. Most of the modifications contributed adequately towards model fit requirements in the re-specified models.The final model of the CFA of this study is shown in Fig. 2 and the goodness of fit results is shown in Table 3 below.

A confirmatory factor analysis (CFA) was performed to evaluate the fitness of the proposed model. After the modification indices were applied, a few items were deleted to obtain a model that better represented the data. The final specified measurement model is shown in Fig. 2.

Figure 2: CFA model/measurement model

Source: Own survey, 2025

Note

FR= Financial resource; EO = Entrepreneurial Orientation; MP= Management practices; EC= Entrepreneurial competency and BP=Business performance

As a result of this deletion, the new model fit summary shows the overall model fit of the proposed model. Chi-square (CMIN /χ^2=370. 690, DF = 265, CMIN/DF = 1.399) indicates a good model fit (Malesios et al., 2020). In addition, the fit statistics for this model indicated a good fit: GFI = 0.910, NFI = 0.940, CFI = 0.982, IFI = 0.982, TLI = 0.980, all of them are above the recommended thresholds of 0.9 (Kline, 2023). The badness-of- fit was measured by RMSEA, and the value was measured at 0.037, fulfilling the threshold value of less than 0.08. Additionally, the value of all constructs' squared multiple correlations was greater than zero (R^2>0.00). It confirms that the Confirmatory Factor Analysis (CFA) model was acceptable as shown Table 3.

Table 3
Model fit results (CFA)

S.no	Fit indices	Symbol	Acceptable threshold	Result	Model fit verification
1	Chi-square/degree of freedom	CMIN/DF	≤ 3	1.399	Good fit
2	Goodness-of-fit Index	GFI	≥ 0.9	0.910	Good fit
3	The Normed Fit Index	NFI	≥ 0.9	0.940	Good fit
4	Tucker Lewis index	TLI	≥ 0.9	0.994	Good fit
5	The Comparative fit index	CFI	≥ 0.9	0.982	Good fit
6	The Incremental Fit Index	IFI	≥ 0.9	0.982	Good fit
7	Root mean square error of approximation	RMSEA	≤ 0.08	0.037	Good fit
Source: Own survey, 2025					

4.5. Structural Equation Modeling (SEM)

After assessing and testing the measurement model, CFA was found to be satisfactory. The next step in SEM analysis was to evaluate the structural model. This involves statistical testing of the hypothesized relationships between the constructs at a significance level of 0.05. R2 analyzes the variance and shows the explanatory power of the model (Byrne, 2013). The finding of the final model explained 94 percent of the variance in ‘entrepreneurial competency and 93 percent of the model explained variance in ‘business performance’.

By running SEM analysis as shown Table 4, the fit indices results indicate that the value CMIN /χ^2= 384.642, DF = 259, CMIN/DF = 1.485, which indicates an acceptable level of model fit (Malesios et al.,

2020)). The incremental model fit: GFI = 0.908, NFI = 0.973, IFI = 0.991, TLI = 0.990, CFI = 0.991, all of which are above the recommended thresholds of 0.90 (Kline, 2023).

Table 4
Model fit results (SEM)

S.no	Fit indices	Symbol	Acceptable threshold	Result	Model fit verification
1	Chi-square/degree of freedom	CMIN/DF	≤ 3	1.399	Good fit
2	Goodness-of-fit Index	GFI	≥ 0.9	0.910	Good fit
3	The Normed Fit Index	NFI	≥ 0.9	0.940	Good fit
4	Tucker Lewis index	TLI	≥ 0.9	0.994	Good fit
5	The Comparative fit index	CFI	≥ 0.9	0.982	Good fit
6	The Incremental Fit Index	IFI	≥ 0.9	0.982	Good fit
7	Root mean square error of approximation	RMSEA	≤ 0.08	0.037	Good fit
Source: Own survey, 2025					

Badness-of-fit is calculated by RMSEA, and its value is 0.040, which is greater than a threshold value of less than 0.08. From the above, it can be inferred that overall fit indices were acceptable.

The final specified model shows all the paths, as indicated in Fig. 3.

Source: Own survey, 2025

Note

FR= Financial resource; EO = Entrepreneurial Orientation; MP= Management practices; EC= Entrepreneurial competency and BP=Business performance

4.6. Hypotheses Tests

Figure 3 illustrates the final validated best-fit model with relevant hypotheses. The lines with arrows indicate the hypothesized relationships among the different latent variables. This section provides the results of the preliminary hypotheses developed from the research objectives. The hypotheses were evaluated by examining the standard regression coefficients and p-values. The direction and importance of the relationships are determined by the standard regression coefficient weights, whereas the p-value indicates statistical significance at 0.001, 0.01, and 0.05 respectively. Table 5 summarizes the results of the hypothesis tests and discussion.

Table 5: Hypothesized Relationships and Results

Hypothesized Relationships and Results

Hypotheses	Path/ proposed hypotheses relationship	Estimate	T-statistics	P-value	supported/ not supported
H1a	Financial resource (FR) → Entrepreneurial competency (EC)	0.32	4.15	0.000	Supported
H1b	Entrepreneurial orientation (EO) → Entrepreneurial competency (EC)	0.04	0.433	0.665	Not supported
H1c	Management practice(MP) → Entrepreneurial competency (EC)	0.63	9.05	0.000	Supported
H2a	Financial resource (FR) → Business performance (BP)	0.36	4.402	0.000	Supported
H2b	Entrepreneurial orientation (EO) → Business performance (BP)	0.14	1.607	1.607	Not supported
H2c	Management practice(MP) → Business performance (BP)	0.20	2.287	0.022	Supported
H3	Entrepreneurial competency (EC) → Business performance (BP)	0.29	3.41	0.000	Supported

Source: Own survey, 2025

* Significance level <0.05; ** significance level <0.01; *** significance level <0.001

H1a: Financial resources has a significant effect on entrepreneurial competency

The results (refer to Table 5) revealed that financial resources have a positive significant effect on entrepreneurial competency. The standardized direct effect of a financial resource on entrepreneurial competency was 0.32 (p-value = 0.000 < 0.05). This means that when financial resource increases by 1 standard deviation, entrepreneurial competency increases by 0.32 standard deviations (Collier, 2020).Besides, Table 5 showed a t statistics value of 4.15 (p-value = 0.000 < 0.05) evidence that financial resource has a positive significant effect on entrepreneurial competency. Thus, hypothesis H1a is supported. The result of this study is consistent with the empirical evidence from (Oka, et al., 2023; Tehseen and Ramayah, (2015). This implies that financial resource enables small and medium firms to enjoy entrepreneurial competencies.

H1b: Entrepreneurial orientation has a significant effect on entrepreneurial competency

The results (refer to Table 5) revealed that the entrepreneurial orientation has a insignificant effect on entrepreneurial competency. The standardized direct effect of entrepreneurial orientation on entrepreneurial competency was 0.04 (p-value = 0.000 < 0.05). This means that entrepreneurial orientation has insignificant bearing on entrepreurial competency. In the Table 5 showed a t-statistics value of 0.433 (P-value = 0.655 > 0.05) evidence that the entrepreneurial orientation has an insignificant effect on business performance. Thus, this H1b is not supported. The result of this study is consistent with the empirical evidence from Khan et al., (2021); Nwachukwu et al., (2017).This implies that entrepreneurial orientatin has insignificant bearing on small and medium firms' business performance.

H1c: Management practices has a significant effect on entrepreneurial competency

The results (refer to Table 5) revealed that the management practices has a positive significant effect on entrepreneurial competency. The standardized direct effect of a management practices on entrepreneurial competency was 0.63 (p- value = 0.000 < 0.05). This means that when the management practices increases by 1 standard deviation, entrepreneurial competency increases by 0.63 standard deviations. Besides, Table 5 showed at statistics value of 9.05 (p-value = 0.000 < 0.05) evidence that the management practices has a positive significant effect on entrepreneurial competency. Thus, hypothesis H1c is supported. The result of this study is consistent with the empirical evidence from Sualeh, et al., (2020). This implies that getting sufficient management practices enables small and medium firms to get entrepreneurial competencies.

Hypothesis two (H2)

H2a: Financial resource has a significant effect on business performance

The results (refer to Table 5) revealed that financial resource has a positive significant effect on business performance. The standardized direct effect of a financial resource on business performance was 0.36 (p- value = 0.000 < 0.05). This means that when financial resource increases by 1 standard deviation, business performance increases by 0.36 standard deviations. In addition, Table 5 showed a t-statistics value of 4.402 (p-value = 0.000 < 0.05) evidence that financial resource has a positive effect on business performance. Thus, hypothesis H2a is supported. The result of this study is consistent with the empirical evidence from Khan et al., (2022); Man, et al., 2022; Sakib et al, (2022); Owusu et al., (2019). This implies that getting sufficient financial resource enables small and medium firms to increase business performance.

H2b: Entrepreneurial Orientation has a significant effect on business performance

The results (refer to Table 5) showed that the entrepreneurial orientation has and an insignificant effect on business performance. The standardized direct effect of an entrepreneurial orientation on business performance was 0.14 (p- value = 0.001 < 0.05). This means that entrepreneurial orientation has insignificant bearing on busness performance. Besides that, Table 5 provided a t-statistics value of 1.607 (p-value = 1.607 > 0.05) evidence that the entrepreneurial orientation has an insignificant effect on

business performance. Thus, this H2b is not supported. The result of this study is consistent with the empirical evidence from Khan, (2020; Wahyuni, & Sara, (2020). This implies that entrepreneurial orientation has insignificant bearing on small and medium firms' business performance.

H2c: Management practices has a significant effect on business performance

The results (refer to Table 5) revealed that the management practices has a positive significant effect on business performance. The standardized direct effect of the management practices on business performance was 0.20(p-value = 0.000 < 0.05). That is, management practices increases by 1 standard deviation, business performance increases by 0.20 standard deviations. Besides that, Table 5 provided a t-statistics value of 2.287 (p-value = 0.022 < 0.05) evidence that mamangement practices is positively affecting business performance. Thus, hypothesis H3 is supported. The result of this study is consistent with the empirical evidence from (Forth & Bryson, (2019); Somathilake & Pathirawasam, (2020).This implies that getting sufficient financial resource enables small and medium firms to increase business performance.

Hypothesis three

H3: Entrepreneurial competency has a significant effect on business performance

The results (refer to Table 5) show that entrepreneurial competency has a positive significant effect on business performance. The direct standardized coefficient of entrepreneurial competency on business performance was 0.29 (p-value = 0.000 < 0.05). That is, entrepreneurial competency increases by 1 standard deviation, business performance increases by 0.29 standard deviations. Besides that, Table 5 provided a t-statistics value of 3.41 (p-value = 0.000 < 0.05) evidence that entrepreneurial competency is positively affecting business performance. Thus, hypothesis H3 is supported. The result of this study is consistent with the empirical evidence from Bayle and Singh, (2019); Oka et al., (2023); Sakib et al. (2022). This implies that getting entrepreneurial competency enables small and medium firms to increase business performance.

4.7. The mediator variable analysis

To evalute the mediator role entrepreneurial competency amid the conjecturer, constructs (Financial resources, Entrepreneurial orientation, and Management practices) and the outcome variable (performance) was analyzed using AMOS 23. The hypothesized relationships and results of the mediation effect shown Table 6 below.

Table 6: Hypothesized Relationships and Results of the Mediation Effect

Hypothesis	Path/proposed hypothesis relationship	Estimate	P-value	Supported / Not supported
H4a	Financial resource ➡ Entrepreneurial competency ➡ Business performance	0.17	0.020	Supported
H4b	Entrepreneurial orientation ➡ Entrepreneurial competency ➡ Business performance	0.07	1.653	Not supported
H4c	Management practices ➡ Entrepreneurial competency ➡ Business performance	0.21	0.000	Supported

Source: Own survey, 2025

Hypothesis four

H4a: **Entrepreneurial competency has a significant mediating relationship between financial resource and business performance**

The results (refer to Table 6) above revealed that the relationship between the independent variable financial resource and the dependent variable business performance was mediated by entrepreneurial competency. The produced standardized regression coefficient value was 0.17 (p- value = 0.020 < 0.05). This means that the mediating variable entrepreneurial competency in this case significantly mediated the relationship between financial resource and business performance. In addition, Table 6 indicates that financial resource has a positive significant effect on business performance. If an independent variable has a significant effect on the dependent variable and also at the same time independent variable has a significant effect through a mediator then the relationship is partial mediation (Tehseen and Ramayah, 2015).This confirmed that the mediation relationship of entrepreneurial competency between financial resource and business performance was partial mediation Therefore, hypothesis H4a is supported. The result of this study is consistent with the empirical evidence from (Mohamad and Sidek, 2013; Seraj et al. 2022)

H4b: Entrepreneurial competency has a significant mediating relationship between a entrepreneurial orientation and business performance

The result (refer to Table 6) above showed that entrepreneurial competency has an insignificant mediating effect between entrepreneurial orientation and business performance. The produced standardized path coefficient value was 0.07 (p- value = 1.653 > 0.05). This means that the mediating variable entrepreneurial competency, in this case, doesn't mediate the relationship between entrepreneurial orientation and business performance (Goyal & Mishra, 2024; Khan et al., 2020; Raymond & Selamat, 2023). This portrayed that entrepreneurial competency has an insignificant mediating relationship between government support and business performance. Thus, hypothesis H4b is not supported.

H4c: Entrepreneurial competency has a significant mediating relationship between Management practices and business performance

The results (refer to Table 6) above revealed that the relationship between the independent variable management practices and the dependent variable business performance is mediated by entrepreneurial competency. The produced standardized positive path coefficient value was 0.21 (p- value = 0.000 < 0.005). This means that the mediating variable entrepreneurial competency in this instance positively mediated the relationship between the management practices and business performance. Besides, Table 2 indicates that the mamnagement practices have a positive significant effect on business performance. If an independent variable has a significant effect on the dependent variable and also at the same time independent variable has a significant effect through the mediator variable then the relationship is partial mediation (Sualeh et al., 2020). This confirmed that the mediation relationship of entrepreneurial competency between a management practices and business performance was partial mediation. Therefore, hypothesis H4c is supported.

5. Discussions

The findings of the study show that strong financial resources and strategic factors, particularly entrepreneurial orientation and management practices, enable SMEs to achieve sustainable business performance in highly competitive and uncertain environments. In line with Resource Based Theory, small and medium-sized enterprises possessed with valuable, rare, and properly managed resources tend to be more efficient compared to those that lack such resources to enhance innovation, productivity, and performance. In addition, the findings are consistent with Dynamic Capability Theory where SMEs with an ability to adapt, integrate, and reconfigure their resources in reaction to environmental change are better placed to achieve sustaining performance. Furthermore, the results align with Entrepreneurial Competency Theory, indicating that entrepreneurial competencies strengthen the effective utilization of financial and strategic resources to achieve long-term business success.

6. Conclusions

This study concluded that financial resources and strategic factors significantly influence entrepreneurial competency and business performance among undertaken by small and medium manufacturing firms. Financial resource, entrepreneurial orientation, and management practices significantly affect entrepreneurial competency.The findings indicate that effective management and improvement of these key factors result in improved business performance. The study further confirms that entrepreneurial competency significantely mediates the relationship between financial resources, strategic factors, and business performance. Grounded in Resource Based Theory, Dynamic Capability Theory and Entrepreneurial Competency Theory, the study highlights the importance of managing strategic resources apdaptive capabilities, and entrepreneurial competencies to achieve sustainable SME performance. The findings of the study show that strong financial resources and strategic factors,

particularly entrepreneurial orientation and management practices, enable SMEs to achieve sustainable business performance in highly competitive and uncertain environments.

7. Implications of the study

The implications of the study`s findings were developed under following categories:

7.1. Implication to policymakers

The findings imply that policymakers should strengthen institutional support systems and develop integrated SME support programs that can improve financial access, entrepreneurial orientation, and management capability to promote sustainable enterprise development. In line with Dynamic Capabilities Theory and entrepreneurial competency Theory creating an enabling business ecosystem can improve SMEs' adaptability, innovation, and sustainable organizational performance.

7.2. Theoretical implication

The study contributes to the growing literature by integrating financial and strategic perspectives into a unified framework for explaining sustainable SME performance in developing economies. This study enriches the theoretical literature by integrating Resource-Based Theory, Dynamic Capabilities Theory, and entrepreneurial competency Theory to explain sustainable SME performance. The study confirms that valuable resources, adaptive capabilities, and entrepeuneurial environments collectively contribute to improving business sustainability and organizational performance

7.3. Managerial/Practical Implications

The results of the research indicate that the owners and managers of SMEs need to increase their efforts to increase their ability to mobilize financial resources, entrepreneurial orientation, and management for better sustainability in their business operations. It is also recommended that policymakers and other support agencies must take initiatives to facilitate SMEs in terms of finance availability, training in entrepreneurship and management, among others. The research highlights the importance of formulating innovative business strategies that could boost competitiveness and development of the business in the long run.

8. Limitations and suggestions for future research

This study had some limitations. The results of this study were based only on quantitative data collected from small and medium scale manufacturing firms. Another limitation of this study's results is that they cannot be generalized beyond manufacturing SMEs. Therefore, the future research should examine the effects of financial and strategic factors across different industries and apply mixed approaches to provide broader insights into sustainable business performance.

Declarations

Ethical approval: The ethical approval for the methods section and the ethical procedure to collect data from sample respondents was approved by Dr. Wudasse Dereje of Hawassa University research and ethical Committee with approval number CBE/RTT/11/2025. All procedures performed in this study adhered to the ethical standards outlined in the Declaration of Helsinki. Participants' confidentiality and anonymity were strictly maintained to protect their privacy throughout the research process. Moreover, the participants provided their written informed consent that confirmed their volunteerism to participate in this study.

Consent to participate: Not applicable.

Consent to publish

We, the undersigned authors of this manuscript, hereby provide our explicit consent for the Journal of Discover Global Society to publish this work. We confirm that the manuscript is original, has not been previously published elsewhere, and that we hold all necessary rights and permissions for the content included. We further confirm that all listed authors have reviewed and approved the final version of the manuscript and agree to its publication in accordance with the journal's terms and policies.

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Availability of data statement: Data supporting of this study results are available from the corresponding author, Gelfeto Gelassa, upon reasonable request**.**

Competeing interest: No potential conflict of interest was reported by the author(s).

Author contributions: Gelfeto Gelassa contributed to the conception and design, data collection, analysis and interpretation, and writing of the paper. Dr. Chalchissa Amentie Kero (Ph.D, Associate Professor) is a supervisor who actively contributed to data analysis and critically revised the paper for intellectual content. Both authors agreed to the final approval of the version to be published and to be accountable for all aspects of the work.

Funding: Funding was not provided for this study.

Informed consent:

This study did not include children or minors as participants. As stated in the questionnaire instructions, researchers gave participants thorough and understandable information about the purpose, nature, and possible risks of the study before they began answering the questionnaire. All participants gave their informed consent after being made fully aware of their freedom to leave the study at any moment without facing any repercussions. All collected data and personal information were treated with the utmost confidentiality and utilized only for scholarly research.

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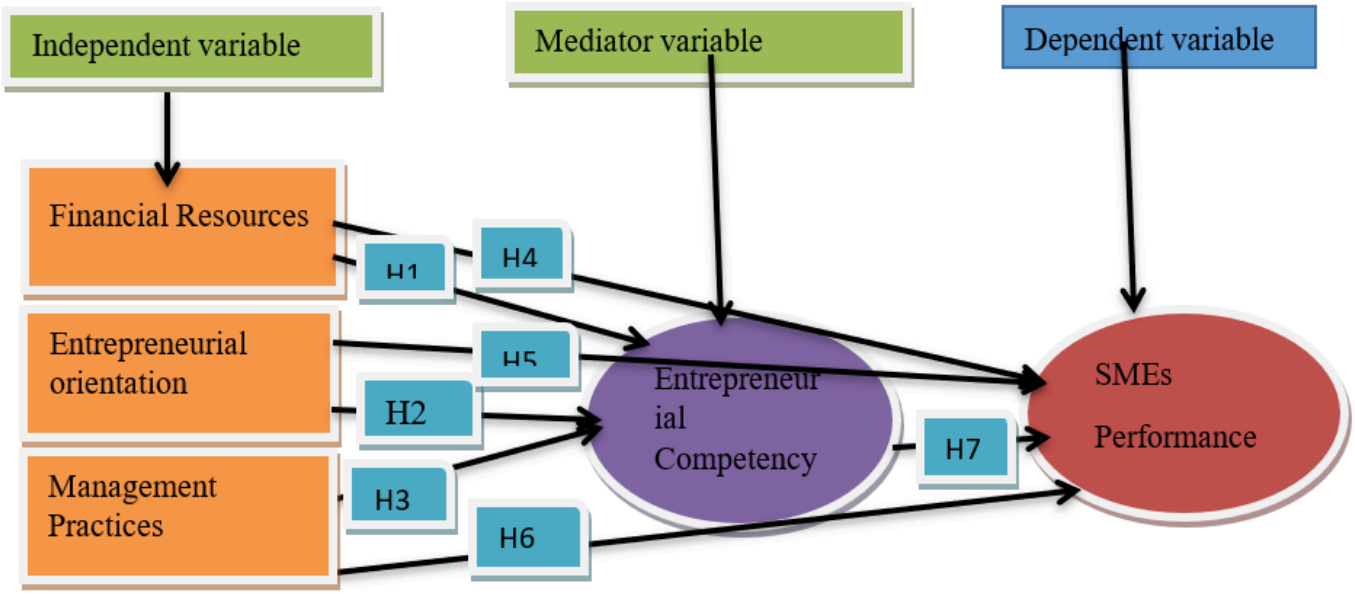
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Figures



Source: Developed for this study, 2025

Figure 1

Conceptual Framework

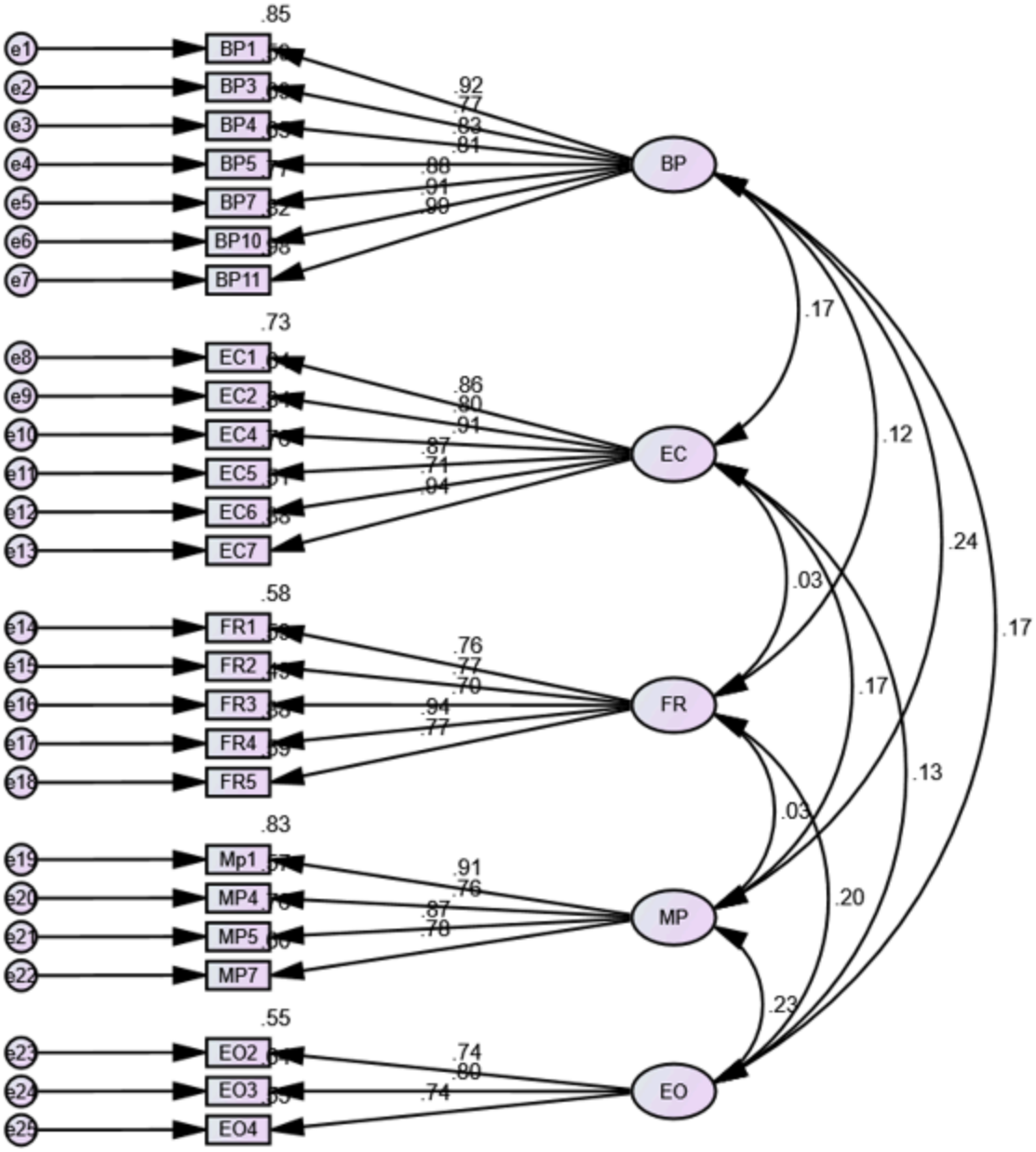


Figure 2

CFA model/measurement model

Source: Own survey, 2025

Note: FR= Financial resource; EO = Entrepreneurial Orientation; MP= Management practices; EC= Entrepreneurial competency and BP=Business performance

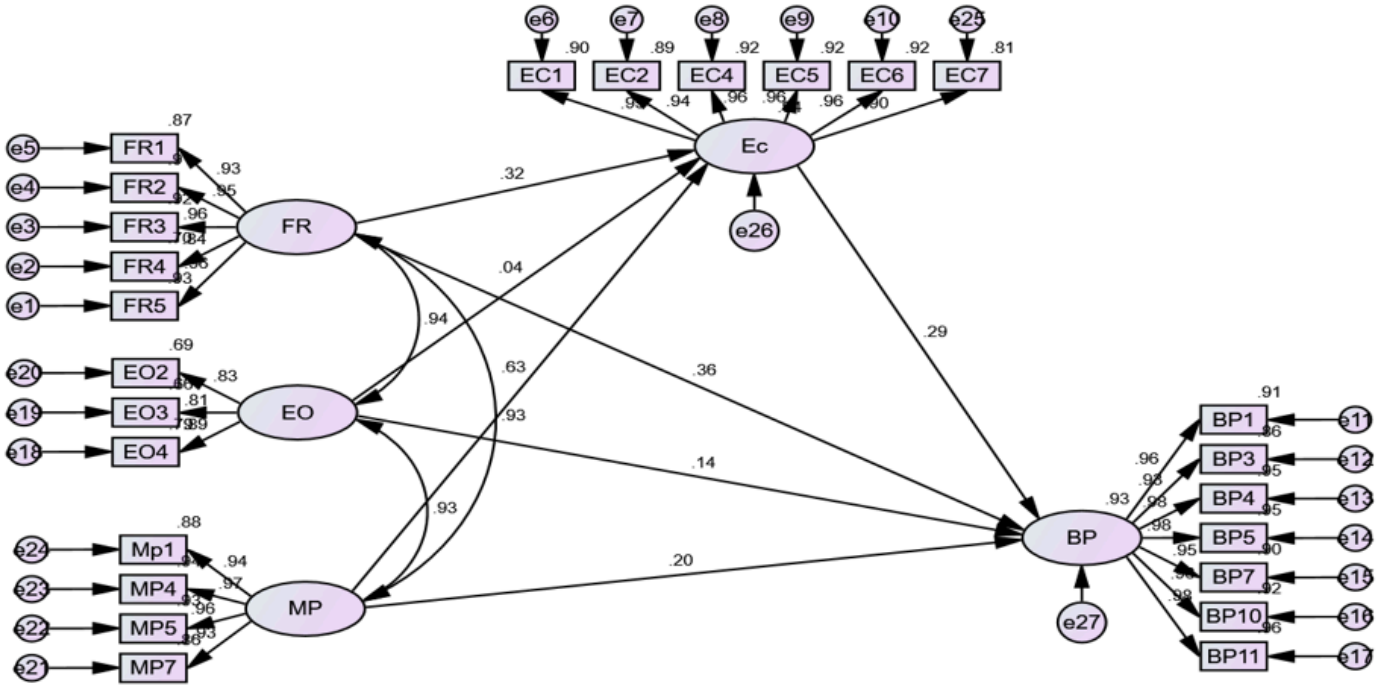


Figure 3

Structural model

Source: Own survey, 2025

Note: FR= Financial resource; EO = Entrepreneurial Orientation; MP= Management practices; EC= Entrepreneurial competency and BP=Business performance