POLAC ECONOMIC REVIEW (PER)
DEPARTMENT OF ECONOMICS
NIGERIA POLICE ACADEMY, WUDIL-KANO

THE MEDIATING EFFECT OF FINANCIAL CAPABILITY ON THE RELATIONSHIP BETWEEN ENTREPRENEURIAL ATTRIBUTES AND SME PERFORMANCE IN NIGERIA

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Abstract

Small and medium enterprises (SMEs) often struggle to meet performance expectations due to limited entrepreneurial and marketing skills, weak competencies, and an unstable economic environment. Although SME sustainability has been widely studied, the mediating effects of key variables remain underexplored. This study investigates the mediating role of financial capability in the relationship between entrepreneurial attributes and SME performance in Nigeria. Using a cross-sectional design, data were collected from 550 SMEs through a structured questionnaire and analyzed with Smart PLS 3.2. Results show that entrepreneurial, learning, and market orientations, along with financial capability, have a significant positive effect on SME performance, while technological orientation negatively impacts performance. Notably, financial capability mediates the link between entrepreneurial attributes and performance. The study highlights the importance of strengthening financial capability alongside entrepreneurial attributes to enhance SME performance, contributing valuable insights for both theory and practice.

Keywords: Entrepreneurial orientation, Learning orientation, Market orientation, Technological orientation, financial capability, SMEs performance.

1. Introduction

Small and Medium Enterprises (SMEs) play a vital role in driving economic growth and employment, particularly in developing countries like Nigeria. Representing approximately 96% of Nigerian businesses, SMEs contribute nearly 50% to the national GDP and provide over 80% of employment (SMEDAN & NBS, 2021). Despite their potential, SMEs in Nigeria face persistent challenges that hinder sustainable performance. These include limited access to finance, inadequate entrepreneurial and marketing skills, insufficient innovation, weak infrastructure, and intense competition from foreign products (Afolabi, 2022; Ndumanya, 2013).

Addressing these barriers requires a deeper understanding of how entrepreneurial attributes and financial capability influence SME performance. Entrepreneurial attributes such as learning orientation, market orientation, innovation, resilience, and risk-taking enable entrepreneurs to seize opportunities, adapt to change, and gain competitive advantages (Eze, 2020). However, these qualities alone may not guarantee success. Financial capability defined as the ability to budget, manage finances, access credit, and mitigate financial risks is equally critical. It enhances resource allocation and decision-making, thereby promoting growth and performance (Adeola & Evans, 2023).

Prior studies have examined various strategic orientations and their impact on firm performance. For instance, entrepreneurial orientation (EO), market orientation (MO), learning orientation (LO), and technology orientation (TO) have been explored individually or in different combinations (Fairoz et al., 2010; Suliyanto & Rahab, 2012; Mu & Di Benedetto, 2011). However, findings remain inconclusive, and few studies have examined the combined effects of these orientations within a unified model, particularly in the Nigerian context.

Emerging literature highlights the mediating role of financial capability in enhancing the relationship between entrepreneurial attributes and SME performance. Financial capability may bridge the gap between entrepreneurial potential and actual business outcomes, especially in volatile environments. An entrepreneur may be visionary and willing to take risks but may struggle without sound financial management skills. Recent research indicates that improved financial capability boosts SME profitability and resilience in unstable markets like Nigeria (Johnson & Bello, 2023). The country's dynamic economic environment—marked by inflation, currency instability, and shifting policies—further underscores the need for robust financial management (World Bank, 2022).

This study, therefore, examines how financial capability mediates the relationship between entrepreneurial attributes and SME performance in Nigeria. It aims to provide actionable insights for enhancing SME performance through strategic orientation and financial competence, contributing to the discourse on sustainable entrepreneurship in developing economies.

2. Literature Review

2.1 Theoretical Foundation

The Resource-Based View (RBV) theory serves as the foundational lens for understanding how entrepreneurial attributes and financial capability influence SME performance. Originating from Barney (1991), RBV posits that firms achieve sustainable competitive advantage by leveraging valuable, rare, inimitable, and non-substitutable (VRIN) resources. Within SMEs, attributes such as innovation, resilience, and risk-taking represent intangible VRIN resources that enable firms to navigate complex market dynamics (Penrose, 1959; Wernerfelt, 1984). However, the effectiveness of these resources is amplified when coupled with strong financial capability—another VRIN element that supports resource allocation, innovation investment, and risk management (Sirmon, Hitt, & Ireland, 2007).

Financial capability enables SMEs to translate entrepreneurial potential into tangible outcomes by facilitating informed financial decisions and maintaining operational stability. In Nigeria's volatile business environment, characterized by economic instability and limited financing, financial capability becomes even more critical (Aminu & Shariff, 2014). Thus, in alignment with RBV, this study positions financial capability as a mediating resource that strengthens the link between entrepreneurial attributes and SME performance, enhancing firms' ability to compete and grow sustainably.

2.2 Conceptual Issues

Concept of Performance

Firm performance broadly refers to how effectively a business meets its objectives, satisfies stakeholders, and manages resources (Moullin, 2007; Neely et al., 2001). In the SME context, performance is reflected in survival, growth, profitability, job creation, and poverty reduction (Sandberg, 2003). It is commonly assessed using both financial (objective) and non-financial (subjective) indicators (Ahmad et al., 2012; Leitao & Franco, 2008). Effective performance hinges on achieving a balance between efficiency (resource utilization) and effectiveness (stakeholder satisfaction), shaped by both internal capabilities and external factors.

Concept of Strategic Orientation

Strategic orientation refers to a firm's guiding principles that influence strategy formulation and execution in dynamic environments (Zhou et al., 2005). Key strategic orientations include entrepreneurial, market, learning, and technological orientations, each contributing to competitive advantage and performance (Mu & Di Benedetto, 2011). Despite their importance, many studies have investigated these orientations individually, with limited research exploring their combined effects—especially when mediated by variables like financial capability (Mahmoud & Yusif, 2012).

Entrepreneurial Orientation (EO) and SME Performance

Entrepreneurial Orientation (EO) emphasizes innovation, risk-taking, and proactiveness. Recent studies confirm that EO enhances SME performance by fostering innovation, strategic networking, and responsiveness to market changes (Aljanabi & Noor, 2021; Al-Momani et al., 2022). However, EO's impact varies by industry and geography, suggesting that its

effectiveness depends on contextual factors (Farida & Nuryakin, 2023).

H1: Entrepreneurial orientation is positively related to SME performance in Nigeria.

Market Orientation (MO) and SME Performance

Market Orientation (MO) enhances SMEs' ability to adapt to market shifts and improve customer satisfaction. Studies show that when paired with marketing capabilities, MO leads to superior financial and customer outcomes (Cruz Rincon et al., 2023; Mahmoud & Yusif, 2021).

H2: Market orientation is positively related to SME performance in Nigeria.

Learning Orientation (LO) and SME Performance

Learning Orientation (LO) fosters knowledge acquisition, adaptability, and innovation. Learning-oriented SMEs demonstrate better decision-making and sustained competitiveness, especially in turbulent markets (Agostini et al., 2023; Elbanna et al., 2022).

H3: Learning orientation is positively related to SME performance in Nigeria.

Technological Orientation (TO) and SME Performance

Technological Orientation (TO) involve adopting digital tools and innovative technologies to improve operations and competitiveness. Recent studies highlight its role in enhancing productivity, market responsiveness, and resilience (Chaudhuri et al., 2022).
H4: Technological orientation is positively related to SME performance in Nigeria.

Financial Capability as a Mediator

Financial capability defined as the ability to manage, access, and allocate financial resources effectively—is central to SME success. It strengthens the impact of strategic orientations by enabling informed decisions, risk-taking, and innovation investments (Al-Thani & Ali, 2023; Fasnacht et al., 2023). As a mediating factor, it bridges the gap between strategic intentions and tangible performance outcomes, ensuring that entrepreneurial efforts translate into sustainable growth (Mahmoud & Yusif, 2021). Thus, hypothesized that:
H5–H8: EO, MO, LO, and TO are positively related to financial capability.

H9: Financial capability is positively related to SME performance in Nigeria.

H10–H13: Financial capability mediates the relationship between EO, MO, LO, and TO and SME performance in Nigeria.

3. Methodology

This study adopts a quantitative, cross-sectional survey design to examine SMEs in Nigeria's northeastern region specifically in Adamawa, Borno, and Bauchi states. According to SMEDAN (2012), these states collectively host approximately 5,671 SMEs. Using Krejcie and Morgan's (1970) sample size determination table, a base sample of 361 SMEs was identified. To accommodate potential non-responses, the sample size was increased following Salkind's (1997) recommendation, resulting in a final distribution of 571 questionnaires.

Data were collected through structured questionnaires, utilizing validated scales adapted from established studies. Specifically, performance and market orientation were measured using items from Suliyanto and Rahab (2012), entrepreneurial orientation (EO) from Hakala and Kohtamäki (2011), technological orientation (TO) from Spanjol et al. (2011), learning orientation (LO) from Farrell et al. (2008), and financial capability from Ameliawati and Setiyani (2018).

Both descriptive and inferential statistical techniques were employed for data analysis. Structural Equation Modeling (SEM) was conducted using Smart PLS 3.2 to assess measurement and structural models. The study achieved a high response rate, with 550 usable questionnaires returned out of 571 distributed.

4. Results and Discussion

4.1 Data Screening and Statistical Assumptions

Prior to model assessment, the dataset was screened to ensure compliance with key multivariate assumptions. Missing values were addressed using the Expectation Maximization (EM) technique, ensuring minimal data loss. Outliers were examined using Mahalanobis Distance (D^2), and results confirmed that the dataset was free from significant outliers.

Given that data were collected from a single source (SME managers), potential bias from common method variance (CMV) was assessed. Two statistical remedies were employed. First, Harman's single-factor test (Podsakoff et al., 2012) revealed that no single factor accounted for more than 50% of the total variance, with the first factor explaining only 19.6%. Second, a full collinearity test using Smart-PLS was conducted as recommended by Kock (2015). The variance inflation factors (VIFs) for all constructs were below the 3.3 threshold, with the highest VIF recorded at 2.44, indicating that CMV is unlikely to be a serious concern.

To assess data normality, Mardia's multivariate skewness and kurtosis tests were performed following Cain and Zhang (2016) and Hair et al. (2017). The results indicated a violation of normality assumptions—kurtosis ($\beta = 67.03$, $p < 0.000$) and skewness ($\beta = 2.63$, $p < 0.000$). Consequently, a non-parametric analytical approach was adopted using Smart-PLS, which is robust to non-normal data distributions.

4.2 Descriptive Analysis of the Latent Constructs

Descriptive Statistics of the latent variables are computed using means and standard deviation. The results of the descriptive analysis in Table 1 show that market orientation has the highest mean of 3.84 and learning orientation has the least mean of 2.59.

Table 1: Descriptive Statistics of the Variables

Construct	N	Minimum	Maximum	Mean	Std. Deviation
Technological orientation	550	1.00	5.00	3.3894	.69382
Learning orientation	550	1.00	5.00	2.5923	.83663
Entrepreneurial orientation	550	1.33	5.00	3.0065	.99366
Market Orientation	550	2.00	5.00	3.8410	.78068
Financial Capability	550	1.00	5.00	2.7950	1.05738
Firm Performance	550	2.33	5.00	3.2023	.61286

Source: Researcher (based on SPSS output)

Five-points scale: 1 = strongly disagree – 5 = strongly agree

Assessment of measurement Model

I assess the reflective items to ensure they possess the required reliability and validity. Firstly, determine the individual item reliability by looking at the items loadings while internal consistency reliability by composite reliability (CR). Secondly, the convergent validity was assessed by examining the loadings, average variance extracted (AVE) as well as CR. As seen in table 2, the loadings were all beyond the standard value of 0.5 (Hair et al., 2014). CR ranged between 0.853 – 0.926 or >0.708. The loadings were >0.6. Heterotrait-Monotrait ratio (HTMT) were used to assess discriminant validity as its more reliable than evaluating discriminant validity than the Fornell–Larcker criterion (Henseler, Ringle, & Sarstedt, 2015). The HTMT criterion in this study shows that discriminant Validity is achieved, Table 3.

Table 2: Quality Criteria of the Variables of the Study

Construct	Item	Loading	Composite Reliability	AVE
Entrepreneurial orientation				
	EO1	0.945	0.941	0.732
	EO10	0.624		
	EO11	0.954		
	EO4	0.627		
	EO5	0.955		
	EO7	0.947		
Financial Capability				
	FC1	0.968	0.959	0.774
	FC2	0.787		
	FC3	0.962		
	FC4	0.721		
	FC5	0.953		
	FC6	0.779		
	FC7	0.949		
Firm Performance				
	FP1	0.733	0.861	0.509
	FP2	0.744		
	FP3	0.652		
	FP4	0.657		
	FP5	0.69		
	FP6	0.794		
Learning orientation				
	LO1	0.885	0.976	0.805
	LO10	0.898		
	LO11	0.915		
	LO12	0.872		
	LO3	0.918		
	LO4	0.906		
	LO5	0.884		
	LO7	0.918		
	LO8	0.912		
	LO9	0.865		
Market Orientation				
	MO1	0.837	0.968	0.698
	MO10	0.869		
	MO11	0.782		
	MO12	0.847		
	MO13	0.831		
	MO2	0.871		
	MO3	0.784		

MO4	0.833		
MO5	0.872		
MO6	0.783		
MO7	0.863		
MO8	0.868		
MO9	0.811		
Technological orientation			
T010	0.731	0.971	0.752
TO11	0.812		
TO2	0.931		
TO3	0.942		
TO4	0.931		
TO5	0.914		
TO6	0.862		
TO7	0.750		
TO8	0.836		
TO9	0.858		
TO1	0.939		

Source: Researcher – based on PLS Output

Criteria: Composite Reliability > 0.708, AVE > 0.5 (Hair et al., 2010; Hair et a

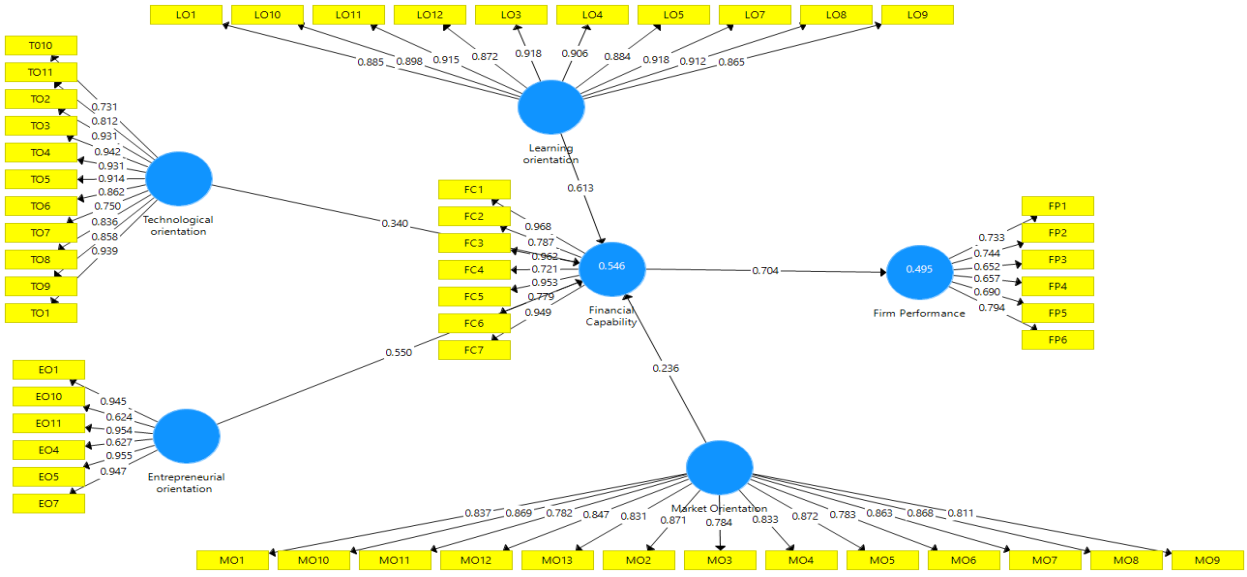

Figure 1: Measurement model

Table 3: Discriminant Validity Heterotrait-Monotrait Ratio (HTMT) for first-order constructs

Constructs	1	2	3	4	5	6
1 Entrepreneurial orientation						
2 Financial Capability	0.447					
3 Firm Performance	0.209	0.518				
4 Learning orientation	0.207	0.367	0.340			
5 Market Orientation	0.220	0.133	0.265	0.079		
6 Technological orientations	0.149	0.197	0.133	0.389	0.097	

Source: Researcher – based on PLS Output

Analysis of structural model

To assess the significance of the path coefficients, a bootstrapping procedure was applied with 5,000 subsamples (Hair et al., 2013). This nonparametric re-sampling method, commonly used in Partial Least Squares (PLS) analysis, generates standard errors and t-values for the model's parameters (Hair et al., 2013).

Table 4: Results of Hypothesized Direct Relationships

Relationships	Beta	SE	t-	p-value	Result
Entrepreneurial orientation -> Firm Performance	0.3	0.04	7.56	0.00	Significa
Learning orientation -> Firm Performance	0.	0.05	8.20	0.00	Signific
Market Orientation -> Firm Performance	0. 31	0.03 9	7.88 9	0.00	Signific ant
Technological orientation -> Firm Performance	- 0.01	0.09 5	0.18 4	0.8 54	Not Signific
Entrepreneurial orientation -> Financial Capability	0.	0.02	20.09	0.00	Significa
Financial Capability -> Firm Performance	0.7	0.01	55.96	0.00	Signific
Learning orientation -> Financial Capability	0.6	0.03	17.9	0.00	Signific
Market Orientation -> Financial Capability	0.2 36	0.03 5	6.73 8	0.00	Signific ant

**p< 0.01, *p<0.05

The findings from Table 4 highlight several key relationships. Entrepreneurial orientation shows a significant positive association with both firm performance (β = 0.342, t = 7.566, p = 0.000) and financial capability (β = 0.550, t = 20.095, p = 0.000). Similarly, learning orientation positively influences firm performance (β = 0.42, t = 8.208, p = 0.000) and financial capability (β = 0.613, t = 17.980, p = 0.000). Market orientation also demonstrates a positive relationship with firm performance (β = 0.31, t = 7.889, p = 0.000) and financial capability (β = 0.236, t = 6.738, p = 0.000). Financial capability, in turn, significantly enhances firm performance (β = 0.704, t = 55.968, p = 0.000).

However, technological orientation shows contrasting effects. While it positively affects financial capability (β = 0.340, t = 9.193, p = 0.000), no significant relationship is found with firm performance (β = -0.018, t = 0.184, p = 0.854).

These results underscore the importance of orientations in driving financial capability and performance, with varying effects across different dimensions

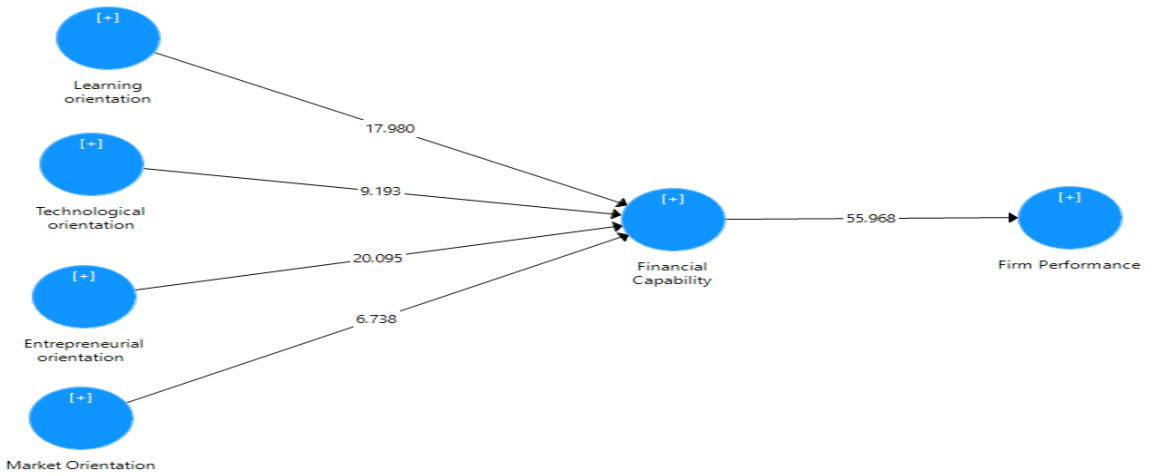

Figure 2: Structural Model Direct Effect

The model's predictive relevance was assessed using the Stone-Geisser test (Geisser, 1974) within the PLS-SEM framework. A Q^2 value greater than zero indicates adequate predictive relevance, while effect sizes (f^2) are classified as small (0.02), medium (0.15), or large (0.35) (Cohen, 1988). Additionally, R^2 values demonstrate the model's explanatory power. The results confirm that the Q^2 value for the dependent variable is acceptable.

Table 5: Construct Cross-validated Redundancy

	SSO	SSE	Q^2 (=1-SSE/SSO)
Entrepreneurial orientation	3300.000	3300.000	
Financial Capability	3850.000	2257.505	0.414
Firm Performance	3300.000	2836.089	0.141
Learning orientation	5500.000	5500.000	
Market Orientation	7150.000	7150.000	
Technological orientation	6050.000	6050.000	

The effect sizes (f^2) in this study shows acceptable range mainly large based on Cohen (1988) classification.

Table 6: Effect Size Assessment

	Financial Capability	Firm Performance
Entrepreneurial orientation	0.613	
Financial Capability		0.982
Learning orientation	0.685	
Market Orientation	0.117	
Technological orientation	0.217	

Lastly, the R^2 values indicate acceptable explanatory significance. Learning orientation, market orientation, technological orientation, entrepreneurial orientation, and financial capability collectively explained 54.6% of the variance in firm performance, while financial capability alone explained 49.5%.

Table 7: R Square Value

	R Square	R Square Adjusted
Financial Capability	0.546	0.543
Firm Performance	0.495	0.495

Mediation Analysis

This study employs the non-parametric bootstrapping method to assess the significance of mediating effects, as suggested by Hair et al. (2021) and Preacher and Hayes (2008). Subsequently, the mediation effects were examined. To evaluate the mediating effects proposed by Henseler et al. (2015) and Preacher and Hayes (2008) within the PLS-SEM framework, a bootstrapping procedure was conducted following the non-parametric path modeling approach. The beta values for the indirect effects are detailed in Table 8

The findings reveal that Financial Capability significantly mediates the following relationships: Market Orientation and Firm Performance ($\beta = 0.166$; $t = 6.536$; $p < 0.05$), Entrepreneurial Orientation and Firm Performance ($\beta = 0.387$; $t = 19.895$; $p < 0.05$), Technological Orientation and Firm Performance ($\beta = 0.239$; $t = 8.856$; $p < 0.05$), and Learning Orientation and Firm Performance ($\beta = 0.431$; $t = 16.391$; $p < 0.05$).

All these mediating effects are supported, as the t-values exceed the critical threshold of 1.645 at the 95% confidence level. Additionally, the bias-corrected and accelerated confidence intervals do not cross zero, confirming the robustness of these results (Hayes & Scharkow, 2013).

Table 8: Path coefficient (direct effect) results

Relationships	Beta Values	Standard Deviation	T Values	2.5% CI	97.5% CI	**Decision**
MO -> FC -> FP	0.166	0.025	6.536	0.116	0.210	Significant
EO -> FFC -> FP	0.387	0.019	19.895	0.348	0.424	Significant
TO-> FC -> FP	0.239	0.027	8.856	0.190	0.295	Significant
LO-> FC -> FP	0.431	0.026	16.391	0.383	0.488	Significant

Note: *Significant at 0.01 (2-tailed), CI =Confidence Intervals, MO= Market Orientation, FC= Financial Capability, FP=Firm Performance, EO= Entrepreneurial orientation, TO= Technological orientation, LO= Learning orientation

4.3 Discussion of Major Findings

This study investigated the relationships between strategic orientations, financial capability, and SME performance in Northeast Nigeria through three key objectives.

The first objective examined the direct influence of strategic orientations—Entrepreneurial Orientation (EO), Learning Orientation (LO), Market Orientation (MO), and Technology Orientation (TO)—on firm performance. The findings confirmed significant positive relationships for EO (H1), LO (H2), and TO (H4), aligning with the Resource-Based View (RBV) theory and previous research (e.g., Brouthers et al., 2015; Hsu et al., 2014). EO, characterized by innovation, proactiveness, and risk-taking, enhances performance by fostering strategic dynamism and resource leveraging. LO contributes through continuous learning and adaptation, while TO drives competitive advantage via technological innovation. However, MO (H3) did not show a significant relationship with performance, possibly due to contextual challenges such as fragmented and underdeveloped markets in the region (Ellis, 2006).

The second objective explored the impact of strategic orientations on financial capability. All four orientations EO, LO, MO, and TO were found to significantly and positively influence financial capability (H5–H8), reinforcing the RBV theory's assertion that internal capabilities and strategic positioning foster better financial resource management (Turyahebwa et al., 2013). These findings underscore the importance of strategic behavior in enhancing SMEs' ability to mobilize, allocate, and utilize financial resources effectively.

The third objective assessed the mediating role of financial capability in the relationship between strategic orientations and SME performance. The results confirmed a direct positive relationship between financial capability and firm performance (H9), consistent with prior studies (Sutini & Yuwono, 2022). Furthermore, financial capability significantly mediated the relationships for EO, LO, MO, and TO (H10–H13). This mediation suggests that strategic orientations, when coupled with strong financial capabilities, can significantly amplify performance outcomes. For instance, EO's proactive strategies are more impactful when backed by financial strength, and LO benefits from better access to learning resources. MO's customer-focused strategies and TO's technological investments also translate more effectively into performance when financial capability is strong (Onyango, 2021).

In summary, the findings position financial capability as a critical enabler that enhances the value of strategic orientations in driving SME performance. This study not only reaffirms the tenets of the RBV theory but also emphasizes the strategic importance of integrating EO, LO, MO, and TO into business practices. For SMEs in Northeast Nigeria, where environmental and market conditions can be challenging, fostering these orientations—especially EO and TO—alongside building financial capacity, presents a viable pathway to sustained growth and competitive advantage.

5. Conclusion and Recommendations

This study provides empirical evidence on how strategic orientations entrepreneurial, learning, market, and technological interact with financial capability to influence SME performance in Northeast Nigeria. Grounded in the Resource-Based View (RBV) theory, the findings reveal that EO, LO, and TO significantly enhance performance directly, while MO's impact is more nuanced, likely shaped by contextual market limitations. More importantly, financial capability not only improves performance directly but also acts as a significant mediator between strategic orientations and performance, amplifying their effectiveness.

These insights offer several practical implications. First, SME owners and managers should prioritize the development of strategic orientations, particularly EO and TO, to foster innovation, adaptability, and long-term competitiveness. Second, capacity-building programs should focus on strengthening SMEs' financial capability—improving budgeting, investment, and cash flow management skills—which in turn enhances strategic execution and resilience.

From a policy perspective, government agencies, financial institutions, and development partners should design interventions that promote both strategic orientation and financial literacy among SMEs. Support mechanisms such as innovation grants, tax incentives for tech adoption, subsidized training on financial management, and market access facilitation can collectively boost SME sustainability and regional economic development.

In conclusion, for SMEs in emerging and volatile economies like Northeast Nigeria, the integration of strategic orientations with financial capability is essential to unlock their growth potential and contribute meaningfully to national development

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