



**INTERNATIONAL JOURNAL OF
ENTREPRENEURSHIP AND
MANAGEMENT PRACTICES
(IJEMP)**
www.ijemp.com



**THE MEDIATING ROLE OF BUSINESS PERFORMANCE IN
THE RELATIONSHIP BETWEEN ENTREPRENEURIAL
COMPETENCY, BUSINESS STABILITY AND BUSINESS
FINANCING**

Enny Widayati^{1*}, Zuraimi Abdul Aziz^{2*}, Dzulkifli Mukhtar^{3*}, Haswan Yunaz⁴

¹ Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kelantan, Malaysia
Email: enny18juli@gmail.com

² Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kelantan, Malaysia
Email: zuraimi@umk.edu.my

³ Faculty of Entrepreneurship and Business, Universiti Malaysia Kelantan, Kelantan, Malaysia
Email: dzulkifli@umk.edu.my

⁴ Faculty of Economics, Kosgoro Institute of Business and Informatics 1957 Jakarta Indonesia
Email: haswanyunaz@yahoo.com

* Corresponding Author

Article Info:

Article history:

Received date: 28.08.2025

Revised date: 03.09.2025

Accepted date: 25.11.2025

Published date: 09.12.2025

To cite this document:

Widayati, E., Aziz, Z. A., Mukhtar, D., & Yunaz, H. (2025). The Mediating Role of Business Performance in the Relationship Between Entrepreneurial Competency, Business Stability and Business Financing. *International Journal of Entrepreneurship and Management Practices*, 8 (32), 145-163.

DOI: 10.35631/IJEMP.832010

This work is licensed under [CC BY 4.0](https://creativecommons.org/licenses/by/4.0/)



Abstract:

Previous research has shown inconsistent results regarding the direct influence of entrepreneurial competency and business stability on SME performance. This study offers new insights by identifying business financing as a mediating variable that strengthens the impact of both factors on business performance. The results indicate that entrepreneurial competency and business stability may have limited direct effects, but their influence becomes significant when SMEs have adequate access to and control over financial resources. Financial capacity thus serves as a strategic enabler, allowing internal strengths to generate improved business outcomes. The study involved 93 SME entrepreneurs, with data collected using a structured questionnaire that measured entrepreneurial competency, business stability, business financing, and business performance. The data were analysed using Structural Equation Modelling with the Partial Least Squares (SEM-PLS) approach. Findings confirm the mediating role of business financing and highlight its importance in supporting SME growth and sustainability.

Keywords:

Business Performance, Business Financing, Entrepreneurial Competency, Business Stability

Introduction

Small and Medium Enterprises (SMEs) form the backbone of Indonesia's economy, contributing significantly to employment generation, poverty alleviation, and GDP growth. According to the Ministry of Cooperatives and SMEs (2023), SMEs account for approximately 99% of all business entities, absorb over 97% of the workforce, and contribute around 61% to the national GDP. However, these strategic contributions stand in contrast with persistent structural constraints—particularly limited access to business financing—which continues to restrict SMEs' ability to innovate, scale, and compete. The Asian Development Bank (2024) further highlights that Indonesia has the second-largest SME financing gap in Southeast Asia, indicating that the issue is not only persistent but also comparatively severe within the regional context.

The financing barrier remains critical: over 70% of Indonesian SMEs are unbanked or underbanked (World Bank, 2022), and the SME credit rejection rate has increased from 18.6% in 2019 to 23.7% in 2023 (OJK, 2023). Financial institutions continue to perceive SMEs as high-risk borrowers due to informal operational structures, limited credit history, insufficient collateral, and weak financial reporting systems. This creates a cyclical constraint: SMEs cannot access financing because they cannot demonstrate performance, yet they cannot improve performance without financing—leading to stagnation in productivity, market expansion, and innovation.

Recent studies suggest that this financing constraint cannot be explained solely by limitations within the financial sector; internal business factors also play a pivotal role. Entrepreneurial competency—defined as the combination of knowledge, skills, and behavior that enables entrepreneurs to manage and grow ventures—has been linked to strategic decision-making, opportunity recognition, and risk management (Mitchelmore & Rowley, 2013; Tehseen et al., 2020). Likewise, business stability, reflected in consistent operations, revenue predictability, and resilience against market shocks, increases business credibility in the eyes of lenders and investors. Nevertheless, empirical findings remain fragmented. Some studies report a strong direct influence of entrepreneurial competency on financing access, while others find the effect insignificant unless accompanied by strong business performance.

Based on recent literature, business performance increasingly emerges as the mechanism through which entrepreneurial competency and business stability affect financing outcomes. Financing decisions by external stakeholders are rarely based on latent entrepreneurial qualities; rather, lenders respond to observable indicators such as profitability, growth rate, and market share. Previous studies (e.g., Alatiqi et al., 2022; Sun & Ding, 2023; Widyastuti et al., 2024) emphasize that investors and banks prefer data-driven performance signals before extending credit. However, there remains a research gap—most studies examine direct effects of entrepreneurial or operational factors on financing, while the mediating role of business performance is rarely tested, especially in emerging economies such as Indonesia.

This study integrates Resource-Based Theory (RBT) and Signaling Theory to explain the proposed conceptual framework. RBT argues that internal capabilities, including entrepreneur competencies and stable operations, function as strategic resources that enhance performance (Barney, 1991). Meanwhile, Signaling Theory (Spence, 1973) asserts that observable performance outcomes serve as signals that reduce information asymmetry between firms and funders. Thus, entrepreneurial competency and business stability are expected to strengthen access to business financing primarily through improved business performance.

Grounded in these theoretical perspectives, this study aims to: (1) examine the direct effect of entrepreneurial competency on business performance and business financing; (2) assess the direct effect of business stability on business performance and business financing; (3) evaluate the direct effect of business performance on business financing; and (4) investigate the mediating role of business performance in the relationship between entrepreneurial competency, business stability, and business financing. By incorporating performance as a mediating mechanism, this study contributes a more nuanced understanding of SME financing behavior and offers practical implications for entrepreneurs, policymakers, and financial institutions in developing evidence-based strategies to enhance SME financial inclusion..

Literature Review

Small, and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are widely recognized as pivotal engines of global economic growth, representing approximately 90% of businesses and 50% of employment worldwide (Pedraza, 2021). In emerging economies, their contribution is even more significant; for instance, SMEs in India account for 30% of national output and represent the second largest employer after agriculture (Uma & Anbuselvi, 2023; Jaggi, 2021). However, despite their economic relevance, SMEs face persistent structural challenges, including limited technology adoption, managerial informality, and insufficient government support (Fitriya & Emelinda, 2024). Similar patterns are found across Southeast Asia, where a regional financing gap exceeding USD 300 billion continues to constrain SME growth (ASEAN Secretariat, 2023). These persistent limitations reinforce the need to strengthen institutional support, entrepreneurial human capital, and financing accessibility to increase sustainability and competitiveness (Upadhyay, 2022; Shelly et al., 2020).

SMS's Business Performance

SME business performance is shaped by internal capabilities and strategic alignment with sustainable development goals. Evidence from SMEs in Yogyakarta shows that alignment with SDGs significantly increases operational efficiency and sustainable economic growth (Merthayasa et al., 2024). Leadership and organizational climate also play a critical role in enhancing employee productivity and firm outcomes (Valderrama et al., 2023). Innovation capabilities—both technological and marketing—have consistently been found to strengthen competitive advantage and firm resilience, particularly during crises such as the COVID-19 pandemic (Kamil et al., 2023; Augustinah et al., 2022; Harini et al., 2023). Nevertheless, contradictory evidence exists; although financial literacy improves performance through innovation and working capital management, literacy dimensions relating to debt and budgeting show minimal effect (The Role of Innovation, Financial Literacy, Capital, 2022).

SMEs' Business Financing

SMEs continue to face global financing constraints due to information asymmetry, weak financial documentation, and rigid collateral-based lending systems (Osuna et al., 2024; Wanyoik & Kalundu, 2022). Although FinTech platforms and equity-based financing are emerging as more inclusive solutions (Ascúa & Wölfle, 2024), the adoption gap is substantial, especially where digital financial infrastructure and managerial capabilities remain inadequate (Song et al., 2022; Pancenko & Sakele, 2024). Adequate financing has repeatedly been linked to business expansion, innovation, and GDP contribution (Batrancea et al., 2022; Ogujiuba et al., 2023).

Entrepreneurial Competency

Entrepreneurial competency reflects a multidimensional set of technical, managerial, cognitive, conative, and social capacities (Matthew et al., 2024; Li & Antoncic, 2023). These competencies help entrepreneurs seize business opportunities, make superior strategic decisions, and drive sustainable business growth (Fiernaningsih et al., 2024; Sarkar & Jena, 2024). Yet despite evidence of positive effects, the application of competencies often fails to translate into financing opportunities when performance indicators are weak or ambiguous.

Business Stability

Business stability reflects operational consistency and resilience against external shocks (Tupkalo & Cherepkov, 2022). Financial stability—characterized by risk mitigation and cost efficiency—is its core driver (Gorlov & Molchanova, 2023; Adonin & Shymanska, 2022; But & Netudyhata, 2020). Stability also strengthens confidence among stakeholders, reinforcing long-term business continuity (Presnyakova & Khryuchkina, 2020; Arefieva et al., 2021).

After reviewing the theoretical foundation and conceptual definitions of SMEs, business performance, business financing, entrepreneurial competency, and business stability, the similarities and differences across previous studies were compared systematically. To provide a clear synthesis, a summary of recent empirical studies is presented in Table 1.

Table 1. Summary of Previous Studies

N o	Author & Year	Country / Context	Variables Examined	Method	Key Findings	Research Gap / Relevance
1	Sakib (2022)	Banglade sh	Entrepreneuri al competencies → SME performance	Survey; SEM-PLS	Entrepreneuri al competencies (opportunity, strategic, personal) significantly improve SME performance.	Did not examine the impact of performance on financing access.
2	Kisubi (2022)	Rural SMEs – South Africa	Entrepreneuri al competencies & firm capability → SME performance	Survey; SEM	Both competencies and firm capability positively affect performance and innovation.	Focuses on innovation, not financing or business stability.
3	Neneh (2022)	South Africa	Entrepreneuri al competencies → performance, mediated by	Survey; SEM	Performance increases when competencies translate into	Mediation variable is resource access, not business performance

4	Civelek et al. (2021)	Emerging European SMEs	access to resources Entrepreneurial orientation → access to finance, mediated by business performance	Survey; SEM	resource access. Business performance mediates the effect of entrepreneurial orientation on financing.	toward financing. Uses entrepreneurial orientation—not entrepreneurial competency and stability.
5	Rita (2020)	Indonesia (Batik SMEs)	Financing access ↔ SME performance	Survey; SEM-PLS	Financing constraints hinder performance due to perceived borrower risk.	No analysis of owner competencies or stability as antecedents of financing.
6	Rusliana (2023)	Indonesia	Financial accessibility & financial market participation → SME performance	Econometric analysis	Access to financial institutions improves performance.	Examines external financial ecosystem rather than internal SME characteristics.
7	Suriani (2024)	Indonesia	Financial management practices → business stability & performance	Survey; SEM	Good financial management strengthens business stability and performance.	Does not test whether stability enhances financing access.
8	Arifin (2025)	Indonesia	Financial acumen & decision-making → business stability & competitiveness	Survey; SEM-PLS	Financial acumen increases stability and reduces failure risk.	Treats stability as an outcome—not as a predictor of performance and financing.
9	“Bank Financing, Government Support, and SME	Indonesia	Bank financing & government support → performance, mediated by	Survey; SEM-PLS	Entrepreneurial competence mediates support—	Does not analyze the effect of competence on financing itself.

Performanc e” (2024)		entrepreneuri al		performance relationship.
10 Padi et al. (2025)	Ghana	competence Financial literacy & entrepreneuri al competencies → SME financial performance	Survey; SEM	Competencie s and financial literacy improve financial performance. Does not connect performance as a mechanism toward financing access.

Based on Table 1, there remain inconsistencies and gaps in the empirical evidence, particularly regarding whether entrepreneurial competency and business stability enhance financing access directly or indirectly through business performance. Thus, the present study addresses this gap by proposing and testing a unified empirical model that evaluates both the direct effects of entrepreneurial competency and business stability on business financing, and their indirect effects through the mediating role of business performance. This approach provides a more comprehensive understanding of how internal business capabilities can translate into improved access to financing within the SME sector, especially in emerging economies such as Indonesia where structural borrowing barriers remain prevalent.

Relationship among Variables and Hypothesis Development

Entrepreneurial Competency and Business Performance

Entrepreneurial competency reversi to the knowledge, siklus, and behaviors that enable business owners to effectively manage operations, identify opportunities, and adapt to market changes. Competent entrepreneurs are better at planning, resource allocation, and problem, solving, which are critical in driving business success. Research by Mitchelmore and Rowley (2013) supports the view that entrepreneurial competencies are positively related to firm growth, innovation, and competitiveness. In the context of Indonesian SMEs, such competencies are especially important due to resource constraints and competitive pressures. Therefore, it is expected that higher entrepreneurial competency will lead to improved business performance.

H1: Entrepreneurial competency has a positive effect on business performance.

Business Stability and Business Performance

Business stability reflects the firm's ability to maintain consistent operations, cash flows, and customer base over time. A stable business environment fosters long, term planning, employee retention, and operational efficiency. According to Susilo et al. (2019), SMEs that demonstrate stable revenues and processes are more likely to achieve higher levels of performance. Stability also reduces the likelihood of disruption due to external shocks, allowing firms to focus on innovation and strategic development. Thus, a positive and stable operational condition is expected to enhance overall business performance.

H2: Business stability has a positive effect on business performance.

Entrepreneurial Competency and Business Financing

Entrepreneurial competency not only impacts performance but also influences how external stakeholders perceive a firm's credibility and creditworthiness. Competent entrepreneurs are

better equipped to prepare financing proposals, negotiate terms, and maintain good relationships with financial institutions. Fatoki and Asah (2011) highlight that lenders are more likely to approve funding for entrepreneurs who display strong business acumen and leadership skills. This is particularly relevant in the Indonesian SME sector, where formal credit assessments are often substituted with qualitative evaluations of business owners. As such, entrepreneurial competency is expected to have a direct positive impact on access to business financing.

H3: Entrepreneurial competency has a positive effect on business financing.

Business Stability and Business Financing

Stable businesses are perceived as lower-risk borrowers by financial institutions. Consistent operations, predictable income streams, and reliable supply chains are seen as signs of strong management and financial responsibility. Lenders value such traits, especially in the absence of hard collateral or formal credit records. According to Ullah et al. (2021), SMEs with stable operations are more likely to secure external financing because they are perceived as less likely to default. In developing economies, where credit access is constrained, stability acts as a signal of repayment capacity. Therefore, business stability is expected to increase the likelihood of securing business financing.

H4: Business stability has a positive effect on business financing.

Business Performance and Business Financing

Business performance is a key indicator used by investors and lenders to assess a firm's potential and viability. High-performing businesses typically demonstrate profitability, growth, and operational efficiency, which makes them attractive to financial institutions. Beck et al. (2008) showed that SMEs with strong performance records are more successful in obtaining bank loans, even in contexts with weak legal and financial systems. In Indonesia, where many SMEs lack formal documentation, financial institutions often rely on performance metrics such as sales growth or income stability when evaluating loan applications. Hence, business performance is directly linked to improved access to financing.

H5: Business performance has a positive effect on business financing

Business Performance as a Mediator: Entrepreneurial Competency and Financing

While entrepreneurial competency may directly influence financing, its impact is likely to be channeled through the firm's actual performance. Competent entrepreneurs are more likely to run successful businesses, and it is this success, rather than the competencies themselves, that convinces lenders and investors to provide funding. According to signaling theory (Spence, 1973), business performance serves as a visible indicator of underlying competencies, helping to reduce information asymmetry in financing decisions. Therefore, business performance is expected to mediate the relationship between entrepreneurial competency and financing access.

H6: Business performance mediates the effect of entrepreneurial competency on business financing

Business Performance as a Mediator: Business Stability and Financing

Similarly, business stability is likely to influence financing decisions through its effect on performance. Stable firms tend to perform better due to efficient operations, consistent customer demand, and low volatility. These performance outcomes serve as proof of the firm's reliability, which in turn influences the willingness of external parties to offer financing. Based on the resource, based view (Barney, 1991), stability as a strategic resource must be transformed into performance outcomes to create external value. Consequently, business

performance is hypothesized to mediate the relationship between business stability and business financing.

H7: Business performance mediates the effect of business stability on business financing.

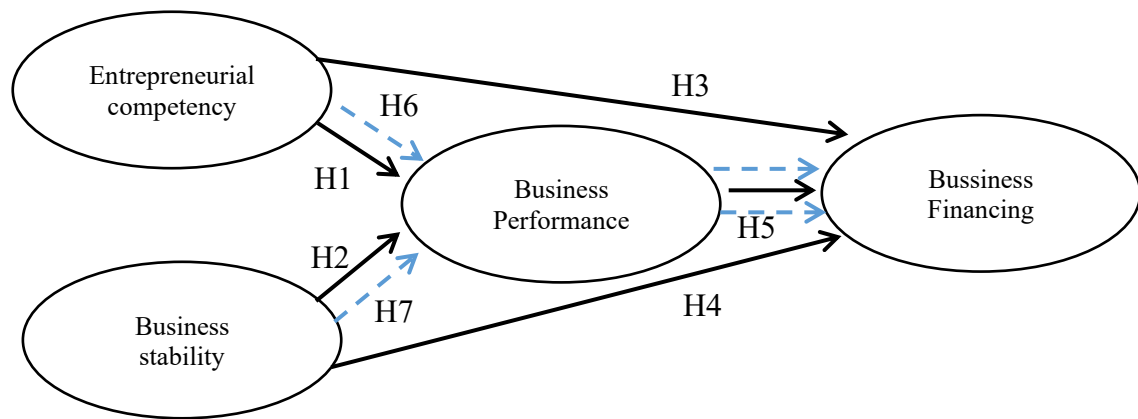


Figure 1. Research Framework

Methodology

This study adopted a quantitative research approach to examine the causal relationships among entrepreneurial competency, business stability, business performance, and business financing. The research was conducted from November 2024 to January 2025, targeting SMEs operating in Indonesia as the study setting. The primary data were collected through a structured questionnaire using a five-point Likert scale, distributed to SME entrepreneurs who had been operating for at least two years and had experience applying for external financing.

A total of 93 valid responses were obtained using purposive sampling. Structural Equation Modeling with the Partial Least Squares (SEM-PLS) technique was utilized because it is suitable for predictive analysis, mediation testing, and complex models with relatively small sample sizes. SmartPLS 4 software was used to evaluate both the measurement model (indicator reliability, convergent and discriminant validity) and the structural model (path coefficients, R^2 , f^2 , Q^2 , and significance levels using bootstrapping with 5,000 subsamples).

The research workflow consists of the following steps: (1) developing the conceptual framework and hypotheses; (2) constructing and validating the questionnaire instrument; (3) collecting survey data; (4) screening the dataset for completeness and eligibility; (5) analyzing the measurement and structural models using SEM-PLS; and (6) formulating conclusions and implications. This workflow provides a clear depiction of how the research data were processed systematically from instrument development to statistical inference.

To provide a clear overview of how the research was conducted from instrument development to data analysis, the workflow of this study is summarized in a visual diagram. The flowchart illustrates each stage of the methodology sequentially, starting from conceptual framework development and instrument validation, followed by data collection and screening, and ending with SEM-PLS analysis and the formulation of conclusions and implications. This visual

representation aims to help readers understand the logical flow of the research process in a concise and structured manner.

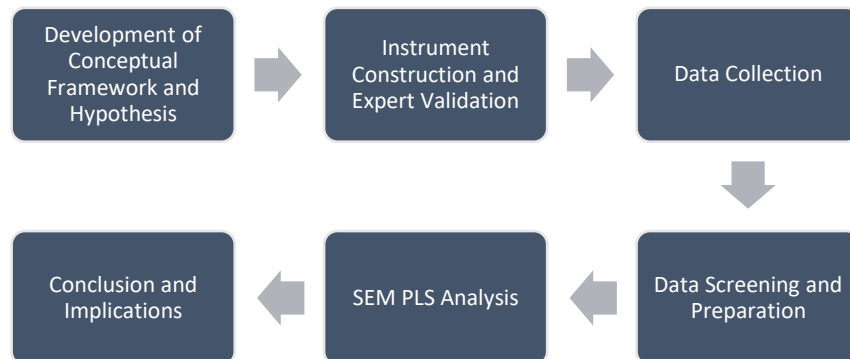


Figure 2. Research Workflow Diagram

Result and Discussion

This section presents two key analyses: a descriptive analysis of respondent profiles and a Structural Equation Modeling using Partial Least Squares (SEM, PLS). The descriptive analysis provides an overview of the respondents' demographic characteristics. Meanwhile, SEM, PLS serves as the primary analytical tool used to test the research hypotheses.

Profile of Respondents

A total of 93 SME entrepreneurs participated in this research. The majority were male (58.1%), aged between 51–70 years (47.3%), held a bachelor's degree (54.7%), earned 21–30 million IDR monthly (51.5%), and had operated their business for 21–30 years (47.5%). Most respondents worked as lower managers (51.5%) and had received bank loans twice (40.9%), with an average loan amount of 5–10 million IDR (35.6%).

Table 1. Profile of Respondents

Characteristics	Category	f	%
Gender	Male	54	58.1
	Female	39	41.9
Age / Years Old	20 – 30	22	23.8
	31 – 50	25	26.8
	51 – 70	44	47.3
	>71	2	2.2
Education	High School	25	26.9
	Diploma	14	15.1
	Bachelor	51	54.7
	Master Degree	3	3.3
Total Income (million IDR)	5 – 10	14	15.1
	11 – 20	25	26.9
	21 – 30	48	51.5
	>30	7	6.5
Length of Business (Years)	5 – 10	15	16.1
	11 – 20	25	26.9

	21 – 30	44	47.5
	>31	9	9.5
Position in the Company	Senior Manager	14	15.1
	Middle Manager	25	26.9
	Lower Manager	48	51.5
	Department Head	6	6.5
Ever Received Bank Loan (Times)	1	31	33.3
	2	38	40.9
	3	17	18.2
	4	7	7.6
	>4	0	0
Loan Amount Received (million IDR)	5 – 10	33	35.6
	11 – 20	18	19.5
	21 – 40	11	11.4
	41 – 60	29	31.3
	>61	2	2.2

Measurement Model Evaluation

All indicators satisfied the criteria for convergent validity, with outer loadings exceeding 0.70 and AVE values ranging from 0.786 to 0.841. Composite reliability values were above 0.90 for all constructs, confirming internal consistency reliability. Therefore, the measurement model demonstrated satisfactory validity and reliability for subsequent structural testing.

Table 2. Convergent Validity, Discriminant Validity and Reliability

Variable	Indicator	Outer Loading	Cut of Value	HTMT	AVE	CR	Cut Of Value
BF	BF1	0,946	0,7	0,000	0,841	0,981	0,5
	BF10	0,909	0,7				
	BF2	0,909	0,7				
	BF3	0,966	0,7				
	BF4	0,851	0,7				
	BF5	0,858	0,7				
	BF6	0,920	0,7				
	BF7	0,959	0,7				
	BF8	0,869	0,7				
BP	BP9	0,974	0,7	0,745	0,787	0,962	0,5
	BP1	0,770	0,7				
	BP2	0,765	0,7				
	BP3	0,950	0,7				
	BP4	0,925	0,7				
	BP5	0,940	0,7				
	BP6	0,913	0,7				
	BP7	0,923	0,7				
	BS1	0,878	0,7				
BS	BS2	0,770	0,7	0,754	0,786	0,967	0,5
	BS3	0,827	0,7				
	BS4	0,944	0,7				
	BS5	0,924	0,7				

	BS6	0,909	0,7				
	BS7	0,924	0,7				
	BS8	0,905	0,7				
	EC1	0,922	0,7				
	EC2	0,700	0,7				
	EC3	0,946	0,7				
EC	EC4	0,952	0,7	0,735	0,820	0,969	0,5
	EC5	0,934	0,7				
	EC6	0,930	0,7				
	EC7	0,927	0,7				

The results of the convergent validity test indicate that all indicators for the variables Business Financing (BF), Business Performance (BP), Business Stability (BS), and Entrepreneurial Competence (EC) are valid. This is evidenced by the outer loading values for all indicators exceeding the recommended cut, off value of 0.70, indicating a strong correlation between each indicator and its respective latent construct. Furthermore, the Average Variance Extracted (AVE) values for all constructs, BF (0.841), BP (0.787), BS (0.786), and EC (0.820), are above the minimum threshold of 0.50, confirming that each construct explains more than half of the variance of its indicators. The Composite Reliability (CR) values for all constructs also exceed the 0.70 benchmark, ensuring internal consistency reliability. Therefore, based on these criteria, it can be concluded that all indicators exhibit good convergent validity and are appropriate for further structural model analysis.

The SRMR value of 0.081 indicates an acceptable fit (threshold ≤ 0.10). The model explained 68.1% of the variance in Business Financing (BF) and 58.9% of the variance in Business Performance (BP). Q^2 values (BF = 0.557; BP = 0.453) were above zero, demonstrating predictive relevance.

Table 3. Goodness Of Fit Model

	R, square	Q, Square	SRMR
BF	0,681	0,557	0,081
BP	0,589	0,453	

Structural Model Evaluation

The structural model results show that all hypothesized paths were statistically significant ($p < 0.05$). Business Performance had a positive effect on Business Financing ($\beta = 0.293$, $p = 0.002$). Business Stability significantly influenced Business Financing ($\beta = 0.385$, $p = 0.000$) and Business Performance ($\beta = 0.317$, $p = 0.000$). Entrepreneurial Competency showed a positive effect on Business Financing ($\beta = 0.248$, $p = 0.009$) and Business Performance ($\beta = 0.518$, $p = 0.000$). Mediation analysis showed that Business Performance mediated the effect of Business Stability on Business Financing ($\beta = 0.093$, $p = 0.016$) and the effect of Entrepreneurial Competency on Business Financing ($\beta = 0.152$, $p = 0.002$).

Table 4. Path Coefficients and Hypothesis Testing Results

No	Hypothesis Statement	Path Coefficient	p, value	Result
H1	Entrepreneurial competency has a positive effect on business performance	0.518	0.000	Supported
H2	Business stability has a positive effect on business performance	0.317	0.000	Supported
H3	Entrepreneurial competency has a positive effect on business financing	0.248	0.009	Supported
H4	Business stability has a positive effect on business financing	0.385	0.000	Supported
H5	Business performance has a positive effect on business financing	0.293	0.002	Supported
H6	Business performance mediates the effect of entrepreneurial competency on financing	0.152	0.002	Supported (Mediated)
H7	Business performance mediates the effect of business stability on financing	0.093	0.016	Supported (Mediated)

In addition, Figure 3 illustrates the magnitude of relationships among variables in the model.

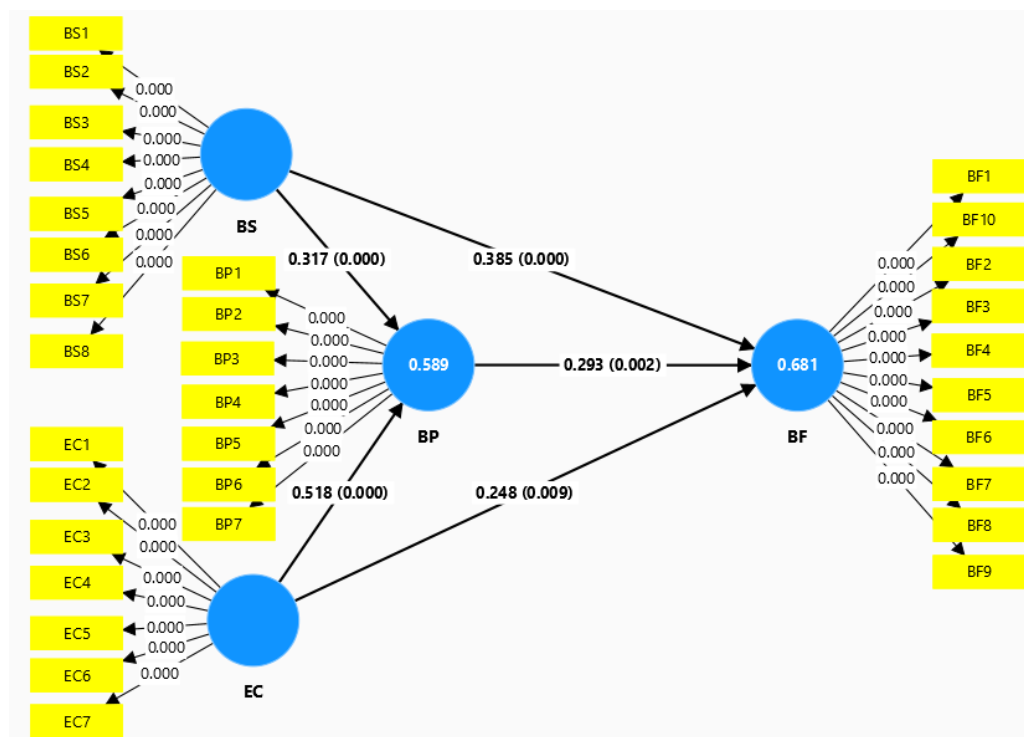


Figure 3. Structural Model (SEM-PLS) Path Coefficients

Discussion

The findings of this study provide empirical evidence that internal business factors—entrepreneurial competency and business stability—are not only critical drivers of business performance but also key determinants of access to financing. These results reinforce

theoretical expectations from Resource Based Theory and Signaling Theory, and align with recent SME literature across emerging economies.

The first key finding highlights that entrepreneurial competency significantly enhances business performance, particularly when reflected in innovation, risk taking, and proactiveness. This aligns with evidence from studies of culinary SMEs in Jakarta and Pasar Jambi, which show that entrepreneurial competencies mediate the relationship between entrepreneurial orientation and business performance through mechanisms such as strategic decision making and opportunity recognition (Raymond & Selamat, 2023; Riente & Utama, 2023; Nuryanti & Hanifah, 2022). Moreover, entrepreneurial resilience built upon these competencies contributes to long term sustainability (Seraj et al., 2022). However, previous work has also emphasized that entrepreneurial traits alone, without corresponding practical competencies, may be insufficient to consistently deliver superior performance (Syiraf & Hidayat, 2022), which further highlights the importance of competency development rather than innate traits.

The second key finding shows that business stability plays an equally important role in enhancing business performance by strengthening internal operations, supporting consistent growth, and improving adaptive capability. This result aligns with studies showing that stable supply chain relationships and financial systems—including Islamic banking structures—support performance and resilience, especially during times of economic turbulence (Yeh et al., 2020; Law & Ridhwan, 2022; Tupkalo & Cherepkov, 2022). Nevertheless, the literature also cautions that excessive emphasis on stability may restrict experimentation and slow innovation, indicating that firms must balance operational consistency with strategic flexibility to sustain long term competitiveness.

The most essential contribution of the present study is the empirical demonstration that business performance reliably mediates the effect of both entrepreneurial competency and business stability on business financing. While earlier research acknowledged that competency and stability do not always directly lead to improved performance, the current findings show that when both factors stimulate higher performance, they subsequently enhance access to financing. The mediation pathway confirms that business performance acts as the mechanism that translates internal strengths into improved financial outcomes and thereby addresses prior inconsistencies in the literature.

Furthermore, the results show that entrepreneurial competency improves financing outcomes through financial literacy and strategic planning, enabling entrepreneurs to access funding more effectively (Seraj et al., 2022; Ge & Wang, 2022). Meanwhile, business stability reduces perceived risk for financial institutions, making businesses more attractive to lenders and investors (Lisowska, 2018; Hashim et al., 2018). When both factors operate in conjunction with strong business performance, access to financing is substantially strengthened. Prior evidence also demonstrates that high performing firms are more successful in securing financing due to the strong financial signals they send to external stakeholders (Yao et al., 2022; Kim & Cho, 2020), whereas poor financial management or reliance on short term loans tends to weaken firm performance and, in turn, financing outcomes (Doan, 2020; Wanyoik & Kalundu, 2022).

Conclusion

This study successfully achieved all of its research objectives by demonstrating that entrepreneurial competency and business stability significantly influence business performance and business financing, with business performance acting as a key mediating mechanism that

strengthens these effects. The findings provide empirical clarification to prior inconsistencies in SME literature by showing that competency and stability lead to greater access to financing when translated into measurable business performance, thereby reinforcing theoretical propositions derived from Resource-Based Theory and Signaling Theory. Academically, the study contributes by offering a more comprehensive model that explains how internal business capabilities shape financing outcomes; practically, the results highlight the need for SMEs to improve performance reporting, operational consistency, and strategic planning in order to increase financial eligibility; and from a policy perspective, the study suggests that financing programs for SMEs should prioritize competency development, performance-based evaluation, and business stability support rather than relying solely on collateral-based assessments.

Acknowledgement

The authors would like to extend their deepest gratitude to Universiti Malaysia Kelantan (UMK) for providing invaluable support and resources throughout the completion of this research. Special thanks are due to the academic supervisors and peer reviewers whose constructive guidance and insightful comments greatly enhanced the quality of this work. We also sincerely appreciate the contributions of all institutions and respondents who participated in the study, without whose cooperation this research would not have been possible.

Reference

- Abdinur, M. A., & Ondes, T. (2022). The Impact of Islamic Financing on the Small Medium Enterprises (SME's) Performance in Lasanod Somalia. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 12(1). <https://doi.org/10.6007/ijarafms/v12, i1/11813>
- Adonin, S., & Shymanska, D. (2022). Management of financial stability of the business entity. *Efektynna Ekonomika*, 2022(3), 71–80. https://doi.org/10.32702/2307_2105_2022.3.71
- Ahmed, S., Aiwan, A., & Akhtar, T. (2021). Effects of Financial Performance on the Sustainable Innovation with the Mediating Role of Market Based Capabilities. *The Journal of Social Sciences and Humanities*, 4, 56–76. <https://journal.suit.edu.pk/index.php/jossh/article/download/570/pdf>
- Arefieva, O., Piletska, S., Khaustova, V., & others. (2021). Monitoring the economic stability of the company's business processes as a prerequisite for sustainable development: Investment and security aspects. *IOP Conference Series: Earth and Environmental Science*, 628, 012042. https://doi.org/10.1088/1755_1315/628/1/012042
- Ascúa, R. A., & Wölflle, A. (2024). FinTech business models focus on financing SMEs. *Journal of the International Council for Small Business*, 5(4), 251–270. <https://doi.org/10.1080/26437015.2024.2410843>
- Augustinah, F., Chandra, E., Julyanthry, J., & others. (2022). Existence of SMEs business performance during the COVID 19 pandemic: Analyzing the contribution of intellectual capital and technological innovation. *Jurnal Organisasi dan Manajemen*, 18(2), 145–160. <https://doi.org/10.33830/jom.v18i2.3592.2022>
- Barrett, C. B. (2022). Sustainability and the junior business managers: An analysis of the conformation processes at business schools in Brazil and in France. *Revista Pós Ciências Sociais*, 19(1), Article 5. https://doi.org/10.18764/2236_9473v19n1.2022.5
- Batrancea, L., Balci, M. A., Chermezan, L., Moldovan, N. C., Suciu, M. C., & Avram, D. (2022). Sources of SMEs financing and their impact on economic growth across the European Union: Insights from a panel data study spanning sixteen years. *Sustainability*, 14(22), Article 15318. <https://doi.org/10.3390/su142215318>

- But, T. V., & Netudyhata, K. L. (2020). Analysis of the financial sustainability of enterprises in modern conditions. *Efektivna Ekonomika*, 2020(3), 156–164. <https://doi.org/10.32702/230721052020.3.156>
- Doan, T., T. T. (2020). Financing decision and firm performance: Evidence from an emerging country. *Management Science Letters*, 10(4), 849–854. <https://doi.org/10.5267/J.MSL.2019.10.012>
- Eniola, A., Kenzhin, Z., Chimwai, L., & others. (2023). High performance work system on sustainable organizations performance in SMEs. *Business: Theory and Practice*, 24(1), 98–110. <https://doi.org/10.3846/btp.2023.17342>
- Fitriya, S., & Emelinda, E. (2024). The SWOT analysis based MSME management model. *The Future of Education Journal*, 3(5). <https://doi.org/10.61445/tofedu.v3i5.369>
- Frimpong, S. E., Agyapong, G. K. Q., & Agyapong, D. (2022). Financial literacy, access to digital finance and performance of SMEs: Evidence From Central region of Ghana. *Cogent Economics & Finance*, 10(1). <https://doi.org/10.1080/23322039.2022.2121356>
- Ge, X., & Wang, J. (2022). A Meta, Analysis of the Relationship between Financing Efficiency and Entrepreneurial Vitality: Evidence from Chinese College Students. *Sustainability*, 14(17), 10826. <https://doi.org/10.3390/su141710826>
- Gorlov, S. M., & Molchanova, R. V. (2023). Mechanisms of financial stability and sustainability of enterprises. *Ekonomika i Upravljenje: Problemy, Rešeniâ*, 2023(7.01), Article 003. <https://doi.org/10.36871/ek.up.p.r.2023.07.01.003>
- Hapsoro, D., & Iswara, A. S. (2019). Does Financial Literation Moderate The Effect of Funding on The Sustainability of Micro Enterprises. *The Indonesian Journal of Accounting Research*, 22(3). <https://doi.org/10.33312/IJAR.448>
- Harini, S., Pranitasari, D., & Said, M. (2023). Determinants of SME performance: Evidence from Indonesia. *Problems and Perspectives in Management*, 21(1), 447–457. [https://doi.org/10.21511/ppm.21\(1\).2023.40](https://doi.org/10.21511/ppm.21(1).2023.40)
- Hasanah, N., Utomo, M. N., & Hamid, H. (2019). *Hubungan Kompetensi Kewirausahaan Dan Kinerja Usaha: Studi Empiris UMKM Di Kota Tarakan*. 13(2), 27–38. <https://doi.org/10.33369/INSIGHT.13.2.27,38>
- Hasanah, N., Utomo, M. N., & Hamid, H. (2019). *Hubungan Kompetensi Kewirausahaan Dan Kinerja Usaha: Studi Empiris UMKM Di Kota Tarakan*. 13(2), 27–38. <https://doi.org/10.33369/INSIGHT.13.2.27,38>
- Hashim, N. A., Raza, S., & Minai, M. S. (2018). Relationship between Entrepreneurial Competencies and Small Firm Performance: Are Dynamic Capabilities the Missing Link? *Academy of Strategic Management Journal*, 17(2), 1. https://www.abacademies.org/articles/Relationship_between_entrepreneurial_competencies_and_small_firm_1939_6104_17_2_198.pdf
- Imamoglu, S. Z., Turkcan, H., & Ince, H. (2021). Marketing Capability and Financial Performance: A Moderated, Mediation Approach. *Journal of International Trade, Logistics and Law*, 7(1), 13–22. http://www.jital.org/index.php/jital/article/view/216/pdf_116
- Imamoglu, S. Z., Turkcan, H., & Ince, H. (2021). Marketing Capability and Financial Performance: A Moderated, Mediation Approach. *Journal of International Trade, Logistics and Law*, 7(1), 13–22. http://www.jital.org/index.php/jital/article/view/216/pdf_116
- Jaggi, G. S. (2021). Growth and employment generation in micro, small and medium enterprises in India. *Journal of Emerging Technologies and Innovative Research*, 8(10), 421–427.

- Jemal, S. (2021). *Effect of entrepreneurial mindset and entrepreneurial competence on performance of small and medium enterprise, evidence from literature review*. 2(7), 476–491. <https://doi.org/10.51594/IJMER.V2I7.197>
- Kalyugina, S., Snegireva, N., Shalashaa, Z., & others. (2021). Sustainability of economic systems and business enterprises. *E3S Web of Conferences*, 250, 04001. <https://doi.org/10.1051/e3sconf/202125004001>
- Kamil, M., Khan, N. U., & Saeed, A. H. M. (2023). Revolutionizing SMEs performance: Empowering growth through cultural transformation, dynamic marketing, and innovative products. *Gomal University Journal of Research*, 39(2), 45–58. <https://doi.org/10.51380/gujr.39.02.04>
- Kim, H. S., & Cho, K., S. (2020). Financing Resources of SMEs and Firm Performance: Evidence from Korea. *Asian Journal of Business and Accounting*, 13(2), 1–26. <https://doi.org/10.22452/AJBA.VOL13NO2.1>
- Law, S. H., & Ridhwan, M. M. (2022). Effect of islamic financial system stability on economic performance in indonesia: evidence from dynamic factor model and nardl approaches. *Journal of Islamic Monetary Economics and Finance*, 8(3). <https://doi.org/10.21098/jimf.v8i3.1567>
- Lawal, F. A., Iyiola, O., Adegbuyi, O. A., Ogunnaike, O. O., & Taiwo, A. A. (2018). Modelling the relationship between entrepreneurial climate and venture performance: the moderating role of entrepreneurial competencies. *Academy of Entrepreneurship Journal*. [https://www.abacademies.org/articles/Modelling, the, Relationship, between, Entrepreneurial, Climate, and, Venture, Performance, 1528, 2686, 24, 1, 129.pdf](https://www.abacademies.org/articles/Modelling_the_Relationship_between_Entrepreneurial_Climate_and_Venture_Performance_1528_2686_24_1_129.pdf)
- Li, J., Wang Feng, H. B., Li, M., Li, M., & Chen, Y. (2022). Relationship between Enterprise Financing Structure and Business Performance Assisted by Blockchain for Internet of Things Financing Mode. *Computational Intelligence and Neuroscience*, 2022, 1–12. <https://doi.org/10.1155/2022/2076830>
- Linna, T. H. (2020). Business sustainability and insolvency proceedings – The EU perspective. *Journal of Sustainability Research*, 2(1), Article 19. <https://doi.org/10.20900/jsr20200019>
- Meitriana, M. A., Yuliarmi, N. N., Utama, M. S., & Marhaeni, A. A. I. N. (2022). Social capital, based financial literacy to improve business performance: a narrative review. *International Journal on Social Sceince, Economics and Art*, 12(2), 83–90. <https://doi.org/10.35335/ijosea.v12i2.97>
- Menne, F., Surya, B., Yusuf, M., Suriani, S., Ruslan, M. S. Dr. D., & Iskandar, I. (2022). Optimizing the Financial Performance of SMEs Based on Sharia Economy: Perspective of Economic Business Sustainability and Open Innovation. *Journal of Open Innovation*, 8(1), 18. <https://doi.org/10.3390/joitmc8010018>
- Merthayasa, A., Sanusi, A., & Chandrarin, G. (2024). Improving business performance of SMEs using SDGs components and business strategy. *KnE Social Sciences*, 9(26), 295–308. <https://doi.org/10.18502/kss.v9i26.17066>
- Moin, S. B., & Abu Bakar, S. B. (2022). The relationship between business excellent model and business performance of small and medium enterprises in Malaysia. *Global Conference on Business and Social Sciences Proceeding*, 2(11), 126–140. [https://doi.org/10.35609/gcbssproceeding.2022.2\(11\)](https://doi.org/10.35609/gcbssproceeding.2022.2(11))
- Nefedov, D. A. (2023). A global approach to defining small and medium sized enterprises. *Ėkonomika i upravlentie: problemy, rešeniâ*, 2023(03), Article 04. <https://doi.org/10.36871/ek.up.p.r.2023.03.04.021>

- Nuryanti, B. L., & Hanifah, A. (2022). How Entrepreneurial Competencies Can Effect Business Performance. *The International Journal of Business Review*, 5(1), 43–52. <https://doi.org/10.17509/tjr.v5i1.48044>
- Ogujiuba, K., Eggink, M., & Olamide, E. G. (2023). Impact of elements of finance and business support on the SME business ecosystem in South Africa: An econometric analysis. *Sustainability*, 15(11), Article 8461. <https://doi.org/10.3390/su15118461>
- Osuna, J. F. A., Cabrera Montoya, S. X., & Castro León, R. A. (2024). Financing for the strengthening of SMEs: A study in Guasave, Sinaloa, Mexico. *Technium*, 21(1), 88–97. <https://doi.org/10.47577/technium.v21i.10697>
- Pancencko, E., & Sakele, M. (2024). Financing of new SMEs in Latvia – opportunities and obstacles. *Copernican Journal of Finance and Accounting*, 13(2), 77–91. <https://doi.org/10.12775/cjfa.2024.003>
- Pedraza, J. M. (2021). The micro, small, and medium sized enterprises and its role in the economic development of a country. *Business and Management Research*, 10(1), 33–44. <https://doi.org/10.5430/bmr.v10n1p33>
- Pramestiningrum, D. R., & Iramani, I. (2020). Pengaruh literasi keuangan, financial capital, kebijakan pemerintah terhadap kinerja usaha pada usaha kecil dan menengah di Jawa Timur. *Journal of Business and Banking*, 9(2), 279–296. <https://doi.org/10.14414/JBB.V9I2.1750>
- Presnyakova, D., & Khryuchkina, E. (2020). Some aspects of sustainable development management of business entities. *E3S Web of Conferences*, 208, Article 08033. <https://doi.org/10.1051/e3sconf/202020808033>
- Raymond, Y., & Selamat, F. (2023). The impact of entrepreneurial orientation on business performance through entrepreneurial competency as mediation variable: a study on smes in culinary sector in jakarta. *International Journal of Application on Economics and Business*, 1(2), 103–111. <https://doi.org/10.24912/v1i2.103>, 111
- Riante, C., & Utama, L. (2023). The influence of entrepreneurial orientation on sme's performance through entrepreneurial competency in pasar jambi. *International Journal of Application on Economics and Business*, 1(2), 79–89. <https://doi.org/10.24912/v1i2.79>, 89
- Rustiarini, N. W., Bhagawati, D. A. S., & Mendra, N. P. Y. (2022). Intellectual Capital and Financial Performance: The Mediating Effect of Sustainability Performance. *International Journal of Management and Sustainability*, 11(4), 221–232. <https://doi.org/10.18488/11.v11i4.3210>
- Seraj, A. H. A., Fazal, S. A., & Alshebami, A. S. (2022). Entrepreneurial Competency, Financial Literacy, and Sustainable Performance, Examining the Mediating Role of Entrepreneurial Resilience among Saudi Entrepreneurs. *Sustainability*, 14(17), 10689. <https://doi.org/10.3390/su141710689>
- Seraj, A. H. A., Fazal, S. A., & Alshebami, A. S. (2022). Entrepreneurial Competency, Financial Literacy, and Sustainable Performance, Examining the Mediating Role of Entrepreneurial Resilience among Saudi Entrepreneurs. *Sustainability*, 14(17), 10689. <https://doi.org/10.3390/su141710689>
- Shelly, R., Sharma, T., & Bawa, S. S. (2020). Role of micro, small and medium enterprises in Indian economy. *International Journal of Economics and Financial Issues*, 10(5), 113–120. <https://doi.org/10.32479/ijefi.10459>
- Siddique, M., Baig, M., & Haque, A. (2021). Stable business policies help in achieving the business targets: An investigation of primary schools business in district central, Karachi, Pakistan. *The Journal of Social Sciences and Humanities*, 60(1), 102–113. <https://doi.org/10.46568/jssh.v60i1.484>

- Siswanti, I., & Nawangsari, L. C. (2023). Various sources working capital financing for the sustainability micro, small and medium enterprises (MSMEs) business in Rancabungur Bogor. *Jurnal Abdimas Perbanas*, 4(1), 23–31.
- Song, N. V., Mai, T. T. T., Thuận, T. Đ., et al. (2022). SME financing role in developing business environment and economic growth: Empirical evidences from technical SMEs in Vietnam. *Environmental Science and Pollution Research*, 29, 11531–11547. <https://doi.org/10.1007/s11356-022-19528-w>
- Sutikno, S., Fikriyah, M., & Nurkhin, A. (2022). Relationship of Social Capital, Entrepreneurial Competence, and Performance: The Case of Convection SMEs. *Economic Education Analysis Journal*, 11(1), 18–27. <https://doi.org/10.15294/eeaj.v11i1.53976>
- Syiraf, M. I., & Hidayat, S. (2022). Penguatan karakteristik dan kompetensi kewirausahaan untuk meningkatkan kinerja umkm di kabupaten serang. *National Conference on Applied Business, Education & Technology*, 2(1), 161–176. <https://doi.org/10.46306/ncabet.v2i1.75>
- Tupkalo, V., & Cherepkov, S. (2022). Business stability ensuring mechanism of enterprise in modern market conditions. *Measurements Infrastructure*, 4. [https://doi.org/10.33955/v4\(2022\),015](https://doi.org/10.33955/v4(2022),015)
- Tupkalo, V., & Cherepkov, S. (2022). Business stability ensuring mechanism of enterprise in modern market conditions. *Measurements Infrastructure*, 4(2022), Article 015. [https://doi.org/10.33955/v4\(2022\)015](https://doi.org/10.33955/v4(2022)015)
- Uma, R. N., & Anbuselvi, R. (2023). Role of micro small and medium enterprises (MSME) in employment generation in India. *Shanlax International Journal of Economics*, 11(2), 45–52. <https://doi.org/10.34293/economics.v11i2.5809>
- Upadhyay, J. (2022). Digital marketing practices adoption in micro, small and medium businesses for inclusive growth. *International Research Journal on Advanced Science Hub*, 4(4), 25–30. <https://doi.org/10.47392/irjash.2022.021>
- Valderrama, D. A. C., Santillán, J. K. A., & Arce, C. H. (2023). Business leadership in SMEs and its effectiveness in work performance. *Migration Letters*, 20(Special Issue 12), 123–135. <https://doi.org/10.59670/ml.v20is12.5873>
- Wanyoik, A. A. K., & Kalundu, K. (2022). Effect of financing decisions on financial performance of small and medium enterprises in Nairobi City County, Kenya. *Account and Financial Management Journal*, 7(11), 13–23. <https://doi.org/10.47191/afmj.v7i11.03>
- Wanyoik, A. A., & Kalundu, Dr. K. (2022). Effect of Financing Decisions on Financial Performance of Small and Medium Enterprises in Nairobi City County, Kenya. *Account and Financial Management Journal*, 07(11). <https://doi.org/10.47191/afmj.v7i11.03>
- Yao, Y., Feng, J., & Yang, Q. (2022). Impact of Financing Constraints on Firm Performance: Moderating Effect Based on Firm Size. *Computational Intelligence and Neuroscience*, 2022, 1–8. <https://doi.org/10.1155/2022/1954164>
- Yeh, T., M., Pai, F., Y., & Wu, L., C. (2020). *Relationship Stability and Supply Chain Performance for SMEs: From Internal, Supplier, and Customer Integration Perspectives*. 8(11), 1902. <https://doi.org/10.3390/MATH8111902>
- Yi, H. L., Meng, X., Linghu, Y., & Zhang, Z. (2022). Can financial capability improve entrepreneurial performance? Evidence from rural China. *Ekonomika Istrazivanja, Economic Research*, 36(1), 1631–1650. <https://doi.org/10.1080/1331677x.2022.2091631>

- Yusuff, Y. Z., Ab Wahab, N. Y., Musa, R., & others. (2020). The influence of innovation on SMEs business performance in the manufacturing sector. *International Journal of Supply Chain Management*, 9(3), 112–119.
- Zarrouk, H., Sherif, M., Galloway, L., & El Ghak, T. (2020). Entrepreneurial Orientation, Access to Financial Resources and SMEs' Business Performance: The Case of the United Arab Emirates. *Journal of Asian Finance, Economics and Business*, 7(12), 465–474. <https://doi.org/10.13106/JAFEB.2020.VOL7.NO12.465>