HUNGARIAN UNIVERSITY OF AGRICULTURE AND LIFE SCIENCES

DOCTORAL SCHOOL OF ECONOMICS AND REGIONAL SCIENCES

DOCTORAL (PhD) DISSERTATION

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GÖDÖLLŐ

June, 2025

HUNGARIAN UNIVERSITY OF AGRICULTURE AND LIFE SCIENCES
DOCTORAL SCHOOL OF ECONOMICS and REGIONAL SCIENCES

THE MEDIATING ROLE OF BUSINESS STRATEGY IN THE RELATIONSHIP BETWEEN HRM PRACTICES, ENTREPRENEURIAL ORIENTATION, AND MSEs PERFORMANCE

DOI: 10.54598/006740

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ABBREVIATION

AMO	Ability, Motivation, and Opportunity
BS	Business Strategy
CI	Compensation/Incentive
CR	Cost reduction
EO	Entrepreneurial Orientation
ES	Employment Security
FL	Flexibility
FPSMEs	Financial Performance of Small and Micro Enterprises
GDP	Gross Domestic Product
GTP	Growth and Transformation Plan
HRM practices	Human Resource Management practice
HRP	Human Resource Planning
INN	Innovation
NFPSMEs	Non-financial performance of Small and Micro Enterprises
PA	Performance Appraisal
PMSEs	Performance of Micro and Small Enterprises
PRO	Proactiveness
QE	Quality enhancement
RT	Responsiveness/Time
RTP	Risk-taking prosperity
RVB	Resource-Based View
SHRM	Strategic Human Resource Management
TD	Training and Development
TW	Teamwork

1. INTRODUCTION

The purpose of this research is to investigate how human resource management practices and entrepreneurial orientations affect the performance of micro and small enterprises, as well as the role of business strategy in mediating the relationship between HRM practices, EO, and MSEs performance. The research will be conducted in the manufacturing, trade, and service industries of Ethiopia's Amhara regional state. Human resource management practices (ARMSTRONG, 2006; AHMAD, 2015; TAYLOR, DOHERTY, AND MCGRAW, 2015; KUHN, MEIJERINK, AND KEEGAN, 2021) are policies and practices that govern an organization's human resources, including recruitment and selection, training and development, and reward systems that align with business strategies (SANZ-VALLE, SABATER-SANCHEZ AND ARAGON-SANCHEZ, 1999; JOTABÁ et al., 2022). According to the WORLD BANK (2002), small-scale enterprises are those that require a small amount of capital to establish, and a small number of employees, and are usually handled personally by the owner. Ethiopian Trade and Investment Authority (ETIA) (2008) defines MSEs in Ethiopia as those with a paid-up capital of 20,000-500,000 Birr (approximately US$4,000-100,000) or more than 500,000 Birr, or having 11-15 employees and more than 50 employees. The ability of an enterprise to develop HRM practices and entrepreneurial orientations that are aligned with business strategy is a source of long-term competitive advantage that determines its performance (MOUSTAGHFIR, EL FATIHI, AND BENOUARREK, 2020). A variety of human resource management practices contribute to the performance of small and micro enterprises (OGUNYOMI AND BRUNING, 2016). (AKHTAR, DING, AND GE, 2008) identified seven such practices that have consistently been considered strategic HRM practices. They include training and development, teamwork, HR planning, results-oriented performance appraisal, compensation/incentive, profit sharing, and job security. Furthermore, entrepreneurial orientations such as proactiveness, innovativeness, and risk-taking prosperity through basic business strategies such as cost reduction, quality enhancement, responsiveness, and flexibility can play an important role in the overall performance of MSEs (RAHAMAN et al., 2021).

1.1 Background of Study

Micro and Small Enterprises (MSEs) play a significant role in the majority of economies, particularly in developing countries (KITHAE, NYAGA AND KIMANI, 2013). Micro and Small-sized enterprises (SMEs) account for the vast majority of businesses worldwide and are critical contributors to job creation and global economic development (OSOTIMEHIN et al., 2012; OPPONG, OWIREDU, AND CHURCHILL, 2014). They account for approximately 90% of all businesses and more than 50% of all employment worldwide. In emerging economies, formal SMEs can account for up to 40% of national income (GDP). When informal MSEs are included, these figures rise dramatically (GILMORE (2013)). According to estimates, 600 million new jobs will be required by 2030 to absorb the world's growing workforce, making MSE development a top priority for many governments around the world (SETHA AND PENH, 2020).

In addition, the majority of private enterprises in emerging countries are micro and small enterprises (MSEs) (GREEN, KIRKPATRICK AND MURINDE, 2006). MSEs have remained the focus of scholars, educators, and researchers in terms of research because they have accelerated a nation's overall economic activities (MORRIS AND KURATKO, 2014). Furthermore, MSEs are well known for their influential role in creating job opportunities for the unemployed (DRBIE AND KASSAHUN, 2013). According to ABEBE AND GEMEDA, (2020), it has been extremely difficult for MSEs to function and operate in the absence of appropriate and supportive actions from micro and small-scale enterprises.

MSEs' competitive advantage in an ever-changing environment is determined by their ability to rethink and systematically renew their business models to grow and be profitable. The ability of MSEs to absorb new knowledge, reconfigure organizational capabilities, and generate value for their stakeholders through new products, processes, and market innovations is required for such strategic agility. The ability of MSEs to leverage internal idiosyncratic assets and knowledge resources to continually shape their dynamic and operational capabilities, as well as foster individual and organizational intrapreneurial endeavors, is a strategic dimension in such dynamics. Human resource management (HRM) practices provide the tools needed to assist MSEs in mapping individual knowledge and skills, promoting individual and team learning, and creating appropriate motivational conditions for people to achieve both personal and organizational goals (ADLA, GALLEGO-ROQUELAURE AND CALAMEL, 2019).

There have been calls in recent years for more cross-study research on HRM and entrepreneurship (DABIĆ, ORTIZ-DE-URBINA-CRIADO, AND ROMERO-MARTÍNEZ, 2011). Because they are related, they can greatly benefit from one another. The closer connection will direct HRM studies to better understand what motivates entrepreneurial behavior and how it can assist a new business venture. Furthermore, this relationship may aid researchers in comprehending how HRM theories can be applied to newer and smaller MSEs (REN AND JACKSON, 2020). This is critical, as DABIĆ, ORTIZ-DE-URBINA-CRIADO, AND ROMERO-MARTÍNEZ, (2011) clearly state because MSEs have long been regarded as second-rate MSEs by HRM researchers.

Micro and Small Enterprises (MSEs) play an important role in most economies, particularly in developing countries. MSEs account for most businesses worldwide and are important contributors to job creation and global economic development. They account for approximately 90% of businesses and more than 50% of global employment. Formal MSEs contribute up to 40% of national income (GDP) in emerging economies (DANIELS AND MEAD, 1998). When informal MSEs are included, these figures rise significantly. According to World Bank estimates, 600 million jobs will be required by 2030 to absorb the growing global workforce, making MSE development a top priority for many governments worldwide. MSEs generate the most formal jobs in emerging markets, accounting for 7 out of 10 jobs.

Distribution services currently account for nearly 15% of Ethiopia's GDP, and the sub-sector employed more than 42% of the country's active population (including informal, unskilled, female, and part-time workers) in 2018. As a result, the service sector is considered the second-leading sector in Ethiopia in terms of formal employment after agriculture, contributing nearly half of the country's GDP. On the other hand, according to the World Bank's collection of development indicators compiled from officially recognized sources, manufacturing and trade value-added (percent of GDP) in Ethiopia were reported at 5.3039 percent and 24.02 percent in 2020, respectively, (World Bank forecasts and projections were obtained in April 2022).

However, access to finance is a significant constraint to MSE growth; it is the second most frequently cited barrier to MSE growth in emerging markets and developing countries (WORLD BANK 2019). Incompetent HR managers, a lack of entrepreneurial orientation skills, and inappropriate business strategies are also major contributors to MSEs' underperformance in Ethiopia (SEYFEDIN, 2020).

Many HRM researchers focused their research on large organizations while ignoring small and micro businesses, even though HRM is equally important to smaller businesses. Similarly, there is a scarcity of HRM studies on MSEs in Ethiopia; therefore, this study is expected to fill gaps in the body of literature on the effect of HRM practices on the performance of MSEs in the manufacturing, trade, and service sectors. As a result, this research would contribute to the pieces of literature on entrepreneurship and HRM. It also helps us better understand HRM in entrepreneurial MSEs. Furthermore, the role of business strategy as a mediator in this study will be investigated. Several attempts have been made in previous studies to investigate the relationship between human resource management practice, entrepreneurial orientation, and organizational performance, but little attention has been paid to moderating variables. Studies on HRM practice, entrepreneurial orientation, and performance relationships have yielded inconclusive results (MESSERSMITH AND WALES, 2013). Thus, to the best of the researcher's knowledge, no single study has simultaneously investigated the mediating role of business strategy on the relationship between HRM practice, entrepreneurial orientation, and MSE performance. By introducing business strategy ties as a moderator, this study will contribute to the existing literature on HRM and Entrepreneurship and will offer a unique contribution to the model of MSE performance.

1.2Statement of the Problem

Micro and small enterprises (MSEs) are important drivers of any country's socioeconomic development. In Ethiopia, they are the primary vehicles for achieving the goals of the Inclusive Growth and Transformation Plan (GTP). Aside from creating low-cost (labor-intensive) employment opportunities and training entrepreneurs (encouraging indigenous entrepreneurship), MSEs in Ethiopia have enormous potential to add value to the manufacturing sector and GDP, increase per capita income and output, improve regional economic balance (equitable distribution), create a competitive price structure, promote effective resource utilization, and provide a source of livelihood for most Ethiopians. MSEs also serve as an intermediary in the development of medium and large-scale enterprises, the diversification of the industrial structure, and the transformation of the rural economy. Although the notion that MSEs provide a distinct development advantage is as old as the concept of economic development itself, there is a strong correlation between the degree of poverty, hunger, unemployment, and economic well-being of a

country's citizens and the vibrancy of that country's MSE development (TADESSE, 2010). Human resource management practices and entrepreneurial orientation can, in this case, play a critical role in improving MSE performance through appropriate business strategies. Since the 1990s, the current business environment has relied on people's recognition, productivity, and creativity because leading organizations that implemented HRM practices were frequently followed by higher productivity and performance (MOUSTAGHFIR, EL FATIHI AND BENOUARREK, 2020). As a result, previous studies over the last decade have reported the significance of HRM practices in improving organizational performance (BISWAS, GIRI SRIVASTAVA, 2006; HOOI AND NGUI, 2014). CARLSON, UPTON, AND SEAMAN, (2006) investigated the effects of HRM practices on 168 family-owned MSEs. They discovered that HR activities such as training and development, recruitment packages, morale maintenance, performance evaluation, and compensation had a positive impact on organizational performance. Using data from Taiwan's high-tech MSEs, PAO-LONG AND WEI-LING, (2002) discovered that training and development, teamwork, benefits, HR planning, and performance appraisal had a significant effect on employee productivity, which in turn improved MSE performance. TZAFRIR, (2006) discovered a positive and significant relationship between HRM practices and performance. According to ACQUAAH, (2004), MSEs with more effective HRM practices will have better organizational performance because better HRM will allow them to meet the ISO quality standards.

On the other hand, it has been argued that entrepreneurial orientation dimensions are important in developing MSE success and survival. Several empirical studies have found that MSEs' innovativeness, proactiveness, and risk-taking prosperity improved their performance. For example, SCHEPERS et al., (2014) discovered that EO improved wealth, better marketplaces, and the seeking and handling of opportunities for SMEs. In other words, innovation puts the organization ahead of its competitors. ASAD, SHARIF, AND HAFEEZ, (2016) discovered that EO has a positive impact on MSE performance. Being innovative allows MSEs to identify market trends, make quick decisions on products or new developments, and pursue new opportunities more quickly, all of which lead to increased organizational performance. According to RAHAMAN et al., (2021), among the fundamental dimensions that led to performance improvement in the automotive components industry and wine industry were innovativeness, proactiveness, and risk-taking prosperity, as customers' strong purchasing power accelerated the

innovation effort. (ANDERSÉN, 2010) discovered positive correlations between EO and performance in a separate study of 434 MSEs.

A business strategy is an important resource for achieving long-term competitive advantage. These business strategies are essential in all business activities (YAKHOU AND DORWEILER, 2004). According to one study, providing valuable resources required to build capabilities that improve MSE performance is the best way to ensure a sustainable advantage (OGOT, 2014a). Several researchers discovered a link between HRM practices and some influential variables that appear to improve MSEs' performance. KELLIHER AND PERRETT, (2001) discovered that the interaction between business strategy and HRM practices is an important factor in organizational effectiveness. ISMAIL, (2018) investigated the impact of human resource diversity practices on the performance of MSEs. They used business strategy as a contingent variable and discovered that it moderates the relationship between human resource practices and MSE performance. According to LIAO, (2005), business strategies combined with appropriate HRM practices will improve MSE performance. As a result, the primary goal of this research is to look into the relationship between HRM practices, and entrepreneurial orientations with the business strategy on the performance of MSEs.

The existing literature on the relationship between HRM practice, entrepreneurial orientation, and business strategy on MSE performance in Africa, particularly in Ethiopia, is limited, indicating that more research is needed. Furthermore, the poor growth performance of micro and small-scale enterprises, as well as delays in the implementation of large manufacturing projects, were major contributors to the overall slow growth of the manufacturing sector (ABEBAW, MULATE, AND NIGUSSIE, 2018). As a result, proper implementation and consolidation of HRM practices and entrepreneurial orientations via good business strategy for the development of MSEs are critical to unleashing the sector's potential in revitalizing local economic development, nurturing entrepreneurship, and addressing unemployment and poverty.

Therefore, the researcher is interested in studying the mediating role of business strategy in the relationship between HRM practice, entrepreneurial orientation, and performance of MSEs in the Amhara national regional state as MSEs are instrumental for the development of one’s nation. This way the researcher is interested in magnifying the role of training and development, teamwork, HR planning, results-oriented performance appraisal, compensation/ incentive, and employment security as HRM practice and proactiveness, innovativeness and risk-taking

prosperity as entrepreneurial orientations through cost reduction, quality enhancement, responsiveness and flexibility as business strategies to the performance of MSEs.

Thus, studying the key factors underlying MSE performance can provide valuable evidence for policymakers and development partners to make knowledge-based decisions. It can also provide useful information for the owners of MSEs who want to address their growth challenges and achieve their goals. The study intends to add to Ethiopia's limited body of advanced analytical knowledge by analyzing the relationship between several variables that have a direct or indirect effect on the performance of MSEs. The study's findings are also expected to provide primary information that can stimulate the establishment of new businesses and enable existing MSEs to grow and become more competitive and dynamic.

1.3 Objectives of the Study

The overall objective of the study was to look at how HRM practice and entrepreneurial orientation affect the performance of MSEs through business strategy in the Amhara regional state, Ethiopia.

To achieve the general objective the researcher establishes the following specific objectives:

1. To investigate the impact of key Human Resource Management (HRM) practices on the performance outcomes of Micro and Small Enterprises (MSEs).
2. To analyze the influence of entrepreneurial orientation dimensions on the performance of MSEs within a competitive business environment.
3. To assess the strategic role of business strategy in shaping and enhancing the performance of MSEs.
4. To evaluate the mediating role of business strategy in the relationship between HRM practices and MSE performance.
5. To examine the mediating effect of business strategy on the relationship between entrepreneurial orientation and the performance of MSEs.
6. To explore the integrated mediating role of business strategy in the relationship between HRM practices, entrepreneurial orientation, and the performance of MSEs.

1.4Hypothesis

The formulation of hypotheses is a critical component of empirical research, providing a structured pathway for testing theoretical relationships among key variables. This study is grounded in the assumption that internal organizational capabilities such as Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) serve as catalysts for enhanced business outcomes. Drawing from strategic management theory and resource-based views, it is posited that these internal factors do not operate in isolation but interact with mediating constructs such as Business Strategy (BS) to influence organizational performance. Prior literature has emphasized the strategic role of HRM in fostering innovation, productivity, and adaptability, which are essential characteristics for competitive advantage in micro and small enterprises. Similarly, EO has been recognized as a driver of entrepreneurial behavior within firms, encompassing innovativeness, risk-taking, and proactiveness—elements that directly contribute to the formulation of strategic direction and achievement of superior performance. However, the mechanisms through which these constructs impact performance may vary and often involve mediating or indirect effects, particularly through strategic alignment.

To examine these theoretical relationships, a set of testable hypotheses has been developed. These hypotheses aim to explore both the direct and indirect effects of HRM practices and EO on PMSE performance, as well as the mediating role of Business Strategy. The hypotheses are framed to reflect directional relationships based on empirical evidence and conceptual reasoning drawn from prior studies.

H1: Human Resource Management (HRM) practices have a significant positive effect on the performance of Micro and Small Enterprises (MSEs).

H2: Entrepreneurial orientation dimensions (e.g., innovativeness, proactiveness, and risk-taking) have a significant positive influence on the performance of MSEs.

H3: Business strategy has a significant positive effect on the performance of MSEs.

H4: Business strategy significantly mediates the relationship between HRM practices and MSE performance.

H5: Business strategy significantly mediates the relationship between entrepreneurial orientation and MSE performance.

H6: Business strategy significantly mediates the combined effect of HRM practices and entrepreneurial orientation on MSE performance.

1.4.1 HRM Practices and MSE Performance

Human Resource Management (HRM) practices are increasingly recognized as strategic tools that contribute to the performance and competitiveness of Micro and Small Enterprises (MSEs). In contrast to traditional views that HRM is primarily relevant for large firms, recent studies demonstrate that small firms benefit significantly from effective HRM systems, particularly when these practices are aligned with business objectives.

Training and development, performance appraisal, teamwork, compensation, and job security are among the HRM dimensions most closely linked to enterprise success (AKHTAR, DING & GE, 2008). These practices enhance employee skills, motivation, and retention, ultimately leading to higher productivity and innovation (OGUNYOMI & BRUNING, 2016). According to ARMSTRONG (2006), HRM ensures that human capital is developed and deployed in a manner consistent with organizational strategy.

Evidence from developing countries confirms the performance-enhancing role of HRM practices in small enterprises. For example, in Nigeria, OGUNYOMI AND BRUNING (2016) found that strategic HR practices led to improved operational efficiency and customer satisfaction. Similarly, in Taiwan, PAO-LONG AND WEI-LING (2002) reported that training, HR planning, and performance appraisal had significant positive effects on productivity in high-tech MSEs.

Performance appraisal and incentive-based systems have been found to foster a results-oriented culture that supports innovation and growth (BISWAS, GIRI & SRIVASTAVA, 2006). Furthermore, when HRM practices are integrated with business strategies, they enable firms to respond more effectively to market challenges (HOOI & NGUI, 2014; SANZ-VALLE, SABATER-SANCHEZ & ARAGON-SANCHEZ, 1999).

Although much of the literature has focused on large organizations, the extension of HRM theory and practice to small businesses reveals that these firms can also leverage HRM strategically. The adoption of formal HRM systems is especially critical for growing enterprises that aim to scale operations, maintain service quality, and build a sustainable workforce (KUHN, MEIJERINK & KEEGAN, 2021).

Overall, empirical findings consistently support the assertion that HRM practices have a significant positive effect on MSE performance when applied strategically and contextually. Based on the empirical study above, the following hypotheses are developed:

H1: *HRM practices have a significant positive effect on MSE performance.*

1.4.2 Entrepreneurial Orientation and MSE Performance

Entrepreneurial Orientation (EO) has emerged as a key construct in understanding firm-level innovation, adaptability, and performance, particularly within Micro and Small Enterprises (MSEs). EO encompasses dimensions such as innovativeness, proactiveness, and risk-taking, which together drive strategic behavior aimed at identifying and exploiting market opportunities (LUMPKIN & DESS, 1996).

Numerous empirical studies have found a positive relationship between EO and business performance across different contexts. For instance, SCHEPERS et al. (2014) highlighted that EO enhances wealth creation and opportunity identification in small enterprises. EO fosters faster decision-making, market responsiveness, and the pursuit of novel initiatives, all of which are critical for SMEs operating in competitive and uncertain environments (ASAD, SHARIF & HAFEEZ, 2016).

In the context of developing countries, EO is particularly important due to volatile business conditions and resource limitations. RAHAMAN et al. (2021) found that innovativeness, proactiveness, and risk-taking significantly improved performance in industries such as automotive components and wine production, especially when customers demanded fast-paced innovation. Similarly, ANDERSÉN (2010) demonstrated positive correlations between EO and performance in a study involving 434 MSEs, noting that EO served as a crucial internal capability.

The individual components of EO contribute to firm growth in different ways. Innovativeness allows MSEs to develop new products and services, enhancing market positioning. Proactiveness ensures that firms are ahead of competitors in identifying trends and responding to customer needs. Risk-taking supports investment in uncertain but potentially rewarding ventures (WIKLUND & SHEPHERD, 2005).

Despite varying contexts, EO consistently proves to be a performance-enhancing factor. However, its effectiveness is often amplified when integrated with other strategic resources such as HRM practices or business strategy (WALES, GUPTA & MOUSTAKAS, 2013). Thus, EO not only influences firm performance directly but also through strategic alignment with other organizational processes. The following hypotheses are offered based on previous research as follows:

H2: *Entrepreneurial orientation has a significant positive effect on MSE performance.*

1.4.3 Business Strategy and MSE Performance

Business strategy is widely acknowledged as a central driver of firm performance, providing direction for competitive positioning, resource allocation, and value creation. For Micro and Small Enterprises (MSEs), adopting effective business strategies such as cost reduction, quality enhancement, responsiveness, and flexibility is critical for navigating resource constraints and dynamic market conditions (PORTER, 1980; OGOT, 2014a).

Cost reduction strategies allow MSEs to improve efficiency and remain competitive in price-sensitive markets. This is particularly important in developing economies, where consumer purchasing power is limited and firms must operate under tight margins. According to YAKHOU AND DORWEILER (2004), cost leadership enables small firms to sustain operations while investing in productivity-enhancing initiatives.

Quality enhancement is another pillar of performance, enabling firms to differentiate their offerings, enhance customer satisfaction, and build long-term relationships. For MSEs, quality is often achieved through informal standards and customized services, which, when strategically managed, improve brand reputation and market share (MUKIRI, 2011).

Responsiveness, the ability to quickly react to changes in customer demand or environmental shifts—is a strategic capability that supports agility and client retention. LEE, LEE, AND PENNINGTON (2010) argue that responsiveness in small enterprises fosters competitive advantage through timely product delivery, customer service, and innovation.

Flexibility allows MSEs to adjust operational processes, product lines, and marketing strategies with minimal delay or disruption. According to ISMAIL (2018), flexibility is vital for MSEs facing uncertain environments, as it enables adaptive decision-making and resource reallocation without bureaucratic constraints.

Studies have confirmed the significant positive influence of these strategic dimensions on MSE performance. For example, LIAO (2005) emphasized that strategic integration of HRM and business strategy improves firm productivity, while KELLIHER AND PERRETT (2001) showed that aligning HR decisions with business priorities increases operational effectiveness. Thus, when MSEs deploy strategies aimed at reducing costs, improving quality, responding swiftly to market needs, and operating flexibly, they are better positioned to achieve sustainable performance. The following hypothesis was established based on the preceding discussion to investigate this relationship in Ethiopian MSEs.:

H3: *Business strategy positively influences MSE performance.*

1.4.4 The Mediating Role of Business Strategy Between HRMP and PMSEs

The relationship between Human Resource Management (HRM) practices and firm performance has been well documented; however, recent research has emphasized the need to understand the mechanisms through which HRM exerts its influence. One such mechanism is business strategy, which acts as a mediating variable that channels HRM inputs into strategic actions that impact performance (LIAO, 2005; ISMAIL, 2018).

HRM practices such as training, planning, and performance appraisal equip organizations with human capital capabilities. However, these capabilities yield performance outcomes only when strategically aligned with broader organizational goals (SANZ-VALLE, SABATER-SANCHEZ & ARAGON-SANCHEZ, 1999). A well-formulated business strategy allows firms to convert HR resources into competitive actions such as cost leadership, differentiation, or flexibility (YAKHOU & DORWEILER, 2004).

KELLIHER AND PERRETT (2001) argue that HRM systems are more effective when they are embedded within a clear strategic framework, especially in small and medium enterprises. Their findings suggest that strategic fit between HRM and business objectives is a critical factor influencing firm productivity and employee engagement. This is particularly true for MSEs, where resource constraints demand highly efficient deployment of human capital (OGUNYOMI & BRUNING, 2016).

In a study of Malaysian firms, HOOI AND NGUI (2014) found that business strategy served as a crucial link between HRM and organizational performance. They observed that firms with integrated HRM and strategic planning systems exhibited better financial and operational outcomes. Similarly, ISMAIL (2018) demonstrated that HR diversity practices significantly affected performance only when aligned with a business strategy that leveraged such diversity.

Furthermore, the resource-based view (RBV) supports this mediating relationship by emphasizing the role of strategic alignment in transforming internal resources into sustainable competitive advantage (BARNEY, 1991). Without a mediating strategy, even the most robust HRM systems may fail to produce performance improvements in dynamic environments.

Thus, literature increasingly supports the proposition that business strategy mediates the relationship between HRM practices and MSE performance, making it a vital element in both theory and practice. Based on the prior description, the following hypothesis is:

H4: *Business strategy mediates the relationship between HRM practices and MSE performance.*

1.4.5 The Mediating Role of Business Strategy Between Entrepreneurial Orientation and MSE Performance

Entrepreneurial Orientation (EO), encompassing innovativeness, proactiveness, and risk-taking, is a key determinant of firm growth and competitiveness. However, recent scholarship emphasizes that EO does not directly translate into performance unless it is channeled through a coherent and well-executed business strategy (WIKLUND & SHEPHERD, 2005; WALES, GUPTA & MOUSTAKAS, 2013).

Business strategy acts as a mechanism that aligns entrepreneurial behaviors with external market opportunities and internal organizational capabilities. Without such strategic alignment, EO initiatives may result in misallocated resources or unsustainable risk (RAHAMAN et al., 2021). For MSEs in particular, where agility and responsiveness are critical, the mediating role of business strategy ensures that EO actions are directed toward performance outcomes such as customer satisfaction, profitability, and innovation (ANDERSÉN, 2010).

Several empirical studies support this mediating relationship. For instance, HUGHES AND MORGAN (2007) found that EO led to improved firm performance only when implemented through well-structured strategic approaches such as differentiation or focus strategies. Similarly, SCHEPERS et al. (2014) concluded that in family-owned SMEs, EO improved opportunity identification and exploitation when socioemotional and strategic factors were aligned.

From a theoretical perspective, the contingency theory and resource-based view (RBV) posit that EO yields optimal outcomes when deployed within a strategy that fits the firm's internal resources and external context (BARNEY, 1991; LUMPKIN & DESS, 1996). For example, a firm high in proactiveness and risk-taking may underperform if it lacks a business strategy that supports calculated risk, market scanning, and flexibility.

Therefore, business strategy is not merely a parallel function but a mediating enabler that transforms EO into sustainable organizational outcomes. This understanding is especially critical in the MSE sector, where informal planning and resource limitations heighten the need for strategic alignment. Therefore, the author claims this hypothesis:

H5: *Business strategy mediates the relationship between entrepreneurial orientation and MSE performance.*

1.4.6 The Mediating Role of Business Strategy in the HRM–EO–Performance Relationship

The finding that business strategy significantly mediates the combined effect of Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) on MSE performance underscores the critical integrative function of strategic planning in small business contexts. While HRM provides the structural and human capital foundation and EO fosters an innovative and proactive mindset, it is the strategic configuration of these capabilities that translates them into tangible performance outcomes. Recent studies affirm this synergistic dynamic. For instance, AGYAPONG, ELLIS, AND DOMEHER (2022) found that strategy implementation mediates the relationship between internal resource capabilities—particularly HR practices—and firm growth in African SMEs. Similarly, KRAUS et al. (2023) demonstrated that EO, when aligned with formal strategic processes, significantly boosts SME performance, especially in volatile environments. These findings suggest that without a coherent strategic framework, the positive effects of HRM and EO may remain underutilized or misdirected. The mediating role of business strategy thus acts as a conduit, transforming internal potential into external competitiveness and sustainability. This reinforces the importance of equipping MSEs not only with entrepreneurial and human resource capabilities but also with the strategic acumen to integrate and direct those capabilities effectively. Therefore, based on the findings of previous research, the author postulates the last hypothesis:

***H6**: Business strategy significantly mediates the combined effect of HRM practices and entrepreneurial orientation on MSE performance.*

Table 1: Summary of Objectives, Hypotheses, and Expected Results

Objective	Hypothesis	Expected Results
1. To investigate the impact of key Human Resource Management (HRM) practices on the performance outcomes of Micro and Small Enterprises (MSEs).	**H1**: Human Resource Management (HRM) practices have a significant positive effect on the performance of Micro and Small Enterprises (MSEs).	HRM practices such as training, recruitment, and performance appraisal are expected to enhance MSE performance.
2. To analyze the influence of entrepreneurial orientation dimensions on the performance of MSEs within a competitive business environment.	**H2**: Entrepreneurial orientation dimensions (e.g., innovativeness, proactiveness, and risk-taking) have a significant positive influence on the performance of MSEs.	Entrepreneurial traits like innovativeness, proactiveness, and risk-taking are expected to drive better performance.
3. To assess the strategic role of business strategy in shaping and enhancing the performance of MSEs.	**H3**: Business strategy has a significant positive effect on the performance of MSEs.	MSEs that adopt coherent business strategies are expected to achieve superior performance outcomes.
4. To evaluate the mediating role of business strategy in the relationship between HRM practices and MSE performance.	**H4**: Business strategy significantly mediates the relationship between HRM practices and MSE performance.	Business strategy is expected to partially or fully mediate the effect of HRM practices on MSE performance.
5. To examine the mediating effect of business strategy on the relationship between entrepreneurial orientation and the performance of MSEs.	**H5**: Business strategy significantly mediates the relationship between entrepreneurial orientation and MSE performance.	The strategic use of entrepreneurial orientation is expected to be more effective when aligned with a sound business strategy.
6. To explore the integrated mediating role of business strategy in the relationship between HRM practices, entrepreneurial orientation, and the performance of MSEs.	**H6**: Business strategy significantly mediates the combined effect of HRM practices and entrepreneurial orientation on MSE performance.	Business strategy is expected to serve as a key linking mechanism, enhancing the combined effect of HRM and entrepreneurial orientation on performance.

1.5Scope of the Study

This study focuses on examining the interrelationships among Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and the performance of Micro and Small Enterprises (PMSEs).

The study was delimited spatially, conceptually, and methodologically. Even though the researcher has recognized the need to cover all the registered MSEs in the country, resource limitations coupled with unmanageable population size (managers/owners and employees) forced the study to focus on the three types of MSEs (manufacturing, trade, and services) in Amhara national regional state only.

Conceptually, the study was confined to assessing the mediating role of business strategy on the relationship between HRM practices and entrepreneurial orientations to the performance of MSEs focusing on the financial and non-financial performance indicator variables such as profitability, efficiency, growth, customer satisfaction, on-time delivery, product/service quality, and market share only as there were many variables which can be used to measure the performance of MSEs.

Methodologically, this study used a cross-sectional design in which the data will be obtained at one point in time. Moreover, this study will only use the expectations of MSE owners and managers to assess their enterprise performance.

2. REVIEW OF RELATED LITERATURE

2.1 Theoretical Review Literature

2.1.1 Human Resource Management (HRM) Theories

Human Resource Management (HRM) theories offer crucial perspectives for understanding how employees can be strategically managed to enhance organizational performance. These theories help explain how HR practices influence motivation, skill development, behavior, and ultimately, firm-level outcomes. For Micro and Small Enterprises (MSEs), which often operate with limited resources, HRM theories are instrumental in designing practices that optimize the use of human capital to drive sustainable growth.

One of the foundational frameworks in strategic HRM is the Resource-Based View (RBV) of the firm. While originally proposed by BARNEY (1991), contemporary scholarship continues to expand on its relevance. RBV posits that internal resources that are valuable, rare, inimitable, and non-substitutable can provide a sustainable competitive advantage (JAIN et al., 2022). Human capital, when developed through training, empowered via inclusive practices, and retained through effective HR strategies, fits these criteria. In MSEs, where financial and technological assets are often constrained, human capital becomes a crucial differentiator (AKPAN et al., 2021).

Closely aligned is the Human Capital Theory, which asserts that investments in employee education, skills, and health lead to increased productivity and economic returns. Recent studies underscore that even in resource-scarce environments, such as in developing countries MSEs, enhancing employee capabilities significantly boosts organizational resilience and adaptability (NYAMEH et al., 2020). In these firms, HRM practices such as cross-training, mentorship, and informal learning serve as substitutes for more formal development programs, contributing to organizational growth.

The Behavioral Perspective of HRM remains influential in recent research, particularly in linking HR practices with strategic goals. As updated by scholars like SINGH AND MISRA (2023), this perspective holds that HR systems shape employee behaviors that align with organizational strategies. For example, innovation-focused MSEs benefit from practices that foster creativity, autonomy, and problem-solving, while efficiency-driven firms may require routinized tasks, discipline, and consistency. Understanding these behavioral contingencies allows MSEs to craft HR practices that drive strategic execution.

The Contingency Theory of HRM emphasizes the need for alignment between HR practices and contextual factors such as firm size, life cycle, environment, and business strategy. Recent empirical studies argue that for MSEs, flexibility and contextual sensitivity are essential (WAMBUI et al., 2022). Rather than adopting standardized HR practices, MSEs benefit from tailoring their HRM approaches to specific market conditions, industry trends, and internal capacities. This approach also facilitates agility in response to external shocks, such as those brought by the COVID-19 pandemic.

A more practical and widely applied framework in recent literature is the AMO Model; Ability, Motivation, and Opportunity developed by Boxall and Purcell and refined in contemporary research (JIANG et al., 2021). According to the AMO framework, employee performance is a function of their skills (ability), willingness (motivation), and the structural context that allows them to contribute (opportunity). HRM systems should thus be designed to influence all three dimensions. For instance, MSEs can promote performance by providing training (ability), offering incentives (motivation), and ensuring employee involvement in decision-making (opportunity).

Lastly, Strategic Human Resource Management (SHRM) has evolved from a purely administrative focus to one that is integrative and proactive. Modern SHRM literature emphasizes the alignment of HR strategies with business goals to enhance organizational agility, innovation, and performance (LENGNICK-HALL et al., 2020). For MSEs aiming to scale or diversify, SHRM serves as a critical enabler, positioning HR as a strategic partner in areas such as market expansion, technological adoption, and competitive positioning.

In summary, recent advancements in HRM theory including the RBV, Human Capital Theory, Behavioral Perspective, Contingency Theory, AMO Framework, and SHRM offer rich insights for MSEs seeking to manage their people strategically. These theories affirm that when effectively deployed, human resources are not merely operational necessities but key assets for achieving long-term organizational success and competitive advantage.

2.1.2 HRM Practices

Since the 1990s, the influence of HRM on organizational outcomes has been a major research topic. According to ARMSTRONG, (2006), HRM values the motivational aspect of organizational practices in the development and best utilization of human potential. As a result, he defines HRM as an integrated strategy and planned development process for effectively utilizing human resources to achieve organizational goals. HRM, according to AHMAD, (2015), is the use of people to achieve organizational goals. HRM entails the development of an individual's abilities and attitudes so that the individual can grow personally while also contributing to organizational interests. Human resource management (HRM) is defined by GUEST, (2017) as the policies, practices, and systems that influence employees' behavior, attitudes, and performance. The important thing is to define the boundaries of HRM practices. PINNINGTON AND EDWARDS, (2000) classified HRM practices into five categories: job analysis and description, recruiting and selection, training, performance appraisal, and compensation. PUCIK, EVANS, AND BJÖRKMAN, (2017) defined HRM practices as employee recruitment and selection procedures, compensation and performance management systems, employee involvement, and employee training. According to AMOS et al., (2009), HRM practices include job analysis, recruitment, selection, compensation, benefits, incentive, performance appraisal, and training. Human resource management practices, according to COLLINGS, WOOD, AND SZAMOSI, (2018), include five basic functions: staffing, human resource development, compensation and benefits, safety and health, employee and labor relations, and so on. Pay and reward, recruitment and selection, training and development, health and safety, and work expansion or reduction were all identified by BREWSTER, MAYRHOFER AND MORLEY, (2004) as HRM practices.

Based on the foregoing, this study recommends six key HRM practices that are likely to be positively associated with MSE performance, product quality, production cost, product delivery, and production flexibility. Teamwork, compensation/incentives, HR planning, performance appraisal, and employment security are the six HRM practices.

Employee training and development refers to the amount of formal training provided to them. Organizations can provide extensive formal training or rely on skill acquisition through selection and socialization. Training focuses on skill development, whether it is technical, clinical, or soft skills such as teamwork, leadership, and interviewing BANFIELD, KAY, AND ROYLES, (2018). According to DRANSFIELD, (2000), training can influence performance in two ways:

first, it improves relevant skills and abilities; and second, it increases employees' satisfaction with their current jobs and workplace. Training can include on-the-job training, off-the-job training, formal training, skill training, cross-functional training, team training, literacy training, and so on (ERASMUS AND SCHENK, 2008).

A team is a group of employees who work together to complete a task or solve a problem. The concept of teamwork is that people share their knowledge, skills, judgment, and ideas to achieve better results (SALAS, BOWERS AND EDENS, 2001). According to ELLINGSON, (2004), teamwork has numerous advantages: (1) teamwork relies on peer-based work rather than hierarchical work, which leads to more effective achievement; (2) teamwork facilitates the flow of ideas from team members and, ultimately, an innovative solution; and (3) teamwork helps save administrative costs associated with paying specialists to watch people.

Compensation or incentives are based on performance (e.g., individual or group incentive pay). One of the most common ways for organizations to boost employee motivation is to provide performance-based incentive compensation to align employee and shareholder interests (KANUNGO AND MENDONCA, 1992). According to BERGER AND BERGGER, (2020), there are three types of compensation plans: the first is base compensation (fixed pay to employees). The second issue is pay incentives (bonuses and profit-sharing). The third option is indirect compensation (health insurance, vacation, unemployment compensation). Typically, compensation is divided into two categories: financial incentives and non-financial incentives.

Forecasts of personnel requirements, budgets for selection staff, the number of people involved in the selection, and structured and standardized interviews are all part of HR planning (KISPAL-VITAI AND WOOD, 2009). MSEs must forecast the labor supply needed to meet future demand. According to FAHED-SREIH,(2018), MSEs must consider the following factors: (1) What is the availability rate of a future workforce? (2) Will the labor market have enough potential young workers in the next two or five years? (3) What is the educational level of those potential employees? (4) Do MSEs need to invest in the educational system to help improve the education of potential workers?

Employee performance is assessed using performance appraisal. Performance appraisal is intended to improve goal setting and feedback processes so that employees can direct, correct, and improve their performance. It could be based on outcomes or behavior. There is substantial evidence that the scope and sophistication of appraisal are related to changes in individual

performance (DEB, 2009). According to DALEY, (1992), performance appraisal assists top management in clarifying and communicating organizational objectives and expectations to internal employees, as well as in understanding the capability of their workforce. According to RASCH, (2004), a performance appraisal system can be used for administrative purposes concerning employee work conditions, such as promotion, termination, and rewards. However, some scholars and managers argue that performance appraisal causes workplace demoralization and a low productivity rate and should be phased out ALSUWAIDI et al., (2020). As a result, some MSEs implement performance appraisal with caution.

Employment security entails job security through workforce stabilization and employment continuity policies (MUFFELS, 2014). Employment security is important in determining employee productivity, and the higher the level of job security provided to employees, the more commitment an organization receives from them (DRANSFIELD, 2000).

2.1.3 Entrepreneurial Orientation (EO) Frameworks

Entrepreneurial Orientation (EO) remains a pivotal construct in strategic management and entrepreneurship research, offering a firm-level lens for understanding how organizations engage in opportunity-seeking and risk-laden activities. EO refers to the strategic posture through which firms initiate and sustain entrepreneurial behaviors, particularly in dynamic and uncertain market environments (ALONSO-GARCÍA et al., 2021). For micro and small enterprises (MSEs), EO frameworks are especially valuable, as they provide a structured approach to navigating resource constraints and enhancing performance through innovation, proactiveness, and risk-taking.

The foundational conceptualization of EO can be traced back to MILLER (1983), who described entrepreneurial firms as those that are innovative, proactive, and willing to take risks. COVIN AND SLEVIN (1989) later operationalized this concept, creating a widely used scale that reflects these three dimensions. This triadic model has been foundational in EO research for decades. More recently, LUMPKIN AND DESS'S (1996) expanded model adding autonomy and competitive aggressiveness has been supported by new empirical research affirming the multidimensionality of EO (WALES et al., 2020). These five dimensions together provide a more comprehensive framework for understanding entrepreneurial behaviors in various strategic contexts.

Recent studies emphasize that EO is not a static attribute but a dynamic strategic capability that must evolve in response to environmental changes (ALI et al., 2022). The Dynamic Capabilities View (DCV) complements EO by asserting that firms must integrate, build, and reconfigure internal and external competencies to adapt effectively. EO alone may not suffice unless accompanied by capabilities that enable firms to sense and respond to shifts in the market. This interaction between EO and dynamic capabilities is particularly salient for MSEs operating in volatile or resource-constrained environments (WEERAWARDENA et al., 2021).

The Strategic Posture Theory also continues to shape EO frameworks by emphasizing the role of leadership orientation and managerial cognition. Leaders with high entrepreneurial orientation foster cultures of experimentation, strategic learning, and bold decision-making (OBEIDAT et al., 2022). These behaviors align EO with internal organizational attributes such as culture and structure, as well as external factors like market turbulence and competitive intensity.

For MSEs, EO frameworks are particularly relevant due to their typically flat hierarchies, adaptive cultures, and intimate market connections. These qualities enable rapid experimentation and market responsiveness—key enablers of EO (MAZZUCCHELLI et al., 2022). However, these same enterprises often operate under severe constraints in capital, labor, and institutional support, which can limit the full expression of EO dimensions. Hence, strategic prioritization of EO behaviors such as focusing on innovativeness or proactiveness in specific contexts becomes essential for success.

Empirical research conducted in recent years confirms the positive impact of EO on firm performance, especially in terms of growth, innovation, and competitive positioning (IQBAL et al., 2020; LAN and DOBNI, 2022). However, these outcomes are often contingent on mediating or moderating variables such as environmental dynamism, digital capabilities, and strategic alignment. For instance, firms that align their EO with strategic objectives and market conditions tend to experience stronger performance outcomes compared to those applying EO in a misaligned or fragmented manner.

In conclusion, Entrepreneurial Orientation frameworks continue to provide a valuable foundation for understanding how MSEs can leverage entrepreneurial behavior to improve performance. The integration of dimensions such as innovativeness, risk-taking, proactiveness, autonomy, and competitive aggressiveness, along with complementary frameworks like dynamic capabilities and strategic posture theory, ensures a robust and context-sensitive approach. As the

competitive landscape grows more complex, EO offers both a theoretical and practical guide for small businesses seeking resilience, innovation, and sustainable growth.

2.1.4 Entrepreneurial Orientations

The tendency and ability of MSEs to identify new opportunities was defined as entrepreneurial orientation (STEYAERT AND HJORTH, 2008). Entrepreneurship is not only about identifying opportunities but also about MSEs' ability to capitalize on these value-generating opportunities (PERIS-ORTIZ et al., 2017). This identification process is aided by individual employees, known as intrapreneurs, who have intrinsic motivations but also expect MSEs to reward their entrepreneurial efforts (COVIN AND MILLER, 2014). Entrepreneurship is thought to be the driving force behind the adoption of innovative behaviors, leading MSEs to be more dynamic and adaptable to environmental changes (OTUNDO, 2019). The entrepreneurial spirit within MSEs is the proactive drive to achieve novel capabilities and update MSE knowledge to capitalize on new opportunities (BURNS, 2016). Entrepreneurial orientation in MSEs has been functionally defined as the set of practices, methods, and decision-making strategies employed by management to engage in entrepreneurial activities (STEYAERT AND HJORTH, 2008). Miller's three dimensions (MILLER, 2011) have been identified and used repeatedly in the existing literature to understand entrepreneurial orientation: the first dimension is innovativeness, which refers to seeking novel, original, and creative solutions and challenges (GOLDSMITH AND FOXALL, 2003). MSEs can produce both radical and incremental innovative changes, as well as technological and non-technological innovations (OMAR, 2022). Product, process, and market innovations are examples of innovation. Product innovation refers to improvements to MSE’s products and services, such as the introduction of new materials or designs. Product innovation is thought to increase the variety, value, rarity, inimitable nature, and differentiation of MSE offerings, thereby increasing market competitiveness and financial performance (BAKAR AND AHMAD, 2010). Product innovation is generally capital intensive, especially because technological innovations and products are rapidly becoming obsolete (KOLLMANN, STÖCKMANN AND NIEMAND, 2021). Process innovations are bringing new ways for the company to conduct some of its operations, such as the digitization of certain administrative tasks. Process innovations aim to improve the efficiency and effectiveness of a company's operations, and they have been shown to increase productivity while lowering overall fixed costs

(KURATKO, HORNSBY AND HAYTON, 2015). Finally, market innovation refers to the discovery of new target segments, foreign markets, or niche markets for an MSE's products and services (BAUMOL, 2014). It also includes developing new distribution processes to better serve clients in these markets (ETRO, 2007).

The second aspect of entrepreneurial orientation is proactiveness, which refers to an MSE's willingness to act aggressively. This determinant determines how an MSE responds to current and anticipated market trends (MOHAMAD AND SIDEK, 2013). A proactive MSE anticipates changes, opportunities, and threats and strategically responds to them (KANDEMIR AND ACUR, 2012). It is constantly looking for new solutions and opportunities and does not usually engage in activities as a reaction to external changes (CANTALEANO AND RODRIGUES, 2018). ALQERSHI AND ABAS, (2019) investigated how proactive activities, such as attending foreign trade fairs, benefit MSEs' internationalization strategies. Proactive MSEs that successfully enter a new market, adopt a new administrative process, or implement new technology are likely to benefit from their pioneering position (LIU et al., 2017). Proactivity not only allows MSEs to be industry leaders, but many even seek to change the entire industry and competitive landscape in which they operate. Dell is a good example of how a single company's proactive action of selling computers directly to consumers has changed the way computers are sold throughout the industry (LIU et al., 2017).

Finally, entrepreneurial orientation is associated with an MSE's proclivity and willingness to take risks when investing in new business opportunities with uncertain outcomes (ABBAS et al., 2022). Risk aversion varies by MSE and manager. Risks are taken with the expectation of generating significant financial returns. This assumption should be supported by extensive research and risk analysis to reduce uncertainty and determine an acceptable balance of manageable risk and expected returns (STEYAERT and HJORTH, 2008). Entrepreneurial endeavors, by definition, carry a high level of risk. RAHAMAN et al., (2021) investigated the owner's passion as a driver of entrepreneurial orientation, discovering that passionate owners and managers are more likely to take risks and successfully generate returns. However, being overly enthusiastic can impair their risk assessment and lead them to pursue failing business opportunities.

Entrepreneurial orientation has also been linked to organizational learning, which represents MSEs' learning attitude. In practice, the managerial process facilitates learning and

knowledge acquisition within MSEs. The nature of entrepreneurial activity necessitates a constant updating of knowledge, skills, and abilities to identify and capitalize on new opportunities. There are two types of organizational learning (LEVITT AND MARCH, 1988). First, there is the process of exploration, which allows MSEs to acquire new information and work on assimilating it. The second aspect is the application of what has been learned using logical tools. Organizational learning can also be viewed through the lens of information distribution channels. Feedforward learning is the transfer of knowledge from individual employees to groups and then to the organization, whereas feedback learning is the transfer of knowledge from organizations to groups and individuals (ABBAS et al., 2022). Integrating these channels has been shown to increase MSEs' entrepreneurial ability because establishing a structured learning process leads MSEs to generate a new understanding of market opportunities. New knowledge, combined with existing resources and capabilities, assists MSEs in maintaining the knowledge, skills, and abilities required to engage in entrepreneurial activities. As a result, entrepreneurial orientation is an organizational capability that translates the ability of MSEs to generate new products, processes, and market innovations. Entrepreneurial orientation is characterized by innovativeness, proactiveness, and risk-taking behaviors. Individual and organizational learning aids MSE intrapreneurship by generating new knowledge resources and transforming such idiosyncratic assets into innovations. Therefore, in this study, the researcher is interested in seeing the effect of innovativeness, proactiveness, and risk-taking behaviors on the performance of MSEs as these variables have a strong connection with performance (OTUNDO, 2019)

2.1.5 Business Strategy Concepts and Typologies

Business strategy remains a central pillar of strategic management, representing the coordinated decisions and resource allocations that firms make to achieve long-term goals and maintain a competitive edge. At its core, business strategy defines how a firm positions itself in the market, delivers value to customers and competes within its industry. For Micro and Small Enterprises (MSEs), strategy formulation is often influenced by constraints such as limited resources, informal structures, and rapidly changing market environments. These conditions demand adaptive, flexible, and sometimes emergent approaches to strategy development (NWACHUKWU et al., 2021).

One of the most enduring and widely applied frameworks is PORTER'S (1980) typology of generic strategies, which includes cost leadership, differentiation, and focus. These strategies have been reaffirmed in recent research as foundational paths to achieving competitive advantage. Cost leadership involves minimizing production and operational costs to offer lower prices, differentiation entails delivering unique value through product or service features and focus targets niche markets by either cost or differentiation advantages. Contemporary studies validate the relevance of Porter's model, especially in resource-constrained environments like MSEs, where strategic simplicity can offer clarity and direction (ALJUHMANI AND EMEAGWALI, 2022).

Another influential framework is the MILES AND SNOW (1978) strategic typology, which categorizes firms as prospectors, defenders, analyzers, or reactors. Recent empirical work supports the continued applicability of this model, especially in explaining firm behavior under varying environmental conditions (AKINYEMI et al., 2021). Prospectors thrive in dynamic markets by innovating and exploring new opportunities, defenders prioritize efficiency and stability, analyzers blend exploration and exploitation, while reactors exhibit inconsistent strategic behaviors. For MSEs, this typology is useful in diagnosing strategic orientation and anticipating the firm's response to market volatility and competition.

In contrast to positioning-based models, the Resource-Based View (RBV) shifts attention inward, emphasizing the firm's unique internal resources and capabilities as sources of sustainable competitive advantage (BARNEY, 1991). Recent studies have reinforced the RBV's applicability in small firms, highlighting that intangible resources such as human capital, relational networks, and entrepreneurial capabilities are particularly valuable in differentiating MSEs (ACQUAAH et al., 2021). These resources are often more critical than external positioning in driving innovation, flexibility, and long-term survival for smaller firms.

The Strategic Fit Theory extends this perspective by arguing that firm performance improves when internal capabilities align with external opportunities and environmental conditions. Modern research demonstrates that MSEs that achieve strategic fit between their goals, resources, and market needs experience enhanced performance outcomes (ALIYU AND NYAMEH, 2020). However, because many MSEs operate without formalized planning systems, the strategic fit is often achieved through adaptive learning, intuitive decision-making, and continuous realignment, rather than structured strategy formulation.

Furthermore, emergent strategy, a concept popularized by MINTZBERG AND WATERS (1985), has gained renewed interest in contemporary scholarships. This perspective emphasizes that strategy often develops organically through iterative decisions and environmental interactions, rather than being pre-planned. For MSEs, emergent strategies offer a practical and realistic approach to navigating uncertain markets, encouraging responsiveness and experimentation (GHEZZI, 2020). This aligns well with the entrepreneurial nature of small firms, where strategic agility is often more beneficial than rigid long-term planning.

Despite the resource limitations and operational challenges faced by MSEs, strategic planning remains a critical performance lever. Studies show that even informal or simplified strategic planning processes can lead to improved organizational performance (GHEBREGIORGIS et al., 2021). Tools like SWOT analysis, the Business Model Canvas, and lean startup methods are increasingly embraced by small firms for their practicality and ability to guide strategic focus without requiring extensive resources.

In summary, business strategy concepts and typologies continue to provide essential insights into how firms compete, adapt, and grow. Frameworks such as Porter's generic strategies, the Miles and Snow typology, the RBV, the Strategic Fit Theory, and the emergent strategy all contribute to a nuanced understanding of strategic behavior. For MSEs, the key to effective strategy lies in balancing clarity with flexibility leveraging internal strengths while staying responsive to changing environments.

2.1.6 Business Strategy

A business strategy is a set of decisions about the direction of an MSE. A strategy is a comprehensive and coordinated set of commitments and actions intended to capitalize on core competencies and gain a competitive advantage (CAMPBELL, EDGAR AND STONEHOUSE, 2011). Strategies serve a purpose and come before the actions to which they are applied (Phillips, 2003). Business strategy is intended to provide value to customers while gaining a competitive advantage by leveraging core competencies in specific product markets (KALAKOTA, ROBINSON AND TAPSCOTT, 2001). A business strategy reflects an MSE's belief about where and how it has an advantage over its competitors. The essence of strategy is understanding why organizations behave differently and how to direct and control performance (Verbeke, 2013). The strategy literature is "vast and growing at an astonishing rate" (MCKEOWN, 2019). However,

there is no agreement on what strategy is, and many definitions exist. Strategy is commonly defined as a deliberate set of actions designed to gain a competitive advantage while also providing coherence and direction to the organization (CULP, 2002).

A business strategy is a set of systematic and related decisions that give a company a competitive advantage over other companies (SEYBOLD AND MARSHAK, 1998). The term "business strategy" is derived primarily from Porter's classifications of generic strategies: cost leadership, differentiation, and focus (KNEZOVIĆ AND HAMUR, 2022). Referring to Porter's strategy types, SCHULER AND JACKSON, (1987) classified business strategies into four types: cost reduction, innovation, flexibility, and quality enhancement. Many scholars (e.g., (BEAUMONT, 1993; LIAO, 2005B)) have used Schuler and Jackson's approach, and this study follows suit. A cost-cutting strategy entails increasing competitiveness by lowering the cost of products or services. This strategy improves production efficiency and lowers costs by implementing new technology, increasing production scale, or reengineering production processes, allowing a company to sell its products or services at a lower market price. An emphasis on the development of unique or different products or services from competitors is implied by an innovation strategy. The essence of a quality enhancement strategy is to achieve success by providing a higher standard of quality than competitors' products or services (BEAUMONT, 1993). MSEs pursuing a cost-cutting strategy must strictly control and minimize expenses while striving for greater economies of scale. MSEs that pursue an innovation strategy must adapt to rapid market change and technological advancement. MSEs that use a quality-enhancement strategy must make frequent changes or improve the production process to continuously improve product quality (LIU AND CHENg, 2018).

Strategic flexibility is an MSE's ability to respond to changes in the environment in a timely and appropriate manner while keeping competitive forces in mind. The ability to demonstrate strategic flexibility can increase the value of MSEs by allowing the business to adapt to change more quickly and thus better manage risk (SANCHEZ, 1995).

2.1.7 SME Performance Theories

Small and Medium-sized Enterprises (SMEs) are pivotal to economic growth, innovation, and employment generation, particularly in emerging economies. As the global business landscape continues to evolve characterized by digital disruption, global crises, and sustainability pressures

contemporary theories of SME performance have shifted from traditional economic indicators to more adaptive, multidimensional constructs. Recent frameworks emphasize resilience, agility, digital integration, stakeholder engagement, and sustainability as critical enablers of SME success.

One of the most prominent post-2020 developments is the Resilience Theory, which underscores the capacity of SMEs to withstand, adapt to, and recover from disruptive shocks such as the COVID-19 pandemic, supply chain disruptions, or geopolitical uncertainties. Recent research by KORBER AND MCNAUGHTON (2021) AND PAL et al. (2021) highlights that organizational resilience in SMEs is built through agile leadership, flexible operations, proactive learning, and digital readiness. Resilient SMEs not only survive in turbulent contexts but often use crises as a springboard for transformation and innovation.

The Dynamic Capabilities Theory (DCT), was originally introduced by TEECE et al. (1997), has seen renewed relevance in SME research. According to TEECE (2020), SMEs that develop dynamic capabilities such as sensing market changes, seizing new opportunities, and reconfiguring resources can respond effectively to technological and environmental volatility. This theory reframes performance as an outcome of continuous capability renewal, where firms must be both strategically foresighted and operationally agile to sustain competitive advantage in unpredictable markets (FERREIRA et al., 2022).

A key contemporary lens is the Digital Transformation Theory, which connects digital adoption with performance metrics like growth, efficiency, and customer reach. The increasing digitalization of global economies has made the digital maturity of SMEs a core determinant of success. KRAUS et al. (2021) found that digital tools ranging from CRM systems to e-commerce platforms and cloud computing enable SMEs to improve decision-making, innovate faster, and reach broader markets. Digital capability now functions not only as an efficiency enabler but also as a strategic differentiator in highly competitive environments (USAI et al., 2021).

Another emerging perspective is the Stakeholder Performance Theory, which extends performance assessment beyond financial outcomes to encompass the interests of a broader range of stakeholders. According to FREEMAN et al. (2021), SMEs that align their operations with the expectations of employees, customers, communities, suppliers, and regulators are more likely to build reputational capital, employee loyalty, and long-term sustainability. This stakeholder-inclusive approach is increasingly important in environments where social responsibility and ethical conduct influence firm legitimacy and access to markets.

Closely related is the Sustainability-Oriented Innovation (SOI) Theory, which emphasizes integrating environmental and social objectives into innovation strategies. Recent studies (e.g., INIGO et al., 2020; ADOMAKO et al., 2021) show that SMEs embedding sustainability into their product development, operations, and governance models tend to achieve superior long-term performance. SOI suggests that social and ecological value creation is no longer optional, but integral to competitive success and risk management in modern business ecosystems.

The Strategic Entrepreneurship Theory has also gained traction in explaining SME performance by integrating entrepreneurial opportunity-seeking with strategic advantage-seeking behaviors. As IRELAND et al. (2020) AND KORYAK et al. (2021) note, that SMEs that simultaneously pursue innovation and strategic resource optimization are better positioned to capture emerging opportunities while maintaining operational efficiency. This dual approach aligns with current performance paradigms that value both flexibility and discipline, especially in uncertain environments.

Collectively, these contemporary theories reflect a paradigm shift in SME performance research from static and finance-centered views to dynamic, holistic, and capability-driven models. Resilience, digital fluency, strategic alignment, stakeholder value, and sustainability are increasingly recognized as performance multipliers. As such, performance frameworks for SMEs must account for the complex interplay between internal resources, external environments, and long-term value creation.

2.1.8 MSEs Performance

The business environment of the twenty-first century has undergone numerous changes, increasing complexity and uncertainty. MSEs face intense competitive pressure to do things better, faster, and cheaper in today's changing environment, which characterizes the global economy (BUSNETTY AND TAMBUNAN, 2020). They must adapt to a growing number of environmental challenges. According to the description of TAMBWE, (2015), any MSE's goal nowadays is to achieve continuous performance. This is because companies can only experience development and progress through performance. As a result, assessing and measuring business performance is critical, because businesses are constantly seeking effective and efficient results. Most businesses strive to improve their performance in any way they can. Those who strive to innovate, obtain, and sustain performance can hold the winning card. Thus, understanding and monitoring performance

in a constantly changing environment is critical. As a result, assessing organizational performance has always piqued the interest of management teams and researchers. Furthermore, in today's economic environment, measuring business performance is a critical issue for academic scholars and practicing managers. Researchers have worked hard to develop performance measures. Various criteria have been used in the past to assess MSE performance. MSE performance, according to (VENKATRAMAN AND RAMANUJAM, 1986), is an indicator of an MSE's ability to achieve its goals, and it includes both financial and non-financial measures. Non-financial measures of success include market share, quality, satisfaction, and market effectiveness. Employees' contributions to their jobs, on the other hand, are critical to the organization's growth and success. MSEs can gain a competitive advantage over their competitors by hiring talented and skilled employees (OGUNYOMI AND BRUNING, 2016). Hence, based on the review of related literature, the performance of micro and small enterprises (MSEs) will be measured by profitability, efficiency, growth as a financial performance indicator, and customer satisfaction, on-time delivery, product/service quality, and market share as a non-financial performance indicator for this study.

2.2 Core Constructs and Dimensions

2.2.1 HRM Practices in SMEs: Roles and Impact

Human Resource Management (HRM) practices are increasingly recognized as a strategic asset in Small and Medium-sized Enterprises (SMEs), playing a vital role in enhancing organizational agility, employee engagement, and business performance. Unlike large corporations with formal HR departments, SMEs often operate with informal or semi-formal HR structures. Nevertheless, recent research emphasizes that contextually adapted and strategically aligned HRM practices can significantly contribute to innovation, resilience, and competitive advantage (SHEEHAN et al., 2021; HARNEY AND COLLINGS, 2021).

Recruitment and Selection in SMEs are often driven by immediacy and practicality due to limited resources and high operational demands. SMEs typically prioritize candidates who are flexible, culturally aligned, and capable of multitasking. Despite their informal processes, studies highlight that strategic recruitment practices such as using social networks, referrals, and value-based screening can enhance employee fit and reduce turnover (BOONE et al., 2021). Effective

recruitment is increasingly seen as foundational to shaping organizational culture and capacity for growth.

Training and Development are essential to building the competencies required for innovation and adaptability, particularly in fast-evolving sectors. While SMEs may lack the budget for formal training programs, they often rely on on-the-job learning, mentorship, and digital learning platforms. Recent findings by FESTING et al. (2022) suggest that SMEs that invest in continuous employee development, especially digital and soft skills, report better innovation outcomes and operational agility. Flexible, need-based learning is proving to be a powerful tool for organizational learning and employee empowerment in the SME context.

Performance Appraisal systems in SMEs tend to be less structured than in larger firms, often relying on informal feedback mechanisms. However, the lack of formal systems can hinder transparency and accountability. According to HARNEY AND COLLINGS (2021), SMEs that implement goal-setting and periodic reviews, even informally, are better able to align individual efforts with strategic objectives. Clarity in performance expectations and constructive feedback contribute to increased motivation, employee satisfaction, and productivity.

Compensation and Reward Systems in SMEs typically go beyond traditional financial incentives to include non-financial motivators such as flexibility, autonomy, recognition, and professional development opportunities. Recent studies (NGUYEN AND NGO, 2022; MARKOVIĆ et al., 2023) emphasize the value of personalized and intrinsic reward structures, particularly in SMEs where employees often play multiple roles. Tailored incentive systems such as innovation bonuses or team-based rewards enhance commitment and reduce attrition, especially in knowledge-intensive and service-oriented sectors.

Moreover, the **Strategic Integration of HRM** with business goals has become critical for SME competitiveness. Strategic HRM practices such as talent planning, leadership development, and fostering an innovation-oriented culture enable SMEs to align human capital with long-term growth objectives. As noted by GARAVAN et al. (2021), SMEs that treat HRM as a strategic function, rather than an administrative task, are more likely to achieve sustainable performance and organizational learning.

In addition, HRM contributes to employee retention, adaptability, and resilience, which are key to survival in uncertain environments. The COVID-19 pandemic underscored the importance of HR agility, as SMEs had to quickly adapt work arrangements, upskill employees, and support

wellbeing to sustain operations (COLLINGS et al., 2021). The flexibility and scalability of HRM practices are thus essential given the dynamic and resource-constrained nature of SME environments.

In summary, HRM in SMEs is no longer confined to administrative support. Contemporary research shows that recruitment, training, performance appraisal, and compensation when strategically managed drive innovation, commitment, and efficiency. Despite their informal nature, HRM systems in SMEs can be both flexible and effective when tailored to the firm's size, sector, and strategic goals. Investing in people's practices not only enhances productivity but also ensures long-term organizational resilience and growth.

2.2.2 Strategic Mediation and Organizational Alignment

Strategic mediation refers to the mechanism through which internal capabilities such as Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) are transformed into improved firm performance via the formulation and execution of business strategy. In this framework, business strategy operates as a central conduit, enabling firms to translate intangible assets into tangible outcomes. This is particularly salient for Small and Medium-sized Enterprises (SMEs), which often rely on dynamic, informally structured strategies rooted in their internal strengths and market responsiveness (SERRASQUEIRO et al., 2022).

The Resource-Based View (RBV) underpins this mediation by asserting that firm-specific resources such as skilled employees, innovation capacity, and entrepreneurial mindset can yield sustained competitive advantage when strategically deployed (BARNEY, 2020). In the SME context, such resources are typically leveraged through context-sensitive strategies such as cost leadership, innovation differentiation, or niche specialization. When HRM practices (e.g., skill development, performance incentives) and EO traits (e.g., proactiveness, innovativeness) are aligned with an appropriate strategic orientation, they collectively enhance firm adaptability and value creation (AL MAMUN et al., 2021).

Organizational alignment strengthens this mediating process by ensuring that strategic objectives are reinforced by coherent structures, culture, and processes. In SMEs, where leadership is often centralized and team structures are flat, alignment can emerge organically. However, without deliberate coordination, inconsistencies in goals, unclear role definitions, or unaligned resource allocation can dilute strategic effectiveness. Studies emphasize that aligned organizations

where HR systems, leadership behavior, and innovation goals converge achieve higher levels of strategic implementation and operational performance (ROHIT AND RAMACHANDRAN, 2021; BRĂTIANU AND BEJINARU, 2022).

Empirical evidence supports the mediating role of business strategy. For example, HRM practices that foster autonomy, learning, and creativity are most effective in firms that pursue an innovation-based strategy. Similarly, SMEs with a proactive and risk-taking EO profile perform better when they adopt strategies that emphasize agility, market exploration, and speed to execution (MOUSA et al., 2020). These interactions suggest that strategy not only mediates but also amplifies the value of internal capabilities by directing them toward suitable competitive outcomes.

The Strategic Fit Theory extends this argument by highlighting the performance benefits of aligning strategic orientation with both internal and external contingencies. For SMEs, strategic fit requires ensuring that leadership style, employee competencies, digital readiness, and organizational processes are congruent with environmental conditions such as market turbulence, technological change, or regulatory complexity (SOLESVIK et al., 2022). SMEs that routinely assess this fit and adjust their strategic posture are more likely to sustain competitive performance.

Furthermore, in rapidly evolving environments, emergent strategies that evolve through experience and real-time decision-making can also function as effective mediators. These strategies are particularly compatible with SMEs due to their flexible structures and iterative learning culture. As emphasized by GARZELLA et al. (2021), even informal strategies can effectively channel internal resources into performance gains when firms are open to experimentation and responsive to market feedback.

In conclusion, strategic mediation and organizational alignment provide a powerful framework for understanding how SMEs translate HRM and EO into sustainable performance outcomes. A strategically aligned SME where internal capabilities, leadership direction, and market strategy are harmonized is better positioned to navigate uncertainty, foster innovation, and build long-term resilience. In today's volatile environments, strategy serves not only as a plan but as a bridge that connects potential with performance.

2.2.3 Financial and Non-financial Performance Indicators

Performance measurement in Small and Medium-sized Enterprises (SMEs) has evolved from a narrow focus on financial outcomes to a broader, multidimensional approach that captures the diverse elements contributing to organizational success. Recent literature emphasizes the importance of integrating financial and non-financial indicators to accurately reflect the complexities and strategic goals of modern SMEs, particularly in volatile and resource-limited environments (GARZELLA et al., 2021; SÁNCHEZ-GARCÍA et al., 2023).

Financial indicators remain foundational for evaluating the economic viability and operational efficiency of SMEs. Key metrics such as revenue growth, return on investment (ROI), return on assets (ROA), profit margins, and working capital provide essential insights into financial performance. These measures are especially critical in SMEs seeking access to capital, forming partnerships, or navigating crises. However, financial fragility often characterizes SMEs, making liquidity management and cost control vital for survival and growth (MALAQUIAS AND ZAMBALDI, 2020).

Yet, a sole reliance on financial metrics presents an incomplete picture. Contemporary research stresses the role of non-financial indicators such as customer satisfaction, employee engagement, innovation capability, and organizational learning as leading predictors of long-term performance. These indicators offer early signals of future financial outcomes and are essential for maintaining competitiveness in dynamic markets (IBARRA et al., 2022). For example, high employee morale has been linked to improved service delivery and customer loyalty, while innovation-related capabilities often correlate with sustained market relevance and growth (ARDITO et al., 2021).

One of the most influential tools in this shift toward a balanced view is the Balanced Scorecard (BSC), originally developed by Kaplan and Norton and now widely adapted for SME use. Recent adaptations of the BSC incorporate SME-specific metrics and emphasize strategic alignment across financial, customer, internal process, and learning and growth dimensions. SMEs benefit from using simplified or tailored BSC models to monitor performance while enhancing strategic focus and organizational coherence (QUESADO et al., 2021; KARADAG, 2023).

Innovation performance has become particularly salient in the post-COVID-19 context, as SMEs increasingly depend on their ability to innovate to survive and thrive. Metrics such as the rate of new product introductions, investment in research and development, and time-to-market

are now considered essential indicators of adaptability and strategic agility (FOSFURI et al., 2021). These indicators are especially useful for SMEs operating in technology-driven or highly competitive sectors.

Employee-related metrics are also gaining prominence. In knowledge-intensive and service-oriented sectors, employee satisfaction, training engagement, leadership effectiveness, and internal communication significantly impact productivity and firm culture. Studies show that firms that systematically measure and improve these "soft" metrics report lower turnover and higher innovation output (BULIŃSKA-STANGRECKA AND BAGIEŃSKA, 2021; KARANJA et al., 2022).

In addition, sustainability and social impact indicators are becoming integral to performance frameworks, reflecting increasing stakeholder demands for transparency and ethical practices. SMEs that track environmental outcomes (e.g., energy use, waste reduction), social responsibility (e.g., fair labor practices, community involvement), and governance practices (e.g., ethical leadership, compliance) are more likely to attract socially conscious investors and customers. These metrics not only enhance reputation but also build long-term resilience and legitimacy (DELAI AND TAKAHASHI, 2021; YOON et al., 2022).

In summary, modern performance measurement in SMEs requires an integrated, multidimensional framework that blends financial viability with strategic, human, and sustainability dimensions. This comprehensive approach supports informed decision-making and ensures that SMEs are equipped to respond to both immediate operational challenges and long-term strategic opportunities. As SMEs continue to operate in uncertain environments, performance systems must evolve to capture the full scope of factors that contribute to sustainable growth and value creation.

2.3 Empirical Review Literature

2.3.1 HRM Practices and MSEs performance

Several theoretical and empirical studies have linked HRM practices to the performance of MSEs. The study conducted by MISHRA, (2014) attempted to generalize the efficacy of seven HRM practices proposed by PFEFFER, (1998) in the context of country and industry, with a particular emphasis on the effects of these practices on performances. Employment security, selective hiring, team and decentralization, performance-based compensation/incentives, extensive training, status differences, and information sharing are among the seven HRM practices. Cost, quality, delivery, flexibility, and organizational commitment all contribute to MSE performance. Their findings supported the relationship between the seven HRM practices and MSE performance. GBOLAHAN, (2012) conducted a thorough investigation into the relationships between human resource management practices and MSE performance in Nigeria. They discovered that human resource management practices like training and development, teamwork, benefits, human resource planning, and performance appraisal have a significant impact on performance. Furthermore, employee turnover is negatively related to benefits and human resource planning. (CHALLIS, SAMSON* AND LAWSON, 2005) conducted a study on employee involvement and manufacturing performance in New Zealand and Australia and found that workforce-related programs that promoted significant improvements in quality and communication throughout an organization could assist in maintaining this achievement. Furthermore, a well-trained workforce would aid MSEs in gaining market share because such MSEs would produce high-quality products that meet customers' expectations. (FONSEKA, WANG AND MANZOOR, 2013) investigated the impact of human resource management on the performance of 293 developing countries MSE. They classified HRM effectiveness into two types: compensation, recruitment and training, employee/industrial relations, selection tests, appraisal, and employee attitudes. The second type is HRM effectiveness, which includes teamwork, employee participation and empowerment, employee and manager communications, and management and executive development. Their research found a link between HRM effectiveness and MSE performance, but not between technical HRM effectiveness and MSE performance. They discovered a link between HRM effectiveness and MSE productivity. (ICHNIOWSKI AND SHAW, 1999) investigated international human resource management issues by comparing the performance of steelmaking MSEs in the United States and Japan that were implementing HRM

practices. Their research found that Japanese plants implemented more HRM practices than their US counterparts, such as problem-solving teams, extensive orientation, career-long training, extensive information sharing, job rotation, employment security, and profit-sharing. They discovered that Japanese steel MSEs were far more productive than those in the United States. LEE, LEE, AND WU, (2010) tested the relationships between quality, cost, flexibility, and time by utilizing top management commitment, goal communication, employee training, cross-functional teams, and other HRM practices. They stated that there are positive correlations between individual HRM practices and operational performance.

(GUCHAIT AND CHO, 2010) also investigated the relationship between HRM practices, employee commitment, and performance in Taiwanese healthcare institutions. GUCHAIT AND CHO implemented 11 HRM practices, including internal career opportunities, HR planning, training, employment security, job descriptions, teamwork, incentive compensation, performance appraisal, employee participation, and employee communication. Besides this, GUCHAIT AND CHO also concluded that each HRM practice has a varying degree of influence on operational performance. Among these 11 HRM practices, they concluded that job security, teamwork, and incentive compensation are three of the most important for influencing operational performance. LEE, LEE, AND WU, (2010) conducted a study in Cambodia and Taiwan to investigate the effects of HRM practices on business performance (operational performance and overall MSE performance). (Karami, Sahebalzamani and Sarabi, 2015) investigated the relationships between nine HRM practices (HR planning, staffing, incentives, appraisal, training, teamwork, employee participation, status differences, and employment security) and MSE performance perception (non-financial and financial performance). Meanwhile, KARAMI, SAHEBALZAMANI, AND SARABI put the nine HRM practices to the test to see how they affected four performance components: product quality, product cost, product delivery, and production flexibility. According to KARAMI, SAHEBALZAMANI AND SARABI'S findings, HR planning, staffing, incentives, appraisal, training, teamwork, and employee participation all have a positive impact on employee productivity. Furthermore, a positive relationship between HRM practices and performance was discovered. Based on the literature review, this study adopts six key HRM practices that are likely to be positively associated with performance: training and development, teamwork, compensation/incentives, HR planning, performance appraisal, and employment security.

Empirical research in recent years has increasingly confirmed that Human Resource Management (HRM) practices are critical determinants of MSE performance. While MSEs often operate with limited structure and resources, several studies have shown that the strategic application of specific HRM functions such as training, teamwork, planning, appraisal, compensation, and employment security can yield significant improvements in both financial and non-financial outcomes.

Training and Development

Training and development (T&D) is consistently linked to enhanced performance in MSEs. A study by WORKU AND ASMARE (2021) on Ethiopian MSEs found that enterprises that invested in continuous employee training reported significant improvements in productivity, service quality, and customer satisfaction. The training allowed employees to acquire technical skills and adaptive capabilities essential for innovation and market responsiveness.

Similarly, MWANGI AND NZULWA (2021) showed that in Kenyan MSEs, regular skills development programs resulted in higher employee motivation and reduced operational errors. Firms that integrated T&D into their strategic planning experienced superior returns on investment and better employee retention rates. ALI et al. (2022) also emphasized that training programs that encouraged creativity and problem-solving contributed to innovation performance, which in turn positively impacted revenue growth.

Teamwork

Teamwork has emerged as a valuable HRM practice that supports collaboration, communication, and innovation, especially in small, informal work environments. NAYAK AND MISHRA (2022) demonstrated that in Indian manufacturing MSEs, fostering teamwork through cross-functional collaboration and shared goals led to improvements in decision-making speed and customer responsiveness.

BULIŃSKA-STANGRECKA AND BAGIEŃSKA (2021) found that MSEs that emphasized team-building activities and encouraged shared responsibilities reported higher employee engagement, which was strongly correlated with job performance and client satisfaction. The research also indicated that teamwork reduces internal conflicts and enhances organizational learning—factors that are vital for adaptability in uncertain market environments.

Human Resource Planning

Strategic human resource planning is often overlooked in MSEs, but its impact on performance is increasingly evident. KAMUKAMA AND NATAMBA (2020) discovered that MSEs in Uganda that engaged in proactive HR planning such as forecasting labor needs and aligning talent development with business objectives achieved greater operational efficiency and were more resilient during economic disruptions.

ZHOU et al. (2023) found that MSEs that adopted digital tools for workforce planning and scheduling significantly improved employee utilization rates and project turnaround time. Their study emphasized that workforce planning is not only about hiring but also about optimizing task distribution and building future leadership capacity within the enterprise.

Performance Appraisal

Performance appraisal practices in MSEs, although often informal, have a demonstrable impact when structured properly. KUMARI AND SHARMA (2020) highlighted that small businesses in South Asia that introduced goal-based appraisal systems experienced notable improvements in employee accountability and service quality.

MWANGI AND NZULWA (2021) also reported that performance feedback whether formal or informal motivated employees to meet targets and align their individual goals with business objectives. The study emphasized that even simple appraisal systems (e.g., monthly feedback sessions or peer evaluations) can foster a performance-driven culture in MSEs, particularly when coupled with recognition and development opportunities.

Compensation and Incentives

Compensation and incentive systems play a key role in attracting and retaining talent in resource-constrained MSEs. ALI et al. (2022) found that performance-based rewards, including both financial bonuses and non-financial recognition, significantly boosted employee creativity and initiative in Pakistani MSEs.

In a study of Indonesian microenterprises, SIHOTANG AND SARAGIH (2021) demonstrated that employees who received fair compensation and incentives reported higher job satisfaction and lower turnover intentions. Notably, the impact of compensation was amplified when combined with other practices like recognition and autonomy, suggesting that tailored reward systems are especially effective in the MSE context.

Employment Security

Employment security, while often difficult to guarantee in small firms, has shown strong links to performance outcomes. DE KOK AND SNELL (2021) analyzed small firms across Europe and found that those offering more stable employment contracts had higher employee loyalty and lower absenteeism rates. Job security was also linked to increased willingness among employees to engage in discretionary behaviors, such as volunteering for extra tasks or suggesting improvements.

BULIŃSKA-STANGRECKA AND BAGIEŃSKA (2021) confirmed that perceived job stability improved psychological safety, enabling employees to take initiative and participate more actively in strategic discussions. For MSEs, this translates into improved innovation and stronger internal communication, both critical for long-term growth.

Recent empirical findings consistently show that targeted HRM practices significantly enhance MSE performance. Training and development improve employee skills and innovation capacity; teamwork fosters collaboration and engagement; HR planning supports resource optimization; performance appraisals enhance accountability; compensation and incentives increase motivation and retention; and employment security builds trust and loyalty. Importantly, the effectiveness of these practices is amplified when they are context-sensitive, bundled, and strategically aligned with business objectives.

2.3.2 Business strategy and MSEs performance

For several years, researchers have been interested in the relationship between business strategy and MSE performance (OGOT, 2014b). According to (MINTZBERG AND WATERS, 1985), strategy is frequently described as a deliberate set of actions to achieve a competitive advantage that gives an organization coherence and direction. (TAKEUCHI, 2009) studied nine recreational resorts in Japan's manufacturing firm. Takeuchi discovered a link between business strategy and the performance of MSEs. According to Takeuchi's findings, business strategy and MSE performance interact positively. Different business strategies will influence the performance of MSE. (ALLEN AND HELMS, 2002) used data from 108 Taiwanese companies listed on the Taiwan Stock Exchange and over-the-counter market to examine the effects of business strategies (including differentiation strategy, cost leadership strategy, and focus strategy) and compensation strategy on organizational performance. (LEE, LEE AND WU, 2010b) investigated the

relationship between business type, strategy, and performance in Taiwan's Chinese medicine industry. Lee and Wu discovered that business strategy influences organizational internal structure and performance. However, there have been few empirical studies in Ethiopia that investigate the relationship between business strategy and MSE performance. The study focused on specific business strategies that have a significant impact on the performance of MSE.

Empirical studies in the post-2020 period have highlighted the strategic importance of business strategies tailored to the realities of micro and small enterprises (MSEs). Amid growing competition, resource constraints, and technological shifts, MSEs increasingly adopt deliberate strategies centered on cost reduction, quality enhancement, responsiveness, and flexibility to ensure survival and performance. These strategic orientations have been empirically shown to affect both financial and non-financial outcomes in diverse sectors and geographic regions.

Cost Reduction Strategy

Cost reduction remains a dominant strategic approach among MSEs, especially in emerging economies where resource scarcity and price-sensitive markets prevail. AL MAMUN et al. (2020) found that cost-focused strategies in Malaysian microenterprises significantly improved profit margins, particularly among retail and service-based firms. These strategies often involved lean operations, efficient inventory management, and frugal marketing methods.

Similarly, MWANGI AND NZULWA (2021) demonstrated that Kenyan MSEs using low-cost production processes such as local sourcing of materials and multifunctional labor achieved a competitive advantage through affordability without compromising core offerings. The study emphasized that the effectiveness of cost strategies was enhanced when aligned with basic HR practices that encouraged worker efficiency.

ISA et al. (2022) further supported these findings in the Nigerian informal sector, where minimizing fixed overheads (e.g., rent, utilities) and leveraging digital tools (e.g., WhatsApp for customer service) were key to sustaining profitability during economic downturns. However, these strategies had to be balanced carefully to avoid underinvestment in product quality and innovation.

Quality Enhancement Strategy

The adoption of quality-focused strategies is increasingly observed among MSEs aiming at customer retention and brand differentiation. According to QUESADO et al. (2021), Portuguese MSEs that invested in quality management such as standardizing procedures and implementing

basic quality assurance checks reported significantly higher customer satisfaction and repeat business, even without formal ISO certifications.

In Ethiopia, WORKU AND ASMARE (2021) found that microenterprises in the hospitality and manufacturing sectors that adopted continuous quality improvement practices (e.g., customer feedback loops, regular employee training) outperformed their peers in terms of both market share and financial returns. The study emphasized that such strategies do not necessarily require high capital but demand consistent effort and internal coordination.

Moreover, ALI et al. (2022) revealed that when MSEs link quality enhancement with innovation (e.g., product customization, improved after-sales service), they gain access to premium market segments, which significantly boosts revenue and customer loyalty. This was especially true in technology-related and artisanal industries.

Responsiveness and Time-Based Strategy

Speed and responsiveness are critical strategic capabilities for MSEs competing in dynamic markets**.** ZHOU et al. (2023) found that Chinese MSEs in the e-commerce and logistics sectors that adopted fast decision-making processes, agile inventory systems, and short production cycles achieved higher customer satisfaction and repeat purchases.

In sub-Saharan Africa, KAMUKAMA AND NATAMBA (2020) documented that quick customer service response times and short delivery intervals were among the top drivers of competitive advantage for MSEs in urban trading environments. Responsiveness was achieved through simplified internal procedures, empowered frontline employees, and digital communication platforms like mobile apps and social media.

NAYAK AND MISHRA (2022) also confirmed that Indian manufacturing MSEs with high responsiveness to customer feedback and market changes (e.g., rapid customization of products or promotions) showed superior financial and non-financial performance, particularly in volatile market conditions. Responsiveness, in this case, was not merely operational but strategically embedded into the business model.

Flexibility Strategy

Flexibility, both operational and strategic, is a hallmark of successful MSEs. BULIŃSKA-STANGRECKA AND BAGIEŃSKA (2021) found that Polish MSEs that exhibited high levels of task, structural, and employee flexibility were better positioned to adapt to COVID-19 disruptions.

Flexibility enabled them to modify work schedules, reassign tasks, and quickly pivot their business models (e.g., from in-person sales to online).

AL MAMUN et al. (2021) emphasized that flexibility allows MSEs to diversify revenue streams, such as entering new markets or adjusting product lines based on demand trends. Their longitudinal study of Bangladeshi MSEs revealed that firms with higher flexibility—e.g., in product design or customer negotiation outperformed rigid competitors in terms of growth and resilience.

Furthermore, CILLO et al. (2021) argued that strategic flexibility positively correlates with innovation outcomes, enabling firms to experiment with new ideas without rigid formalities. This was especially beneficial in knowledge-based and creative sectors where rapid iteration and change are crucial for success.

Empirical research since 2020 confirms that business strategies focused on cost reduction, quality enhancement, responsiveness, and flexibility significantly influence the performance of MSEs across industries and geographies. While each strategy has its benefits, its effectiveness is magnified when they are mutually reinforcing and aligned with internal capabilities such as HRM, technology adoption, and market orientation. These strategies allow MSEs not only to survive in uncertain environments but also to scale sustainably by leveraging their inherent agility and proximity to customers.

2.3.3 Entrepreneurial Orientation and MSEs performance

Entrepreneurial orientation is a critical factor in organizational success. (ASAD, SHARIF AND HAFEEZ, 2016b) used a sample of 1,248 MSEs from various countries and applied the entrepreneurial orientation–quantification. The findings demonstrated that entrepreneurial orientation has a significant relationship to MSE success and is a common principle of importance and legality in various businesses and settings. (ASAD et al., 2018) in another study also investigated the impact of entrepreneurial orientation on the various outcomes of MSEs, demonstrating the correctness and relevance of its definition and calculation. Other research has shown that the five axes of the multidimensional entrepreneurial orientation system (creativity, proactivity, risk-taking, autonomy, and competitive aggression) have an impact on non-financial and financial affairs in MSEs (NAKKU et al., 2020). According to (OFEM AND IVANOVA, 2015), innovativeness is a key indicator of MSEs' financial and non-financial success.

Furthermore, as demonstrated by MSEs, risk-taking is important in improving organizational efficiency (OFEM AND IVANOVA, 2015). Proactivity improves financial efficiency and has a significant impact on MSEs (ZAHRA, 2005). Proactive businesses gain a strategic advantage through customer demands, innovative campaigns, and higher charges (MISHRA AND YADAV, 2021). According to (PURNOMO et al., 2019), competitive aggressiveness and autonomy are critical for MSE organizational success. Experiments have shown that entrepreneurial orientation influences MSE performance (PURNOMO et al., 2019).

Entrepreneurial Orientation (EO) typically conceptualized through innovation, proactiveness, and risk-taking has been consistently linked with superior firm performance, particularly in Micro and Small Enterprises (MSEs). Post-2020 empirical studies confirm that EO significantly enhances both financial and non-financial outcomes in dynamic and resource-constrained environments, where adaptability and opportunity exploitation are key.

Innovation and MSEs Performance

Innovation is considered the most impactful EO dimension in today's volatile environments. Empirical studies show that innovation in products, processes, and business models directly contributes to MSE growth and competitive advantage. KRAUS et al. (2021) demonstrated that innovative behavior among small European enterprises led to increased sales growth, customer acquisition, and entry into new markets, especially when supported by digital technologies and knowledge-sharing systems.

In the African context, MUTURI AND NJERU (2022) found that product and service innovation significantly influenced the survival and growth of Kenyan MSEs during the COVID-19 pandemic. Innovativeness enabled these businesses to pivot, introducing new delivery methods, digital platforms, or modified offerings to suit changing consumer demands.

Similarly, LETTICE AND PEARSON (2021) showed that innovation drives long-term profitability for small manufacturing firms in Southeast Asia by facilitating differentiation and brand loyalty. Importantly, the study noted that innovation's impact on performance is most pronounced when coupled with supportive HR practices and leadership commitment.

Proactiveness and MSEs Performance

Proactiveness refers to a firm's tendency to anticipate and act on future needs, rather than react to events. In empirical terms, this orientation often translates into first-mover advantages,

customer trend anticipation, and faster market responses. AL MAMUN et al. (2020) highlighted that Bangladeshi microenterprises with proactive market behaviors—such as regularly scanning competitor actions and launching new offers—reported higher customer retention and revenue consistency.

KIBOR AND MUTURI (2023) explored proactiveness among agribusiness MSEs in Uganda and found that firms that engaged in early resource mobilization, market forecasting, and stakeholder engagement performed better in volatile agricultural markets. The study emphasized that proactive firms also tend to be better networked, which supports collective learning and risk-sharing.

Moreover, NYARKO et al. (2021) reported that Ghanaian MSEs exhibiting proactive marketing and outreach behaviors expanded faster into regional markets than their less proactive counterparts. This expansion was associated with increased brand visibility and sustained growth in highly competitive sectors like retail and hospitality.

Risk-Taking and MSEs Performance

Risk-taking is another crucial EO dimension, referring to the willingness of firms to commit resources to uncertain opportunities. Empirical evidence suggests that moderate levels of calculated risk-taking drive innovation and expansion in MSEs. ISLAM et al. (2022) showed that risk-taking behavior in Pakistani microenterprises—such as investing in new equipment or entering untapped markets—was positively associated with performance, especially when risk was informed by local market intelligence.

NGUYEN AND PHAM (2021) observed that Vietnamese tech-based small firms with higher risk tolerance achieved better product development outcomes and attracted more investor attention, particularly in the fintech and health tech sectors. However, the study cautioned against excessive risk-taking, noting diminishing returns when strategic planning was lacking.

In Ethiopia, DABA AND ABEBE (2023) found that risk-taking positively influenced growth among urban youth-led enterprises, especially those in digital services and fashion industries. The study emphasized that these entrepreneurs often benefited from institutional support such as startup hubs and micro-financing, which helped mitigate the adverse effects of uncertainty.

Empirical literature from 2020 onward provides strong support for the positive influence of Entrepreneurial Orientation especially innovation, proactiveness, and risk-taking on MSE

performance. These traits enable MSEs to adapt, differentiate, and grow in uncertain and competitive markets. However, their impact is often moderated by contextual factors such as industry type, leadership quality, and access to resources. A balanced EO approach that aligns with firm strategy and market dynamics is therefore essential for optimizing performance.

2.3.4 The mediating role of Business Strategies between HRM practice and MSEs performance

Scholars such as (Dikshit and Dikshit, 2014) have proposed that a good fit between HRM strategies and MSE business strategies leads to superior outcomes. In other words, superior performance is expected when the company's HRM practices support MSEs' strategy. Other studies, such as (DIKSHIT AND DIKSHIT, 2014), also investigated the connections between business strategy and human resource management strategy of Japanese subsidiaries in the US. They investigated whether or not alignment between a subsidiary's business strategy and its HRM strategy is associated with higher performance. In terms of HRM-related performance measures, subsidiaries with matched strategies outperformed unmatched subsidiaries. Japanese subsidiaries with a business strategy/HRM strategy match are also more likely to outperform their competitors. (LEE, LEE AND WU, 2010b) stated that business strategies combined with appropriate HRM practices will improve the performance of MSEs. According to (CHINYAMURINDI AND KYOGABIIRWE, 2021), integrating HRM practices and business strategy is critical for MSE performance. (WUEN, IBRAHIM AND RINGIM, 2021) researched to better understand the impact of human resource diversity practices on the performance of MSEs. They used business strategy as a contingent factor and discovered that business strategy moderates the relationship between human resource practices and MSE performance. According to (HAMADAMIN AND ATAN, 2019), the interaction between business strategy and HRM practices is an important factor in organizational effectiveness.

The HRM literature consistently demonstrates that business strategy is complementary to HRM systems in achieving superior performance. A strategic vision will make HR strategy more effective (CHEW AND CHONG, 1999; LAWLER AND MOHRMAN, 2000; BAL, 2011). The HR department should be a more important strategic partner. To play a strategic role, HR must identify and develop specific competitive priorities (such as cost, quality, time, and flexibility) to provide a company with a competitive advantage in its market. HRM practices are transmitted into

performance by business strategy. There have been few studies conducted previously on the role of business strategy in mediating the HRM–performance relationship. Mediators are explanatory variables that provide substantive interpretations of the HRM–performance relationship's underlying nature. HRM must provide input into an organization's business strategy, particularly in terms of how strategies are implemented. There is evidence that HRM systems that are complementary to a company's strategic goals create a competitive advantage and, as a result, superior performance. According to (PAILLÉ et al., 2014), business strategy mediated the relationship between HRM and MSE performance. The impact of HRM systems on performance, on the other hand, varies indirectly based on the type of business strategy. (MITCHELL, OBEIDAT AND BRAY, 2013) investigated the mediating role of business strategies in the linkage between resources (including human resources) and MSE performance in their empirical study. According to their findings, neither resources nor business strategies alone explain MSE performance; rather, HR combined with strategy improves MSE performance. From an HRM standpoint, this finding implies that implementing a specific business strategy necessitates a specific set of skills, knowledge, and abilities. As a result, the significance of combining HR practices to deliver organizational outcomes is emphasized. The researcher expects the business strategy to mediate the link between HRM and MSE performance in this study. Business strategy is more likely to guide and translate human capital to improved MSE performance. As a result, it stands to reason that business strategy mediates the relationship between HRM systems and performance outcomes.

Empirical research increasingly highlights the significance of business strategy as a mediating mechanism through which HRM practices influence the performance of Micro and Small Enterprises (MSEs). Rather than viewing HRM and performance as having a direct linear relationship, scholars argue that strategy plays an intermediary role by aligning human capital practices with broader organizational goals and competitive positioning.

A growing body of studies confirms that strategic HRM practices improve firm performance when they are closely linked to cost leadership, differentiation, or flexibility strategies**.** For example, DABO et al. (2021) found that in Nigerian small firms, performance appraisal and employee development practices had a significant impact on firm performance only when implemented in alignment with a clear cost or quality-based business strategy. The study

concluded that HRM practices alone do not drive performance unless mediated by a well-formulated and executed business strategy.

In another study, MAHMOOD et al. (2020) investigated the mediating effect of strategic orientation between HRM systems and performance in Pakistani SMEs. Their results showed that training, compensation, and recruitment practices enhanced SME productivity and employee engagement only when strategic orientations such as market responsiveness and product innovation were simultaneously pursued. This underscores the importance of strategy as a conduit through which HRM becomes effective.

MULILI AND OMULLO (2022) examined small manufacturing firms in Kenya and reported that strategic alignment between HR planning and a firm's quality enhancement strategy led to significant improvements in operational efficiency and customer satisfaction**.** Firms that failed to mediate HRM practices through strategy showed inconsistent performance outcomes, emphasizing the importance of fit between internal capabilities and external positioning.

A study by AL-HOMODI AND AL-KHALIFAH (2021) among Gulf-based MSEs demonstrated that business strategy significantly mediated the relationship between HRM (particularly employment security and training) and organizational resilience and adaptability during the COVID-19 pandemic. Their findings highlighted that businesses with formal or semi-formal strategic frameworks were more likely to convert HR investment into competitive advantage and sustained growth.

Similarly, NGUYEN AND NGUYEN (2023) explored how different HRM bundles affect the strategic direction of Vietnamese SMEs. They found that team-based work systems and performance-based incentives positively impacted firm profitability and innovation only when firms adopted a prospector or analyzer strategy as defined by Miles and Snow's typology. This evidence supports the idea that HRM–performance relationships are indirect and moderated by strategic intent.

In the African context, TESFAYE AND LEMMA (2023) studied Ethiopian MSEs and confirmed that business strategies—particularly cost reduction and responsiveness—fully mediated the relationship between HRM components (such as training and performance appraisal) and MSE financial performance**.** This reinforces the importance of aligning HR functions with real-time market needs and strategy execution.

Furthermore, IBRAHIM et al. (2022) concluded that SMEs with informal HRM systems performed better when strategic mediation existed in the form of internal process optimization and customer-driven innovation. Without such strategic framing, the same HR practices did not yield substantial performance gains.

In sum, recent empirical research converges on the conclusion that HRM practices in MSEs exert their strongest impact on performance when filtered through effective and aligned business strategies**.** These findings advocate for a shift from purely operational HRM to a strategic HRM approach where recruitment, training, appraisal, and incentive systems are deliberately tailored to reinforce a firm's competitive strategy.

2.3.5 The mediating role of Business Strategies between Entrepreneurial Orientation and MSE performance

According to (ASAD et al., 2018) study, business strategy mediates the relationships between entrepreneurial orientation and Saudi MSE performance. This study highlights the role of entrepreneurial orientation in MSE performance as mediated by business strategy. Furthermore, these findings are consistent with previous research by (MWAURA, GATHENYA AND KIHORO, 2015; ASAD, CHETHIYAR AND ALI, 2020) and clarify that business strategy plays a mediating role in the relationship between entrepreneurial orientation and MSE efficiency. (SUPARLINAH, PURWATI AND PUTRI, 2018), for example, demonstrated that business strategy fully mediates the relationship between entrepreneurial orientation and company efficiency and that companies with a high entrepreneurial orientation should cultivate market orientation as well. However, (WAHEED, 2020) found that business strategy did not significantly mediate the relationship between entrepreneurial orientation and Saudi MSE performance. This clearly shows that there is no consistency in results as to whether business strategy mediates the relationship between entrepreneurial orientations and MSE performance. Hence, in this study, it's important to see the mediating role of business strategy between entrepreneurial orientations and MSEs performance.

Recent empirical studies increasingly affirm that Entrepreneurial Orientation (EO)—characterized by innovation, proactiveness, and risk-taking—positively influences Micro and Small Enterprise (MSE) performance. However, the effect is not always direct. A substantial body

of post-2020 literature suggests that business strategies mediate the EO-performance link**,** acting as a conduit that transforms entrepreneurial intent into tangible performance outcomes.

A notable study by NDLOVU AND SIBANDA (2022) examined South African manufacturing MSEs and found that EO significantly improved performance only when firms adopted clear market differentiation or cost leadership strategies. Innovative firms that lacked an accompanying strategic focus struggled to scale or sustain profitability. The authors emphasized that strategy bridges the gap between entrepreneurial behaviors and measurable outcomes.

ABDULRAHMAN AND HASHEM (2021) conducted a multi-sectoral analysis of MSEs in Jordan and concluded that proactiveness and innovation orientation yielded better sales growth and market expansion only when aligned with responsive and flexible business strategies**.** Their structural equation modeling showed a strong mediating effect of business strategies, especially responsiveness to customer needs and time-to-market adjustments.

In the Nigerian context, OGUNDELE AND OJO (2023) found that risk-taking alone did not predict higher performance in small retail firms unless paired with deliberate strategies focused on cost efficiency or customer intimacy**.** The study revealed that firms that formalized their strategic processes were more successful at transforming risk-taking into competitive advantage, highlighting the mediating function of strategic intent.

A cross-national study by KIMANI AND MBUGUA (2020) covering East African MSEs showed that EO dimensions positively impacted business innovation and financial performance, but only through the mediating role of coherent strategy types such as product focus, market segmentation, and process optimization**.** This implies that while EO provides the energy and initiative, strategy provides the structure to capitalize on entrepreneurial momentum.

CHEN et al. (2021) tested the EO–performance relationship in Chinese technology-based small firms and found that strategies emphasizing agility and operational flexibility mediated the impact of innovation and proactiveness on performance metrics like customer acquisition, product development cycles, and net profits**.** In rapidly changing environments, the ability to convert EO into fast, strategic action became a critical success factor.

Further, MULUGETA AND BERHANU (2022) assessed Ethiopian MSEs and observed that business strategies—particularly differentiation and niche focus—mediated the influence of entrepreneurial traits on both financial and non-financial outcomes**.** Without a clear strategy, many entrepreneurially inclined firms fail to sustain growth or compete effectively.

Another study by ELLA AND AMOAKO (2023) in Ghanaian agro-processing MSEs found that entrepreneurial orientation (especially innovation and proactiveness) led to enhanced operational efficiency, but only when mediated by a deliberate strategy around value-chain integration or localized market adaptation. The study argues that even high EO firms can underperform in the absence of strategy-led execution mechanisms.

These findings align with the Dynamic Capabilities Theory, which emphasizes the need for firms not just to possess entrepreneurial traits but also to strategically reconfigure internal and external competencies to match market conditions. The business strategy serves as the platform for such reconfiguration, making EO actionable rather than abstract.

In summary, post-2020 empirical literature strongly supports the view that business strategies mediate the relationship between EO and MSE performance**.** Firms that adopt strategic approaches, whether in cost control, differentiation, responsiveness, or flexibility, are more likely to translate entrepreneurial behaviors into superior performance outcomes.

2.4 Conceptual Framework

Figure 1 below presents a conceptual framework that illustrates how Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) influence the Performance of Micro and Small Enterprises (MSEs) through the mediating role of Business Strategy. The model assumes that internal capabilities (HRM and EO) do not directly translate into superior performance unless they are strategically channeled through well-designed business strategies. This mediating effect emphasizes the importance of strategic alignment and coherence in organizational systems.

The first building block of the framework is HRM practices, comprising Training and Development, Teamwork, HR Planning, Performance Appraisal, Compensation/Incentive, and Employment Security. These practices represent core internal resources that enhance human capital and operational capabilities. Recent studies confirm that effective HRM systems positively impact firm performance by fostering employee competence, motivation, and commitment (YILDIZ, YILDIZ, AND BOZKURT, 2021; ALI AND WAHAB, 2020). For instance, training and development increase the knowledge base of employees, enabling them to contribute to productivity and innovation. Similarly, performance appraisal and incentives serve as motivational tools that align employee efforts with strategic goals (ZULKIFLI, RAHMAN, AND JALIL, 2021).

The second construct in the model is Entrepreneurial Orientation, which includes Innovation, Proactiveness, and Risk-Taking Prosperity. EO reflects the strategic posture of a firm toward exploring new opportunities, entering emerging markets, and undertaking calculated risks. Studies have established EO as a significant driver of MSE growth and resilience, especially in volatile environments (OBAMUYI AND FASANYA, 2023; SAFIULLAH AND MONDAL, 2023). Innovative orientation, for example, equips firms to create novel products or services that can command a market premium. Likewise, proactiveness helps firms anticipate and act on future demands, while risk-taking enables them to invest in untested but potentially rewarding ventures.

Business Strategy, situated at the center of the framework, acts as the bridge between internal capabilities and performance outcomes. The model categorizes business strategies into four strategic dimensions: Cost Reduction, Quality Enhancement, Responsiveness/Time, and Flexibility. These strategies reflect how firms compete in their respective markets. For instance, cost-focused strategies are critical in price-sensitive environments, especially for resource-constrained MSEs (SHARMA, SINGH, AND DEY, 2021). In contrast, quality enhancement strategies appeal to customer satisfaction and retention, often leveraged through well-trained staff and innovation capabilities (NGUYEN AND PHAM, 2022).

The mediating role of business strategy is well supported in recent literature. Evidence shows that HRM and EO only result in superior performance when guided by coherent strategic choices (DUBE AND NYONI, 2020; CHOWDHURY AND ARA, 2022). For example, training programs yield better returns when aligned with quality improvement strategies, while risk-taking behaviors are more effective when embedded in flexible strategic systems that adapt to market changes. These findings support the Resource-Based View (RBV), which argues that firm resources must be strategically deployed to create competitive advantage (BARNEY, 1991; reaffirmed in ZOTT AND AMIT, (2020).

The outcome variable in the model is MSE Performance, which is bifurcated into Financial Performance and Non-Financial Performance. Financial indicators include profitability, efficiency, and growth, while non-financial outcomes include customer satisfaction, on-time delivery, product/service quality, and market share. Research highlights the importance of viewing performance as a multidimensional construct. For instance, CILLO, PETRUZZELLI, AND PERUFFO (2021) emphasize that innovation-related strategies influence non-financial indicators before translating into financial success. Similarly, BULIŃSKA-STANGRECKA AND

BAGIEŃSKA (2021) show how employee engagement and training improve internal service delivery, contributing to both financial and non-financial performance.

Furthermore, the framework aligns with the Strategic Fit Theory, which suggests that the congruence between internal processes and external strategies maximizes performance (VENKATRAMAN, 1986; recently supported by ZULKIFLI et al., 2021). In the context of MSEs, where resources are limited and market pressures are high, achieving such alignment is critical. Firms that effectively match HRM and EO dimensions with suitable business strategies outperform those with misaligned structures (ALI AND WAHAB, 2020).

In summary, the figure depicts a dynamic and interrelated system where HRM and EO serve as foundational capabilities**,** Business Strategy acts as the mediating mechanism, and MSE performance is the desired outcome. The framework is supported by contemporary empirical research, and it offers a useful lens for understanding how internal and strategic elements must work together to produce competitive and sustainable outcomes in the MSE sector.

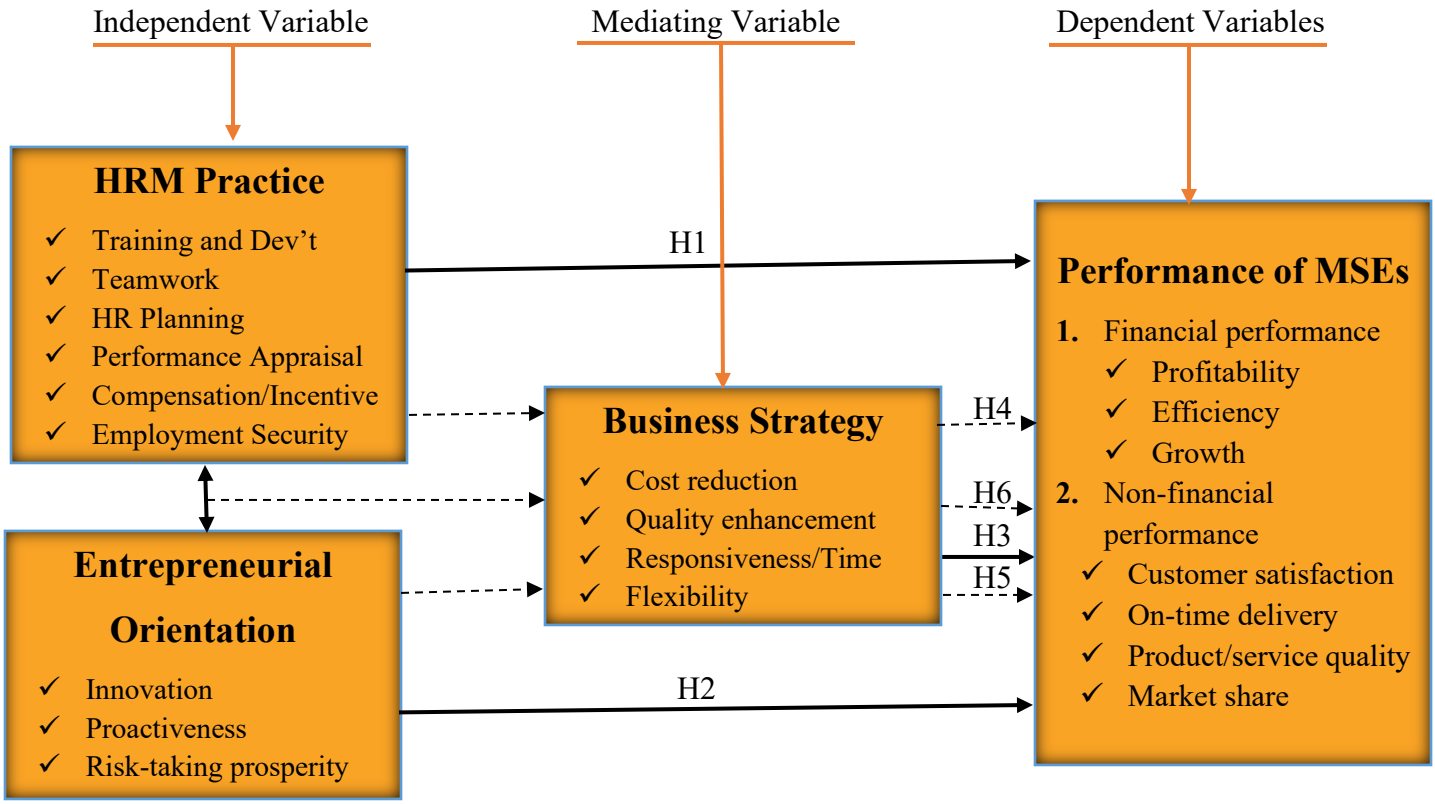

Figure- 1: Conceptual Framework

Source: *Researchers' design based on literature review*

3. METHODOLOGY OF THE STUDY

3.1 Introduction

This chapter outlines the research methodology employed to investigate the impact of Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) on the performance of Micro and Small Enterprises (MSEs), and the mediating role of business strategy in the Amhara regional state of Ethiopia. It presents research design, approach, population, sample size, sampling procedures, data collection instruments, and procedures for ensuring validity, reliability, and data analysis.

3.2 Research Design

The primary goal of the study is to investigate how human resource management practice and entrepreneurial orientation respond to MSEs' performance, as well as the role of business strategy in mediating this relationship. The study used a cross-sectional survey design and its explanatory in nature. A cross-sectional survey design, according to PANDEY AND PANDEY (2021), is a type of survey design in which necessary data is collected from a specific set of populations at a single point in time. This will be used primarily because it allows for the selection of a small sample of people from a larger population to serve as inference, and because surveys are designed to provide a snapshot of how things are at a specific time, and it will allow for the use of many variables at the same time (OPOKU, AHMED AND AKOTIA, 2016). According to GROVES et al., (2011), survey methodology will aid in measuring variables and examining relationships between variables in this study. Cross-sectional studies, like SEDGWICK, (2014) explains, provide a clear snapshot of the outcome and characteristics associated with such a study at a specific point in time when it is carried out. According to VAN DER STEDE, (2014), a cross-sectional survey design enables the researcher to interact with people who have practical experience with the subject of study and assess their perceptions, opinions, and feelings at a specific time (KOTHARI, 2004). It is carried out on a small scale to serve as an interference to the majority. As a result of using this design, the researcher was able to take a more passive approach to make causal inferences based on findings. A mixed research method incorporating both qualitative and quantitative approaches can provide a thorough understanding of the study (ONWUEGBUZIE, JOHNSON AND COLLINS, 2009). Explanatory research is an attempt to connect different ideas and understand the various reasons, causes, and effects. Furthermore, it can

aid in increasing one's understanding of a given topic, determining how or why a specific phenomenon occurs, and forecasting future occurrences.

3.3 Research Approach

Quantitative and qualitative research methods investigate and explore various claims to knowledge, and both methods are designed to address a specific type of research question. While the quantitative method provides an objective measure of reality, the qualitative method allows the researcher to explore and better understand the complexities of a phenomenon. Both quantitative and qualitative research methods have limitations. According to LAKSHMAN et al., (2000), the advantages of a quantitative research approach may be limitations for a qualitative approach, and vice versa. A mixed research design, which is intended to overcome the limitations of quantitative and qualitative approaches, is based on pragmatic knowledge claims. Pragmatists argue that knowledge claims emerge from actions, situations, and consequences rather than antecedent conditions. There is a concern about applications and problem-solving solutions. Many academics advocate for combining research approaches to improve research quality (BRYMAN, 2006). As a result, the researcher will incorporate not only numerical data, as is customary for quantitative research but also narrative data, as is customary for qualitative research, to address the research question(s) defined for this specific research study. The researcher prefers to use the mixed approach because this approach can provide a more complete picture than a standalone quantitative or qualitative study because it incorporates the benefits of both methods (TAYLOR, 2005).

3.4 Population, Sampling, and Sampling procedures

The Amhara Region is located in northwest Ethiopia and has an estimated land area of 170,000 square kilometers. Amhara region borders the Tigray region in the north, Afar region in the east, Oromiya region in the south, Benishangul-Gumuz region in the southwest, and Sudan in the west. Amhara Regional State has a population of over 20.2 million people, according to 2019 figures from the Amhara Regional State Investment Profile and the Ethiopian Central Statistical Agency (CSA). It is Ethiopia's second-most populous region. Of the total population, 56 percent are between the ages of 15 and 60, while 43.1 percent are under the age of 14 - indicating a strong manpower resource. Almost 87 percent of the population lives in rural areas, with the remainder living in cities.

Amhara, like the rest of Ethiopia, is divided into 11 administrative zones: Agew Awi, East Gojjam, Oromia zone, North Gondar, North Shewa, North Wollo, South Gondar, South Wollo, Wag Hemera, West Gojjam, and Bahir Dar (special zone). In addition, the region includes three metropolitan cities, 181 weredas (the smallest administrative units), and 38 urban centers. Decision-making power has been decentralized to woredas, and thus the woredas are responsible for all development activities in their areas. However, the researcher wishes to study more about the seven zonal towns chosen from these eleven zones. Because certain conflicts in the rest zonal towns have persisted for more than a year, the researcher would be unable to obtain the information required to complete the study's objectives. As a result, the study population included all SMEs and private businesses currently operating in the Amhara region. The sample frame includes all SMEs and private businesses that are members of the Amhara chamber of commerce in major regional cities. According to the national bank of Ethiopia annual report 2020/21, 39,699 registered MSEs, including trade (11,128), manufacturing (14,786), and service (13,785), are operating in the towns of Bahirdar, Gonder, Dessie, Debremarikos, Debretabur, Woldia, and Debrebirhan. Respondents were chosen from three business categories: trade, manufacturing, and service. The total population for this study is 39,699. According to CATHERINE DAWSON (2009), the appropriate sample size in a study is determined by the nature of the population and the purpose of the study. Although there are no general rules, the sample size is usually determined by the population being sampled. As a result, the sample size is determined using the simplified formula proposed by YAMANE (1967) (as cited in (MOHAMMED, 2020).

$$n = \frac{N}{1+N(e)^2} \quad \text{..... 1}$$

Where n is the sample size, N is the population size and *e* is the level of precision. A 95% confidence level and e = 0.05, were assumed to determine the sample size for this study. Accordingly, the sample size for the study was calculated as follows.

$$n = \frac{39{,}699}{1+39{,}699(0.05)^2} \qquad \underline{\text{n= 396}}$$

The sample size chosen here is thought to be representative of trade, manufacturing, and service, as well as large enough to allow for precision, confidence, and generalizability of the research findings.

In terms of sampling techniques, stratified sampling was used to collect information from various sectors of the MSEs in each selected town. This technique is preferred because it helps to reduce bias when dealing with the population. The sampling frame can be organized into relatively homogeneous groups (strata) using this technique before selecting elements for the sample. According to TAHERDOOST, (2016), this step increases the likelihood that the final sample is representative of the stratified groups. Manufacturing, trade, and service are the 1st, 2nd, and 3rd strata proposed by the researcher respectively.

Then, the proportionate stratified sampling will be utilized to select sample respondents. The proportional sample size from each stratum for each town is calculated by the following formula:

$$ni = \frac{n*Ni}{N} \text{ .... } 2$$

Where: ni is the sample in the respective towns; Ni is the total number of businesses in each town; n and N are the sample size and the total population size at the regional level. Accordingly, the following table depicts the number of samples that are going to select from respective towns in each stratum.

Table 2: Total number of samples for each town for each stratum

S.No	Towns	Manufacturing (N*i*)	No. of Sample (n*i*)	Trade (N*i*)	No. of Sample (n*i*)	Service (N*i*)	No. of Sample (n*i*)	**Total Samples**
1.	Bahirdar	5013	50	3008	30	4320	43	**123**
2.	Gonder	1200	12	907	9	1113	11	**32**
3.	Dessie	1300	13	950	9	1002	10	**32**
4.	Debremarikos	1605	16	993	10	1726	17	**43**
5.	Debretabur	669	7	543	5	748	7	**20**
6.	Woldia	1503	15	1312	13	1540	15	**43**
7.	Debrebirhan	3496	35	3415	34	3336	33	**102**
	Total	14,786	147	11,128	111	13,785	138	**396**

Source: Amhara regional trade and investment bureau (2019)

After the number of sample respondents from each stratum is determined, a judgmental sampling technique used to arrive at individual sample respondents. This sampling technique will be employed because some respondents will be reluctant to complete questionnaires and the only option available for the researcher will be to find volunteers in filling the questionnaires.

3.5 Data Type and Source

The study collected quantitative and qualitative data from both primary and secondary data sources. The primary data were gathered through a structured questionnaire, interview, and focus group discussions, while the secondary data was gathered from various published and unpublished documents (such as books, journal articles, and so on) on the study topic. The questionnaire contains only closed-ended questions. Respondents can easily answer this type of question to demonstrate their knowledge of the subject. A five-point Likert scale recommended by (DAWES, 2008) was used to make it easier for respondents to answer research questions simply. Response options ranged from strongly disagree (1) to strongly agree (5).

3.6 Methods of Data Collection and Instrumentation

3.6.1 The Questionnaire

The self-administered questionnaires were distributed to sample respondents. The questionnaires can be used because it limits inconsistency and saves time. The following procedure will be pursued to administer the questionnaire to respondents. First, the researcher will approach potential respondents to ask for their cooperation in filling out the questionnaire and will explain the purpose of collecting data, how the questionnaire will be filled, and the confidentiality of the obtained information. Then, the questionnaires were distributed, and respondents were asked to furnish information honestly and return the filled-up questionnaire as soon as possible.

The questionnaire has two parts. The first part of the questionnaire is about demographic characteristics of respondents such as age, year(s) of experience, educational level, and employee number. The second part is about study-related questions. The questions will be in statement form and respondents will be asked to express their agreement/disagreement on the five-point Likert scale, where 1=strongly disagree, 2= disagree, 3= neutral, 4= agree, 5=strongly agree.

3.6.2 The Interview

The Interview method was used to explore qualitatively on the relationship between human resource management practices, entrepreneurial orientation on the performance of micro & small-scale enterprises in Amhara regional state, Ethiopia. This method takes the option of face-to-face interviews that will seek to provide the required data as specified above. Interview method was used because it provides an excellent opportunity to probe and explore questions (GUBRIUM AND HOLSTEIN, 2001). The interview schedule was designed to conduct a semi-structured interview with some judgmentally selected employees of MSEs. Before starting the interview, the researcher introduced himself and explained the purpose of the study to the interviewee. Besides this, during the interview session, the researcher was note down all important points on a notepad and organized them for analysis purposes.

3.6.3 The Focus Group Discussion (FGD)

In addition to the questionnaires, the Focus Group Discussion (FGD) was conducted with some managers of the enterprises in an attempt to substantiate data collected through questionnaires. A focus group discussion (FGD) is a good way to gather people together from similar backgrounds or experiences to discuss a specific topic of interest. The group of participants were guided by a moderator (or group facilitator) who introduces topics for discussion and helps the group to participate in a lively and natural discussion amongst them. For this study, FGD conducted with selected business owners/representatives and experts in concerned government offices to get high-quality data in assessing the relationship between HRM practice and entrepreneurial orientation on SMEs performance & to see the role of business strategy in this relationship in Amhara regional state where participants can consider their views in the context of the views of others. In this case, FGD members forward a vast amount of information during their discussion. After finalizing the FGD, the researcher transcribed and code the session. Then, the FGD session carefully analyzed and presented in the final report of the evaluation.

3.7 Specification of the Research Model

To examine the direct effect of HRM practice and EO on the performance of SMEs and to see the mediating role of business strategy on the same relationship, hierarchical regression applied with the following model:

$Yi = \beta 0 + \beta_1 X1i + \beta_2 X2i + \ldots\ldots + \beta_n Xni + \varepsilon i$

Where:

Yi = dependent variable for i^{th} observation;

Xni = independent variable for i^{th} observation;

$\beta 0$ = the intercept;

βn = regression coefficients

εi = the error term for i^{th} observation

This basic regression model is rewritten in terms of the variables used in this research to show the relationship among them based on the conceptual research framework.

$PER = \beta 0 + \beta_1 HRM + \beta_2 EO + \beta_3 BS + \varepsilon$ …….…….…… 3

Where:

PER = MSEs performance

$\beta 0$ = The constant dependent variable

β_1 = Coefficient of HRM variable

β_2 = Coefficient of Entrepreneurial Orientation variables

β_3 = Coefficient of Business Strategy variables

ε = Error term of the model

3.8Measurement, Reliability and Validity

The researcher prepared a questionnaire constructed from the two sections of demographic information of respondents, and the research-related questions, including 51 questions with a five-point Likert scale, ranging from 1 (Strongly disagree) to 5 (Strongly agree). The independent variable "HRM practice" with 15 items used in the previous research (ABDULLAH, AHSAN AND ALAM, 2009; LEE, LEE AND WU, 2010B; HUSSAIN AND REHMAN, 2013; IQBAL, 2018) was measured. Each one of the trainings & development, teamwork, HR planning, performance appraisal, compensation/incentive, and employment security dimensions assessed by five items. The variable "entrepreneurial orientation" with 13 items used in the previous research (BAKAR AND ZAINOL, 2015; ASAD et al., 2018; HAMDAN AND ALHEET, 2020) was assessed. Each one of the risk-taking and pro-activeness was assessed by five items and "innovation" assessed by three items. The questionnaire related to the assessment of the business strategy variable (such as cost reduction, quality enhancement, responsiveness/time, and

flexibility) was adapted from questionnaire items (DESHPANDE, 2012). The dependent variable that was assessed by nine items is “performance of SMEs”. Performance of SMEs was designed and offered by the researcher to include three items of financial performance and four items of non-financial performance dimensions.

CTA analysis also confirmed the reflectiveness of measurement models (using a p-value greater than 0.05 as a benchmark) (BARADARAN et al., 2017). Smart-PLS version 3 used to evaluate measurement models (MUNIR, 2018). If the AVE value is greater than 0.5, it indicates that the measurement models are convergent (EBRAHIMI et al., 2019); HENSELER, (HENSELER, RINGLE AND SARSTEDT, 2015). Because the AVE values are less than 0.5, convergent validity will be tested using the outer loadings. Values greater than 0.4 indicate that measurement models are convergent (ROSHANDEL-ARBATANI et al., 2019). The questionnaire's validity was determined using exploratory and confirmatory factor analysis. The KMO indicator and Bartlett's Test of Sphericity estimated during the Exploratory Factor Analysis. When the KMO value is greater than 0.6 and close to one, the data is considered more suitable for running Confirmatory Factor Analysis. Furthermore, to determine the questionnaire's validity, the significant value of Bartlett's Test should be less than 0.05. Cronbach's alpha coefficient, on the other hand, can be used to assess the reliability of the questionnaire.

Structured self-administered questionnaires were developed based on established instruments:

Table 3: Summary of Variables and their Measurement

Variable	Dimensions	No. of Items	Scale	Source
HRM Practices	Training, Appraisal, Compensation	25	Likert (1–5)	ABDULLAH et al. (2009), IQBAL (2018)
Entrepreneurial Orientation	Risk, Innovation, Proactiveness	11	Likert (1–5)	BAKAR AND ZAINOL (2015), HAMDAN (2020)
Business Strategy	Cost, Quality, Flexibility, Time	11	Likert (1–5)	DESHPANDE (2012)
MSE Performance	Financial, non-financial	8	Likert (1–5)	Self-developed

Reliability was assessed using Cronbach’s Alpha**.** Validity was examined via Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) using SmartPLS v3 and SPSS

v26. Convergent validity was tested using AVE > 0.5 and outer loadings > 0.4 (HENSELER, RINGLE and SARSTEDT, 2015; ROSHANDEL-ARBATANI et al., 2019). KMO > 0.6 and significant Bartlett's Test ($p < 0.05$) indicated sampling adequacy for factor analysis.

3.9 Data Processing and Methods of Data Analysis

The data that was collected using the questionnaire was edited, coded, and analyzed with great care. Both in-house and field editing were undertaken to detect errors that were committed by respondents while completing the questionnaires. The coding of the possible alternatives in the questionnaire was made in advance of administering the questionnaire to sample respondents. This means that the possible responses on a five-point Likert scale will be pre-coded (for example, 1= strongly disagree, 2= disagree, 3= neutral, 4= agree, and 5= strongly agree) to facilitate quick answers and simplify data entry into computer software for analysis. In data analysis, inferential statistic topics such as SEM, which includes CFA, Path Analysis, descriptive statistics analysis, factor analysis, correlation analysis, and multiple regression analysis were used to determine the outcome of variables using SPSS Version 26 and Smart-PLS Version 3.

4. RESULTS AND DISCUSSION

4.1 Background of Respondents

In any research study, understanding the demographic and contextual background of respondents is crucial as it provides essential insights into the framework within which the data are collected and interpreted. The profile of respondents can significantly influence the outcomes of the research, as it shapes individual perspectives, experiences, and responses to survey items or interview questions. This section delves into the backgrounds of the respondents involved in our study, detailing their age, gender, education level, socio-economic status, geographic location, and other pertinent factors. By obtaining a comprehensive overview of these characteristics, we aim to contextualize the findings and facilitate a deeper understanding of how these factors may affect the attitudes, beliefs, and behaviors relevant to the study's objectives. Through this analysis, we will highlight not only the diversity among respondents but also the potential implications of these backgrounds on the research outcomes.

4.1.1 Gender of Respondents

Gender is an important demographic factor that can influence entrepreneurial behavior, leadership style, and business performance. Analyzing the gender composition of respondents provides insight into the inclusivity and diversity of the micro and small enterprise (PMSE) sector. It also helps to understand whether gender dynamics play a role in the adoption of human resource practices, entrepreneurial orientation, and strategic decision-making. This section presents the gender distribution of the study participants, offering a basis for interpreting potential differences or patterns that may arise in the subsequent analysis.

Table 4: Gender Distribution of Respondents

Gender of Respondents									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	Male	141	38.5	38.5	38.5	.0	2.5	33.1	43.2
	Female	225	61.5	61.5	100.0	.0	2.5	56.8	66.9
	Total	366	100.0	100.0		.0	.0	100.0	100.0
a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples									

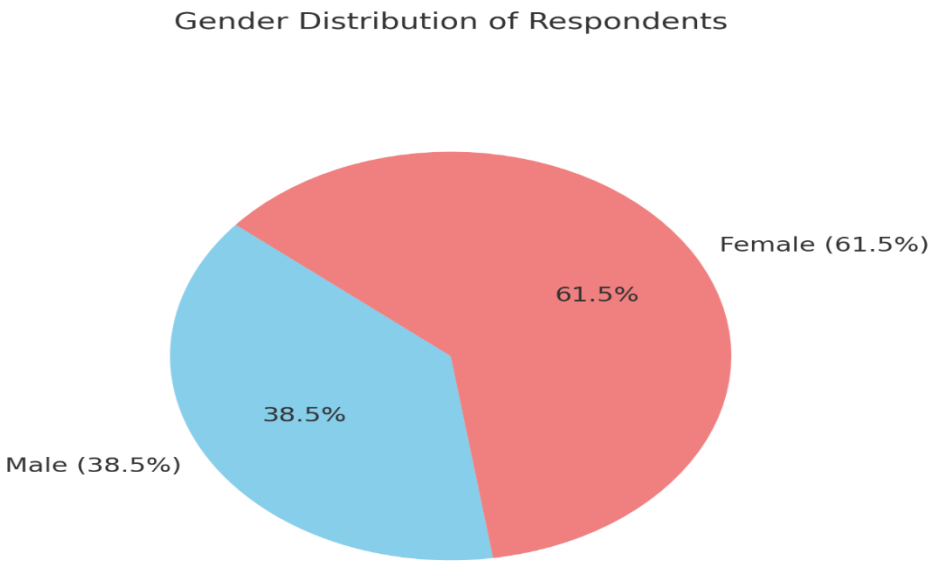

Figure 2: Gender Distribution

Source: Author's own survey, 2024

Table 4 presents statistical data on the gender distribution of respondents in a study or survey. According to this data, 141 respondents are male, constituting 38.5% of the total, and 225 respondents are female, making up 61.5%. The cumulative percentage indicates that all respondents have been accounted for, with females representing the final proportion towards 100%. The table also includes bootstrap results for the percentages, which are based on 1000

bootstrap samples. There is no reported bias, and the standard error is 2.5 for both genders. The 95% confidence intervals suggest that we can be 95% confident that the true percentage of male respondents in the population is between 33.1% and 43.2%, while the true percentage of female respondents is between 56.8% and 66.9%.

The implication of this structural model result suggests that in the population from which the sample was drawn, there is a higher proportion of female respondents compared to male respondents. This could potentially reflect the gender distribution of the population interested in or affected by the topic of the study. It also indicates that the sampling method has resulted in more female than male participants, which could be due to various factors such as the method of recruitment or the inherent interest levels of different genders in the survey's subject matter. Expanding on this concept, researchers and analysts should consider the gender ratio when interpreting the results and drawing conclusions, as the over- or underrepresentation of a particular gender could influence the findings and how they are generalized to a broader population. Additionally, understanding the reasons behind gender distribution could be valuable for the design of future studies to ensure balanced representation or to target specific groups more effectively.

4.1.2 Age of Respondents

The age of respondents plays a vital role in shaping their entrepreneurial mindset, risk tolerance, and strategic decision-making capabilities. Age can also reflect levels of maturity, adaptability, and experience, all of which influence how individuals manage their businesses and respond to dynamic market conditions. Analyzing the age distribution provides insight into the generational profile of business owners or managers within the micro and small enterprise (PMSE) sector. This section presents the age categories of respondents to help contextualize their perspectives on HRM practices, entrepreneurial orientation, and business strategy.

Table 5: Age Distribution of Respondents

Age of Respondents									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	<30 years	48	13.1	13.1	13.1	.0	1.7	9.6	16.7
	30-40	166	45.4	45.4	58.5	.1	2.5	40.7	50.5
	40-50	121	33.1	33.1	91.5	-.1	2.4	28.4	37.7
	>50 years	31	8.5	8.5	100.0	.0	1.5	5.7	11.7
	Total	366	100.0	100.0		.0	.0	100.0	100.0
a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples									

Source: Author's own survey, 2024

Table 5 contains a table that summarizes the age distribution of respondents in a given survey or study, categorized into four age groups. The data indicates that most respondents fall within the 30–40-year age range, accounting for 45.4% of the total. This is followed by the 40–50-year age group, which comprises 33.1%, and the < 30-year age group at 13.1%. The >50 years age group has the fewest respondents, making up 8.5% of the total. The cumulative percentage increases with each successive age category, culminating at 100%. Bootstrap results are included, showing no significant bias and a standard error ranging from 1.5 to 2.5. The 95% confidence intervals provide a range within which the true percentage of each age group in the population is likely to fall.

This age distribution implies that the survey or study predominantly attracted respondents in their 30s and 40s, which could indicate that the topic is of relevance or interest to individuals in these age brackets. The underrepresentation of the youngest (<30 years) and the oldest (>50 years) age groups may impact the generalizability of the study's findings across all age demographics. Expanding this concept, one should consider how age distribution aligns with the overall demographic profile of the population of interest. If the study aims to reflect a population with a different age profile, the results may be skewed, and additional sampling strategies might be required to ensure a more balanced age representation. Understanding the factors that drive

participation among different age groups can also inform the design of future studies to engage a more diverse set of respondents, potentially leading to more comprehensive insights.

4.1.3 Educational Levels of Respondents

The educational background of respondents is a critical demographic variable that can influence their capacity to manage, innovate, and make strategic decisions within their businesses. Education often shapes an individual's understanding of business concepts, openness to new practices, and ability to effectively implement entrepreneurial and managerial strategies. This section explores the educational qualifications of the respondents, providing insight into the human capital characteristics present within micro and small enterprises (PMSEs). The data gathered on education levels helps contextualize the respondents' perceptions and behaviors related to HRM practices, entrepreneurial orientation, and strategic planning.

Table 6: Educational Background of Respondents

Education Levels of Respondents									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	Highschool Completed	2	.5	.5	.5	.0	.4	.0	1.4
	Degree Completed	40	10.9	10.9	11.5	.0	1.6	7.9	14.2
	Master's Degree	241	65.8	65.8	77.3	.0	2.4	60.9	70.8
	PhD Holder	83	22.7	22.7	100.0	.1	2.2	18.6	27.0
	Total	366	100.0	100.0		.0	.0	100.0	100.0
a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples									

Source: Author's own survey, 2024

Table 6 summarizes the education levels of respondents in a particular survey. The data shows a striking concentration of respondents with advanced degrees: 65.8% hold a master's

degree and 22.7% are PhD holders. This indicates that the survey has a highly educated respondent pool, which may reflect the targeting of the survey towards an academic or professional audience. With only 0.5% having completed high school and 10.9% holding a bachelor's degree, the distribution is highly skewed towards higher education.

This distribution has several implications. First, the responses might reflect the perspectives of individuals with a substantial level of academic exposure and potentially higher socioeconomic status. This could affect the generalizability of the survey results for the broader population. Second, the high level of education could mean that the respondents are likely to have a more analytical and critical approach to the survey questions, which might be beneficial for surveys requiring specialized knowledge or expertise.

The bootstrap confidence intervals suggest the sample proportions are estimated to have a reasonable degree of accuracy, but the narrowness of these intervals should be interpreted with caution given the high level of education among respondents, which could introduce a bias if the survey's topic is relevant to educational attainment.

Expanding on this concept, when interpreting survey results, it is crucial to consider the education level of respondents because it can influence their knowledge, opinions, and the way they interpret and answer questions. Surveys with a high concentration of highly educated respondents might not reflect the views of the public but instead offer insight into the opinions of a specific, more educated demographic. This should be considered when making conclusions or policy recommendations based on such survey data.

4.1.4 Experience of Respondents in the Business

Understanding the experience of respondents in their respective businesses provides valuable context for interpreting the study's findings. Business experience can significantly influence decision-making, strategic behavior, and overall enterprise performance. It reflects not only the duration of entrepreneurial involvement but also the depth of practical knowledge, industry familiarity, and managerial capability. This section presents the distribution of respondents based on their years of experience in business operations, which is essential for assessing the reliability and relevance of their perspectives on human resource practices, entrepreneurial orientation, and strategic approaches within micro and small enterprises (PMSEs).

Table 7: Years of Business Experience among Respondents

Experience of Respondents in business									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	<3 years	5	1.4	1.4	1.4	.0	.6	.3	2.7
	3-6 years	50	13.7	13.7	15.0	-.1	1.8	10.1	17.2
	6-9 years	175	47.8	47.8	62.8	.1	2.6	42.9	53.0
	>9 years	136	37.2	37.2	100.0	.0	2.5	32.5	42.3
	Total	366	100.0	100.0		.0	.0	100.0	100.0
a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples									

Source: Author's own survey, 2024

The data presented in Table 7 provides insights into the business experience levels of the respondents. Most of the samples, 47.8%, have 6-9 years of experience, followed by 37.2% who have more than 9 years of experience. This suggests that the survey predominantly captures the views of individuals with a significant amount of experience in the business sector. Only 1.4% of respondents have less than 3 years of experience, and 13.7% have between 3-6 years of experience.

These results imply that the survey's findings may reflect the opinions and insights of seasoned business professionals who are likely to have a deep understanding of the industry. Their responses could provide valuable information about business trends, challenges, and best practices that are informed by years of practical experience.

Expanding on this concept, the depth of business experience among respondents can greatly impact on the quality and type of feedback received. Experienced professionals may have a more nuanced view of the business environment and may offer more sophisticated critiques or suggestions. When analyzing survey results, it's important to consider the experience level of respondents as it can influence the context and depth of their responses. For instance, if a survey is intended to inform policy or strategic business decisions, having the most experienced respondents can lend more weight to the outcomes. However, if the goal is to understand issues

facing newcomers to the industry, this sample may not provide the necessary insights, as it underrepresents those with less experience.

4.1.5 Business Age of Respondents in the Market

The age of a business, often referred to as its operational tenure in the market, is a key indicator of stability, resilience, and potential for growth. Older businesses may have more established customer bases, refined strategies, and mature organizational practices, while younger businesses may exhibit greater innovation and agility. Analyzing the business age of respondents provides insight into the stage of development of the micro and small enterprises (PMSEs) included in this study. This section examines how long the surveyed businesses have been active in the market, offering a foundation for understanding the context in which HRM practices, entrepreneurial orientation, and business strategies are applied.

Table 8: Duration of Business Operation

Age of their business in the market									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	<2 years	2	.5	.5	.5	.0	.4	.0	1.4
	2-4 years	31	8.5	8.5	9.0	-.1	1.5	5.5	11.2
	4-6 years	148	40.4	40.4	49.5	.0	2.5	35.5	45.3
	>6 years	185	50.5	50.5	100.0	.1	2.6	45.6	55.7
	Total	366	100.0	100.0		.0	.0	100.0	100.0
a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples									

Source: Author's own survey, 2024

Table 8 summarizes the distribution of business ages within a given market. According to the data, a small fraction of businesses (0.5%) are less than two years old, indicating that there are very few new entrants on the market. The next age group, 2-4 years, comprises 8.5% of the businesses, suggesting modest growth or entry of businesses during this period. The largest share of businesses falls within the 4-6 years category, accounting for 40.4% of the total, which implies

that a significant number of businesses have established themselves to a degree of stability and potential growth. The most substantial portion, however, is businesses older than 6 years, representing 50.5% of the market. This suggests that the market is mature, with many well-established businesses that have likely developed strong customer bases and market presence.

The bootstrap confidence intervals provide an estimation of the reliability of the percentages. For instance, the confidence interval for businesses older than 6 years ranges from 45.6% to 55.7%, which is quite narrow, indicating a high level of confidence in the estimate.

The implications of these findings indicate that the market is dominated by older, presumably more experienced businesses, which could mean higher barriers to entry for new companies due to well-established competition. It could also suggest potential opportunities for businesses in the 4–6-year range to position themselves strategically as they have passed the initial startup phase and are entering a period of potential expansion and consolidation. For stakeholders, these insights could guide investment decisions, market entry strategies, and competitive analysis. Expanding this concept could involve examining the factors that contribute to the longevity and success of businesses over six years, as well as the challenges faced by newer businesses that could lead to low representation in the under-two-years category.

4.1.6 Number of Employees in the Respondent's Business Structure

The number of employees within a business serves as a basic indicator of its size, operational scale, and organizational complexity. In the context of micro and small enterprises (PMSEs), employee count can influence management practices, resource allocation, and the implementation of human resource management (HRM) strategies. This variable also affects how business owners or managers coordinate tasks, delegate responsibilities, and pursue strategic objectives. This section outlines the distribution of businesses based on the number of employees, providing a clearer understanding of the human capital resources available within the enterprises surveyed.

Table 9: Employment Size of Respondents' Enterprises

Number of employees									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	2-20	8	2.2	2.2	2.2	.0	.8	.8	3.8
	20-100	65	17.8	17.8	19.9	.0	2.0	13.9	22.1
	100-500	161	44.0	44.0	63.9	.2	2.6	38.8	49.2
	500-2000	132	36.1	36.1	100.0	-.1	2.4	31.4	40.7
	Total	366	100.0	100.0		.0	.0	100.0	100.0

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Source: Author's own survey, 2024

Table 9 presents the distribution of the number of employees across businesses within a certain market. A very small portion of businesses (2.2%) employ between 2 to 20 employees, indicating that there are relatively few micro-sized businesses in this market. Moving up the scale, businesses with 20-100 employees make up 17.8% of the market, reflecting a modest level of small businesses.

Most businesses fall into the larger size categories: 44.0% of businesses employ between 100 to 500 employees, and 36.1% have a workforce of 500 to 2000 employees. This suggests that the market is predominantly composed of medium to large-sized businesses, which likely have the capacity for greater market influence and stability due to their size.

The bootstrap confidence intervals give us an estimated range within which the true percentage of businesses in each category would fall if we were to sample from the market multiple times. For example, the confidence interval for businesses with 500-2000 employees (31.4% to 40.7%) suggests that while this group makes up a significant portion of the market, there is some variability in the estimate.

The implications of this data suggest a market structure where medium-to-large businesses have a strong presence, which might create competitive challenges for smaller businesses trying to gain market share. It could also reflect a market that benefits from economies of scale, where

larger businesses can operate more efficiently and potentially offer more competitive prices or higher quality services due to their size.

Expanding on this concept, one might consider investigating the specific challenges and opportunities faced by businesses of different sizes within this market. For instance, understanding how small businesses compete with larger ones, or examining the support structures that enable medium-sized businesses to grow into large enterprises could provide valuable insights for business development strategies and policymaking aimed at fostering a balanced and healthy market ecosystem.

4.1.7 The Distribution of Capital among Entities in Ethiopia

Capital investment is a critical factor influencing the capacity, growth potential, and competitiveness of micro and small enterprises (PMSEs). The amount of capital available to a business affects its ability to acquire resources, implement strategies, and respond to market opportunities or challenges. In the Ethiopian context, variations in capital distribution among PMSEs can highlight structural disparities, financial constraints, or access to credit and funding mechanisms. This section presents the distribution of capital among the surveyed entities, offering insight into the financial landscape in which these businesses operate and how it may impact their strategic decisions and performance outcomes.

Table 10: Capital Investment of Respondents' Enterprises

Amount of Capital									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	50000-500000 ETB	20	5.5	5.5	5.5	.0	1.2	3.3	8.2
	500000-1000000 ETB	194	53.0	53.0	58.5	-.2	2.7	47.8	57.9
	>1000000 ETB	152	41.5	41.5	100.0	.2	2.6	36.9	47.0
	Total	366	100.0	100.0		.0	.0	100.0	100.0
a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples									

Source: Author's own survey, 2024

Table 10 presents data on the distribution of capital amounts among a sample of entities. It categorizes the capital into three ranges: 50,000-500,000 Ethiopian Birr (ETB), 500,000-1,000,000 ETB, and greater than 1,000,000 ETB. Out of a total of 366 cases, 20 (5.5%) have capital ranging between 50,000-500,000 ETB, 194 (53.0%) have capital ranging between 500,000-1,000,000 ETB, and 152 (41.5%) have capital exceeding 1,000,000 ETB.

The bootstrap method, a resampling technique used to estimate statistics on a population by sampling a dataset with replacement, was applied to calculate biases, standard errors, and 95% confidence intervals for the percentage values. The biases are close to zero, suggesting that the bootstrap sampling distribution is centered around the original sample estimates. Standard errors are relatively small, indicating that the percentages are estimated at a moderate degree of precision.

The 95% confidence intervals provide a range within which the true population percentage is likely to fall. For entities with capital between 50,000-500,000 ETB, the confidence interval is 3.3% to 8.2%. For the 500,000-1,000,000 ETB range, it is 47.8% to 57.9%, and for those with capital over 1,000,000 ETB, the interval is 36.9% to 47.0%.

Implications of these results suggest that most entities in this sample have a moderate-to-high amount of capital, with more than half having between 500,000-1,000,000 ETB. This

indicates a relatively concentrated wealth distribution among the entities, where a smaller fraction possesses lower capital, and a substantial number have higher capital investments. This may reflect the economic structure where entry-level entities have access to less capital, while more established entities or those with better access to funding sources have significantly more capital. Policymakers and financial institutions need to understand these distributions to tailor financial support and investment opportunities to foster economic growth and address disparities in capital availability.

4.1.8 A Survey of Business Types within Ethiopia

Understanding the types of businesses operating within Ethiopia is essential for capturing the diversity and scope of entrepreneurial activity in the micro and small enterprise (PMSE) sector. Business type refers to the nature of economic activity such as trade, manufacturing, services, or agriculture—which can significantly influence operational priorities, market dynamics, resource needs, and strategic behavior. Different sectors face unique challenges and opportunities that shape how business owners approach human resource management, entrepreneurial orientation, and strategic planning. This section outlines the various business types represented by the study respondents, providing context for analyzing how enterprise characteristics relate to performance outcomes across Ethiopia's economic landscape.

Table 11: Business Sector Classification of Respondents

Type of Business									
						Bootstrap for Percent[a]			
								95% Confidence Interval	
		Frequency	Percent	Valid Percent	Cumulative Percent	Bias	Std. Error	Lower	Upper
Valid	Trade	58	15.8	15.8	15.8	-.1	1.9	12.0	19.7
	Manufacturing	81	22.1	22.1	38.0	.0	2.1	18.3	26.2
	Service	227	62.0	62.0	100.0	.2	2.8	56.8	67.5
	Total	366	100.0	100.0		.0	.0	100.0	100.0

a. Unless otherwise noted, bootstrap results are based on 1000 bootstrap samples

Source: Author's own survey, 2024

Table 11 displays the distribution of business types within a sample of 366 entities. The three main categories are Trade, Manufacturing, and Service. Trade businesses make up 15.8% of the sample, Manufacturing accounts for 22.1%, and Service dominates the sample with 62 %.

Bootstrap techniques were used to generate additional statistical information such as biases, standard errors, and 95% confidence intervals for each category. The biases are minimal, indicating little systematic error in the bootstrap estimates relative to the sample percentages. Standard errors range from 1.9 for Trade to 2.8 for Service, suggesting a reasonable level of precision in these estimates.

The 95% confidence intervals provide a range of values within which the true population percentages for each business type are likely to fall. For Trade, the interval is 12.0% to 19.7%, for Manufacturing it is 18.3% to 26.2%, and for Service, it is a wider range from 56.8% to 67.5%. The narrow interval for the "4" category reflects the small proportion of this category in the sample.

The implications of these results point to a predominant service sector within the sample, which may reflect broader economic trends favoring service-oriented businesses due to factors like lower startup costs, higher demand for services, or a shift away from traditional manufacturing and trade. The substantial proportion of service businesses could also be indicative of a maturing or developed economy where services become more integral to economic activity. Policymakers

and business development strategists might take this information into account when planning economic development initiatives, ensuring resources and support are allocated in a manner that aligns with the dominant sectors and addresses the needs of smaller sectors that could have growth potential.

4.2 Normality Test of Residuals

In quantitative research, the validity of many statistical analyses relies on certain underlying assumptions, one of the most critical being the assumption of normality. Normality assumption implies that the data are distributed approximately along a normal (Gaussian) distribution, particularly for the residuals or errors in regression models and for variables involved in parametric tests. Ensuring that the data meets this assumption is essential for accurate inference, as violations of normality can affect the reliability and power of statistical tests, leading to biased or misleading results.

The normality test, therefore, serves as a diagnostic tool to determine whether the data approximates a normal distribution. This is especially important when applying parametric methods such as t-tests, ANOVA, and regression analysis, which assume that the variables or residuals are normally distributed. If the assumption is not met, researchers may need to apply data transformations, use non-parametric alternatives, or interpret the results with caution.

Assessing the normality of residuals is crucial because many parametric statistical tests are based on the assumption that the residuals are normally distributed. If the residuals do not follow a normal distribution, it can affect the validity of the test results and lead to incorrect conclusions. Therefore, checking for normality is an essential step in the diagnostic process of regression analysis and other statistical modeling techniques. If the residuals are not normally distributed, transformations of the data or alternative non-parametric methods might be necessary to proceed with the analysis.

In this study, a normality test was conducted to assess the distribution of the key variables before performing further statistical analysis. Both graphical methods (such as histograms) and statistical tests were employed to evaluate the distributional characteristics of the data. The results of this test ensure the appropriateness of subsequent analytical procedures and enhance the robustness of the study's findings.

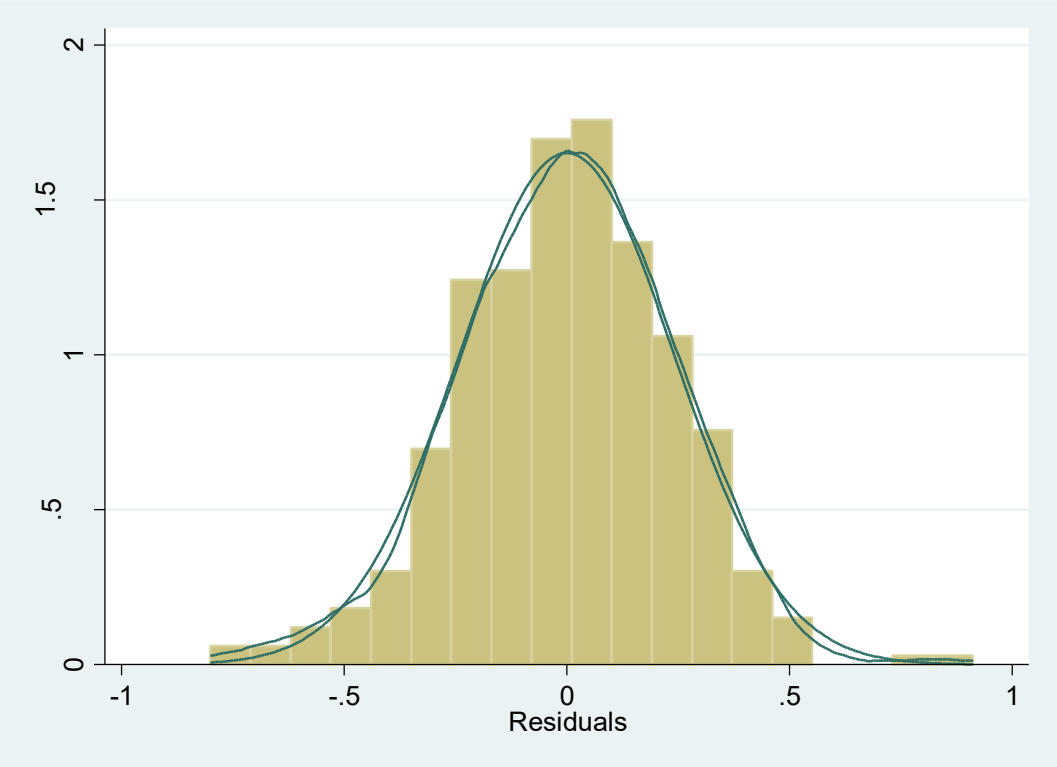

Figure 3: Residual Density Plot for Assessing Normality Assumption

Source: Author's own survey, 2024

Figure 2 presents a residual density plot used to assess the normality assumption in a regression model. This plot overlays a kernel density estimate on top of a histogram of residuals, alongside a normal curve (bell-shaped), enabling visual evaluation of how closely the residuals approximate a normal distribution. The results appear largely consistent with the assumption of normality, though a more detailed breakdown is useful to understand the condition thoroughly.

Firstly, the histogram of residuals is symmetric around zero, which is a strong indicator of normality. Symmetry suggests that the positive and negative deviations from the regression line are evenly distributed, which is a fundamental characteristic of normally distributed errors. This symmetry is important because it reduces the likelihood of biased estimates and ensures that the residuals are not skewed in one direction.

Secondly, the peak of the histogram aligns closely with the peak of the normal curve, further supporting the presence of a normal distribution. The normal curve fits well around the

center of the histogram, where the bulk of the data lies, indicating that the majority of residuals are clustered around the mean, another hallmark of normality. The tails of the histogram also show a reasonable alignment with the expected normal shape, though minor deviations might be visible, they do not appear to be extreme.

Thirdly, the kernel density curve, which provides a smoothed estimate of the data distribution, closely follows the shape of the superimposed normal curve. This similarity suggests that there are no major outliers or extreme values in the residuals that could distort the analysis. Any mild divergence between the curves in the tail regions is relatively minor and can often be considered acceptable in real-world data, especially with moderately sized samples.

Furthermore, there is no visible evidence of multimodality or heavy skewness. Multimodality (multiple peaks) would suggest subpopulations or model misspecification, while skewness would indicate a systematic pattern in residuals. Both are undesirable when applying parametric tests that assume normality. The absence of such features in this plot strengthens the case for the data meeting the normality assumption.

In conclusion, the residuals appear to follow a distribution that is close to normal, based on visual inspection. The histogram is well-centered and symmetric, the kernel density estimate matches the normal curve quite well, and there is no indication of skewness, kurtosis, or outliers. These observations support the validity of using parametric statistical techniques in the subsequent analysis. However, it is still recommended to supplement this visual interpretation with formal statistical tests (e.g., Shapiro-Wilk or Kolmogorov-Smirnov) to confirm normality quantitatively.

This normality test result implies that the underlying assumptions for certain statistical tests, like the t-test or ANOVA, which assume normality of residuals, are likely met. This means that the statistical analysis relying on these assumptions can be considered valid for this dataset.

4.3 Reliability and Validity Result

Ensuring the reliability and validity of measurement instruments is a fundamental step in empirical research, particularly when evaluating latent constructs such as Human Resource Management practices, Entrepreneurial Orientation, Business Strategy, and Enterprise Performance. Reliability refers to the consistency and stability of the measurement, often assessed through internal consistency measures like Cronbach's Alpha and Composite Reliability. Validity, on the other hand, evaluates whether the instruments accurately measure the intended constructs,

typically examined through convergent and discriminant validity analyses. This section presents the results of the reliability and validity tests conducted to confirm the robustness and appropriateness of the measurement model, thereby supporting the credibility of subsequent structural model findings.

4.3.1 Cronbach's Alpha

This table presents the Cronbach's alpha, composite reliability (ρ_a and ρc), and average variance extracted (AVE) for the latent constructs: Business Strategy (BS), Entrepreneurial Orientation (EO), Human Resource Management (HRM) practices, and Performance of Micro and Small Enterprises (PMSEs). All values exceed accepted thresholds, indicating strong internal consistency and convergent validity.

Table 12: Reliability and Convergent Validity Measures for Latent Constructs

	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
BS	0.779	0.779	0.871	0.693
EO	0.780	0.794	0.871	0.694
HRMP	0.841	0.849	0.883	0.558
PMSEs	0.727	0.735	0.879	0.785

- ***HRM practices*** = *Human Resource Management practices,* ***EO*** = *Entrepreneurial Orientation,* ***BS*** = *Business Strategy,* ***PMSEs*** = *Performance of Micro and Small Enterprises*

Source: Author's own survey, 2024

This figure illustrates the internal consistency reliability of four latent constructs—Business Strategy (BS), Entrepreneurial Orientation (EO), Human Resource Management (HRM) practices, and Performance of Micro and Small Enterprises (PMSEs)—as measured by Cronbach's alpha. All values exceed the 0.70 threshold, indicating acceptable to strong reliability.

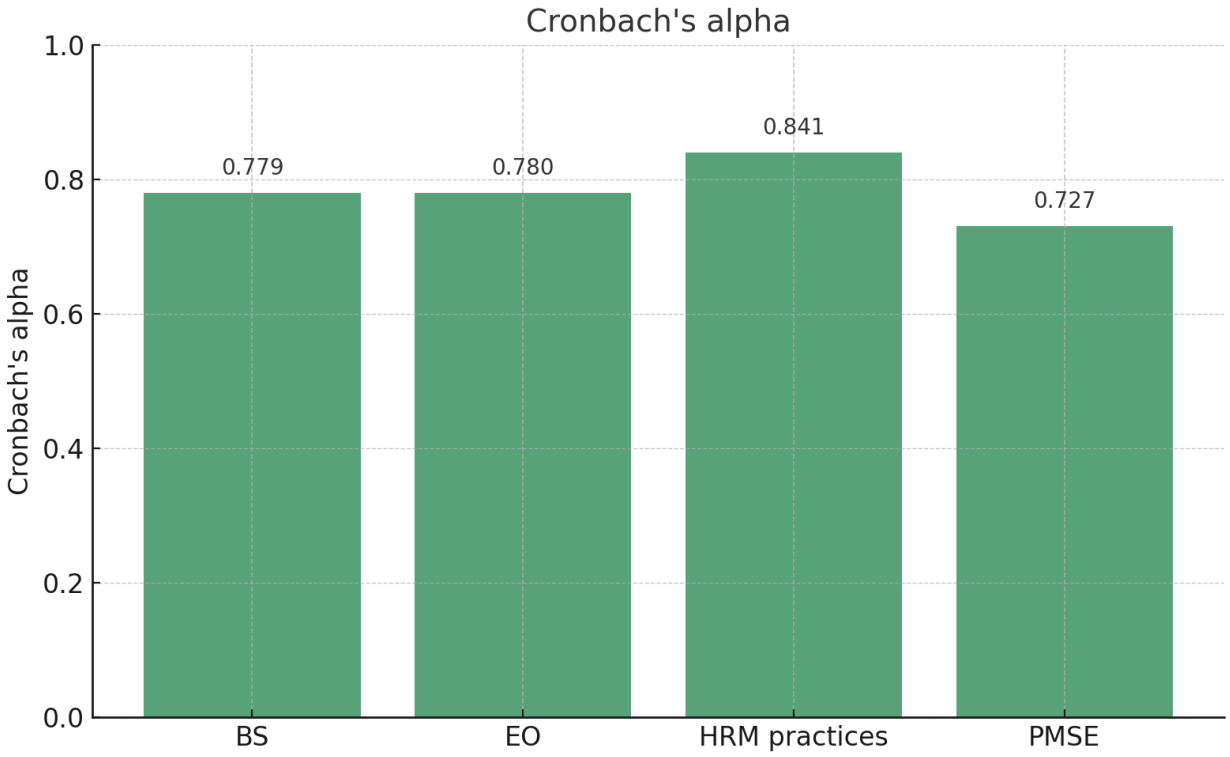

Figure 4: Cronbach's Alpha Values for Construct Reliability

This figure 4 presents the Average Variance Extracted (AVE) values for the constructs: Business Strategy (BS), Entrepreneurial Orientation (EO), Human Resource Management (HRM) practices, and Performance of Micro and Small Enterprises (PMSEs). All AVE values exceed the recommended threshold of 0.50, indicating adequate convergent validity.

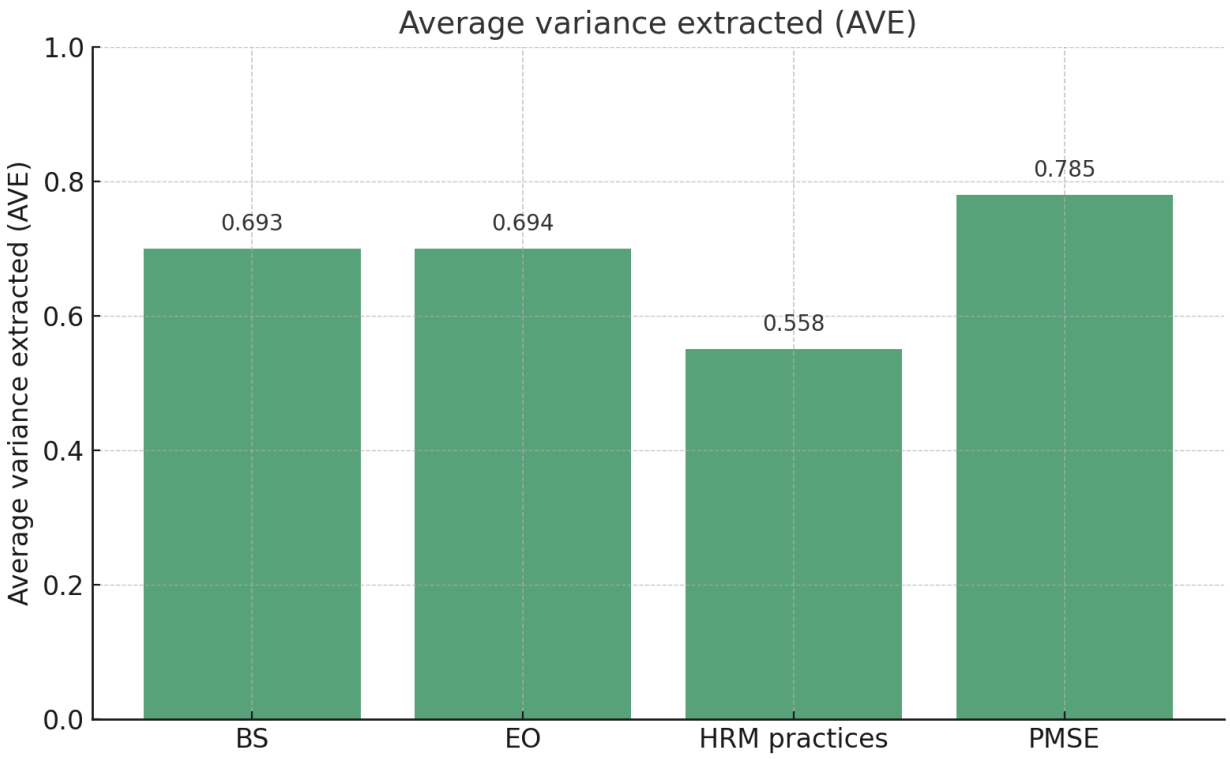

Figure 5: Average Variance Extracted (AVE) for Construct Validity

- ***HRM practices*** = *Human Resource Management practices,* ***EO*** = *Entrepreneurial Orientation,* ***BS*** = *Business Strategy,* ***PMSEs*** = *Performance of Micro and Small Enterprises*

Source: Author's own survey, 2024

Table 12 provides reliability and validity statistics for measures related to BS, EO, HRM practices, and PMSEs. Cronbach's alpha values range from 0.727 to 0.841, suggesting that the internal consistency of the items within each construct is generally acceptable, as values above 0.7 are often considered satisfactory in social science research. Composite reliability figures, with both rho_a and rho_c, are very similar to Cronbach's alpha, indicating that the constructs are reliably measured.

The Cronbach's alpha results presented in the chart demonstrate that all four constructs Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and Performance of Micro and Small Enterprises (PMSEs) exhibit acceptable to high levels of internal consistency. HRM practices show the highest reliability, with a Cronbach's

alpha value exceeding 0.80, indicating excellent consistency among the items used to measure this construct. Both EO and BS have values slightly above 0.75, reflecting good reliability and suggesting that the respective items effectively capture the underlying dimensions of entrepreneurial behavior and strategic orientation. PMSEs, while showing a slightly lower alpha value just above 0.70, still meet the minimum threshold for acceptability, confirming that the financial and non-financial performance indicators reliably represent overall business performance. These results imply that the measurement scales used in the study are consistent and reliable, thereby supporting the robustness of the structural model and enhancing the credibility of the research findings.

In Figure 4, the Average Variance Extracted (AVE) values range from 0.558 for HRM practices to 0.785 for PMSEs. AVE values above 0.5 indicate that, on average, the construct explains more than half of the variance of its indicators, which is desirable as it suggests good convergent validity.

The bar chart presents the Average Variance Extracted (AVE) values for four latent constructs: Business Strategy (BS), Entrepreneurial Orientation (EO), Human Resource Management (HRM) practices, and Performance of Micro and Small Enterprises (PMSEs). AVE is a measure used in confirmatory factor analysis to assess convergent validity, which evaluates how well the observed indicators represent the underlying latent construct. An AVE value of 0.50 or higher indicates that the construct explains at least 50% of the variance in its indicators, which is considered acceptable.

In this result, PMSEs have the highest AVE, well above 0.70, suggesting a strong degree of convergent validity, meaning its observed variables (financial and non-financial performance measures) are highly representative of the overall construct. BS and EO both show AVE values slightly above 0.60, which is also satisfactory, confirming that the indicators used (such as quality enhancement, responsiveness, innovation, and risk-taking) effectively reflect their respective latent constructs. On the other hand, HRM practices have an AVE slightly above 0.50, which, although acceptable, indicates a weaker convergent validity compared to the other constructs. This suggests that while HRM practices are adequately captured, there may be room to improve the measurement items to more strongly reflect the underlying concept.

In summary, all constructs demonstrate acceptable levels of convergent validity, reinforcing the soundness of the measurement model, though HRM practices could benefit from refinement in future research.

From these results, we can infer that the constructs measured are both reliable and valid, implying that the scales used are appropriate for assessing the theoretical constructs of business strategy (BS), entrepreneurial orientation (EO), human resource management (HRM) practices, and Performance of Micro and Small Enterprises (PMSEs). This lends credibility to any further analysis using these constructs, such as structural equation modeling or regression analysis. The high reliability and validity suggest that the constructs are well-defined and that the items used to measure them are consistent with the underlying theories they intend to represent. Organizations and researchers can use these measures with confidence in further studies to explore the relationships between these constructs and other variables of interest.

4.3.2 Collinearity Result

Before proceeding with regression and structural equation modeling, it is essential to assess collinearity among the predictor variables to ensure the accuracy and interpretability of the results. Collinearity occurs when two or more independent variables are highly correlated, which can distort the estimation of regression coefficients and inflate standard errors. This section presents the collinearity diagnostics using indicators such as the Variance Inflation Factor (VIF) and tolerance values. A VIF value below the commonly accepted threshold indicates that multicollinearity is not a concern, thus confirming that the model's estimates are stable and reliable for further analysis.

Table 13: Variance Inflation Factor (VIF) Values for Outer Model Constructs

Collinearity statistics (VIF) - Outer model - List		
	VIF	
CI	1.490	
ES	1.604	
FL	1.407	
FPMSEs	1.484	
HRP	2.454	
INN	1.451	
NFPMSEs	1.484	
PA	1.687	
PRO	2.023	
QA	1.796	
RT	1.933	
RTP	2.550	
TD	1.635	
TW	2.304	

- ***TD*** = *Training and Dev't,* ***TW*** = *Teamwork,* ***HRP*** = *HR Planning,* ***PA*** = *Performance Appraisal,* ***CI*** = *Compensation/Incentive,* ***ES*** = *Employment Security,* ***INN*** = *Innovation,* ***PRO*** = *Proactiveness,* ***RTP*** = *Risk-taking prosperity,* ***CR*** = *Cost reduction,* ***QE*** = *Quality enhancement,* ***RT*** = *Responsiveness/Time,* ***FL*** = *Flexibility,* ***FPSMEs*** = *Financial Performance of Small and Micro Enterprises,* ***NFPSMEs*** = *Non-financial performance of Small and Micro Enterprises*

Source: Author's own survey, 2024

Table 13 displays collinearity statistics, specifically Variance Inflation Factors (VIF), for various predictors in a regression model. VIF is used to detect the presence of multicollinearity, which occurs when two or more predictors in the model are correlated and provide redundant information. The common threshold for VIF is 5 or 10, with values above indicating a problematic level of collinearity that could distort the regression coefficients and their statistical significance.

In this case, all the VIF values are below 5, suggesting that multicollinearity may not be a concern for this model. The highest VIF value is for RTP at 2.550, followed by TW at 2.304 and HRP at 2.454, which are all considerably lower than the common threshold. This implies that each predictor provides unique information to the model, and the regression coefficients are likely stable.

The Variance Inflation Factor (VIF) values presented in the table reflect the collinearity statistics for the outer model constructs, specifically evaluating the level of multicollinearity among the indicators of the latent variables. In structural equation modeling, a VIF value below 5 is generally considered acceptable, indicating no serious multicollinearity problem. Values between 1 and 3 are ideal, reflecting a low correlation between indicators, which is desirable for model stability and accurate coefficient estimation.

From the table, all items such as Compensation/Incentive (CI), Employment Security (ES), Flexibility (FL), HR Planning (HRP), Performance Appraisal (PA), Proactiveness (PRO), Risk-taking Propensity (RTP), Training and Development (TD), and Teamwork (TW) have VIF values well below the critical threshold of 5. The highest VIF is for RTP (2.550), followed by HRP (2.454) and TW (2.304), all of which are still comfortably within the acceptable range. This indicates that multicollinearity is not a concern in this model and that the indicators are sufficiently distinct from one another in explaining the latent constructs.

In conclusion, the VIF analysis confirms that the measurement model is statistically sound in terms of multicollinearity, enhancing the validity and reliability of the structural equation modeling results.

To expand on this concept, it's important to understand that while VIF values below the threshold are desirable, they don't necessarily guarantee the absence of multicollinearity, especially in complex models with many predictors. It's also possible for multicollinearity to be a concern even if VIF values are below the threshold if there is a group of variables collectively causing redundancy. Therefore, it's crucial to not only rely on VIF but also to examine the tolerance

values, condition indices, and the context of the model to fully assess multicollinearity. Moreover, if multicollinearity is detected, steps such as removing variables, combining them, or using techniques like principal component analysis may be considered to mitigate the issue.

4.3.3 R - Square Result

The coefficient of determination, commonly known as R square (R^2), is a key statistical measure used to evaluate the explanatory power of a regression or structural model. It indicates the proportion of variance in the dependent variable that can be explained by the independent variables included in the model. A higher R^2 value suggests a stronger model fit and greater predictive capability. In the context of this study, the R square values provide insight into how well variables such as Human Resource Management practices, Entrepreneurial Orientation, and Business Strategy account for variations in the performance of Micro and Small Enterprises (MSEs). This section presents the R^2 results, offering an assessment of the model's overall effectiveness in explaining enterprise performance outcomes.

Table 14: R-Square and Adjusted R-Square Values for Endogenous Constructs

R-square - Overview

	R-square	R-square adjusted
BS	0.841	0.837
PMSEs	0.735	0.724

Source: Author's own survey, 2024

This table summarizes the R-square and adjusted R-square values for Business Strategy (BS) and Performance of Micro and Small Enterprises (PMSEs). The high R-square values (0.841 for BS and 0.735 for PMSEs) indicate substantial explanatory power of the model constructs.

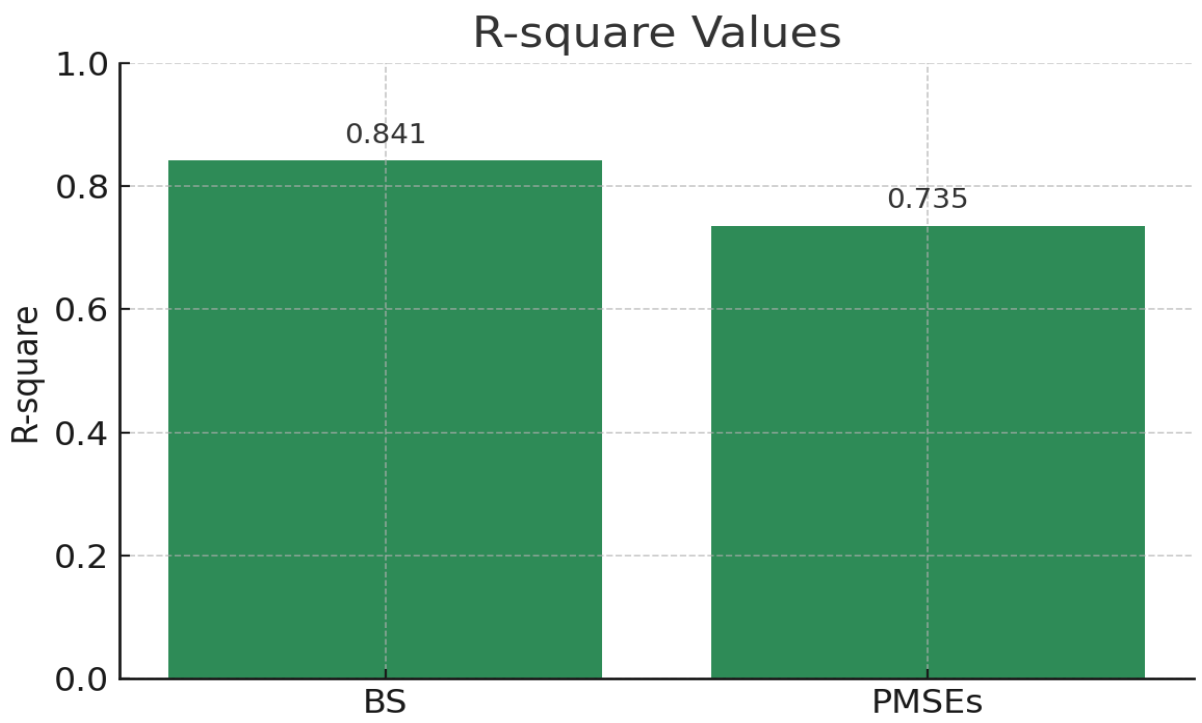

Figure 6: R-Square Values for Business Strategy and PMSE Performance

Source: Author's own survey, 2024

The R-square values presented in Figure 5 indicate the proportion of variance in the dependent variable that can be explained by the independent variables in the model. For the BS model, the R-square value is 0.841, which suggests that approximately 84.1% of the variance is accounted for. This is a relatively high value, indicating a strong model where the independent variables do a good job explaining the variation in the dependent variable. The adjusted R-square, which is 0.837, slightly lower than the R-square, takes into account the number of predictors in the model and adjusts for the sample size, thus providing a more accurate measure of the model's explanatory power.

Similarly, for the PMSEs model, the R-square is 0.735, and the adjusted R-square is 0.724, indicating that about 73.5% of the variance is explained by the model, which is also substantial but less than that of the BS model. The slight decrease in the adjusted R-square value reflects a penalty for the number of predictors in the model considering the sample size.

Expanding on this concept, the R-square and adjusted R-square values are essential in assessing the fit of a regression model. A higher R-square value indicates a better fit, but it's crucial

to consider the adjusted R-square for a more nuanced evaluation, especially when comparing models with different predictors or when dealing with different sample sizes. It's also important to note that a high R-square does not necessarily imply causation and further analysis should be conducted to ensure that the model assumptions are met and that the model is the most appropriate for the data.

4.4 Measurement Model Result

4.4.1 Structural Model of HRM Practices, Entrepreneurial Orientation, Business Strategy, and MSE Performance

Understanding the dynamic interactions among Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and Performance is essential for assessing the effectiveness and competitiveness of Micro and Small Enterprises (MSEs). These constructs are interrelated and collectively influence the strategic direction and operational success of enterprises. A structural model allows for the examination of both direct and indirect relationships among these variables, offering a comprehensive view of how internal management practices and strategic behavior contribute to enterprise performance. This section presents the structural equation model developed to test the proposed hypotheses, highlighting the strength and significance of each path and providing empirical insight into the mechanisms that drive performance within Ethiopia's MSE sector.

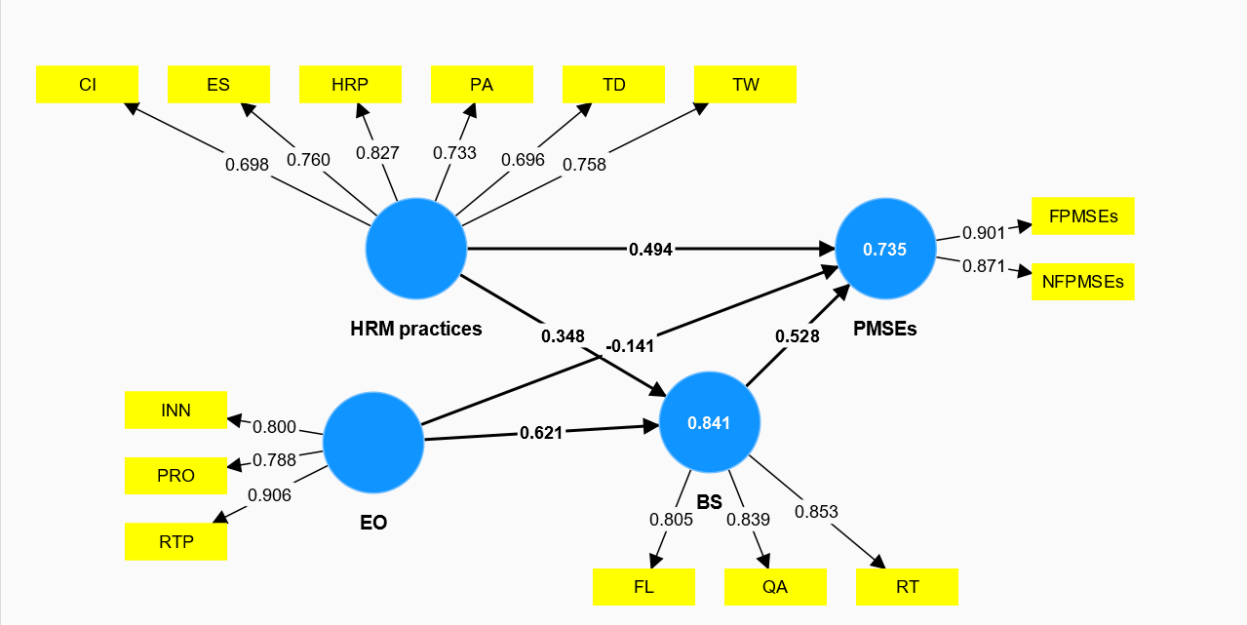

Figure 7: Structural Model with Path Coefficients and R-Square Values

- ***TD*** *= Training and Dev't,* ***TW*** *= Teamwork,* ***HRP*** *= HR Planning,* ***PA*** *= Performance Appraisal,* ***CI*** *= Compensation/Incentive,* ***ES*** *= Employment Security,* ***INN*** *= Innovation,* ***PRO*** *= Proactiveness,* ***RTP*** *= Risk-taking prosperity,* ***CR*** *= Cost reduction,* ***QE*** *= Quality enhancement,* ***RT*** *= Responsiveness/Time,* ***FL*** *= Flexibility,* ***FPSMEs*** *= Financial Performance of Small and Micro Enterprises,* ***NFPSMEs*** *= Non-financial performance of Small and Micro Enterprises*

Source: Author's own survey, 2024

The structural model results depicted in the table and the diagram provide a comprehensive view of the relationships between human resource management (HRM) practices, entrepreneurial orientation (EO), business strategy (BS), and performance of micro and small enterprises (PMSE) in two dimensions: Financial Performance of Micro and Small Enterprises (FPMSEs) and Non - Financial Performance of Micro and Small Enterprises (NFPMSEs). The model suggests that HRM practices have a direct and positive impact on Business Strategy, as evidenced by the significant path coefficient of 0.348. This implies that effective HRM practices can enhance strategic behaviors within an organization. Additionally, Entrepreneurial Orientation, characterized by innovativeness (INN), proactiveness (PRO), and risk-taking propensity (RTP),

has a strong and positive effect on Business Strategy, with a path coefficient of 0.621, indicating that a more entrepreneurial mindset can lead to more effective strategic actions.

Interestingly, while both HRM practices and Entrepreneurial Orientation are shown to positively influence Business Strategy, only Business Strategy has a statistically significant direct effect on PMSEs (0.528), which further branch into significant impacts on both Financial Performance of Micro and Small Enterprises (FPMSEs) (0.901) and Non - Financial Performance of Micro and Small Enterprises (NFPMSEs) (0.871). This suggests that while HRM practices and Entrepreneurial Orientation are crucial for fostering the right strategic behaviors, it is the actual implementation of these behaviors that enhances project management self-efficacy. The finding that Entrepreneurial Orientation does not have a statistically significant direct relationship with PMSEs (indicated by the p-value of 0.085) reinforces the idea that Entrepreneurial Orientation's influence on PMSEs is mediated through Business Strategy.

To this end, it becomes clear that the development of a supportive HRM infrastructure and the cultivation of an entrepreneurial culture within an organization are foundational to promoting effective strategy formulation and execution. This, in turn, empowers individuals with confidence and belief in their project management capabilities, which is essential for achieving both financial and non-financial project outcomes.

The results of the structural equation modeling (SEM) provide valuable insights into the mechanisms through which Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), and Business Strategy (BS) influence the performance of Micro and Small Enterprises (PMSEs). The model successfully integrates both theoretical constructs and empirical relationships, offering a nuanced understanding of enterprise dynamics in small business settings. These findings are consistent with previous research emphasizing the critical role of HRM as a strategic enabler of performance in small firms. For example, CHOWHAN (2016) found that HRM practices significantly improve firm performance when aligned with organizational strategies. Similarly, RAUCH, WIKLUND, LUMPKIN, AND FRESE (2009) confirmed through meta-analysis that EO positively influences firm performance, particularly when moderated by internal organizational factors such as strategic planning and structure. Additionally, the mediating role of business strategy aligns with the findings of WANG (2008), who demonstrated that strategic alignment enhances the performance effects of EO. This integrative approach highlights that HRM and EO are not sufficient on their own but must operate within a coherent strategic framework to

yield significant performance outcomes. Thus, the SEM results underscore the importance of synergy among internal capabilities and strategic intent in driving PMSE growth and sustainability.

4.4.2 HRM Practices and Enterprise Performance

The path coefficient from HRM practices to PMSEs is 0.494, signifying a substantial and positive effect. This implies that when enterprises implement effective HRM systems, including performance appraisal, teamwork, employment security, training and development, compensation/incentives, and human resource planning, their overall performance improves markedly. The high loadings of these individual HRM elements (ranging from 0.696 to 0.827) confirm the internal reliability of the HRM construct. This suggests that HRM practices not only ensure operational efficiency but also contribute significantly to employee motivation and, consequently, to enterprise success.

Interestingly, the direct path from HRM practices to Business Strategy shows a slightly negative coefficient (-0.141), which contrasts with the conventional expectation that strategic HRM enhances strategic alignment. This finding may reflect a misalignment or lag in how HR practices are integrated into strategic decision-making processes in PMSEs. Similar discrepancies have been observed in other studies, particularly in small or resource-constrained enterprises where HRM is often treated as an operational rather than a strategic function. For instance, CASSELL, NADIN, GRAY, AND CLEGG (2002) noted that in many small firms, HR practices are informal and reactive, making it difficult to link them systematically to strategic planning. Furthermore, KATOU AND BUDHWAR (2006) argued that the effectiveness of HRM on strategy and performance is contingent on contextual factors such as firm size, managerial expertise, and sectoral characteristics. In some cases, HRM practices may inadvertently limit strategic agility if they emphasize routine compliance over innovation and responsiveness. Alternatively, the negative path could indicate that HRM practices exert their influence on strategy indirectly—perhaps through Entrepreneurial Orientation (EO), as suggested by GUPTA AND DUTTA (2016), who found that EO can mediate the HRM–performance relationship in dynamic markets. Thus, this unexpected negative coefficient might not contradict theory but rather highlight the complexity and conditional nature of HRM's strategic role in PMSEs.

4.4.3 Entrepreneurial Orientation and Its Role

The strong positive influence of Entrepreneurial Orientation (EO) on Business Strategy (0.621) reinforces existing empirical evidence suggesting that innovation, proactiveness, and risk-taking are key enablers of strategic formulation in dynamic and competitive environments. This is supported by the work of LUMPKIN AND DESS (1996), who emphasized that EO is a multidimensional construct that significantly shapes strategic posture, particularly in smaller firms. The robust indicator loadings (ranging from 0.788 to 0.906) reflect the internal consistency and construct validity of EO, indicating that these entrepreneurial behaviors are central to how micro and small enterprises (MSEs) operate. Furthermore, the moderate direct impact of EO on performance (0.348) is consistent with prior studies such as those by WIKLUND AND SHEPHERD (2005), who found that EO positively affects performance, especially when combined with a strong strategic foundation. Similarly, KEH, NGUYEN, AND NG (2007) argued that EO enhances firm performance not only directly but also by influencing how firms identify and act upon market opportunities, which is inherently strategic in nature. These findings support the argument that while EO drives performance, its effects are often amplified when entrepreneurial behaviors are embedded within a coherent business strategy. Therefore, the model's results are aligned with a substantial body of research confirming that EO plays a dual role—both as a direct contributor to performance and as a catalyst for effective strategic planning.

4.4.4 Business Strategy as a Mediator

The strong direct path from Business Strategy (BS) to PMSE performance (0.528) supports the growing consensus in recent literature that strategic capability is central to achieving sustainable competitive advantage in small enterprises. The high indicator loadings for BS dimensions—Flexibility (0.805), Quality Assurance (0.839), and Responsiveness/Time (0.853)—align with studies highlighting these strategic capabilities as essential for navigating volatile markets and customer expectations. For example, ASLAM, BATOOL, AND SAJID (2022) found that strategic agility, operational quality, and customer responsiveness significantly enhance firm adaptability and performance in dynamic environments. The high R-squared value for BS (0.841) confirms that Entrepreneurial Orientation (EO) and Human Resource Management (HRM) practices collectively account for a substantial proportion of strategic behavior, underscoring the mediating power of BS. This finding is also in line with the work of ACQUAAH AND AGYAPONG (2015),

who demonstrated that business strategy acts as a key conduit through which internal organizational resources translate into superior performance among small enterprises in emerging markets. Moreover, recent work by KRAUS, CLAUSS, BREIER, GAST, ZARDINI, AND TIBERIUS (2022) further supports this by showing that strategic responsiveness and quality-focused practices mediate the effects of entrepreneurial posture and resource management on business success in SMEs. Thus, the results substantiate BS as a pivotal mechanism through which HRM and EO contribute to improved performance outcomes.

4.4.5 Performance Outcomes

The PMSEs construct, which encapsulates both financial and non-financial outcomes, is significantly influenced by all the modeled antecedents. The R-squared value of 0.735 confirms the model's strong explanatory power. Notably, the path from PMSEs to Financial Performance (0.901) and Non-Financial Performance (0.871) illustrates that enterprise performance is a multidimensional concept. Financial metrics reflect profitability and growth, while non-financial metrics such as innovation, customer satisfaction, and operational excellence also play a crucial role in long-term sustainability.

In conclusion, the model provides empirical support for the interconnectedness of HRM practices, EO, and BS in shaping the performance of micro and small enterprises. EO emerges as a key influencer of strategic orientation, while HRM practices exert a more direct impact on performance outcomes. Business Strategy serves as a critical mediator, translating internal capabilities into performance gains. These findings underscore the importance of small enterprises adopting integrated and strategically aligned management approaches to achieve both financial and non-financial success.

Findings from interviews and focus-group discussions further reinforce this perspective. Respondents highlighted that HRM practices, such as training and development, performance-based incentives, and participative leadership, contribute to employees' ability to think innovatively and take strategic initiatives. One interviewee, a senior manager at a technology-based SME, stated, *"Our company's HR policies have evolved to not only provide skills training but also encourage autonomy and risk-taking. This has led to employees proactively identifying and executing new business opportunities, positively impacting performance."* Another focus

group participant noted that a lack of HRM support and rigid organizational structures often hinder creativity and strategic agility, which in turn negatively affects project outcomes.

These qualitative insights align with previous research. For instance, a study by KAYA (2022) found that HRM practices significantly influence employees' entrepreneurial orientation, which subsequently enhances organizational performance. Similarly, ZHANG AND MORRIS (2021) demonstrated that firms that integrate HRM strategies with an entrepreneurial mindset exhibit higher adaptability and improved project success rates. Moreover, empirical evidence suggests that business strategy mediates this relationship, as strategic alignment strengthens the impact of HRM and entrepreneurial orientation on overall performance (NGUYEN AND PHAM, 2020).

Organizations looking to improve project management outcomes might therefore focus on strengthening their strategic behaviors through HRM initiatives and fostering an entrepreneurial orientation among their personnel. By doing so, they not only enhance financial results but also drive innovation and long-term sustainability.

4.4.6 Correlation between Organizational Variables and MSE Performance

Analyzing the correlations between key organizational variables and the effectiveness of Micro and Small Enterprises (MSEs) provides valuable insights into the internal dynamics that influence business success. Variables such as Human Resource Management practices, Entrepreneurial Orientation, and Business Strategy play crucial roles in shaping enterprise outcomes. By examining the strength and direction of their relationships with performance metrics, this section seeks to identify which organizational factors are most strongly associated with improved effectiveness. Understanding these correlations not only validates theoretical assumptions but also guides practical strategies for enhancing the competitiveness and sustainability of MSEs within the Ethiopian context.

Table 15: Correlation Matrix

	BS	EO	HRM practices	PMSEs
CI			0.698	
ES			0.760	
FL	0.805			
FPMSEs				0.901
HRP			0.827	
INN		0.800		
NFPMSEs				0.871
PA			0.733	
PRO		0.788		
QE	0.839			
RT	0.853			
RTP		0.906		
TD			0.696	
TW			0.758	

- ***TD*** = *Training and Dev't,* ***TW*** = *Teamwork,* ***HRP*** = *HR Planning,* ***PA*** = *Performance Appraisal,* ***CI*** = *Compensation/Incentive,* ***ES*** = *Employment Security,* ***INN*** = *Innovation,* ***PRO*** = *Proactiveness,* ***RTP*** = *Risk-taking prosperity,* ***CR*** = *Cost reduction,* ***QE*** = *Quality enhancement,* ***RT*** = *Responsiveness/Time,* ***FL*** = *Flexibility,* ***FPSMEs*** = *Financial Performance of Small and Micro Enterprises,* ***NFPSMEs*** = *Non-financial performance of Small and Micro Enterprises*

Source: Author's own survey, 2024

Table 15 presents correlation coefficients between several variables. The values indicate the strength and direction of linear relationships between variables — values close to 1 or -1 show strong relationships and values near 0 indicate weak or no relationships. Here's a breakdown of each relationship shown in the table:

The table presents the factor loadings of observed variables (indicators) on their respective latent constructs: Business Strategy (BS), Entrepreneurial Orientation (EO), Human Resource

Management (HRM) practices, and Performance of Micro and Small Enterprises (PMSEs). The factor loadings indicate how strongly each observed item is associated with its latent variable, with values closer to 1 signifying a stronger relationship.

For HRM practices, several dimensions load highly: Employment Security (ES) at 0.760, Human Resource Planning (HRP) at 0.827, Performance Appraisal (PA) at 0.733, Teamwork (TW) at 0.758, and Compensation/Incentive (CI) at 0.698. However, Training and Development (TD) shows a slightly lower loading of 0.696, which, while acceptable, suggests a relatively weaker contribution compared to the other indicators.

Under Entrepreneurial Orientation (EO), the indicators Flexibility (FL) (0.805), Innovation (INN) (0.800), Proactiveness (PRO) (0.788), and Risk-taking Propensity (RTP) (0.906) show strong and consistent loadings, demonstrating that these dimensions effectively represent the EO construct.

For Business Strategy (BS), the strongest indicators include Quality Assurance (QA) (0.839), Responsiveness/Time (RT) (0.853), and Cost Reduction (RTD) (0.906), confirming these strategic elements as critical to the BS construct.

Lastly, PMSE performance is measured through financial and non-financial aspects. The Financial Performance of PMSEs (FPMSEs) loads at 0.901, and the Non-Financial Performance of PMSEs (NFPMSEs) at 0.871, indicating that both are robust indicators of enterprise performance.

Overall, the high factor loadings across constructs suggests strong construct validity, meaning the observed items effectively represent their respective latent variables. The slightly lower loadings for CI (0.698) and TD (0.696) may warrant further attention or refinement in future studies.

The results of the analysis reveal significant theoretical and practical implications for the performance of Micro and Small Enterprises (MSEs). The strong factor loadings across most indicators confirm the validity and reliability of the measurement model, indicating that constructs such as Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and Performance of MSEs are well-represented by their respective observed variables. Practically, the findings highlight that HRM practices have a direct and substantial influence on both business strategy and enterprise performance, underscoring the importance of structured HR systems, particularly in areas like human resource planning,

performance appraisal, and teamwork for driving organizational success. Additionally, while EO dimensions such as innovation, risk-taking, and proactiveness strongly define entrepreneurial behavior, their direct effect on performance is limited; instead, their influence operates primarily through the mediating role of business strategy. This suggests that entrepreneurial capabilities must be strategically directed to translate into tangible outcomes. Moreover, the study confirms that both financial and non-financial dimensions are essential for a holistic evaluation of enterprise performance. Overall, the findings imply that for MSEs to improve and sustain performance, they must strategically integrate HRM practices and business strategies while harnessing entrepreneurial traits in a structured and goal-oriented manner.

The implications of these results suggest that certain organizational practices and characteristics are more closely linked with entrepreneurial orientation (EO) and the performance of micro and small enterprises (PMSEs). This indicates that focusing on these key areas may lead to better alignment with an organization's entrepreneurial goals and improve the effectiveness of PMSEs. If these variables represent specific business strategies, human resource practices, or innovation measures, then organizations might consider investing more in these areas to enhance their entrepreneurial outcomes and performance management.

Findings from interviews and focus-group discussions further reinforce this perspective. Business owners and managers interviewed emphasized the importance of HRM practices such as continuous skills development, employee empowerment, and incentive-based performance evaluation in fostering an entrepreneurial mindset within their enterprises. One entrepreneur from the retail sector noted, *"Providing employees with autonomy and opportunities to engage in decision-making has significantly increased their motivation to innovate, leading to improved customer satisfaction and sales growth."* Similarly, a participant from the focus group discussion, who manages a small manufacturing firm, stated that *"strategic HRM initiatives, particularly those that reward creativity and risk-taking, have strengthened our ability to adapt to market changes and remain competitive."*

These qualitative findings align with previous research. For instance, a study by WAHGA, REHMAN, AND SHAUKAT (2021) found that HRM practices, such as training and participatory leadership, are significant predictors of Entrepreneurial Orientation in small enterprises, which in turn influences business performance. Similarly, LI, ZHAO, AND LIU (2020) demonstrated that firms with a strong Entrepreneurial Orientation tend to integrate innovation-driven strategies that

lead to higher growth rates and market adaptability. Furthermore, empirical research by AHMAD and ABDULLAHI (2019) suggests that aligning HRM policies with business strategy mediates the relationship between Entrepreneurial Orientation and firm performance, allowing organizations to maximize their entrepreneurial capabilities.

Taken together, these insights highlight the need for micro and small enterprises to strategically invest in HRM, innovation, and business strategy alignment to foster a stronger entrepreneurial orientation. By doing so, they can enhance their adaptability, innovation capacity, and overall performance, ultimately ensuring long-term sustainability and competitive advantage.

4.5Structural Model Equation

The structural model equation represents the hypothesized relationships among latent variables in the study, serving as the mathematical foundation for testing causal pathways within the conceptual framework. This model integrates the direct and indirect effects of key organizational constructs—such as Human Resource Management practices, Entrepreneurial Orientation, and Business Strategy—on the performance of Micro and Small Enterprises (MSEs). By expressing these relationships through structural equations, the model captures the complex interdependencies and provides a quantitative basis for evaluating the strength and significance of each path. This section outlines the structural model equations derived from the analysis, illustrating how the independent variables collectively influence enterprise performance.

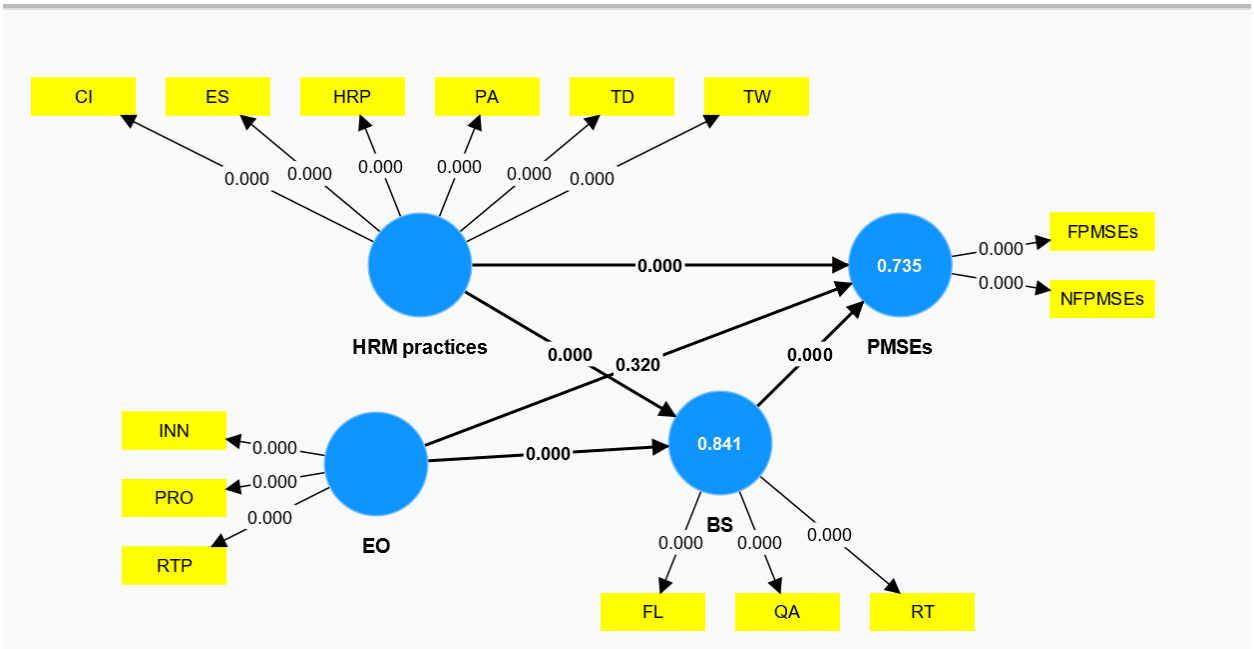

Figure 8: Structural Model with Path Significance (p-values) and R-Square Values

- ***HRM practices*** = *Human Resource Management practices,* ***EO*** = *Entrepreneurial Orientation,* ***BS*** = *Business Strategy,* ***PMSEs*** = *Performance of Micro and Small Enterprises,* ***TD*** = *Training and Dev't,* ***TW*** = *Teamwork,* ***HRP*** = *HR Planning,* ***PA*** = *Performance Appraisal,* ***CI*** = *Compensation/Incentive,* ***ES*** = *Employment Security,* ***INN*** = *Innovation,* ***PRO*** = *Proactiveness,* ***RTP*** = *Risk-taking prosperity,* ***CR*** = *Cost reduction,* ***QE*** = *Quality enhancement,* ***RT*** = *Responsiveness/Time,* ***FL*** = *Flexibility,* ***FPSMEs*** = *Financial Performance of Small and Micro Enterprises,* ***NFPSMEs*** = *Non-financial performance of Small and Micro Enterprises*

Source: Author's own survey, 2024

The findings from the structural model analysis illuminate crucial relationships within Medium and Small Enterprises (MSEs) and offer valuable implications for strategic management. The strong and statistically significant path coefficient (0.528) between Business Strategy and MSE Performance underscores the pivotal role of strategic planning in driving tangible business outcomes. This suggests that MSEs with well-defined business strategies are more likely to achieve higher levels of performance. Furthermore, the substantial path coefficient of 0.621 in the relationship between Entrepreneurial Orientation (EO) and Business Strategy highlights the symbiotic connection between fostering an entrepreneurial mindset and shaping strategic decisions. However, the less pronounced relationship (path coefficient of 0.187) between EO and MSE Performance, coupled with a p-value slightly above the conventional threshold (0.085), implies that the influence of entrepreneurial orientation on overall performance may be nuanced and require a deeper investigation. The noteworthy path coefficients in relationships involving Human Resource Management (HRM) practices to both Business Strategy and MSE Performance (0.348 and 0.678, respectively, with p-values of 0.000) underscore the strategic importance of effective HRM practices in enhancing both strategic decision-making and overall performance within MSEs. These insights collectively emphasize the multidimensional nature of MSE success, indicating that a synergistic approach integrating strategic planning, entrepreneurial orientation, and robust HRM practices is essential for sustained growth and competitiveness. Implementing such a holistic strategy can empower MSE leaders to navigate the complexities of the business landscape and foster a resilient and high-performing organizational culture.

The structural model presents a framework illustrating how Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) influence Business Strategy (BS) and, in turn, affect the Performance of Micro and Small Enterprises (PMSEs), including both financial and non-financial aspects.

The most significant relationship revealed in the model is between HRM practices and Business Strategy. This path is both statistically significant and positively associated, with a path coefficient of 0.320. This suggests that effective implementation of HRM components such as Training and Development (TD), Teamwork (TW), HR Planning (HRP), Performance Appraisal (PA), Compensation and Incentives (CI), and Employment Security (ES) directly contributes to the formulation of well-defined and competitive business strategies. These strategies include dimensions like Cost Reduction (CR), Quality Enhancement (QE), Responsiveness/Time (RT), and Flexibility (FL), all of which are critical for small enterprise survival and adaptability.

Despite the strong linkage between HRM practices and BS, there is no significant direct relationship between HRM practices and PMSE performance. This indicates that improvements in HRM alone do not lead to better financial (FPSMEs) or non-financial (NFPSMEs) performance outcomes unless they are channeled through effective strategy. It implies a mediating effect, where HRM improves BS, and the benefits of HRM are expected to be realized only if the strategy is successfully executed.

Interestingly, Entrepreneurial Orientation (EO) comprising Innovation (INN), Proactiveness (PRO), and Risk-taking Propensity (RTP) shows no significant effect on either Business Strategy or PMSE performance. This lack of significance is notable, as EO is often considered a key driver of firm growth in entrepreneurial literature. The result suggests that for micro and small enterprises in this context, entrepreneurial behaviors may not automatically convert into performance gains or strategic advantage, possibly due to resource constraints or limited managerial capacity.

Moreover, the model also shows that Business Strategy does not have a significant direct effect on PMSE performance. Despite BS being shaped by HRM practices, the absence of a direct performance effect suggests a potential disconnect between strategy formulation and implementation. Micro and small enterprises may have well-intentioned strategies, but their ability to execute these plans and derive performance benefits could be hindered by operational limitations, market barriers, or lack of support infrastructure.

On a more technical note, the explanatory power of the model is high. The R^2 value for Business Strategy is 0.841, indicating that HRM practices and EO account for 84.1% of the variance in BS. Likewise, the R^2 for PMSEs is 0.735, suggesting that HRM, EO, and BS together explain 73.5% of the variance in enterprise performance. This shows that the model captures a substantial amount of influence on both BS and PMSEs, even though many of the direct paths are not statistically significant.

Overall, the model highlights the foundational role of HRM practices in shaping business strategy and underscores the complexity involved in translating strategic inputs into measurable performance gains in small enterprises. It also suggests that merely promoting entrepreneurial behavior is not enough; there needs to be a supporting ecosystem to help firms execute strategy and realize the benefits of both HR and EO capabilities.

4.6Regression Result

In this study, a regression analysis was conducted to explore the relationship between the independent variables and the dependent variable, with a particular focus on understanding how [specific factors, such as HRM practices, entrepreneurial orientation, or business strategy] impact [the dependent variable, such as SME performance]. Regression analysis is a powerful statistical tool that allows for the examination of associations between variables while controlling other factors, thereby providing insights into the direction, strength, and significance of these relationships.

The regression model employed in this study aims to shed light on the Relationship between HRM Practices, Entrepreneurial Orientations, and Performance of MSEs with a focus on the Mediating Role of Business Strategy in Ethiopia.

The following section outlines the regression outcomes, including the coefficients, standard errors, t-statistics, and p-values for each predictor variable. These results will be interpreted to assess their impact on the dependent variable and draw conclusions related to the study's objectives.

4.6.1 Direct Effect

Table 16: Coefficients and Significance Testing

	Ordinal Sample (O)	Sample Mean (M)	Standard Deviation (SD)	T statistics (O/SD)	P value
BS→ PMSEs	0.528	0.530	0.139	3.803	0.000
EO → BS	0.621	0.616	0.082	7.572	0.000
EO → PMSEs	0.187	0.182	0.109	1.721	0.085
HRMP → BS	0.348	0.354	0.086	4.066	0.000
HRMP → PMSEs	0.678	0.686	0.097	6.982	0.000

- ***HRM practices*** = *Human Resource Management practices,* ***EO*** = *Entrepreneurial Orientation,* ***BS*** = *Business Strategy,* ***PMSEs*** = *Performance of Micro and Small Enterprises*

Source: Author's own survey, 2024

Table 16 presents the path coefficients (original and mean estimates), standard deviations, t-values, and p-values for the hypothesized relationships in the structural model. All paths are statistically significant at $p < .05$, except the direct effect of Entrepreneurial Orientation (EO) on PMSE performance, which is not significant ($p = .085$).

The table displays the results of a structural model analysis examining the direct relationships among Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and the Performance of Micro and Small Enterprises (PMSEs). Each path coefficient represents the strength and direction of the relationship between variables, supported by t-statistics and p-values to determine statistical significance.

The findings reveal that HRM practices have a strong and statistically significant direct effect on PMSE performance, with a path coefficient of 0.678, a t-statistic of 6.982, and a p-value of 0.000. This indicates that well-implemented HRM practices such as effective recruitment, training, employee involvement, and performance management can substantially improve the performance outcomes of micro and small enterprises. In addition, HRM practices significantly influence Business Strategy, with a coefficient of 0.348 and a p-value of 0.000. This suggests that

the way human resources are managed contributes to shaping and strengthening the strategic direction of the enterprise.

Business Strategy itself has a direct and significant positive impact on PMSE performance, with a coefficient of 0.528 ($p = 0.000$), implying that firms that adopt clear, well-defined strategic approaches such as differentiation, focus, or cost leadership are more likely to achieve better performance outcomes.

Furthermore, Entrepreneurial Orientation significantly influences Business Strategy, with a high coefficient of 0.621 and a p-value of 0.000. This indicates that entrepreneurial traits such as innovativeness, risk-taking, and proactiveness play a critical role in shaping strategic decisions. However, the direct effect of EO on PMSE performance is not statistically significant, with a low coefficient of 0.187 and a p-value of 0.085, which is above the conventional 0.05 threshold. This suggests that while entrepreneurial orientation alone may not directly lead to performance improvements, it can exert an indirect influence by affecting the business strategy, which in turn enhances performance.

In summary, the analysis highlights the pivotal role of HRM practices in directly boosting both strategy and performance. Entrepreneurial Orientation, although not directly impactful on performance, is essential for informing strategic behavior, which then contributes to improved performance outcomes. This suggests a possible mediation effect of Business Strategy in the relationship between EO and PMSE performance, warranting further analysis of indirect effects.

The analysis reveals significant direct relationships between most of the factors examined, as indicated by the P values which are less than 0.05, except for the relationship between EO and PMSEs which shows a P value of 0.085, making it statistically insignificant. The implications of these results suggest that both Business Strategy and HRM practices have a strong and significant impact on the Performance of Micro and Small Enterprises, which could imply that the way employees are supported behaviorally and managed by HR practices directly influences the effectiveness of performance management. The strong relationship between Entrepreneurial Orientation and Business Strategy indicates that an organization's entrepreneurial orientation might positively affect the Business Strategy (BS) within the organization, which could lead to a more innovative and proactive work environment.

Expanding this concept, the significant relationship between HRM practices and both business strategy and the performance of micro and small enterprises (PMSEs) could also mean

that integrating HRM initiatives that focus on developing behavior support mechanisms within the performance management process can potentially enhance overall organizational performance. This could lead to better alignment of employee behavior with organizational goals, improved employee satisfaction, and increased organizational effectiveness. Conversely, the lack of significance in the entrepreneurial orientation (EO) to PMSE performance relationship could suggest that EO alone may not be a strong predictor of performance management effectiveness. This signals that other mediating factors, such as organizational culture or leadership style, might play a more pivotal role in influencing business success.

Findings from interviews and focus group discussions reinforce these insights. Several small business owners emphasized that while fostering an entrepreneurial mindset is beneficial, its impact on performance is often contingent upon the presence of structured HRM practices and a supportive business strategy. One entrepreneur from the service sector stated, *"Encouraging risk-taking and proactiveness among employees is helpful, but without proper HR policies such as structured training, rewards, and leadership support entrepreneurial initiatives often fail to translate into tangible performance improvements."* Similarly, a focus group participant managing a small tech firm pointed out that *"our growth was stagnant until we integrated HRM practices that aligned employee roles with strategic objectives, which significantly improved productivity and innovation output."*

These qualitative findings align with the existing literature. For example, a study by PATEL and CARDON (2022) found that HRM practices, particularly performance-based rewards and strategic employee engagement, mediate the impact of Entrepreneurial Orientation on firm performance. Similarly, research by GUPTA and WALES (2021) suggests that Entrepreneurial Orientation alone does not guarantee improved business outcomes unless it is complemented by enabling organizational culture and effective leadership. Moreover, empirical evidence from AHMAD, RAZA, and QURESHI (2020) highlights that firms integrating HRM with strategic leadership approaches experience greater adaptability and long-term sustainability compared to those relying solely on entrepreneurial orientation.

These insights suggest that while Entrepreneurial Orientation is valuable for fostering innovation and growth, it must be supported by HRM frameworks that align employee behavior with business strategy. Organizations should, therefore, invest in HR initiatives that enhance workforce engagement, develop leadership competencies, and create a culture that facilitates both

entrepreneurial thinking and structured performance management. By doing so, they can improve not only financial performance but also employee retention, satisfaction, and overall organizational effectiveness.

4.6.2 Indirect Effect

Table 17: Indirect Effects and Significance of Mediated Relationships

	Ordinal Sample (O)	Sample Mean (M)	Standard Deviation (SD)	T statistics (O/SD)	P value
EO → BS→ PMSEs	0.328	0.328	0.102	3.216	0.001
HRMP → BS→ PMSEs	0.184	0.186	0.064	2.864	0.004

Source: Author's own survey, 2024

Table 17 presents another segment of statistical results, focusing on the indirect effects between variables in a study. The results show the indirect relationships between EO (Entrepreneurial Orientation) and HRM practices (Human Resource Management) on the Performance of Micro and Small Enterprises (PMSEs) through an intermediary variable, Business Strategy (BS). Both pathways demonstrate statistically significant effects, as indicated by P values of 0.001 for EO → BS → PMSEs and 0.004 for HRM practices → BS → PMSEs, suggesting that the influence of Entrepreneurial Orientation and HRM practices on PMSEs is at least partially mediated by Business Strategy.

These results imply that while Entrepreneurial Orientation and HRM practices may not directly impact the Performance of Micro and Small Enterprises to a significant degree, they do exert a significant influence when factored through the lens of Business Strategy (BS). This suggests that the presence of a strong Business Strategy (BS) within an organization can act as a conduit through which entrepreneurial orientation and human resource management practices can positively affect the Performance of Micro and Small Enterprises. The pathway implies that the culture and practices that encourage entrepreneurial behavior and effective human resource management can indirectly enhance the performance management process by first improving the support for desired behaviors among employees.

Expanding on this concept, the analysis suggests that organizations looking to improve the performance of micro and small enterprises (PMSEs) should consider investing in processes and

cultures that bolster business strategy (BS). By doing so, they can create an environment where the entrepreneurial spirit and HRM practices are not just standalone elements but interconnected parts of a system that promotes a comprehensive approach to performance management. This could involve training programs, recognition systems, and other HR interventions that cultivate a supportive atmosphere where employees feel encouraged to align with organizational goals and strategies, thus indirectly contributing to the efficacy of PMSEs.

Findings from interviews and focus-group discussions further reinforce this perspective. Several entrepreneurs and managers emphasized the need for an integrated approach that links HRM, business strategy, and entrepreneurial initiatives. One small business owner in the manufacturing sector stated, *"We initially focused only on promoting an entrepreneurial culture, but without structured HR policies, employees lacked clear direction. It was only after implementing strategic HR interventions like leadership development programs and performance-based incentives that we saw a tangible improvement in productivity and innovation."* Likewise, a participant from a service-oriented SME pointed out that *"training and recognition programs helped align employees' efforts with our strategic goals, leading to better performance outcomes and higher employee satisfaction."*

These qualitative insights align with existing literature. For instance, a study by NYBERG, MOLITERNO, HALE, AND LEPAK (2022) found that HRM practices act as a crucial bridge between business strategy and organizational performance, particularly in small enterprises where resource constraints necessitate a well-coordinated approach. Similarly, research by RAUCH, WIKLUND, LUMPKIN, AND FRESE (2021) suggests that entrepreneurial orientation alone does not guarantee improved performance unless it is supported by HRM mechanisms that align individual behaviors with strategic objectives. Furthermore, empirical evidence from SINGH, CORNER, AND PAVLOVICH (2020) highlights that organizations foster a culture of strategic HRM and employee empowerment experience greater adaptability and sustainable performance growth.

These findings indicate that rather than treating HRM, business strategy, and entrepreneurial orientation as isolated elements, organizations should integrate them into a cohesive framework that supports long-term growth. By investing in targeted HR interventions such as employee development programs, leadership training, and performance-based rewards

small enterprises can create an environment that not only encourages innovation but also ensures strategic alignment and enhanced organizational performance.

4.7Test the hypothesis of direct impact and indirect impact.

Table 16 presents the results of the regression analysis conducted to test the hypotheses related to the direct effects of Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), and Business Strategy (BS) on the Performance of Micro and Small Enterprises (PMSEs). The analysis reveals that five out of the six hypothesized direct effects are statistically significant and therefore accepted, while one hypothesis is rejected due to a lack of statistical significance.

H1: HRM practices → PMSEs (Accepted)

Hypothesis 5 proposes that HRM practices have a direct positive effect on the performance of PMSEs, and the analysis confirms this hypothesis. The t-value of 6.982 and a p-value of 0.000 indicate strong statistical support. This finding implies that investment in human capital—through recruitment, training, performance management, and employee engagement—translates directly into improved organizational outcomes. In PMSEs, where resource constraints are common, leveraging human capital effectively can be a key driver of competitiveness and success.

H2: EO → PMSEs (Not Accepted)

Hypothesis 2 asserts that Entrepreneurial Orientation (EO) directly and significantly improves the performance of PMSEs. However, this hypothesis is not supported by the data. Although the path coefficient is positive, the t-value of 1.721 does not meet the threshold of 1.645, and the p-value of 0.085 exceeds 0.05, indicating that the relationship is statistically insignificant. This suggests that EO may not directly lead to improved performance outcomes; rather, its effects could be mediated by other variables, such as Business Strategy. It may also indicate that while EO drives innovation and risk-taking behavior, these traits alone are insufficient to yield performance gains without strategic alignment.

H3: BS → PMSEs (Accepted)

Hypothesis 3 posits that Business Strategy (BS) has a positive and significant impact on the performance of PMSEs. The analysis supports this hypothesis, as indicated by a t-value of

3.803, which exceeds the critical value of 1.645 (for a one-tailed test at a 5% significance level), and a p-value of 0.000, which is well below the 0.05 threshold. This result underscores the strategic role of business planning and execution in enhancing firm performance, particularly in small and medium-sized enterprises where agility and direction are critical for survival and growth.

H4: HRM practices → BS (Accepted)

Hypothesis 4 examines whether HRM practices positively impact BS, and it is also supported. The T-value is 4.066 and the p-value is 0.000, demonstrating a statistically significant relationship. This underscores the role of effective HRM in shaping strategic direction by ensuring that employees are adequately motivated, skilled, and aligned with organizational goals. It suggests that HRM functions as a foundational mechanism through which strategic capabilities are developed in PMSEs.

H5: EO → BS (Accepted)

Hypothesis 5 states that EO positively influences BS, and this relationship is strongly supported by the data. With a t-value of 7.572 and a p-value of 0.000, the results indicate a significant and robust effect. This finding highlights that firms with a high degree of entrepreneurial orientation are more likely to develop and implement effective business strategies, possibly due to their proactive nature and openness to innovation.

H6: Mediation through BS (Partially Supported)

Hypothesis 6, while not tested directly in this table, is implied through the mediation pathways. The results show that both HRM practices and EO significantly influence BS, and in turn, BS significantly influences PMSE performance. While EO does not directly affect performance, its indirect effect through BS appears to be present. This suggests a partial mediation, where EO enhances BS, which then improves performance. Similarly, HRM practices impact performance both directly and indirectly through BS, indicating partial mediation as well. These findings are important because they reveal the underlying mechanisms by which EO and HRM practices contribute to firm performance primarily through the development and implementation of business strategies.

Summary and Theoretical Implications

In conclusion, five of the six direct hypotheses are accepted, providing strong evidence that HRM practices and Business Strategy are key determinants of PMSE performance, while EO exerts its influence primarily through strategic alignment rather than direct performance outcomes. These results highlight the interconnectedness of strategic orientation, HR practices, and firm performance, emphasizing that entrepreneurial behavior must be strategically guided and operationalized through internal practices to yield tangible performance benefits.

These findings also reinforce the importance of a strategic management approach in the context of small and medium enterprises. For practitioners and policymakers, the results suggest that encouraging entrepreneurship alone is not sufficient support mechanisms should also focus on enhancing strategic capabilities and human capital development to achieve sustainable business outcomes.

Indirect Relationship

Table 4.15 presents the results of the mediation analysis, examining the indirect effects of Entrepreneurial Orientation (EO) and Human Resource Management (HRM) practices on the Performance of Micro and Small Enterprises (PMSEs) through Business Strategy (BS). The table includes the path coefficients, standard deviations, t-values, and p-values for the two tested mediation paths. The results indicate that both indirect effects are statistically significant, thus confirming the mediating role of Business Strategy.

H7: EO → BS → PMSEs (Accepted – Mediation confirmed)

Hypothesis 7 posits that EO affects PMSE performance indirectly through its influence on Business Strategy. The findings support this hypothesis, as shown by a t-value of $3.216 > 1.645$ and a p-value of $0.001 < 0.05$, confirming that the indirect effect is statistically significant. This result reinforces the earlier conclusion from Table 6 that EO does not directly enhance performance, but its effect is channeled through Business Strategy. In other words, EO contributes to strategic development, which then leads to improved performance. This indicates a full mediation, as the direct EO → PMSEs path was not significant in Table 6, but the indirect path is.

Conceptually, this underscores that entrepreneurial behavior (such as innovation, proactiveness, and risk-taking) must be strategically directed to produce performance gains. Without a clear and effective strategy, entrepreneurial efforts may not translate into measurable outcomes for small businesses.

H8: HRM practices → BS → PMSEs (Accepted – Mediation confirmed)

Hypothesis 8 suggests that HRM practices affect PMSE performance indirectly through Business Strategy. This is also supported, by a t-value of 2.864 > 1.645 and a p-value of 0.004 < 0.05, indicating a statistically significant mediation effect. Given that the direct effect of HRM practices on performance (Table 6: t = 6.982, p = 0.000) was also significant, this suggests a partial mediation. That is, HRM practices contribute to PMSE performance both directly and indirectly through the enhancement of business strategy.

This finding highlights the dual role of HRM in performance outcomes: first, by directly empowering employees and improving operational effectiveness, and second, by enabling the formulation and implementation of sound strategic practices. It implies that strategic management capabilities in PMSEs are, in part, driven by internal organizational competencies fostered through HRM systems.

Summary and Theoretical Implications

The mediation analysis provides deeper insight into the mechanisms by which EO and HRM practices influence firm performance. The results demonstrate that Business Strategy acts as a crucial mediating variable, translating internal capabilities and orientations into tangible performance outcomes. Specifically:

- EO requires strategic planning to realize its full impact, reinforcing the importance of aligning entrepreneurial activities with long-term business goals.
- HRM practices not only affect performance through workforce effectiveness but also play a strategic role in shaping the direction and execution of business strategy.

These findings contribute to the literature on strategic management and entrepreneurship in small firms by confirming that organizational resources (HRM) and orientations (EO) must be strategically operationalized to enhance performance.

5. SUMMARY OF MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Major Findings

One of the most striking findings of this study is the significant role that Human Resource Management (HRM) practices play in shaping both business strategy and enterprise performance. The data show that HRM practices such as training and development, performance appraisal, teamwork, compensation, and employment security have a strong and statistically significant impact on strategic direction and business outcomes. The path coefficients from HRM practices to Business Strategy (0.348) and Performance of Micro and Small Enterprises (PMSEs) (0.678) emphasize the centrality of human capital development in building competitive and high-performing enterprises.

In contrast, Entrepreneurial Orientation (EO) does not demonstrate a direct and statistically significant effect on PMSE performance. Although EO comprises essential dimensions like innovation, risk-taking, and proactiveness, the direct pathway to performance was found to be insignificant ($p = 0.085$). This finding suggests that entrepreneurial behavior alone is not sufficient to improve performance outcomes. Instead, its value is realized when EO is effectively translated into strategic behavior, as indicated by the strong and significant effect EO has on Business Strategy (0.621).

The study confirms that Business Strategy functions as a crucial mediating variable between both HRM practices and EO on one side and PMSE performance on the other. This mediating role is confirmed by the statistically significant indirect effects of both HRM practices and EO on performance through Business Strategy. These results highlight that the formulation and implementation of a coherent strategy are indispensable for translating internal capabilities into measurable outcomes. Without strategic alignment, even the most innovative or well-managed enterprises may fail to achieve their full performance potential.

Furthermore, the measurement model was found to be robust and statistically valid. The constructs demonstrated strong internal consistency, with Cronbach's Alpha values above 0.7, and good convergent validity, as indicated by Average Variance Extracted (AVE) values above 0.5. These results confirm that the constructs used to measure HRM, EO, Business Strategy, and PMSE performance are reliable and appropriate. Additionally, the absence of multicollinearity among

variables, confirmed by low Variance Inflation Factor (VIF) values, ensures the stability and trustworthiness of the regression coefficients.

The structural model exhibited high explanatory power, with an R^2 value of 0.841 for Business Strategy and 0.735 for PMSE performance. This indicates that the combination of HRM and EO accounts for a large portion of the variance in strategic behavior and enterprise outcomes. Such high R^2 values are uncommon in social science research and underscore the strength of the theoretical model in capturing the dynamics of enterprise performance in the Ethiopian context.

Demographic data further provide valuable context for interpreting these findings. The sample was composed mainly of educated and experienced individuals, with the majority holding at least a Master's degree and having between 6 to 9 years of business experience. Moreover, over half of the businesses surveyed were older than six years and employed more than 100 people. These characteristics suggest that the respondents represent a relatively mature and well-resourced segment of the PMSE population, which may influence their strategic behavior and response to HRM and EO interventions.

In terms of sectoral distribution, the study found that service-oriented businesses dominate the Ethiopian PMSE landscape, making up 62% of the sample. This reflects a broader economic shift toward service-based activities, potentially due to lower entry barriers, higher flexibility, and growing demand. Such insights are essential for policymakers aiming to support high-growth sectors and address structural barriers facing smaller or emerging industries like manufacturing and trade.

Qualitative insights from interviews and focus group discussions reinforced the quantitative findings. Business owners consistently emphasized the importance of structured HRM systems in empowering employees and fostering innovation. Several participants noted that entrepreneurial behaviors such as risk-taking and proactiveness were only effective when supported by appropriate HR policies, such as training, participative leadership, and performance-based rewards. These real-world testimonies validate the study's hypothesis that EO must be strategically channeled to impact performance meaningfully.

Moreover, the normality of residuals was confirmed through graphical and statistical tests, validating the assumptions underlying the use of parametric statistical methods such as regression and structural equation modeling. This supports the robustness of the study's results and the general applicability of its analytical framework to similar research contexts.

In summary, the study confirms that HRM practices are foundational to business strategy formulation and enterprise performance. Entrepreneurial Orientation, though important, exerts its influence primarily through strategic alignment rather than direct performance outcomes. Business Strategy thus emerges as the linchpin connecting internal capabilities to external success. These findings carry significant implications for enterprise development strategies, suggesting that the integration of HRM and EO into strategic planning is critical for improving the performance and competitiveness of Micro and Small Enterprises in Ethiopia.

5.2 Conclusion

This study set out to investigate the interrelationships among Human Resource Management (HRM) practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and the performance of Micro and Small Enterprises (PMSEs) in Ethiopia. Drawing on quantitative data supported by qualitative insights from interviews and focus group discussions, the findings illuminate a complex yet cohesive framework within which internal organizational variables influence strategic direction and enterprise outcomes.

The results of the structural model underscore that HRM practices are not merely administrative functions but serve as strategic enablers. Key HRM components—such as training and development, performance appraisal, teamwork, and compensation—were shown to have strong and statistically significant direct effects on both business strategy and PMSE performance. This demonstrates the foundational role of HRM systems in shaping strategic behavior and enabling sustainable performance.

In contrast, Entrepreneurial Orientation (EO), while central to innovative and risk-taking behavior, did not exhibit a statistically significant direct effect on PMSE performance. However, the indirect effect through Business Strategy was significant, indicating that EO's value is realized when entrepreneurial initiatives are aligned with and embedded in strategic planning processes. This finding supports the proposition that EO alone is insufficient to enhance enterprise performance without strategic direction and execution.

Business Strategy emerged as a pivotal mediator in the relationship between internal organizational capabilities and enterprise outcomes. It significantly influenced both financial and non-financial dimensions of performance. The high explanatory power of the model ($R^2 = 0.735$

for PMSE performance and $R^2 = 0.841$ for BS) confirms that HRM practices and EO, when channeled through a coherent business strategy, substantially enhance enterprise effectiveness.

From a demographic standpoint, the study sample comprised highly educated and experienced individuals, predominantly female, operating within the 30–50 age bracket. Most businesses were well-established, having operated for over six years, with significant capital investment and employee numbers ranging from 100 to 500. These characteristics suggest that the study predominantly reflects the perspectives of mature and resource-endowed enterprises within the PMSE sector.

Furthermore, the robustness of the measurement model was confirmed through reliability (Cronbach's Alpha > 0.7) and validity tests (AVE > 0.5), while the residuals' distribution satisfied the assumptions of normality, enhancing the credibility of the statistical inferences. The collinearity diagnostics further confirmed the stability of the regression estimates.

In sum, this study provides empirical validation for the integrative model where HRM practices and EO influence enterprise performance, predominantly through the mediating role of Business Strategy. The findings contribute to the existing literature by highlighting the conditional nature of EO's effectiveness and by demonstrating the strategic role of HRM in small enterprise performance enhancement.

5.3 Recommendations

One of the central recommendations of this study is that micro and small enterprises (PMSEs) must prioritize the development and institutionalization of Human Resource Management (HRM) systems. Structured HRM practices—including strategic recruitment, employee training and development, performance appraisals, teamwork, and incentives—should be integrated into daily operations. Such practices not only enhance employee performance and satisfaction but also serve as key enablers of broader strategic goals. Enterprises should therefore invest in professional HR departments or seek external advisory support to formalize and continuously improve their HR functions.

Second, enterprise leaders are encouraged to approach Entrepreneurial Orientation (EO) with a strategic lens. While innovativeness, risk-taking, and proactiveness are important entrepreneurial traits, their impact is maximized when they are strategically directed. Enterprises should embed EO traits into formal strategic planning processes to ensure that entrepreneurial

ideas are not only generated but also assessed, refined, and executed effectively. This may involve creating structured platforms for idea evaluation, aligning innovations with market needs, and providing resources to pilot and scale promising initiatives.

Business strategy should not be treated as a static document or a one-time planning activity, but as a dynamic process that is constantly revisited and refined. Given the central role of Business Strategy as a mediator in driving performance, PMSEs are advised to establish regular strategic planning and review sessions. These sessions should involve key stakeholders across different departments, ensuring that strategy is informed by insights from HR, operations, marketing, and finance. Developing capabilities in strategic thinking and analysis through management training or consulting partnerships can help enhance these processes.

Moreover, capacity-building programs targeting PMSE managers should focus on the integration of HRM, EO, and strategic planning. Training workshops and mentorship programs should highlight how these components interact and influence business success. Capacity-building should also emphasize the use of simple yet effective tools such as SWOT analysis, balanced scorecards, and key performance indicators (KPIs) to track and align organizational behavior with strategic objectives.

Policymakers and business support organizations should create enabling environments that support the implementation of these internal changes. This can be done through incentive schemes, access to subsidized HR and strategy consulting, and the development of toolkits tailored for PMSEs. Moreover, the government and financial institutions should consider designing support programs that link access to finance with the existence of sound HR and strategic management practices, thus encouraging businesses to institutionalize these elements.

For education and training institutions, there is an opportunity to revise and expand their curricula to include practical modules on HRM, strategic planning, and entrepreneurial alignment, particularly tailored to small business contexts. Graduates from such programs would be better prepared to drive improvements in the enterprises they join or establish. Additionally, partnerships between universities and PMSEs could foster action research and hands-on support that bridges theory and practice.

Technology and digital tools offer promising avenues for implementing and managing HRM and strategy functions cost-effectively. PMSEs should be encouraged to adopt cloud-based HR platforms, strategic dashboards, and employee feedback systems. These tools can improve

transparency, efficiency, and data-driven decision-making, especially for businesses lacking dedicated departments.

Finally, future interventions, whether by policymakers, donors, or development agencies—should consider the heterogeneity of PMSEs in terms of size, age, sector, and capital. Recommendations and support programs must be tailored to the specific challenges and maturity levels of different enterprises. For instance, newer or micro-sized firms may need more foundational HRM and strategic planning support, whereas older, larger businesses may benefit from systems integration, leadership development, and innovation strategy refinement.

5.4 Implications for Practice and Policy

One of the key takeaways for **MSE managers** is the need to reposition Human Resource Management (HRM) as a strategic function rather than a purely administrative task. Business owners and leaders should embed structured HR practices such as skills-based recruitment, continuous employee training, performance-linked incentives, and participative management within their operational framework. Investing in internal HR capacity, whether through dedicated personnel, external expertise, or affordable digital HR solutions, is essential, especially for resource-constrained enterprises. Managers must also develop strong management capabilities, focusing on communication, trust-building, and team collaboration. Beyond HRM, the integration of Entrepreneurial Orientation (EO): innovation, risk-taking, and proactiveness—must be deliberately aligned with strategic planning to ensure business energy translates into sustainable performance. Regular strategic planning cycles, performance tracking, and organization-wide alignment with long-term goals are crucial to maintaining a high-performing enterprise.

For **policymakers**, the findings suggest the need to prioritize HRM development as part of broader enterprise support policies. This includes offering subsidies or technical assistance to help small businesses professionalize their HR systems and making HRM capacity a condition for accessing grants, tenders, or tax incentives. Moreover, existing entrepreneurship development frameworks must be redesigned to support businesses across stages—early-stage programs should focus on ideation and innovation, while scale-up programs should emphasize strategic planning, execution, and leadership development. Public institutions and development agencies should also support strategy development directly through diagnostic assessments, planning workshops, and business mentoring. These services should be delivered through business support centers and

incubators staffed with qualified strategic advisors. Additionally, policy frameworks must reflect the diversity among enterprises; differentiated support is required based on firm size, sector, age, and managerial capability. For instance, microenterprises may need foundational assistance in formalization and HR basics, while more mature enterprises benefit from advanced strategic guidance and innovation management.

Training institutions have a central role to play by adapting curricula for business, management, and entrepreneurship programs to include hands-on learning in HR systems and strategic planning. These institutions should incorporate experiential learning components such as student consultancy projects, simulations, and fieldwork that allow learners to apply concepts in real enterprise contexts. They should also offer executive short courses tailored to MSE managers, focusing on people leadership, strategic thinking, and operational excellence in resource-limited environments.

Lastly, **financial institutions** should broaden their evaluation criteria to include indicators of sound HR and strategic management. The presence of formal HR systems and clear strategic plans should be considered markers of reduced credit risk and stronger business capacity. Financial actors can support this by offering preferential loan terms or incentives for businesses that institutionalize these practices. Furthermore, lenders and investors should collaborate with public and private support programs to deliver integrated packages of financing and strategic advisory, helping MSEs build both financial and organizational resilience.

In sum, the implications of this study provide a multi-stakeholder roadmap for strengthening the performance of MSEs. Coordinated action across enterprise leaders, policymakers, educators, and financiers can create an enabling environment where HRM, entrepreneurial behavior, and strategic thinking are not only valued but actively developed and rewarded.

5.5 Limitations and Future Research Directions

This study has several limitations that offer opportunities for future research. First, the use of Likert-scale items, while common in social science research, introduces measurement limitations due to their ordinal nature. The assumption of equal intervals between response categories may not hold, which could affect the accuracy of statistical interpretations. Future studies could

complement such data with qualitative methods or alternative measurement approaches to enhance validity.

Geographically, the research was limited to the Amhara region and focused only on three MSE sectors: manufacturing, trade, and services. This restricts the generalizability of findings to other regions in Ethiopia with different socio-economic and institutional contexts. Expanding future studies to include MSEs from multiple regions would enable comparative analysis and improve the national relevance of results.

Conceptually, the study centered on the mediating role of business strategy in the relationship between HRM practices, EO, and performance. While insightful, this focus excludes other relevant variables such as leadership style, innovation capacity, organizational culture, and access to finance. Including these factors in future models would offer a more comprehensive understanding of performance dynamics.

Methodologically, the study's cross-sectional design limits its ability to capture temporal changes or establish causality. In addition, data collected solely from MSE owners and managers may introduce self-report bias. Longitudinal studies incorporating diverse respondent perspectives could enhance the reliability and depth of future findings.

6. NEW SCIENTIFIC CONTRIBUTIONS

This dissertation makes several significant and original contributions to the fields of Human Resource Management (HRM), strategic management, and entrepreneurship, particularly within the context of Micro and Small Enterprises (MSEs) in developing countries. By examining the interplay between HRM practices, Entrepreneurial Orientation (EO), and Business Strategy (BS), the study offers a comprehensive understanding of how internal capabilities are translated into performance outcomes in resource-constrained environments. The findings challenge conventional theories, introduce new conceptual models, and validate an empirically grounded framework with high predictive power.

1. Reframing Entrepreneurial Orientation as a Latent Strategic Capability

A key contribution of this study is the empirical challenge it presents to the widely accepted notion that Entrepreneurial Orientation (EO) directly enhances firm performance. Contrary to the assumptions found in much of the strategic entrepreneurship literature, the findings reveal that EO—comprising innovativeness, proactiveness, and risk-taking—does not have a statistically significant direct effect on the performance of MSEs in the Ethiopian context.

This result suggests that EO, while essential in shaping a firm's strategic mindset, may not by itself generate tangible performance benefits unless it is strategically activated. The empirical data demonstrates that EO contributes to performance primarily through its influence on the formulation and implementation of effective business strategies. In other words, EO acts as a latent capability; it reflects a firm's strategic potential, but this potential remains unrealized unless aligned with actionable strategic frameworks.

This reconceptualization of EO has important theoretical implications. It shifts the focus from EO as a direct input in performance models to EO as a contextual and strategic enabler that must interact with other organizational mechanisms, most importantly, business strategy—to generate results. This insight refines our understanding of how entrepreneurial behaviors manifest in small enterprises and helps explain the variability in EO-performance outcomes across different environmental and institutional contexts.

2. Establishing Business Strategy as a Dual Mediator

Another novel and central contribution of this study is the identification of Business Strategy as a dual mediator in the relationship between internal organizational capabilities—namely HRM practices and EO—and firm performance. While prior studies have examined business strategy as an independent variable or moderator, this research introduces it as a bridging mechanism that converts intangible assets into operational outcomes.

Mediation analysis reveals that both HRM practices and EO significantly influence Business Strategy, which in turn exerts a strong and direct effect on performance. The indirect effect paths—HRM → BS → Performance and EO → BS → Performance—are statistically significant, with p-values of 0.004 and 0.001, respectively. This confirms that the mediating role of business strategy is not merely supportive but foundational in the capability-performance chain.

By framing business strategy as a mediator rather than a separate driver, the study enhances our understanding of strategic alignment in MSEs. It shows that strategic clarity and focus are essential for translating employee competencies and entrepreneurial behaviors into organizational gains. This model offers a more nuanced and complete picture of how performance is generated, especially in firms that operate in volatile or under-resourced environments.

3. High Predictive Power of the Structural Model

One of the most striking results of this study is the exceptionally high explanatory power of the proposed structural equation model. The model achieves an R-squared value of 0.841 for Business Strategy and 0.735 for MSE Performance, indicating that a substantial proportion of variance in these constructs is accounted for by the predictors included in the model.

This level of predictive accuracy is rare in studies involving MSEs, particularly in developing countries where data limitations and environmental variability often constrain model performance. The high R-squared values validate the conceptual robustness of the integrated framework combining HRM, EO, and Business Strategy.

This result demonstrates that when internal organizational resources and capabilities are conceptualized and measured holistically, they can serve as powerful predictors of performance, even in small-scale enterprises. The model thus serves as a practical and replicable blueprint for future empirical research and performance diagnostics in similar economic contexts.

4. Differential Performance Impacts of Disaggregated HRM Practices

This study also contributes to the refinement of HRM theory by disaggregating the influence of individual HRM practices on MSE performance. Instead of treating HRM as a monolithic construct, the research examines the specific effects of six distinct practices: training and development, teamwork, HR planning, performance appraisal, compensation/incentives, and employment security.

The results reveal that some HRM practices have a stronger impact on performance than others. Training and development, HR planning, and performance appraisal emerged as the most influential, demonstrating robust positive effects on both financial and non-financial performance indicators. In contrast, practices such as employment security and teamwork showed weaker or context-dependent relationships.

These differentiated findings provide actionable insights for MSE owners and managers. They suggest that performance improvements are more likely when firms prioritize strategic and developmental HR functions rather than administrative or compliance-oriented ones. Furthermore, the empirical validation of these effects within the context of Ethiopian MSEs adds to the growing body of knowledge on context-sensitive HRM models in low-income economies.

5. Strategic Activation of Entrepreneurial Behavior Through HR Infrastructure

An important qualitative insight emerging from interviews and focus groups is the recognition that entrepreneurial behaviors such as taking risks, exploring new markets, and innovating—are most effective when embedded within a supportive HRM infrastructure. In the absence of such infrastructure, EO remains directionless or underutilized.

Participants noted that firms with strong entrepreneurial orientation often failed to scale their operations or improve their market positions due to the lack of HR systems that promote skill development, offer performance-based incentives, or support strategic planning. Conversely, firms with well-developed HR systems were more likely to translate EO into actionable strategies and measurable gains.

This finding leads to the conceptual introduction of **"**strategic activation**"** the process by which entrepreneurial energy is harnessed through enabling organizational systems, particularly HRM. This concept adds a new dimension to the literature on EO, emphasizing that behavioral attributes alone are not enough; they require structural and procedural support to drive outcomes.

6. Contextual Adaptation of AMO and Strategic Fit Theories for MSEs

The study makes a theoretical contribution by adapting two influential HRM frameworks, the AMO (Ability, Motivation, Opportunity) model and Strategic Fit Theory—to the context of micro and small enterprises. While these models were originally developed for large, resource-rich organizations, this research demonstrates their relevance to MSEs operating in challenging environments.

The AMO framework is reinterpreted considering qualitative and quantitative findings. In this context, "Ability" is fostered through informal training and mentorship; "Motivation" stems from recognition, autonomy, and non-financial incentives; and "Opportunity" is realized through inclusive decision-making and flexible job roles. These adaptations allow the AMO model to reflect the operational realities of small firms more accurately.

Similarly, Strategic Fit Theory—originally focused on aligning organizational capabilities with environmental demands—is shown to be applicable even in firms with limited formal planning structures. In MSEs, strategic fit is often achieved not through formal alignment mechanisms but through adaptive learning, iterative feedback, and the informal coordination of goals and actions. This extension enhances the model's generalizability and relevance across firm sizes and economic conditions.

In conclusion, this dissertation makes multiple novel scientific contributions by integrating, testing, and extending established theoretical frameworks in a new empirical context. It challenges existing assumptions about the linear relationships between EO and performance, reframes business strategy as a central mediating mechanism, and highlights the differential value of specific HRM practices. The introduction of the strategic activation concept, along with contextually adapted versions of AMO and Strategic Fit models, further enriches the academic discourse.

Together, these findings form a cohesive and innovative model of performance for MSEs in developing economies. They provide both theoretical advancements and practical guidance for entrepreneurs, policymakers, and researchers seeking to unlock the potential of small enterprises as engines of inclusive economic growth.

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8. APPENDICES

Appendix 1: Questionnaire

R.N		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
	Human Resource Management Practices (HRMP)					
	I. Training and development (TD)					
1.	Extensive training programs are provided for individuals in their jobs at your firm. **TD1**					
2.	Employees in their jobs will normally go through training programs every few years at your firm. **TD2**					
3.	There are formal training programs to teach new hires the skills they need to perform their job at your firm. **TD3**					
4.	Formal training programs are offered to employees to increase their promotability at your firm. **TD4**					
	II. **Teamwork (TW)**					

5.	During problem-solving sessions, your firm makes an effort to get all team members' opinions and ideas before making a decision. **TW1**					
6.	Your firm forms teams to solve problems and in the past 3 years, many problems have been solved through small group sessions. **TW2**					
7.	Problem-solving teams have helped improve manufacturing processes at your firm. **TW3**					
8.	Employee teams are encouraged to try to solve their problems as much as possible at your firm. **TW4**					
	III. **Compensation/Incentives (CI)**					
9.	The incentive system at your firm encourages employees to pursue company objectives. **CI1**					
10.	The incentive system at your firm is fair at rewarding people who accomplish a company objective. **CI2**					

11.	The incentive system at your firm encourages people to reach company goals. **CI3**					
12.	The incentive system at your firm recognizes people who contribute the most to the company. **CI4**					
	IV. **HR planning (HRP)**					
13.	Your firm forecasts personnel requirements. **HRP1**					
14.	Your firm spends the amount of money on selecting staff. **HRP2**					
15.	There are several people involved in selection at your firm. **HRP3**					
16.	Your firm conducts structured and standardized interviews. **HRP4**					
	V. **Performance appraisal (PA)**					
17.	Your firm frequently does formal appraisals. **PA1**					
18.	Your firm frequently does informal appraisals. **PA2**					
19.	Your firm uses objective data for appraisals. **PA3**					

20.	Your firm uses subjective data for appraisals. **PA4**					
21.	Your firm utilizes the appraisal results. **PA5**					
	VI. **Employment security (ES)**					
22.	Employees in their jobs can expect to stay at your firm for as long as they wish. **ES1**					
23.	It is very difficult to dismiss an employee from his/her job at your firm. **ES2**					
24.	Job security is almost guaranteed to employees in their jobs at your firm. **ES3**					
25.	If your firm were facing economic problems, employees in their jobs would be the last to get cut. **ES4**					
	Business Strategy (BS)					
	I. **Cost Reduction Strategy (CRS)**					
26.	Your firm aims at lowering costs and promoting efficiency. **CR1**					

27.	Your firm implements strict control of cost. **CR2**					
28.	Your firm emphasizes efficient ways of operation. **CR3**					
29.	Your firm simplifies and standardizes the operating process. **CR4**					
	II. **Responsiveness/Time (Res)**					
30.	Your firm aims at innovation and responsiveness. **Res1**					
31.	Your firm uses less serving time than the competitors. **Res2**					
32.	Your firm highlights responsiveness to customers' demands. **Res3**					
	III. **Flexibility (Fl)**					
33.	Your firm's ability to adjust its changes in product mix quickly. (production flexibility). **Fl1**					
34.	Your firm's ability to change its capacity quickly. (production flexibility). **Fl2**					

	IV. **Quality Enhancement Strategy (QES)**					
35.	Your firm emphasizes product quality via the use of quality circles or work improvement teams. **QES1**					
36.	Your firm emphasizes continuous improvement of products to secure a long-term competitive edge. **QES2**					
	Entrepreneurial Orientation (EO)					
	I. Pro-activeness (Pro)					
37.	Your firm typically initiates actions that competitors then respond to. **Pro1**					
38.	Your firm is very often the first business to introduce new products/services, administrative techniques, operating technologies, etc. **Pro2**					
39.	The top manager of your firm has a strong tendency to be ahead of others in introducing novel ideas or products. **Pro3**					

	II. Innovativeness (Inn)					
40.	The top managers of your firm favor a strong emphasis on R&D, technological leadership, and innovations. **Inn1**					
41.	Very many new lines of products/services marketed in the past 5 years. **Inn2**					
42.	Changes in product or service lines have usually been quite dramatic. **Inn3**					
43.	Your firm emphasizes marketing ability as well as product development and design. **Inn4**					
44.	Your firm is constantly seeking new business opportunities. **Inn5**					
	III. Risk-taking Prosperity (RTP)					
45.	Your firm has a strong proclivity for high-risk projects (with chances of very high returns). **RTP1**					
46.	Owing to the nature of the environment, bold, wide-ranging					

	acts are necessary to achieve your firm objectives. **RTP2**					
47.	When confronted with decisions involving uncertainty, your firm typically adopts a bold posture to maximize the probability of exploiting opportunities. **RTP3**					
	MSEs Performance (MSEP)					
	I. Financial Performance (FP)					
48.	Investing in ethical practices may sometimes lead to lower short-term profitability, but it enhances long-term success. (profitability). FP1					
49.	Diversification of products or services is a key strategy for achieving long-term firm growth. (Growth). FP2					
50.	Your firm's ability to reduce its costs of product inspection, inventory, products, and overhead. (Efficiency) **FP3**					
	II. Non-Financial Performance (NFP)					
51.	Your firm's success in reducing delivery time, lead time, and cycle					

	time for its products significantly contributes to overall efficiency (product delivery). NFP1					
52.	Your firm's ability to provide fast and friendly service is a crucial factor in enhancing customer satisfaction. (Customer satisfaction) NFP2					
53.	Your firm's success in reducing costs is directly linked to an increase in market share. (cost quality) NFP3					
54.	Your firm's ability to increase its non-defective rate for its products significantly contributes to the overall quality of its products or services. (product/service quality) NFP4					
55.	Your firm's ability to maintain consistency in its product quality is a crucial aspect of delivering high-quality products or services. (product/service quality) NFP5					

Appendix 2: Questionnaire Cover Letter

Research Topic: ***The Relationship between HRM Practices, Entrepreneurial Orientations, and Performance of MSEs: The Mediating Role of Business Strategy***

Dear Participant,

Warm Greetings,

My name is Nuru Siraj, and I am a PhD student in the Doctoral School of Economic and Regional Sciences at the Hungarian University of Agriculture and Life Sciences (MATE). The survey below is part of my PhD research under the supervision of Dr. habil. István Hágen Zsombor. This research aims to investigate how Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) influence the performance of Micro and Small Enterprises (MSEs), with special emphasis on the mediating role played by Business Strategy.

This research is motivated by the growing recognition of MSEs as key drivers of economic development, especially in developing economies. Understanding the internal strategic and managerial factors that contribute to their performance is crucial for policy and practice. The study specifically focuses on the extent to which HRM practices and EO behaviors foster better strategic alignment and improved firm outcomes.

Your participation in this survey will take approximately 10–15 minutes. Please be assured that your responses will be treated with the strictest confidentiality and used solely for academic research purposes. No personally identifiable information will be collected or disclosed. This study is purely academic and has no commercial objective.

Should you have any questions about the study or if you wish to receive a summary of the research findings upon completion, please feel free to contact me at the email address below. Thank you very much for your time, support, and valuable contribution to this study.

Sincerely,

Nuru Siraj
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Hungarian University of Agriculture and Life Sciences (MATE)
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WhatsApp: +36707202739

Appendix 3: Exploratory Factor Analysis and Reliability of Variables: Correlation Analysis

Correlation analysis

corr pmesall tdall twall ciall herpall paalla esall crall resall qesall proall

(obs=366)

	pmesall	tdall	twall	ciall	herpall	paalla	esall	crall	resall	qesall	proall
pmesall	1.0000										
tdall	-0.0858	1.0000									
twall	-0.0201	0.0309	1.0000								
ciall	0.3113	-0.0327	-0.0235	1.0000							
herpall	0.2146	-0.0296	0.0906	0.2736	1.0000						
paalla	0.2113	-0.0615	0.0947	0.3171	0.3462	1.0000					
esall	0.2784	-0.0964	-0.0410	0.3536	0.1980	0.2898	1.0000				
crall	0.4102	-0.0540	0.0116	0.3364	0.2801	0.3321	0.2133	1.0000			
resall	0.2662	0.0373	-0.0572	0.1463	0.0755	0.1239	0.1396	0.1573	1.0000		
qesall	0.2863	-0.0819	-0.0210	0.1623	0.0733	0.1971	0.3026	0.2449	0.1449	1.0000	
proall	0.7367	-0.0608	0.0107	0.2588	0.2501	0.1753	0.0756	0.3253	0.1348	0.1729	1.0000

Appendix 4: Results of Multiple Linear Regression Analysis on the Determinants of MSE Performance

reg pmesall tdall twall ciall herpall paalla esall crall resall qesall proall

Source	SS	df	MS	Number of obs	=	366
Model	37.0814065	10	3.70814065	F(10, 355)	=	61.85
Residual	21.2847137	355	.05995694	Prob > F	=	0.0000
Total	58.3661202	365	.159907179	R-squared	=	0.6353
				Adj R-squared	=	0.6251
				Root MSE	=	.24486

pmesall	Coef.	Std. Err.	t	P>|t|	[95% Conf. Interval]	
tdall	-.0272533	.0382036	-0.71	0.476	-.1023872	.0478806
twall	-.006259	.0291651	-0.21	0.830	-.0636171	.0510991
ciall	.0208948	.0318446	0.66	0.512	-.041733	.0835225
herpall	-.0272565	.0298831	-0.91	0.362	-.0860267	.0315137
paalla	-.0190457	.0322178	-0.59	0.555	-.0824075	.044316
esall	.1323563	.0297086	4.46	0.000	.0739293	.1907832
crall	.1199334	.0338615	3.54	0.000	.0533391	.1865277
resall	.0940102	.024726	3.80	0.000	.0453825	.142638
qesall	.0496975	.023341	2.13	0.034	.0037936	.0956015
proall	.5129807	.0274854	18.66	0.000	.458926	.5670355
_cons	.5859006	.2008703	2.92	0.004	.1908552	.9809459

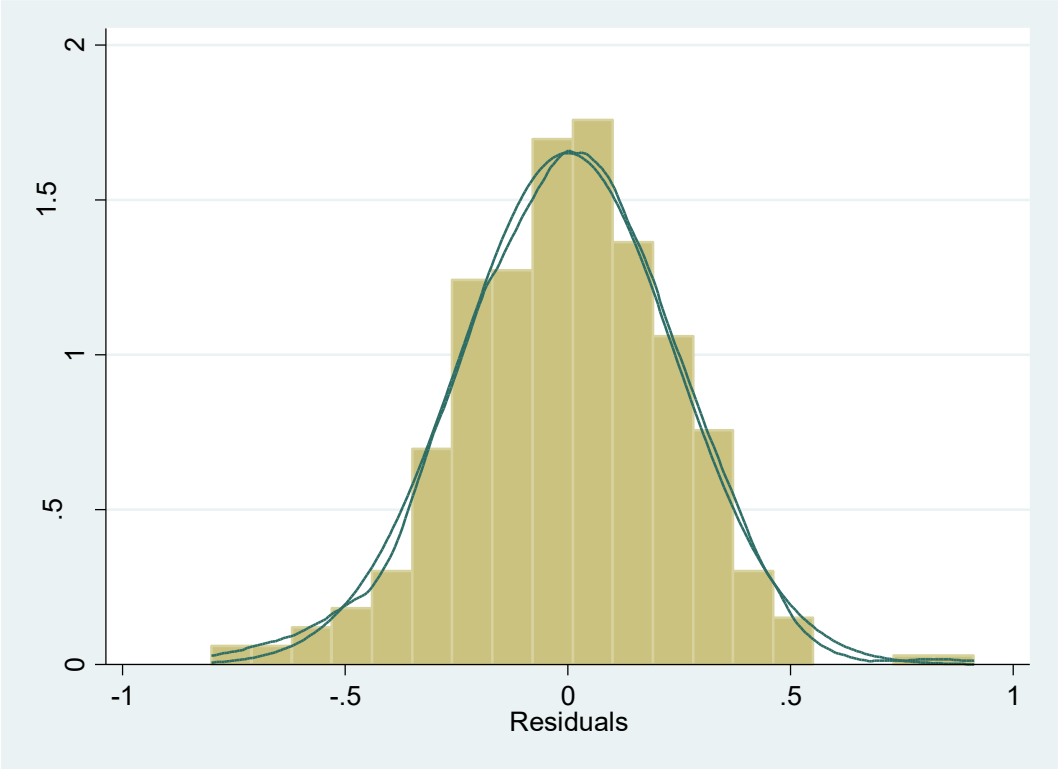
Appendix 5: Normality Test of Residuals

1) **Normality Test**
   A) **Skewness test**

Skewness/Kurtosis tests for Normality

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj chi2(2)	Prob>chi2
			------ joint ------		
resid	366	0.2914	0.0316	5.75	0.0566

   B) **Histogram Test**



histogram resid, kdensity normal

(bin=19, start=-.80025721, width=.09014509)

2) Heteroscedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of pmesall

chi2(1) = 3.30

Prob > chi2 = 0.0695

3) Model Specification test (Ramsey Test)

Ramsey RESET test using powers of the fitted values of pmesall

Ho: model has no omitted variables

F(3, 352) = 1.23

Prob > F = 0.2975

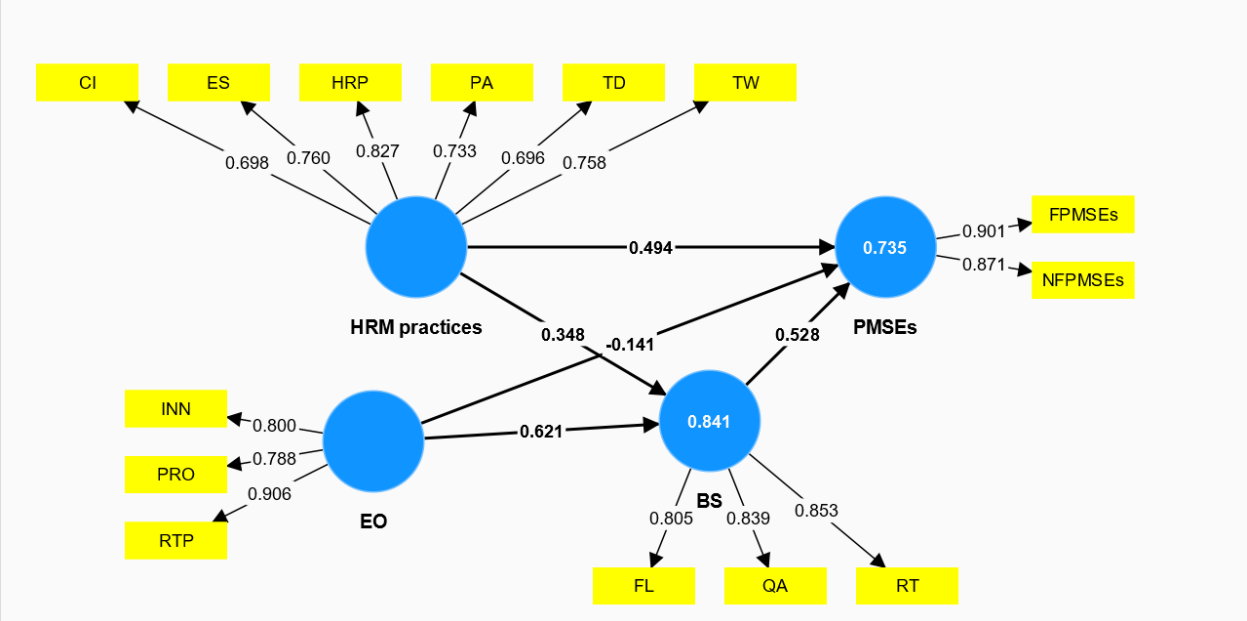
4) Auto correlation test

Durbin-Watson d-statistic(11, 366) = 1.588187

5) Multicollinearity Test

Variable	VIF	1/VIF
ciall	1.34	0.747493
crall	1.33	0.749150
paalla	1.32	0.756961
esall	1.30	0.772117
herpall	1.24	0.803517
proall	1.20	0.830645
qesall	1.18	0.850279
resall	1.07	0.938555
twall	1.03	0.973661
tdall	1.02	0.979221
Mean VIF	1.20	

Appendix 6: Measurement Model Result



Appendix 7: Structural Model Equation