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

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1. INTRODUCTION

This study explores how Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) influence the performance of Micro and Small Enterprises (MSEs) in Ethiopia's Amhara region, with Business Strategy (BS) examined as a mediating factor. HRM practices including recruitment, training, and rewards are strategic mechanisms for aligning human capital with organizational goals (ARMSTRONG, 2006; AHMAD, 2015; TAYLOR, DOHERTY, & MCGRAW, 2015; KUHN, MEIJERINK, & KEEGAN, 2021). These practices contribute to improved organizational performance when integrated with business strategy (SANZ-VALLE, SABATER-SANCHEZ, & ARAGON-SANCHEZ, 1999; JOTABÁ ET AL., 2022).

MSEs in Ethiopia are defined by limited capital (20,000 to over 500,000 Birr) and small workforces (ETIA, 2008; WORLD BANK, 2002). Strategic HRM practices such as those identified by AKHTAR, DING, AND GE (2008), including training, teamwork, HR planning, performance appraisal, and job security enhance firm performance (OGUNYOMI & BRUNING, 2016). Simultaneously, EO dimensions like proactiveness, innovativeness, and risk-taking drive MSE adaptability and competitive edge when channeled through coherent business strategies, including cost reduction and responsiveness (MOUSTAGHFIR, EL FATIHI, & BENOUARREK, 2020; RAHAMAN ET AL., 2021).

1.1 Background of Study

Micro and Small Enterprises (MSEs) are critical to global economic development, accounting for approximately 90% of all businesses and over 50% of employment worldwide (KITHAE, NYAGA & KIMANI, 2013; OSOTIMEHIN ET AL., 2012; OPPONG, OWIREDU & CHURCHILL, 2014). In emerging economies, formal MSEs contribute up to 40% of GDP, a figure that increases substantially when informal enterprises are included (GILMORE ET AL., 2013). With the need for 600 million new jobs by 2030, promoting MSE development is a global priority (SETHA & PENH, 2020; WORLD BANK, 2019).

In Ethiopia, MSEs dominate the private sector and play a vital role in industrial transformation, employment generation, and regional development (GREEN, KIRKPATRICK & MURINDE, 2006; DRBIE & KASSAHUN, 2013; ABEBE & GEMEDA, 2020). They account for a significant share of GDP, particularly in distribution services and trade, which contributed 15% and 24% to GDP in 2020 (WORLD BANK, 2022). Yet, MSEs face persistent challenges such as limited access to finance, lack of strategic orientation, and insufficient HRM capabilities (SEYFEDIN, 2020).

Strategic agility is defined as an enterprise's ability to reconfigure resources, innovate, and compete is key to MSE sustainability. HRM practices facilitate this by mapping skills, promoting learning, and motivating performance (ADLA, GALLEGO-ROQUELAURE & CALAMEL, 2019). Despite the potential of HRM and entrepreneurial orientation (EO) to boost performance,

most research in Ethiopia has focused on large firms, neglecting MSE-specific dynamics (DABIĆ, ORTIZ-DE-URBINA-CRIADO & ROMERO-MARTÍNEZ, 2011; REN & JACKSON, 2020).

There is growing recognition of the link between HRM, EO, and firm performance, though results remain inconclusive (MESSERSMITH & WALES, 2013). Few studies explore the mediating role of business strategy (BS), especially in MSEs. This research addresses that gap by investigating how HRM practices and EO influence performance through BS, contributing new insights to HRM and entrepreneurship literature.

1.2Statement of the Problem

Micro and Small Enterprises (MSEs) are crucial to Ethiopia's socio-economic development and serve as key instruments for achieving the country's Growth and Transformation Plan (GTP). They offer low-cost employment, foster indigenous entrepreneurship, and contribute significantly to GDP, regional equity, and industrial transformation (TADESSE, 2010). Despite their potential, many Ethiopian MSEs face stagnation due to weak internal capabilities.

Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) have emerged as critical internal drivers of firm performance. Studies reveal that HRM practices such as training and development, recruitment, performance appraisal, and compensation positively affect organizational outcomes (CARLSON, UPTON & SEAMAN, 2006; PAO-LONG & WEI-LING, 2002; TZAFRIR, 2006; ACQUAAH, 2004). Similarly, EO dimensions of innovativeness, proactiveness, and risk-taking have been found to enhance MSE performance across various sectors (SCHEPERS ET AL., 2014; ASAD, SHARIF & HAFEEZ, 2016; RAHAMAN ET AL., 2021; ANDERSÉN, 2010).

Business strategy plays a mediating role in leveraging HRM and EO for competitive advantage. It channels internal capabilities into market-oriented actions that enhance efficiency, quality, flexibility, and responsiveness (YAKHOU & DORWEILER, 2004; OGOT, 2014A). Strategic alignment between HRM and business objectives has also been shown to increase performance outcomes (KELLIHER & PERRETT, 2001; ISMAIL, 2018; LIAO, 2005).

However, in Ethiopia, particularly in the Amhara region—there is limited empirical evidence linking HRM practices and EO to MSE performance through the mediating role of business strategy. Moreover, weak implementation and coordination among these variables contribute to the sector's underperformance and the broader stagnation of industrial growth (ABEBAW, MULATE & NIGUSSIE, 2018).

This study aims to fill this gap by examining how HRM practices (training, teamwork, HR planning, performance appraisal, incentives, and employment security) and EO (innovativeness, proactiveness, risk-taking) influence MSE performance through business strategies (cost reduction, quality improvement, flexibility, responsiveness). Findings are expected to guide policymakers, MSE owners, and development partners in making evidence-based decisions for economic transformation.

1.3 The rationale of the Study

The need to enhance the competitiveness and sustainability of MSEs in Ethiopia calls for an integrated understanding of how internal capabilities translate into performance. While HRM and EO are widely acknowledged as performance drivers, their effect is often contingent upon strategic implementation. By incorporating business strategy as a mediating variable, this study offers a more comprehensive framework for understanding performance outcomes in MSEs. The findings are expected to inform HRM policy design, entrepreneurship support programs, and strategic development initiatives targeting small enterprises in emerging markets.

1.4 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.

2. REVIEW LITERATURE AND HYPOTHESIS

2.1 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.*

2.2 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.*

2.3 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 (ZENG, XIE & TAM, 2007). 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 (2001) 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.*

2.4 The Mediating Role of Business Strategy Between HRM Practices 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.*

2.5 The Mediating Role of Business Strategy Between Entrepreneurial Orientation and PMSEs

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.*

2.6 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.*

2.7 Conceptual Framework

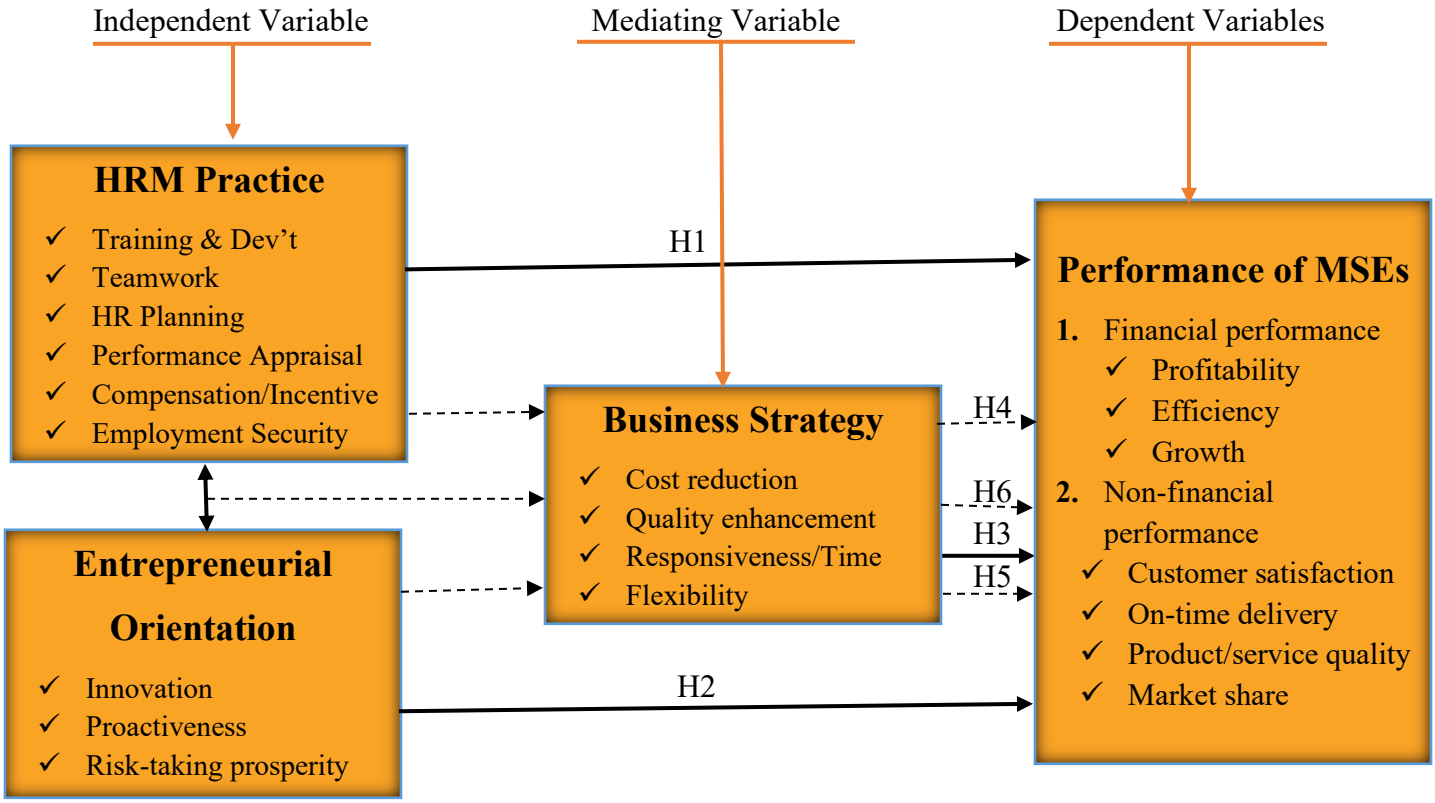

Figure- 1: Conceptual Framework

Source: *Researchers' design based on literature review*

3. METHODS AND MATERIALS USED

3.1 Research Design

This study adopts a cross-sectional survey design with an explanatory research approach to investigate how Human Resource Management (HRM) practices and Entrepreneurial Orientation (EO) affect the performance of Micro and Small Enterprises (MSEs), and the mediating role of Business Strategy (BS) in this relationship. A cross-sectional survey allows data to be collected at a single point in time from a specific population and is suitable for studies involving multiple variables (PANDEY & PANDEY, 2021; OPOKU, AHMED & AKOTIA, 2016). It enables descriptive and inferential analysis, offering a snapshot of relationships among variables (SEDGWICK, 2014; GROVES ET AL., 2011; KOTHARI, 2004; VAN DER STEDE, 2014).

To gain a comprehensive understanding, a mixed-method approach is employed, integrating both quantitative and qualitative data collection and analysis. The mixed design is supported by PRAGMATISM, which values practical problem-solving and the integration of multiple perspectives (ONWUEGBUZIE, JOHNSON & COLLINS, 2009; BRYMAN, 2006). This approach facilitates deeper insight by combining numerical data with narrative perspectives (TAYLOR, 2005).

3.2 Research Approach

The research integrates quantitative and qualitative methodologies. Quantitative methods provide measurable evidence, while qualitative methods offer nuanced understanding. The mixed-method approach addresses limitations inherent in each method by allowing triangulation and enhancing the validity of findings (LAKSHMAN ET AL., 2000; BRYMAN, 2006). This combined approach ensures the study captures both statistical significance and contextual understanding.

3.3 Study Area, Population, and Sampling Procedure

The study is conducted in seven zonal towns of the Amhara Regional State of Ethiopia—Bahirdar, Gonder, Dessie, Debremarikos, Debretabur, Woldia, and Debrebirhan—chosen for their economic relevance and accessibility. The region consists of 11 zones and has a population of over 20 million (AMHARA INVESTMENT PROFILE, 2019). The study targets registered MSEs operating in trade, manufacturing, and service sectors, totaling 39,699 businesses (NATIONAL BANK OF ETHIOPIA, 2021).

The sample size was determined using YAMANE'S (1967) formula, assuming a 95% confidence level and a 5% margin of error, resulting in 396 respondents**.** A stratified random sampling technique was employed, dividing businesses by sector to ensure representation (TAHERDOOST, 2016). Proportionate stratified sampling allocated samples across towns and sectors, while judgmental sampling was used to select respondents willing to participate.

3.4 Data Type and Sources

Both primary and secondary data were utilized. Primary data were collected via structured questionnaires**,** semi-structured interviews, and focus group discussions (FGDs)**.** Secondary data were sourced from published books, articles, and reports relevant to HRM, EO, and BS. A five-point Likert scale (1 = strongly disagree to 5 = strongly agree) was used in the questionnaire to standardize responses (DAWES, 2008).

3.5 Instruments and Methods of Data Collection

3.5.1 Questionnaire

A self-administered structured questionnaire consisting of two sections was used: demographic characteristics and research-related statements. Before distribution, the researcher explained the study's purpose and confidentiality measures to encourage participation.

3.5.2 Interview

Semi-structured interviews were conducted with selected MSE owners and employees. The interviews explored perspectives on HRM, EO, and BS (GUBRIUM & HOLSTEIN, 2001). Notes were taken and later analyzed thematically.

3.5.3 Focus Group Discussions

FGDs were conducted with MSE managers and local government experts to triangulate quantitative findings and gather deeper insight. Discussions were transcribed, coded, and integrated into the analysis.

3.6 Research Model and Analytical Framework

The analytical model applies hierarchical regression to test direct and mediating relationships. The base regression model is:

$Yi = \beta_0 + \beta_1 X_1 i + \beta_2 X_2 i + \ldots + \beta n Xni + \varepsilon i$

This is adapted as:

$PER = \beta_0 + \beta_1 HRM + \beta_2 EO + \beta_3 BS + \varepsilon$

Where:

- **PER** = MSE performance (dependent variable)
- **HRM** = Human Resource Management practices
- **EO** = Entrepreneurial Orientation
- **BS** = Business Strategy
- **ε** = Error term

3.7 Measurement, Reliability, and Validity

Measurement scales were adopted from validated sources:

- **HRM practices**: 25 items (ABDULLAH, AHSAN & ALAM, 2009; LEE, LEE & WU, 2010; HUSSAIN & REHMAN, 2013; IQBAL, 2018)

- **EO**: 11 items covering innovativeness, proactiveness, and risk-taking (BAKAR & ZAINOL, 2015; ASAD ET AL., 2018; HAMDAN & ALHEET, 2020)
- **BS**: 11 items adapted from DESHPANDE (2012)
- **Performance**: 8 items—3 financial and 5 non-financial—developed by the researcher

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 & SARSTEDT, 2015; ROSHANDEL-ARBATANI ET AL., 2019). KMO > 0.6 and significant Bartlett's Test ($p < 0.05$) indicated sampling adequacy for factor analysis.

3.8 Data Processing and Analysis

Data was edited, coded, and entered into SPSS v26 and SmartPLS v3. Pre-coded Likert responses facilitated entry. Descriptive statistics, CFA**,** Path Analysis**,** correlation**,** regression**,** and Structural Equation Modeling (SEM) were used to test hypotheses and model relationships.

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.

Table 1: Background of Respondents

Category	Variable	Frequency	Percent	Cumulative %
Gender	Male	141	38.5	38.5
	Female	225	61.5	100.0
Age	<30 years	48	13.1	13.1
	30-40	166	45.4	58.5
	40-50	121	33.1	91.5
	>50 years	31	8.5	100
Education level	Highschool	2	0.5	0.5
	Degree	40	10.9	11.5
	Master's	241	65.8	77.3
	PhD	83	22.7	100
Experience	<3 years	5	1.4	1.4
	3–6 years	50	13.7	15
	6–9 years	175	47.8	62.8
	>9 years	136	37.2	100
Age of their business	<2 years	2	0.5	0.5
	2–4 years	31	8.5	9
	4–6 years	148	40.4	49.5
	>6 years	185	50.5	100
Number of employees	2–20	8	2.2	2.2
	20–100	65	17.8	19.9
	100–500	161	44	63.9
	500–2,000	132	36.1	100
Capital	50,000–500,000 ETB	20	5.5	5.5
	500,000–1,000,000 ETB	194	53	58.5
	>1,000,000 ETB	152	41.5	100
Business Type	Trade	58	15.8	15.8
	Manufacturing	81	22.1	38
	Service	227	62	100

Source: Own Survey, 2024

The demographic distribution of the respondents reveals that a significant majority are female (61.5%), with the largest age group being individuals aged 30–40 years (45.4%), followed by those aged 40–50 (33.1%). The sample survey also shows a highly educated population, with 65.8% holding master's degrees and 22.7% holding PhDs, indicating the study engaged an academically accomplished group. Furthermore, most respondents are seasoned professionals—47.8% have 6–9 years of business experience, and 37.2% have over 9 years. This suggests the findings are informed by the perspectives of individuals who are both professionally and educationally experienced, potentially enhancing the reliability and depth of the insights gathered.

In terms of business characteristics, most businesses are well-established, with 50.5% operating for more than six years and 40.4% in the 4–6 years range. Most businesses also employ a large workforce, with 44.0% having 100–500 employees and 36.1% employing 500–2,000, suggesting that the study primarily includes medium- to large-sized enterprises. Regarding capital, 53.0% of respondents manage businesses with capital ranging between 500,000–1,000,000 ETB, and 41.5% control more than 1,000,000 ETB. This distribution further supports the notion that the sample consists mostly of financially stable and established entities.

Finally, the dominant business sector among respondents is the service industry (62.0%), followed by manufacturing (22.1%) and trade (15.8%). The prevalence of service-oriented businesses may reflect broader economic patterns, such as growing demand for services or lower entry barriers compared to manufacturing. These distributions suggest a need for policymakers and researchers to tailor their strategies and analyses according to the predominant sectors and characteristics of the business environment. Moreover, while the sample provides valuable insights from experienced and well-resourced businesses, future studies may need to include more diverse participants, especially less experienced or lower-capital enterprises, to enhance generalizability.

4.2 Normality Test of Residuals

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.

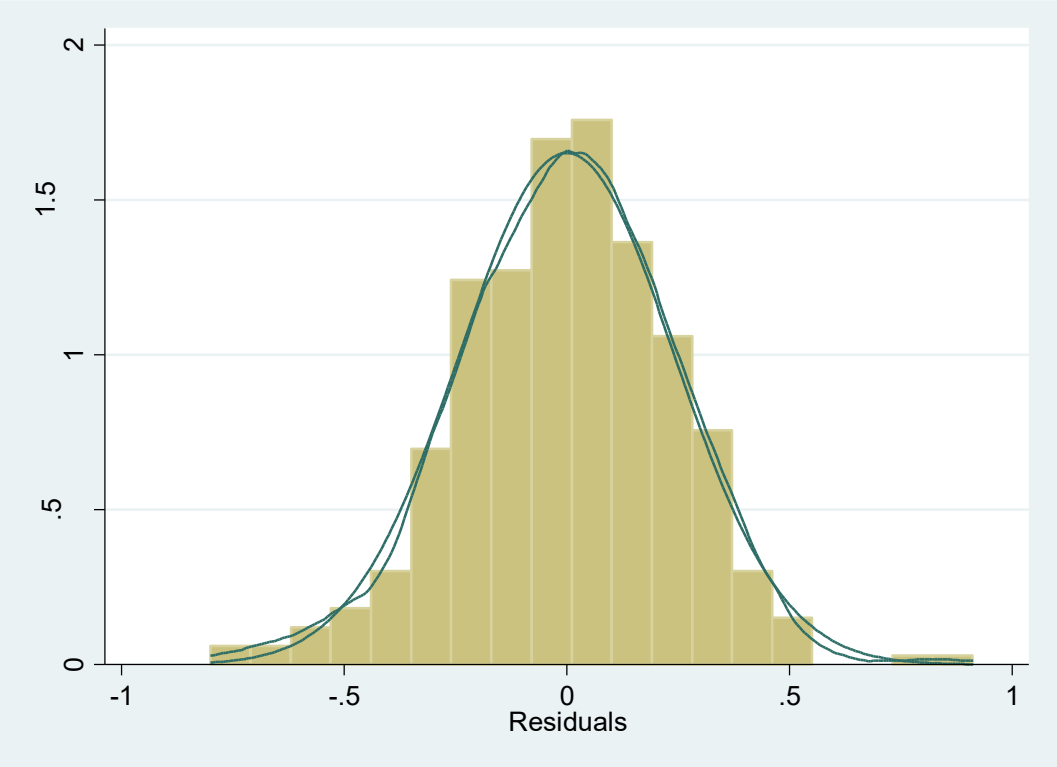

Figure 2: Residual Density Plot for Assessing Normality Assumption in the Regression Model

Source: Own Survey, 2024

Figure 2 presents a residual density plot used to assess the normality assumption in a regression model. 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

4.3.1 Cronbach's Alpha

Table 2: 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 & Small Enterprises*

Source: Own Survey, 2024

Table 2 presents key psychometric properties reliability and convergent validity for four latent constructs: HRM practices, Entrepreneurial Orientation (EO), Business Strategy (BS), and Performance of Micro and Small Enterprises (PMSEs). These statistics assess whether the items used to measure these constructs are consistent and valid. The key indicators are Cronbach's Alpha, Composite Reliability (rho_a and rho_c), and Average Variance Extracted (AVE).

All constructs exceed the generally accepted threshold of 0.70 (NUNNALLY & BERNSTEIN, 1994), indicating acceptable to good internal consistency. HRM practices demonstrate the highest reliability (0.841), suggesting strong internal consistency. PMSEs, while lowest, are still within the acceptable range (0.727).

Composite reliability values (especially rho_c) for all constructs are above 0.70, confirming that the constructs are measured with high reliability. Again, HRM practices have the highest rho_c (0.883), reinforcing their strong measurement quality. Notably, even the lower rho_a for PMSEs (0.735) remains acceptable.

An AVE $\geq$ 0.50 indicates that a construct explains more than half of the variance in its indicators (FORNELL & LARCKER, 1981), confirming convergent validity. All constructs meet this criterion. PMSEs stand out with the highest AVE (0.785), indicating very strong convergent validity. HRM practices, while lowest (0.558), still surpass the threshold.

4.3.2 R - Square Result

Table 3: 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: Own Survey, 2024

Table 3 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.

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 HRMP, Entrepreneurial Orientation, Business Strategy, and PMSEs

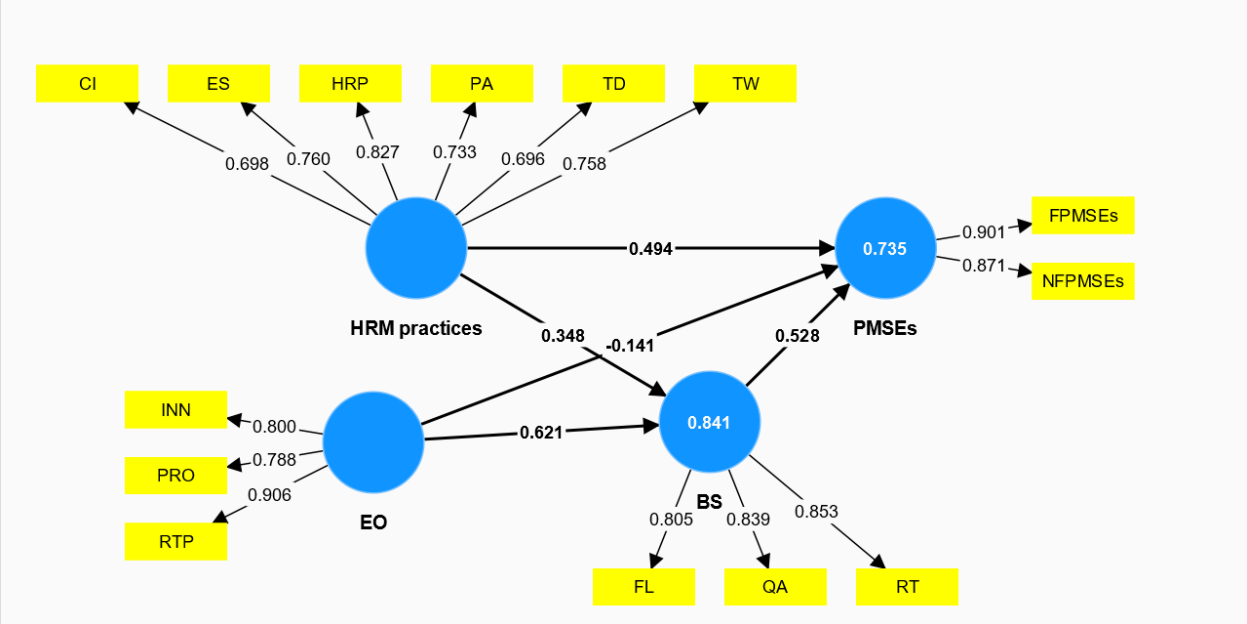

Figure 3: Structural Model with Path Coefficients and R-Square Values

- ***TD*** = *Training & 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 & Micro Enterprises,* ***NFPSMEs*** = *Non-financial performance of Small & Micro Enterprises*

Source: 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 & Small Enterprises (FPMSEs) and Non - Financial Performance of Micro & 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 & Small Enterprises (FPMSEs) (0.901) and Non - Financial Performance of Micro & 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.

4.4.2 Human Resource Management 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). This unexpected relationship may suggest a potential disconnect between HR-oriented policies and strategic decision-making, or it could reflect the indirect effect of HRM practices being mediated through other constructs like EO. Further investigation into moderating variables or contextual influences may be warranted to fully understand this dynamic.

4.4.3 Entrepreneurial Orientation and Its Role

Entrepreneurial Orientation shows a strong positive influence on Business Strategy (0.621), affirming that innovation, proactiveness, and risk-taking are critical drivers of strategic formulation. The loadings for EO indicators are robust (0.788 to 0.906), indicating that these characteristics are well-represented and central to entrepreneurial behavior within micro and small enterprises. Moreover, EO also has a moderate direct impact on PMSEs (0.348), which supports the theory that entrepreneurial attributes contribute directly to performance, although their influence is also channeled through strategic implementation.

4.4.4 Business Strategy as a Mediator

The role of Business Strategy as a mediator is further validated by its strong direct path to PMSEs (0.528). The indicators of BS—Flexibility (0.805), Quality Assurance (0.839), and Responsiveness/Time (0.853)—demonstrate the critical capabilities that enterprises need to sustain competitive advantage. The high R-squared value for BS (0.841) indicates that the combined effects of EO and HRM practices explain a substantial portion of the variance in strategic behavior, positioning BS as a pivotal element in driving enterprise performance.

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 & 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 Correlations between Organizational Variables and PMSE Effectiveness

Table 4: Measurement Model: Indicator Loadings for Reflective Constructs

	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		
QA	0.839			
RT	0.853			
RTP		0.906		
TD			0.696	
TW			0.758	

- ***TD*** *= Training & 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 & Micro Enterprises,* ***NFPSMEs*** *= Non-financial performance of Small & Micro Enterprises*

Source: Own Survey, 2024

Table 4 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 suggest 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

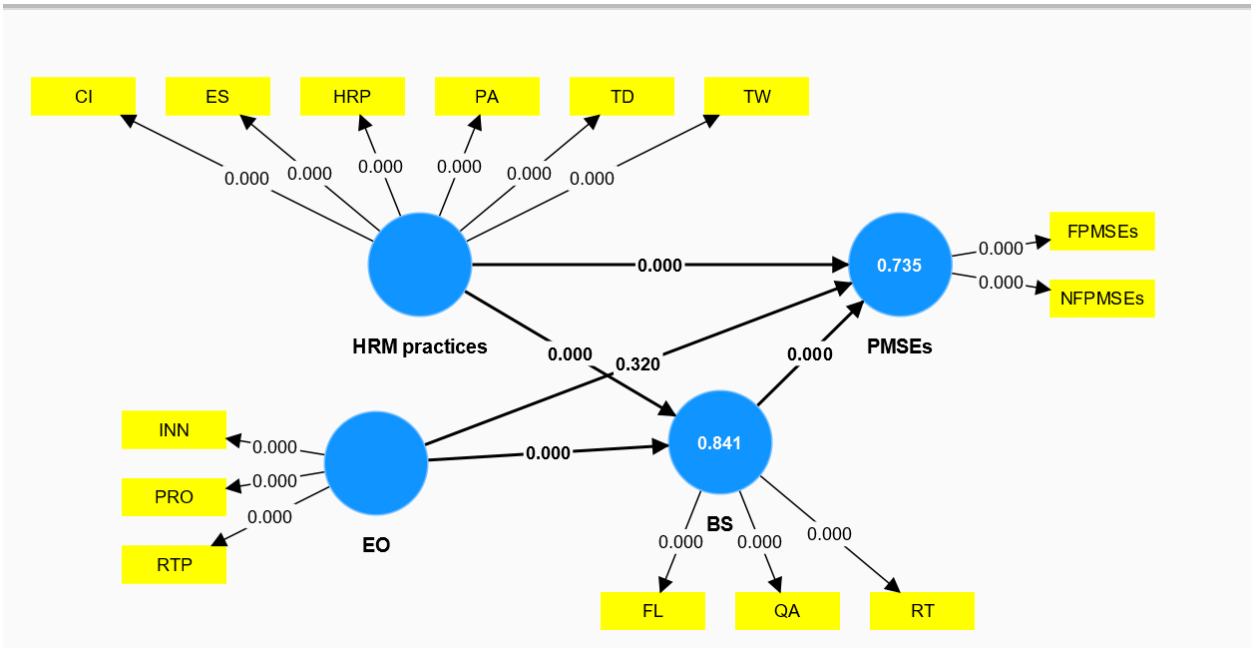

Figure 4: Structural Model with Path Significance (p-values) and R-Square Values

- ***HRM practices*** = *Human Resource Management practices,* ***EO*** = *Entrepreneurial Orientation,* ***BS*** = *Business Strategy,* ***PMSEs*** = *Performance of Micro & Small Enterprises,* ***TD*** = *Training & 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 & Micro Enterprises,* ***NFPSMEs*** = *Non-financial performance of Small & Micro Enterprises*

Source: 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.

4.6 Regression 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 5: Significance Testing of Structural Path Coefficients

	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 & Small Enterprises*

Source: Own Survey, 2024

Table 5 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 & 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 6: 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: Own Survey, 2024

Table 6 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 & 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 & 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 that 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 4.6 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.

Indirect Relationship

Table 4.6 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.

5. CONCLUSIONS, RECOMMENDATIONS, AND IMPLICATIONS

5.1 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.

5.2 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.

5.3 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.

5.4 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.

5.5 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 provides a comprehensive understanding of how internal capabilities are transformed into performance outcomes in resource-constrained environments. The research challenges conventional theoretical assumptions, introduces new conceptual perspectives, and validates an empirically grounded framework.

1. One of the most important contributions 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 research often treats business strategy as an independent or moderating variable, this study reconceptualizes it as a vital bridging mechanism that converts intangible organizational resources into operational performance. Mediation analysis confirmed that both HRM practices and EO significantly influence business strategy, which, in turn, has a direct and positive effect on performance. The indirect effect pathways: HRM → BS → Performance and EO → BS → Performance, were found to be statistically significant, with p-values of 0.004 and 0.001, respectively. This finding reframes business strategy not as an auxiliary input, but as a central driver in the capability-performance chain, providing deeper insight into how internal alignment shapes enterprise outcomes.
2. Another key contribution lies in the **disaggregated analysis of HRM practices**. Rather than treating HRM as a monolithic construct, the study investigates the distinct impact of six individual HR practices: training and development, teamwork, HR planning, performance appraisal, compensation/incentives, and employment security. The findings reveal that not all HRM practices contribute equally to performance. Practices such as training and development, HR planning, and performance appraisal demonstrated the most substantial positive effects on both financial and non-financial performance outcomes. In contrast, employment security and teamwork had weaker or more context-sensitive impacts. These results offer actionable insights for MSE owners and practitioners, suggesting that developmental and strategic HR functions should be prioritized over administrative ones, particularly in low-income and emerging economies where resources are limited.
3. The study also introduces the original concept of **"strategic activation"**, which refers to the process by which entrepreneurial energy, manifested in EO, is effectively harnessed through enabling HR systems. Qualitative data from interviews and focus group discussions revealed that entrepreneurial behaviors such as innovativeness, proactiveness, and risk-taking were only successfully translated into business performance when supported by a solid HRM infrastructure. Firms that lacked structured HR systems often failed to capitalize on their entrepreneurial potential, whereas those with targeted training, performance-based incentives, and strategic HR planning were more likely to realize measurable performance gains. This

insight contributes a new dimension to EO theory, underscoring that behavioral orientations alone are insufficient unless paired with enabling structural and procedural supports.

4. In terms of theoretical development, this research provides a **contextual adaptation of the AMO (Ability, Motivation, Opportunity) framework and Strategic Fit Theory** for MSEs operating in resource-limited environments. Originally conceptualized for large organizations, the AMO model is reinterpreted in this study through both quantitative and qualitative findings. "Ability" in MSEs is often developed through informal mentoring and on-the-job training; "Motivation" is driven by autonomy, recognition, and non-monetary rewards; and "Opportunity" is provided through participatory decision-making and flexible roles. These localized adaptations enhance the model's relevance to small, informal, or semi-formal enterprises. Similarly, Strategic Fit Theory, typically reliant on formal planning systems, is shown to be applicable in MSEs through adaptive learning, informal goal alignment, and iterative strategy formulation. These adjustments expand the generalizability of both models and underscore their applicability beyond large corporations.
5. The final contribution is the **development and empirical validation of an integrated model** that links HRM practices, EO, and business strategy to MSE performance. This model provides a unified framework that bridges the HRM and entrepreneurship literature within the context of small enterprises, particularly in developing countries. By testing this model with robust statistical methods, the study not only validates existing constructs but also introduces new pathways and relationships that reflect the realities of enterprise growth in volatile and under-resourced environments.

In conclusion, this dissertation delivers a set of cohesive and innovative scientific contributions that enrich the theoretical understanding and practical management of MSEs. It redefines business strategy as a key- mediating mechanism, distinguishes the relative effectiveness of different HRM practices, introduces the concept of strategic activation, and contextualizes well-known theoretical models for smaller enterprises. Collectively, these findings offer a robust framework for scholars, entrepreneurs, and policymakers aiming to unlock the transformative potential of MSEs as drivers of inclusive economic development.

6. LIST OF PUBLICATIONS

Scientific journal articles in English

- 🕮 Mohammed, N.S. and Hágen, I.Z. (2023) 'Performance management system and its role for employee performance. Evidence from Ethiopian SMEs', *HELIYON*, 9(11). Available at: https://doi.org/10.1016/j.heliyon.2023.e21819.

- 🕮 Hágen, I.Z. *et al.* (2022a) 'CONTROLLING AND LOGISTICS IN STRATEGIC AND OPERATIONAL THINKING', in Z. Bujdosó (ed.) *XVIII. Nemzetközi Tudományos Napok [18th International Scientific Days] : A „Zöld Megállapodás" – Kihívások és lehetőségek [The 'Green Deal' – Challenges and Opportunities] : Tanulmányok [Publikcations]*. Gyöngyös: Magyar Agrár- és Élettudományi Egyetem Károly Róbert Campus, pp. 273–279. Available at: https://m2.mtmt.hu/api/publication/33702052.

- 🕮 Hágen, I.Z. *et al.* (2022b) 'CONTROLLING AND LOGISTICS IN STRATEGIC AND OPERATIONAL THINKING'. Available at: https://m2.mtmt.hu/api/publication/32876156.

- 🕮 Mohammed, N.S. *et al.* (2022) 'Linking Leadership to Employees Performance: The Mediating Role of Human Resource Management', *ECONOMIES*, 10(5). Available at: https://doi.org/10.3390/economies10050111.

- 🕮 Cahyadi, A. *et al.* (2022) 'Leadership Styles, High-Involvement Human Resource Management Practices, and Individual Employee Performance in Small and Medium Enterprises in the Digital Era', *ECONOMIES*, 10(7). Available at: https://doi.org/10.3390/economies10070162.

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- 🕮 Mohammed, N.S. (2020) 'A Study of Customers' Behaviour towards Local and Imported Compact Cars (Comparative Analysis of Lifan and Marathon Motors Plc)', *International Journal of Research and Analytical Reviews*, 7(4), pp. 271–279.

- 🕮 Mohammed, N.S. and Hágen, I.Z. (2020) 'Effectiveness of Instructors Performance Appraisal Process in Woldia University. A Case of Main Campus', in R. Magda (ed.) *Conference Proceedings of the 1st Online International Scientific Conference*. Gödöllő: Szent István University Publishing House, pp. 130–141. Available at: https://m2.mtmt.hu/api/publication/32489824.

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