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KEYWORDS	ABSTRACT
Financial capability, SME performance, Financial self-efficacy, Internal locus of control, Theory of planned behavior, Resource-based view	This study empirically investigates the impact of owners' financial capabilities on SME performance in Pakistan. The study further investigates the mediating role of financial self-efficacy and the moderating effect of internal locus of control. Grounded in theory of planned behavior and resource-based view, the study explores how individual-level financial capabilities translate into improved firm outcomes such as financial performance. Data were collected from SME owners across various sectors in Pakistan using a purposive sampling technique to ensure representative coverage. After removing incomplete responses, final dataset consisted of 363 responses. PLS-SEM was employed by using SMART PLS-04 and analysis confirms a significant direct relationship between owners' financial capabilities and SME performance, suggesting that financially capable owners are more likely to drive business success. Furthermore, financial self-efficacy significantly mediates this relationship, indicating that confidence in financial decision-making enhances the positive impact of financial capabilities on performance. However, the moderating role of internal locus of control was found to be insignificant, implying that the personal belief in controlling outcomes does not significantly influence the strength or direction of the financial capabilities-performance relationship. The study contributes to the literature by empirically validating the mediating role of financial self-efficacy in the SME sector of a developing country. Policy implications include the need for targeted financial training programs to build financial confidence among SME owners.
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Introduction

Study Background

Although the majority of organizations globally are small, their significance to both developed and developing economies and communities cannot be denied (Arnold, 2019). In every nation, SMEs are viewed as the basis of economic expansion (Singh et al., 2008). Research demonstrates that SMEs make a greater contribution to their country's prosperity than is reasonable (Devos & Chen, 2022). According to (Hidayanti et al., 2023), business performance i.e. financial performance gives firms feedback on the goals they have established. The tactics that an organization anticipates and employs have the greatest impact on business performance (Şimşek & Bulut, 2024). The degree to which managerial objectives are met by business practices and their actualized outputs at the conclusion of a certain time frame is a measure of business performance success (Porter, 1991).

Financial performance is mainly evaluated in dynamic business environment (Anwar & Shah, 2021). A company's financial performance affects how many resources it controls, which can enhance future performance (Ahinful et al., 2023). Therefore, it can be stated that SME business performance measures should rely on at least financial performance (FP). According to (Christin Jurisch et al., 2014; Forkmann et al., 2018) the success of a business depends upon its capabilities. In literature we find numerous types of valuable capabilities. Potential capabilities include dynamic, innovation, digital and financial. According to Nurohman et al. (2021) SMEs' sustainability can be determined through financial capabilities, strategic capabilities, and organizational capabilities.

Financial capability is the ability to handle financial resources and access financial services in a way that best serves both individuals and businesses, while also considering the economic and social conditions of the surroundings (Kempson et al., 2006). Different scholars such as (Luo et al., 2021; Yi et al., 2023) have found positive and significant impact of financial capabilities on entrepreneurial performance. Financial self-efficacy has the ability to translate the SME performance better with the help of financial capability. An individual's attitudes, convictions, and confidence in their ability to make financial decisions are referred as financial self-efficacy (Kempson et al., 2006). Financial self-efficacy helps individuals avoid adverse financial behavior; therefore, favorable business results are achieved due to one's belief in his financial capability (Hadar et al., 2013).

Internal locus of control also has tendency to weaken or strengthen the indirect impact of owners' financial capabilities on SME performance via intervening variables. Internal locus of control (ILC) is referred as the belief of individual that he can control the events to exploit the opportunities and achieve goals (Rotter, 1966). Individuals who are confident in their abilities, skills, and effort are more inclined to apply and advance their knowledge and experience when faced with challenges and setbacks (Hamzah & Othman, 2023).

Study Rationale

SMEs in Pakistan have been making a significant impact on GDP and employment creation, which has resulted in the growth of the country's economy (SMEDA, 2021). SMEDA (2021) estimates that SMEs in Pakistan generate 40% of the country's industrial value adds, 25% of all export revenue, and 80% of non-agricultural labor. Despite their significant contribution, SMEs in Pakistan have a number of challenges, such as a shortage of skilled workers, limited access to financing, and a lack of competitiveness in highly dynamic economic environments (Anwar, 2018; SMEDA, 2021). In order to make effective financial management, it has become imperative for SME managers and owners to possess strong financial capabilities due to the following reasons. First, according to (Tuffour et al., 2022) in general, managers are considered to be the brains behind successful businesses. Second, according to (Goyal & Kumar, 2021) managers would be unable to make informed financial judgments and successfully handle the company's financial affairs if they lack the fundamental knowledge and abilities of financial management.

So, it is concluded that there exists a definitive research gap related to impact of owners' financial capabilities on SME performance. Due to strategic importance of financial capabilities possessed by business owners, it is imperative to survive in competitive and dynamic business environment without effective financial management skills. Therefore, this study is investigating the role of owners' financial capabilities in translating their financial management skills into business performance. Moreover, the critical role of financial self-efficacy required for business performance, the current study has also been investigating how these factors are helping the financial capabilities owned by SME owners to translate them into business growth. Moreover, factor such as internal locus of control has also been investigated due to their dampening effect between predictor and outcome variables.

Research Objectives

The main objective of the current study is to empirically investigate the impact of owners' financial capabilities on SME performance through the mediating role of financial self-efficacy, and the moderating role of internal locus of control. This primary study objective has been transformed into the following objectives.

1. To investigate the influence of owners' financial capabilities on SME performance.
2. To investigate the mediating role of financial self-efficacy between the influence of owners' financial capabilities on SME performance.
3. To investigate the moderating role of internal locus of control on the indirect influence of owners' financial capabilities on SME performance through mediating role of financial self-efficacy.

Review of Literature and Hypotheses Development

Theoretical Background

Theory of Planned Behavior (TPB)

According to Ajzen and Fishbein's theory of planned behavior or reasoned action (Fishbein & Ajzen, 1977), intentions, attitudes (beliefs about a conduct) and subjective norms (beliefs regarding the attitudes of others toward a behavior) drive behavior. Later on, the theory of planned behavior surfaced, according to which one's seeming behavioral control (beliefs about one's capacity to undertake a conduct) predict action. Given the understanding of the complex interactions in the surroundings of the current research, the Theory of Planned Behavior (TPB) is rather pertinent. TPB argues that the financial conduct of SMEs is shaped by attitudes, perceived control, and outside events. The current study stretches this theory to explain the impact of SME owners' financial capabilities on SMEs performance by including financial self-efficacy (mediator) and internal locus of control (moderator). Financial capability shapes attitudes and behaviors toward making decisions about money. Financial self-efficacy helps to enhance the impact of owners' financial capabilities on SME performance by allowing one to control financial problems. Subjective criteria of internal locus of control help to control how financial capability influences SMEs performance. These psychological and financial aspects finally lead to greater SMEs performance in line with TPB's assertion that drive and control shape behavior.

Resource-Based View

Resource-based view (RBV) developed by Barney (1991), argues that organizations having valuable, rare, inimitable, and non-substitutable (VRIN) resources will show greater performance. The fundamental idea of RBV is that a company's competitive advantage is determined by its resources and capabilities (Conner, 1991; Peteraf, 1993; Wernerfelt, 1984). Financial capability can thus be regarded as a necessary instrument helping a company to maintain its competitive advantage. RBV suggests businesses to pick abilities that would help them to maximize their resources. Financial self-efficacy is notable mediating factor in this study since it defines how financial capabilities translate into SME performance. The confidence of an SME owner in their ability to manage their financial resources is known as financial self-efficacy. By acting as a mediator, financial self-efficacy helps to reinforce the link between financial capabilities and SME performance, therefore confirming RBV's argument that capabilities increase the value of resources. Financial capabilities are a strategic resource that assists SME owners to make better financial decisions. Financial self-efficacy assures effective application of financial capabilities, so boosting SME performance. The effectiveness of financial capabilities depends on ILC, which influences their translation into SME performance.

Impact of Financial Capability on SME Performance

According to Kandpal et al. (2023), An individual's financial capability is their ability to utilize and manage financial resources to meet both current and future financial obligations, accompanied with adequate financial knowledge. Xiao et al. (2022) performed a systematic conceptual review related to financial capability. The review was based on 215 publications that were taken from

Scopus and published between January 2007 and March 2022. Financial capability was the subject of bibliometric investigation by Harun et al. (2023). The results show that over time, there has been a steady rise in financial capability research. This topic is becoming more and more important, as seen by the increase of publications.

Parvathy and Kumar (2022) concluded a significant relationship between FC and FWB of women in community-based organizations. Moreover, decision making ability was also found to be significant mediator between predictor and outcome variable showing partial mediation. The relationship between financial literacy, financial capability and sustainability of SMEs was also investigated by Babajide et al. (2023). Based on data analysis, it was concluded that firm sustainability was positively and significantly affected by financial literacy as well as financial capability. Sari et al. (2023) concluded that DFC directly affects MSMEs' business performance. Additionally, it was concluded that DFC indirectly affects MSMEs' company performance by channeling through financial inclusion and financial concerns.

Rosalina (2023) findings demonstrate that FC is positively impacted by financial attitude, financial behavior, financial knowledge, and financial inclusion. Yi et al. (2023) concluded that financial capability of Chinese household entrepreneurs had positive impact on entrepreneurial performance. Urooj et al. (2025) showed that, globally, including in both established and emerging economies, DFC and SE have a positive and significant association.

On the basis of reviewed literature, it is found that SME performance related studies mainly revolve around the impact of financial literacy, instead of financial capability. Moreover, studies related to financial capability has ignored their role in explaining the SME performance. However, few studies have examined the impact of financial capabilities on entrepreneur performance which concluded as direct relationship between predictor and outcome variables. Moreover, it has already been discussed in theoretical background section that TPB and RBV both are relevant theories in explaining the impact of financial capability of SME owners on financial performance. Regarding TPB, SMEs' attitudes toward improving their FC are driven by their current or anticipated SME performance. According to RBV, FC is the primary VRIN resource for SMEs that has a major impact on their financial performance. Consequently, it is hypothesized based on TPB, RBV, and the reviewed literature that

H1: Owners' financial capabilities have direct relationship with SME performance.

Mediating/Intervening Role of Financial Self-Efficacy (FSE) between Financial Capability and SME Performance

According to Hadar et al. (2013) FSE helps individuals avoid adverse financial behavior, therefore, favorable business results are achieved due to one's belief in his FC. Netemeyer et al. (2018) stated that individuals having strong SE believe that financial decisions taken on the basis of financial knowledge will lead them to secure their financial future. FSE is an important psychological idea that has garnered a lot of attention in consumer finance and been shown to have an impact on financial outcomes (Gulati & Singh, 2024).

Farrell et al. (2016) showed that women who have stronger FSE are less likely to have debt-related items and more likely to have saving and investment savings products. Kautsar et al. (2018) indicated that alumni's performance in micro and small businesses is influenced by their FSE and entrepreneurial leadership. Veselinovic et al. (2022) concluded the profitability of SMEs, as well as the expansion and contentment of micro-SMEs and specific other distinct groupings of entrepreneurs or businesses, can all be impacted by an entrepreneur's FSE. Caliendo et al. (2023) determined that self-efficacy is directly and significantly correlated with firm income and startup longevity. Mindra et al. (2017) concluded that FSE works as a mediator between financial attitude, FL and FI. Noor et al. (2020) concluded that FL has direct and positive nexus with financial account ownership, however, it was also concluded that FSE did not play a mediating role between predictor and outcome variable. Liu and Zhang (2021) concluded inverse nexus between FL and risky credit behavior. It was also concluded that FSE partially mediated the nexus between predictor and outcome variable. Riaz et al. (2022) concluded that the association between FL and a good attitude toward money was mediated by FSE. Lone and Bhat (2024) FL dimensions have direct and significant relationship with FSE as well as with FWB. Moreover, it was also concluded that FSE partially mediated the nexus between FL dimensions and FWB.

From a TPB standpoint, FSE can be viewed as a subjective norm that is supported by financial capability, which ultimately leads to better company performance. In the light of RBV, FSE is regarded as a fundamental resource for accomplishing financial company objectives. Prevailing literature shows that FSE has been studied mainly in financial decision-making studies. FSE has been examined as a mediator in different studies related to financial literacy and foundation of current study is also based on financial capability. However, financial capability is closely related to financial literacy, therefore, it is hypothesized based on the studied literature, TPB, and RBV that

H2: Financial self-efficacy mediates the relationship between owners' financial capabilities and SME performance.

Moderating/Interacting Role of Internal Locus of Control between Indirect Impact of Financial Capability on SME Performance through Financial Self-Efficacy

Rotter (1966) stated that the degree of control over one's life is described as locus of control. Locus of control can either be internal or external. When someone has an ILC, they think they can control their surroundings (Rotter, 1966). According to three meta-analyses performed by Ng et al. (2006) performance is significantly affected by locus of control. Business owners possess an ILC due to their self-belief in their abilities that enables them to actively seek out and identify profitable business opportunities (Asante & Affum-Osei, 2019). According to Karabulut (2016), individuals having ILC are risk-takers as compared individuals having ELC are risk-averse. Baldegger et al. (2017) stated that individuals having ILC are confident in their ability to thrive as business owners. When faced with challenges and hurdles, individuals having confidence in their knowledge and abilities are more likely to boost up their knowledge and abilities due to ILC (Hamzah & Othman, 2023).

According to Huda et al. (2022), the performance of entrepreneurs is partly and concurrently influenced by the results of the regression analysis of self-efficacy and locus of control; the self-efficacy variable has the largest influence on the performance of entrepreneurs in SMEs in the Gandusari district. Hamzah and Othman (2023) suggested that ILC indirectly affects the venturing outcomes by means of entrepreneurial ability. Mibey et al. (2023) concluded that ILC influences Bomet County enterprises' development in Kenya. Putri and Bandi (2023) indicated that MSMEs' performance is impacted by locus of control, and MSMEs' performance is impacted by self-efficacy. Rahmawati et al. (2023) showed that external locus of control has insignificant relationship with business performance, however, positive and significant relationship was found between ILC and business performance. Wali and Boujelbene (2010) indicated that while TQM implementation has a negative and considerable impact on ROA and ROS, it has no discernible and direct effect on the increase of sales or operating income. It was also concluded that association between TQM implementation and financial performance is moderated by the ILC.

ILC can hinder the business performance as well due to the fact that overconfidence issue can be arisen in individuals due to high levels of ILC which can have negative impact of financial capability on SME performance. But according to RBV, ILC can be seen as critical internal source which can create sustainable competitive advantage contributing towards improved business performance. In the context of TPB, ILC is regarded as the perceived behavioral control which can translate the improved indirect impact of financial capability on business performance through financial self-efficacy. Therefore, it is hypothesized that;

H3: Internal locus of control moderates the indirect relationship between owners' financial capabilities and SME performance through financial self-efficacy.

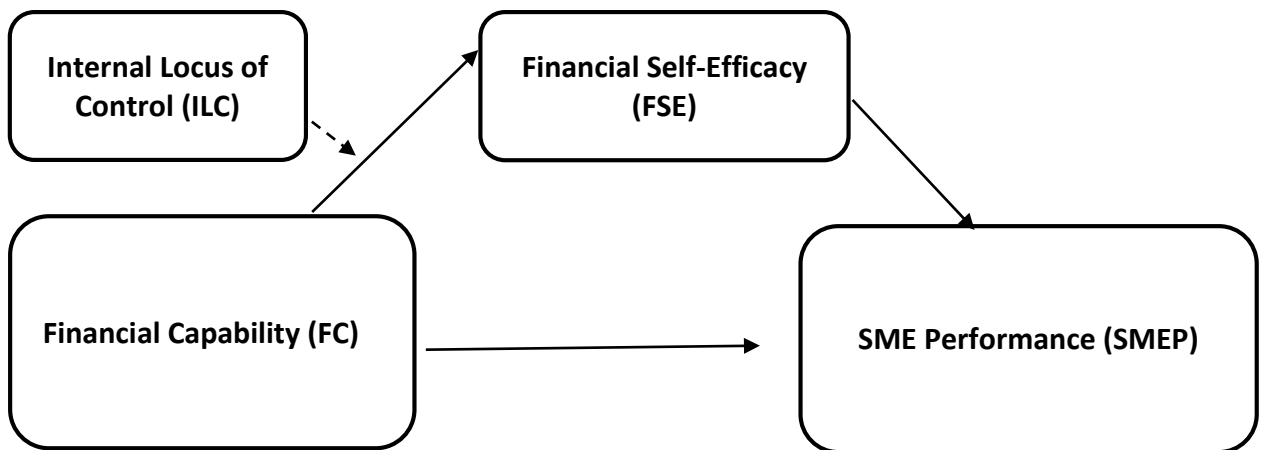


Figure: Theoretical Framework

Research Methodology

Research Philosophy & Design

Research philosophy is the study of the beliefs that underpin the knowledge that is developed (Longbottom & Lawson, 2016). According to Saunders et al. (2009), positivism is the scientific approach to solving research problems. Research design makes it convenient to derive conclusions based on research questions. Wiersma and Jurs (2005) stated that research design facilitates the acquisition of reliable results and makes it simpler for researchers to understand and interpret study findings.

Rationale behind the Research Methodology for the Current Study

Population and Unit of Analysis

SMEs in Pakistan are the study population. However, details about the precise number of SMEs in Pakistan that are registered are not readily available. The selection of SME owners was justified by the fact that they have a direct involvement in decisions that impact their business performance. However, only SME owners who actively participate in their firms' financial decision-making process are chosen for data collection. Additionally, SME owners help us achieve our research goals because they are more knowledgeable about the business environment in Pakistan and can offer significant insights into how their FC affects SMEP when various factors like FSE and ILC are also affecting the capability-performance relationship.

Sampling Size and Sampling Technique

This study employed purposive sampling, a non-probability sampling technique, to select SME owners who possessed characteristics directly relevant to the objectives of the study. Purposive sampling involves the deliberate selection of participants based on predefined eligibility criteria, enabling researchers to obtain information from individuals who are particularly knowledgeable about the phenomenon under investigation (Etikan et al., 2015). This approach was considered appropriate because the study specifically examined SME owners' financial capability, financial self-efficacy, internal locus of control, and SME performance, which required respondents with direct involvement in business-related financial decisions.

Accordingly, three inclusion criteria were established. First, respondents were required to be SME owners who personally made or participated directly in their firms' financial decisions. Second, the SME was required to have a minimum business experience of three years, ensuring that respondents had sufficient exposure to financial management and business operations to provide meaningful assessments of the study constructs. Third, SME owners were required to have their businesses registered with at least one chamber of commerce, providing an identifiable basis for confirming their status as established business owners. The deliberate application of these criteria helped align the characteristics of the sample with the research objectives and enhanced the relevance of the information obtained from participants. Such alignment between participant selection and research objectives is a key rationale for purposive sampling and can contribute to methodological

rigor when the selection criteria are explicitly defined and transparently reported (Campbell et al., 2020). Therefore, purposive sampling was deemed suitable for obtaining data from respondents who could provide informed responses regarding their financial capabilities and SME performance.

Sample Size

The sample size of the present study was determined based on the statistical requirements of the proposed PLS-SEM model. Contemporary methodological literature recommends considering statistical power, effect size, significance level, and the number of predictors when determining the adequacy of a sample rather than relying solely on the traditional ten-times rule, which may produce imprecise estimates (Hair et al., 2019; Kock & Hadaya, 2018). In the present structural model, the most complex endogenous construct is SME Performance, which is predicted by two variables: Financial Capability and Financial Self-Efficacy. Therefore, a minimum sample size criterion was established using an a priori power analysis for multiple regression with two predictors, a significance level of 0.05, statistical power of 0.80, and a small effect size ($f^2 = 0.05$). Under these conservative assumptions, a minimum sample of approximately 159 respondents is required to detect the specified effect with adequate statistical power. The study initially collected responses from eligible SME owners; however, questionnaires containing missing information or incomplete responses were excluded during data screening. Following this screening process, 363 complete and usable responses were retained for the final analysis. Thus, the final sample substantially exceeded the minimum required sample size of 159 respondents, providing an adequate basis for estimating the proposed structural relationships through PLS-SEM. The sample-size assessment is therefore supported by a statistical power criterion rather than an arbitrary minimum threshold (Hair et al., 2019; Kock & Hadaya, 2018).

Data Collection

In this study, a survey method has been employed for data collection, and previously established scales have been adapted for study variables such as financial capability, financial self-efficacy, internal locus of control and SME financial performance. The data has been collected by using structured questionnaire. Previous research in the same fields has also effectively employed adapted questionnaires. All scales have been adapted from previous studies related to study variables.

All selected SMEs firms' owners are contacted and requested to provide their consent for participation in the research. The respondents have been informed of the study's goals and purpose and have been asked to voluntarily participate after being assured that their privacy would be respected. Questionnaires are then distributed to the consenting owners, employing a mixed-method approach by delivering them through email, WhatsApp and courier.

Operationalization of Study Variables

SME Performance

Business performance is defined as the firm's ability to manage and control its resources in such a way that it profits from resources and achieves the objectives. 6-item scale for measuring financial performance have been adapted from Danso et al. (2016) and Charoensukmongkol (2016), which have also been used by Anwar and Shah (2021).

Financial Capability

In literature we find different measures of financial capability which include multi-dimensional measures as well as one dimension measure instrument. 7-item unidimensional measure of financial capability adopted from Kumar et al. (2023) has been used in the current study. Respondents have been asked to rate their financial capability on 5-point Likert scale the given options such as 1 = strongly disagree to 5 = strongly agree.

Financial Self-Efficacy

Financial self-efficacy is a unidimensional construct, with its five measurement items adapted from Lone and Bhat (2024) which in turn are based on the study of Losada-Otálora and Alkire (2019) and Mindra et al. (2017). 5-point Likert scale has been used to record responses where 1 = Strongly disagree and 5 = Strongly disagree.

Internal Locus of Control

3-item validated unidimensional measure of internal locus of control has been adapted from Schjoedt and Shaver (2012). 5-Point Likert Scale representing 1 = Strongly disagree and 5 = strongly agree has been used.

Statistical Tools

Due to its widespread use and sophisticated calculation techniques, Smart PLS 4 has been employed (Ali et al., 2018). It is a flexible approach to model development in contrast to previous approaches (Ringle et al., 2005). Additionally, it disregards the presumption of a normal distribution of data (Hair et al., 2021). Additionally, the researcher estimated the factor loading, coefficient, and significance level using bootstrapping. PLS-SEM was chosen for the current study for a variety of reasons.

Data Analysis, Results and Discussion

The problem of missing values in data occurs when respondents do not complete the questionnaire for a variety of reasons, such as not comprehending the questionnaire, not having enough time, the length of the questionnaire, or not wanting to fill it out (Hair et al., 2007). Using a frequency test in SPSS, it is found that data had missing values. 63 respondents, or 14.79% of the total, were determined to have not completed the questionnaire. As a result, responses with missing values

were eliminated from the overall data. Since PLS-SEM is a nonparametric technique, data normality is not necessary for analysis. According to Hair et al. (2007), prior to using inferential statistics, data normality must be taken into account.

Descriptive Analysis

Demographic Characteristics

The characteristics of the study's target population are described by data from demographic statistics. Demographic analysis offers crucial insights into the unique characteristics of the target group. SPSS was used to analyze the descriptive statistics and provided simple access to demographic statistics. The study section presents the participants' demographics. The researchers received responses from 426 SME owners directly involved in financial decision making. After screening, 63 responses were eliminated with missing values, and 363 responses were analyzed.

Table 1: Descriptive Statistics – Demographic Profile

Variable	No. of Observations	Percentage
Age		
Upto 30 Years	80	22.04
31 – 40 Years	143	39.39
41 – 50 Years	62	17.08
More than 50 Years	78	21.49
Gender		
Male	291	80.15
Female	72	19.85
Education		
Upto Matric	129	35.54
Intermediate	68	18.73
Graduation	97	26.72
Masters and above	69	19.01
Business Experience		
Upto 5 Years	107	29.48
6 – 10 Years	95	26.17
11 – 15 Years	83	22.86
More than 15 Years	78	21.49
Firm Size		
Small	229	63.09
Medium	134	36.91
Firm Age		
Less than 5 Years	107	29.48

More than 5 Years	256	70.52
Industry Type		
Trading	147	40.50
Services	110	30.30
Manufacturing	106	29.20

Multicollinearity, Common Method Bias, Validity and Reliability

The statistical results of any research are severely affected when there is an issue of multicollinearity in the data and predictions based on the data analysis consequences become questionable (Hair et al., 2007). Kock (2015) suggested that the collinearity test can determine CMB while employing PLS-SEM. By following Kock (2015), the researcher has tested the CMB through VIF (Variance inflation factors) to ensure that our data is free from CMB. Values of VIF in our dataset are also in acceptable threshold which shows CMB is not available in our dataset. The results are presented in table 2.

Table 2: Multicollinearity, Convergent Validity and Reliability

Variable	Items	VIF	Loading	Alpha	CR	AVE
Financial Capability	"FC1"	3.029	0.881	0.907	0.913	0.644
	"FC2"	2.208	0.808			
	"FC3"	2.111	0.795			
	"FC4"	2.081	0.792			
	"FC5"	2.126	0.803			
	"FC6"	2.020	0.778			
	"FC7"	1.825	0.754			
Financial Self-Efficacy	"FSE1"	1.711	0.812	0.792	0.792	0.616
	"FSE2"	1.524	0.767			
	"FSE3"	1.516	0.774			
	"FSE4"	1.552	0.786			
Internal Locus of Control	"ILC1"	1.738	0.853	0.782	0.783	0.696
	"ILC2"	1.730	0.847			
	"ILC3"	1.486	0.803			
SME Performance	"SMEP1"	1.803	0.757	0.850	0.851	0.570
	"SMEP2"	1.736	0.729			
	"SMEP3"	1.878	0.780			
	"SMEP4"	1.771	0.748			
	"SMEP5"	1.729	0.750			
	"SMEP6"	1.835	0.766			

In order to assess overall scale reliability and internal consistency by checking the scaled items in the constructs, factor loadings were looked at. Cronbach's alpha was used to determine accuracy and reliability. The degree of shared variance between the variables was assessed using the Farnell-Larcker criterion, and the correlations between the constructs were assessed using the HTMT ratio.

Values of factor loading shows the convergent validity of instrument used for data collection. According to Hair et al. (2021), construct validity can be measured through AVE. Table 2 shows that all values are above 0.5, which shows that constructs used in this study are highly relevant and valid. In terms of CR the values should not be lower than 0.7 and according to table 2, all CR values are well above 0.7 which shows that items used in every construct assess the underlying concept. For the reliability measure of instruments used in this survey the Cronbach alpha is measured and all values are above 0.7 which shows that instrument reliability is sufficient for data analysis purpose.

Discriminant Validity

Fornell-Larcker criterion and HTMT (Heterotrait-Monotrait Ratio) have been used to test discriminant validity as suggested by Henseler et al. (2015). For all study variables, Fornell-Larcker values are presented in table 4. Fornell-Larcker values should be less than 0.90 which is usually considered as a good discriminant validity. According to table 3, our study variables possess discriminant validity. For all study variables, HTMT values are presented in table 4. HTMT should be less than 0.90 which is usually considered as a good discriminant validity. According to table 4, our study variables possess discriminant validity.

Table 3: Discriminant Validity (Fornell-Larcker Criterion)

Fornell-Larcker criterion	Financial Capability	Financial Self-Efficacy	Internal Locus of Control	SME Performance
FC	0.802			
FSE	0.600	0.785		
ILC	0.580	0.606	0.834	
SMEP	0.643	0.669	0.678	0.755

Table 4: Discriminant Validity (HTMT)

HTMT	Financial Capability	Financial Self-Efficacy	Internal Locus of Control	SME Performance
FC				
FSE	0.702			
ILC	0.685	0.770		
SMEP	0.727	0.809	0.828	

Structural Model Assessment

After the measurement model was evaluated, the bootstrapping procedure in Smart PLS-4 was used to evaluate the structural model. Table 5 presents the results of path analysis. Path analysis shows that direct impact of financial capabilities on SME performance is positive and significant ($\beta = 0.377$, $t = 7.710$, $p < 0.05$). Similarly, the table also shows that direct impact of financial capabilities on financial self-efficacy ($\beta = 0.369$, $t = 6.917$, $p < 0.05$) as well as direct impact of financial self-efficacy on SME performance ($\beta = 0.442$, $t = 8.855$, $p < 0.05$) is also positive and significant. Path analysis for mediation test shows that indirect impact of financial capabilities on SME performance through intervention of financial self-efficacy is also positive and significant ($\beta = 0.163$, $t = 5.843$, $p < 0.05$). Finally, table 5 also shows that direct impact of internal locus of control on financial self-efficacy is positive and significant while, interaction effect of ILC between FC and FSE is negative but insignificant ($\beta = -0.071$, $t = 1.288$, $p > 0.05$).

Table 5: Path Analysis

Sr.No.	Path	Beta	S.D	T values	P values	LLCI	ULCI
1	FC → SMEP	0.377	0.049	7.710	0.000	0.279	0.473
2	FC → FSE	0.369	0.053	6.917	0.000	0.264	0.476
3	FSE → SMEP	0.442	0.050	8.855	0.000	0.335	0.534
4	ILC → FSE	0.377	0.054	6.994	0.000	0.272	0.482
5	FC → FSE → SMEP	0.163	0.028	5.843	0.000	0.113	0.222
6	ILC × FC → FSE	-0.071	0.055	1.288	0.198	-0.172	0.047

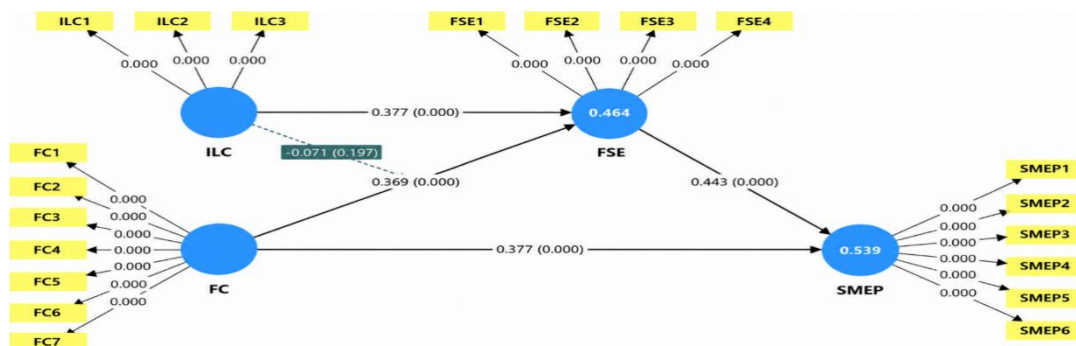


Figure: Structural Model (Source: SmartPLS)

Table 6 shows the values of R^2 , adjusted- R^2 and Q^2 . The exogenous variable (Financial Capability) has contributed 46.4% to financial self-efficacy and 53.9% to SME performance. In SEM analysis, it is essential to measure the applicability of model to assess the extent our model estimates the data. In this regard, Ringle et al. (2020) suggested a notable metrics for the measurement of model predictability i.e. Q^2 . The value of Q^2 should be greater than zero to obtain good predictive relevance and table 6 shows that the value of all endogenous constructs, such as financial self-efficacy and SME performance have Q^2 0.446 and 0.491 respectively, which is greater than 0.

Table 6: R Square, Adjusted R square, and Q Square

Variable	R^2	Adjusted R^2	Q^2
Financial Self-Efficacy	0.464	0.460	0.446
SME Performance	0.539	0.536	0.491

Mediation Analysis

Mediation analysis presents the direct, indirect, and total effects, along with the significance of all relationships. The findings indicated a substantial indirect influence of financial capabilities on the performance of SMEs ($\beta = 0.163$, $t = 5.843$, $p < 0.05$). The total effect of financial capability on SME performance was significant ($\beta = 0.377$, $t = 7.710$, $p < 0.000$), with the inclusion of the mediator the effect of financial capability on SME performance was still significant. This indicates a complementing partial mediating effect of FSE on the connection between FC and SME performance. Hence H_2 is supported. From the results of this study, we can see that FSE also plays a mediation role between owners' financial capabilities and SME performance. The results showed that the effects of both paths (i.e. direct and indirect) were significant, and the total effect was also found to be significant. So, there is a partial mediation effect of FSE between owners' financial capabilities and SME performance. These results support the proposed hypothesis H_2 that hypothesized a mediation role of financial self-efficacy between owners' financial capabilities and SME performance.

Table 7: Direct, Indirect, Total Effect and VAF

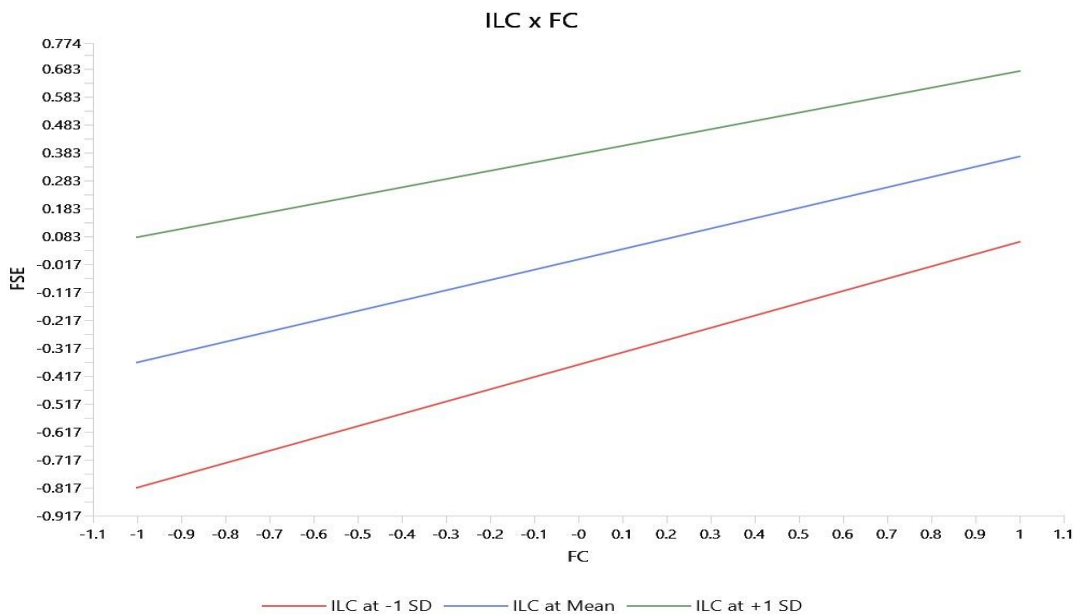
Variable	Direct	Indirect	Total	VAF
Co-efficients	0.377	0.163	0.540	30.18%

Now, VAF (variance accounted for) can be used to check whether the mediation is full or partial. VAF can be calculated by dividing indirect effect with total effect and multiplying the result with 100 to get the answer in percentage form. If the value of VAF is less than 20% then it shows no mediation effect. If the value of VAF is between 20 to 80 then it shows partial mediation and values greater than 80% show full mediation. In the current scenario the value lies between the range of 20 to 80 which confirms the partial mediation of FSE between predictor and outcome variables.

Moderation Analysis

Table 5 presents the moderation analysis result as well. The table shows that FC has direct impact on FSE and, ILC has significant relationship with FSE. However, the interaction term (ILC $\times$ FC) shows negative but insignificant impact ($\beta = -0.071$, $t = 1.288$, $p > 0.05$) which confirm the non-moderation role of internal locus of control.

The moderation analysis reveals that Internal Locus of Control does not significantly moderate the relationship between Financial Capability and Financial Self-Efficacy ($\beta = -0.071$). Although the interaction coefficient is negative, its statistically insignificant effect indicates that Internal Locus of Control does not significantly alter the strength of the relationship between Financial Capability and Financial Self-Efficacy. Therefore, the hypothesized moderating effect of Internal Locus of Control is not supported. This finding suggests that the positive association between Financial Capability and Financial Self-Efficacy remains relatively unaffected by variations in SME owners' Internal Locus of Control. The same result is also confirmed through moderation slope graphical representation. The graph clearly shows that all slop lines are not going to intersect with each other at any given point which shows no moderation effect of ILC between FC and FSE.



Discussion, Conclusion and Future Recommendations

Discussion and Conclusion

The aim of the current study is to empirically investigate the impact of owners' financial capabilities on SME performance. Additionally, the mediating role of financial self-efficacy and moderating role of internal locus of control is also investigated in the light of two theories i.e. TPB

and RBV. The study's statistical analysis demonstrated a favorable connection between the financial capabilities of SME owners and their companies' performance. This finding supports the hypothesized relationship and shows that the success of SME owners' businesses improves in tandem with their financial capability. Table 5 shows that impact of financial capability on SME performance is positive as well as significant which confirms the acceptance of H1. Owners who possess a strong grasp of financial principles, tools, and strategies are demonstrably better positioned to make informed decisions that directly contribute to improved business outcomes across various dimensions (Klapper and Lusardi (2020).

One of the most fundamental aspects of this relationship lies in effective financial planning and control. Financially capable owners can develop realistic budgets, meticulously track income and expenses, and implement robust internal controls (Struckell et al. (2022). Moreover, financially capable owners are better equipped to monitor and evaluate their business performance. They can interpret key financial ratios, such as profitability margins, liquidity ratios, and efficiency ratios, to gain valuable insights into the health and operational effectiveness of their SME (Kandpal et al. (2023). The Resource-Based View (RBV) and Theory of Planned Behavior (TPB) combined provide the greatest framework for understanding this relationship. Financial capability is a high-impact intangible resource that is valuable, rare, unique, and non-substitutable (VRIN) according to the RBV perspective. The owner is crucial in determining the strategic direction, financial discipline, and operational decision-making of SMEs, particularly in developing country like Pakistan. The Theory of Planned Behavior (TPB), which complements this strategic perspective, offers a behavioral pathway to understand the same result. According to this concept, a financially capable SME owner is more likely to feel confidence in their ability to affect results (perception control), identify expectations from important stakeholders (subjective norms), and view financial planning and control as positive (attitude). This shows that owners' financial capabilities have positive impact on SME performance which validates the theoretical contribution of TPB and RBV. Moreover, the results are also in accordance to (Babajide et al., 2023; Khan et al., 2019; Luo et al., 2021; Struckell et al., 2022; Yi et al., 2023).

Following was the second study hypothesis "financial self-efficacy mediates the relationship between owners' financial capabilities and SME performance." It is evident on the basis of results presented in table 5 that FSE has not only direct impact on SME performance but it also partially mediates the impact of owners' financial capabilities on SME performance. The accepted hypothesis, "financial self-efficacy mediates the relationship between owners' financial capabilities and SME performance," posits that the impact of an owner's actual financial capabilities on their SME's performance is significantly channelled through their level of FSE. High self-efficacy owners set more ambitious financial goals and were more determined to reach them (Hadar et al. (2013). Performance is improved as a result of the increased self-efficacy's subsequent influence on business behavior (Lone and Bhat (2024). High self-efficacy owners are more likely to internalize responsibilities for company results, which resulted in better governance and accountability procedures (Netemeyer et al. (2018). The results are in line with previous studies such as (Chowdhry & Dholakia, 2020; Noor et al. (2020); Gulati and Singh (2024). The results are also consistent with

the Theory of Planned Behavior (TPB), which postulates that behavior is influenced by intention, which is influenced by attitudes and perceived control. Owners are more likely to take planned, intentional measures that result in performance improvements if they feel they have control over financial consequences and are capable of implementing change. Additionally, the Resource-Based View (RBV) offers a convincing justification for the mediation. Financial capability is a human capital resource, but when paired with self-efficacy, a psychological resource that promotes efficient resource use, it gains strategic value.

Following was the third study hypothesis “internal locus of control moderates the indirect relationship between owners’ financial capabilities and SME performance through financial resilience”. The analysis findings show that the data did not support the suggested moderated mediation hypothesis, which postulates that internal locus of control moderates the indirect relationship between SME owners’ financial capability and SME performance through financial self-efficacy. Theoretically, SME owners who feel that their actions affect their results i.e., who have a greater internal locus of control, were expected to better activate their financial self-efficacy (Hamsani et al., 2021), and, hence, produce superior performance outcomes. But the evidence points to a different conclusion.

The Theory of Planned Behavior, which holds that behavioral outcomes are impacted by the perception of control, was consulted in the formulation of the hypothesis. It was believed that when backed by a strong internal locus of control, financial self-efficacy would be more successful in improving performance. Additionally, according to the Resource-Based View (RBV), internal locus of control was supposed to enhance the application of financial knowledge and abilities by acting as an intangible internal resource, thereby complementing financial capability and self-efficacy. Despite being conceptually related to motivation and autonomy, it’s possible that internal locus of control does not successfully translate financial self-confidence into quantifiable business outcomes as suggested.

While ILC is undoubtedly a valuable trait for entrepreneurs, its moderating effect on this specific indirect relationship appears to be minimal or non-significant, possibly due to the strong direct links between the other variables and the influence of external factors. The results however not only contradict with both grounded theories i.e. RBV and TPB but also contradict with similar studies such as Rahmawati et al. (2023). However, this result is somehow in line with Syariati (2022) who found on significant impact of ILC on SME performance.

Study Limitations and Future Directions

There are still a number of significant limitations that need to be recognized. Self-reported data from SME owners was used to measure each construct, which raises the risk of common method bias (CMB). Self-reporting still has the inherent hazards of social desirability bias, performance exaggeration, and faulty memory, even though statistical methods like VIF has been employed to evaluate and control for CMB. Consciously or unconsciously, SME owners may overestimate their financial success or expertise. The study’s sample was restricted to SME owners in Pakistan, a

particular geographic setting. The same model may yield different outcomes when applied in a different nation with a distinct financial structure, support systems, and business climate. Furthermore, financial capability is a multifaceted concept that encompasses behavior, knowledge, attitudes, and confidence. It can be difficult to fully capture all dimensions in a questionnaire. The study's dependence on subjective metrics to assess SME performance is one of its major drawbacks. This method is prone to prejudice, particularly when it comes to small business owners who might have informal or sparse bookkeeping procedures.

Study Significance

This study has used the combination of TPB and RBV for theoretical model development and hypotheses development. So, this study has contributed to both theories by measuring the intricate relationship between financial capabilities of SME owners and SME performance under the influence of strategic role of critical variables such as financial self-efficacy and internal locus of control. This research aims to fill the identified gaps in the literature while providing valuable academic insights and practical guidance for businesses and policymakers in Pakistan. There is a dearth of research investigating how financial capability contribute directly to Pakistani SME performance. This is also one of the pioneer studies taking into account the intervening role of financial self-efficacy to evaluate the indirect effect of FC on SME performance in Pakistan. Additionally, this study is also one of the pioneer studies to look into the interaction role of internal locus of control between the indirect relationship of financial capability and SME performance.

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