

# The Impact of Managerial competencies on Financial Performance of SME's with mediating role of Competitive Advantage

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## ABSTRACT

The study aims to examine the impact of managerial competencies on the financial performance of SMEs operating in emerging economy Pakistan with mediating role of competitive advantage. This research is quantitative. Cross-sectional data were collected from 149 registered Small and Medium Enterprises operating in Islamabad through a structured questionnaire. The findings of this study displayed that managerial competencies significantly contribute to the financial performance of SMEs. Furthermore, competitive advantage plays a partial mediating role between the nexus of managerial competencies and the financial performance of SMEs. The result of the study suggests that managerial skills and knowledge play a Significant role in SMEs' financial performance which is advantageous for owners and managers of SMEs to gain a competitive edge. The result of this study is equally beneficial for CEOs, owners, and managers of SMEs who are busy configuring financial performance.

**Keywords:** Managerial competencies; Competitive advantage; SME's performance.

## 1. INTRODUCTION

For the last several years, enterprises all around the globe have been enthused about gaining competitive advantage (CA) and achieving superior performance in the long term (Khattak & Shah, 2020; Kiyabo, K., & Isaga, 2020). In today's turbulent environment, corporate and non-profit enterprises around the globe are confronted with numerous challenges to enhancing financial performance (FP). Some enterprises invest in physical assets such as technological resources (Ilmudeen, 2021), finance (Ruggiero, & Cupertino, 2018), and equipment (Öneş, 2019), while some enterprises give more preferences to invest in intangible resources like human capital (Andersén, 2021),

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### Article info

Received July 13, 2021  
Accepted Nov 25, 2021  
Published Dec 30, 2021

learning orientation (Amin, 2015; Assadinia et al., 2019), social ties (Jang, et al., 2019) and top management support (Ilyas, Hu, & Wiwattanakornwong, 2020). To put it another way, previous scholars have found several variables that can assist enterprises to gain CA, which in turn improves firm growth (Ferreira, Coelho, & Moutinho, 2020; Khan, Yang, & Waheed, 2019). The idea given by Barney (1991), also known as Resource-Based View Hypotheses (RBVT), asserts that enterprises' resources and capabilities are essential to configuring firm success.

Small and medium-sized enterprises (SMEs) are unquestionably important for sustained economic growth. Yet, sustaining their operations over time is a huge difficulty. "Lack of resources" is one of the leading causes of SMEs failure. Due to their small size and shortage of resources (Khattak & Shah, 2020), SMEs in emerging economies are unable to invest large sums of money in large projects, forcing them to rely on less costly resources that are often scarce for their successful business activities (Khan et al., 2019; Ying, Hassan, & Ahmad, 2019). In such cases, it is argued that managerial competencies (MC) are necessary for the efficient utilization of resources. The Resource-Based hypothesis indicates that distinctive, scarce, and peerless resources enable an enterprise to gain a durable viable status and high performance in vibrant marketplaces.

The focus of researchers has shifted away from examining the characteristics of enterprise resources as a source of CA and toward gaining a well insight into the management competencies that enable firms to efficiently manage firm resources to gain CA (Kamukama et al., 2017; Khattak & Shah, 2020). From an SME perspective, managerial competency refers to an entrepreneur's capacity to obtain, use, and improve resources for value generation and enterprise success (Zacca, & Dayan, 2018).

According to Kamukama et al. (2017), enterprises gain CA by utilizing the firm's internal capabilities (i-e., managerial competencies) to achieve long-term firm growth. According to the Upper Echelon Theory (UEP) (Hambrick & Mason, 1984), the success of businesses is determined by management skills and competencies (Hambrick & Mason, 1984). Previous research has found that managerial competencies (MC) are an internal firm capability that is essential for the firm's survival and superior performance.

Numerous researchers reveal that managerial competencies and financial performance are positively associated (Kamukama et al., 2017). One zone of literature examined and underlined the direct impact of MC on FP (Ahmad et al., 2018; Veliu, & Manxhari, 2017; Wang, Lo, & Yang, 2004). While the other zone believed in indirect effects, claiming that other relevant variables such as entrepreneurial orientation (Zacca & Dayan, 2018), organizational culture (Ng, & Kee, 2013), and organizational capabilities (Ouakouak, Ouedraogo, & Mbengue, 2014), among others, could mediate the nexus between MC and FP.

However, the mediating role of CA between the nexus of MC and FP of SMEs has remained untouched in the emerging economy of Pakistan. This research fills this gap and tests the mediating role of CA between MC and FP of SMEs. Additionally, this study answers the following questions, which remain untested in the emerging economy of Pakistan: (a) Does MC influence the FP of SMEs in Pakistan? (b) Does CA mediate the nexus between MC and FP in Pakistan? “The result of this study is equally beneficial for CEOs, owners, and managers of SMEs who invest large sums of money in large projects and tangible assets that cause a huge loss of investment and wastage of resources and time. This research assists owners and managers of SMEs who are busy configuring financial performance. This study helps policymakers understand the critical role of managerial competencies in achieving competitiveness and financial performance. This should assist the Small and Medium Enterprises Authority (SMEDA) in developing policies for protecting new enterprises in Pakistan. A lower failure rate will result in SMEs surviving for the long term, contributing considerably to economic growth and progress.

The rest of the paper is organized as follows: the literature review is discussed in the second section. In the third section, the methodology is displayed while the results are discussed in section four. Finally, we discuss the discussion and conclusion in Section Five.

## **2. LITERATURE REVIEW**

### **2.1. Managerial competencies and financial performance**

Competence is "seen as an underlying characteristic of a person which results in superior performance" (Moore, Cheng, & Dainty, 2002). MC is a "complete arrangement of comparative knowledge and aptitudes to drive a firm's execution" (Abraham et al., 2001). In the SME perspective, MC refers to an entrepreneur's capacity to obtain, use, and improve resources for value generation and enterprise success (Zacca, & Dayan, 2018). MC identifies a specific group of skills or competencies needed to enhance the enterprise's performance (Zacca, & Dayan, 2018). Several Researchers put forward that the skills of an owner/manager impact small venture success (Khattak & Shah, 2020; Yiang et al., 2019). According to Cannella et al. (2009), intelligent senior executives of enterprises with their talents and knowledge work as a reputation for the attainment of the enterprise goals. MC is defined as "characteristics that lead to better performance" (Lara, & Salas-Vallina, 2017). The MC is the vital factor that significantly contributes to firm performance (Kamukama et al., 2017). According to Khattak and Shah (2020), managerial competencies are the firm's internal capabilities that significantly spur firm financial performance. Kamukama et al. (2017) showed that firm financial performance depends on management decisions about resource utilization. For instance, Imran et al. (2018) also point out that efficiently managed enterprises perform better than those that are poorly managed. MC is not only important for the superior performance of an enterprise but also essential for the smoothening of business processes (Khattak and Hassan, 2019).

According to UET, an enterprise's success is affected by the top management team (Hambrick & Mason, 1984). Additionally, the notion of UET states that the success of enterprises is determined by management skills and competencies (Hambrick & Mason, 1984). The MC enables managers and executives to recognize new opportunities, which in turn positively influences firm success (Zacca, & Dayan, 2018). Senior managers' participation in strategic decision-making is obligatory for enterprise profitability because they are not only actively involved in the strategic level activities but are also actively involved in the operating activities of the business (Ilyas et al., 2020). Stokes and Oiry (2012) stated that MC is essential for any business, regardless of industry. They point out that whenever the enterprises are efficiently performed, it openly

infers that they have a skillful staff that makes prudent decisions to keep the enterprises moving. In a survey conducted by Ng and Kee (2013), they concluded that enterprise financial performance is directly linked to the competence of managers. In another study conducted by Velu and Manxhari (2017) scrutinized that MC is significantly associated with firm success. Brown et al. (2004), concluded that well-managed enterprises are more profitable than poorly administered enterprises and gives superior earnings to their owners. Jay (2010) also scrutinized the influence of management competence on enterprise performance and asserts that top managers usually have more control over operational expenditures than they do over revenues, so they can maintain a low operational expenditure proportion, which indicates more yield for the enterprise.

*H<sub>1</sub>. Managerial competencies have a positive significant influence on SMEs financial performance*

## **2.2. Managerial Competencies, Competitive Advantage, and Financial Performance**

SMEs in emerging economies are unable to invest large sums of money in large projects, forcing them to rely on less costly resources that are often scarce for their successful business activities (Khan et al., 2019; Ying, Hassan, & Ahmad, 2019). In such cases, it is argued that MC is necessary for the efficient utilization of resources. The RBV hypothesis indicates that unique, scarce, and inimitable resources enable a firm to gain a durable competitive position and superior performance in dynamic marketplaces. According to Kamukama et al. (2017), enterprises gain competitive advantage (CA) by utilizing the firm's internal capabilities (i-e., managerial competencies) to achieve long-term firm growth.

Zainol and Al Mamun (2018) concluded that entrepreneurial competencies have a significant positive influence on competitive advantage. For instance, Panwar et al. (2016) suggested that small firms should emphasize a differentiation strategy to survive in the long run in a turbulent market. In a similar vein, Yang, Ishtiaq, and Anwar (2018) revealed that small firms are constantly engaged in the reduction of costs and expenditures to compete in the market. Small firms must differentiate themselves from their competitors and industry rivals (Rua, França, & Ortiz, 2018) and should use internal

resources and capabilities to become competitive in the marketplace for a longer time (Prieto-Sandoval et al., 2019).

Ismail et al (2014) concluded that those SMEs who have competent and skill full managers can easily acquire competitive advantage as compared to those having unskill full managers. A new venture can gain a long-term competitive edge through developing unique products and services, as well as having lower costs and better features than industry competitors and market leaders (Anwar & Shah, 2021). However, due to numerous competitors, demands, and changes in the external environment, it is extremely difficult for a small firm to improve its long-term competitive position (De et al., 2020). Numerous studies claim that those enterprises which have sufficient resources and capabilities can stay in market competition for the long term over those enterprises having a shortage of resources (Carfora, Scandurra, & Thomas, 2021; Heider et al., 2021; Anwar, 2018). Several studies have verified the positive and significant role of CA in superior performance (Songling et al., 2018; Danso et al., 2019; Khan et al., 2019).

In comparison to large corporations and publicly traded firms, small enterprises have limited resources and support that constrain their ability to gain a competitive advantage (Rua, França, & Ortiz, 2018). However, a differentiation strategy is crucial for SMEs because it enables enterprises to achieve high growth (Shah & Ahmad, 2019). It is also claimed that SMEs employ a variety of differentiation strategies to achieve high performance (Rehman & Anwar, 2019; Kowo, Sabitu, & Adegbite, 2018).

Zhang et al. (2019) concluded that managerial skill is essential for any business to stay competitive in long run in the marketplace. According to Omerzel, and Gulev (2011) managerial skills and abilities are a source of competitive advantage for business enterprises. For instance, Ying, et al. (2019) concluded the efficient utilization of resources relies upon the management's intangible capabilities. They further reported that managerial capabilities are attributes that lead to superior performance.

Kamukama et al. (2017) concluded that MC along with competitive advantage significantly influences firm performance. Similarly, it is also claimed that competent top management assists enterprises to acquire valuable resources which in turn enhances firm growth. Managers' competency is an essential factor that enables the enterprise to attain

its objectives, sustainable status, and superior performance by obtaining useful resources (Khattak & Shah, 2020). In the prior studies, numerous researchers permitted that management competencies are the vibrant factor for firm success (Velu and Manxhari (2017; Zacca, & Dayan, 2018). Therefore, based on these assertions, we posit that MC can enhance the FP of SMEs via CA.

**H<sub>2</sub>.** *Managerial competencies have a positive significant influence on competitive advantage.*

**H<sub>3</sub>.** *Competitive advantage has a positive significant influence on SMEs financial performance*

**H<sub>4</sub>.** *Competitive Advantage significantly meditates the nexus between managerial competencies and SMEs' financial performance.*

### 2.3. Conceptual Research Model

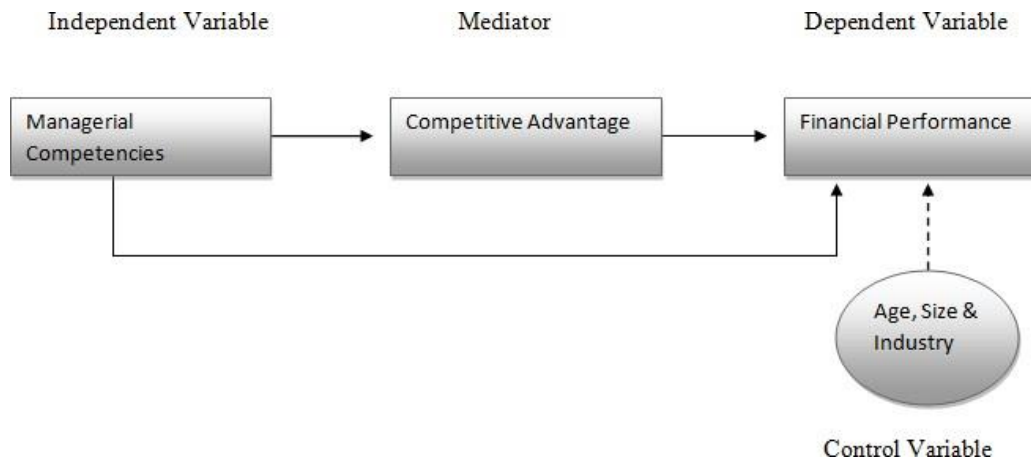


Figure 1 Research Model

## 3. RESEARCH METHODOLOGY

This research is based on empirical data collected from SMEs in Pakistan. To substantiate the hypotheses of the study empirical data were collected by following a quantitative research approach. A deductive research method has been used in this study to test the proposed model. This research model is recommended in social science research and management. However, the study used a cross-sectional research design to

understand how a CA mediates the nexus between MC and FP of SMEs. A simple random technique was used for sample selection.

The nature of data collection is primary data. Primary data is the one which is the original raw form of the data, and it has never gone through any statistical procedure or technique. Usually, primary data is collected from interviews, surveys, or personal observations. A structured self-administrative questionnaire was used to collect data from the owners and managers of SMEs operating in Islamabad. This study surveyed 300 questionnaires that have been distributed among owners and managers of SMEs operating in Islamabad but finally, only 149 useable questionnaires were received which are included in the data analysis. The response rate is 50%.

### **3.1. Scales and Measurement of Variables**

Three variables are used in this study, managerial competencies as an independent variable, competitive advantage as a mediator, and financial performance as a dependent variable.

#### **3.2. Managerial Competencies**

To measure MC seven items were adopted from the study of Zacca and Dayan (2017) and measured on a 5-point Likert scale. Managerial competencies are concentrated on the ability, skill, and knowledge of the enterprises. The Five-point Likert-scale responses ranged from 1 = “strongly disagree” to 5 = “strongly agree”

#### **3.3. Competitive Advantage**

To measure CA seven items were used which are adopted from the study of Khan Yang and Waheed (2019) and measured on a 5-point Likert scale. The Five-point Likert-scale responses ranged from 1 = “strongly disagree” to 5 = “strongly agree”. Competitive advantage includes cost leadership and differentiation strategy as suggested by Porter (1985).

#### **3.4. Financial Performance**

To measure FP five items were adopted from the study of Semrau et al (2016) and Anwar and Shah (2020). To capture the financial performance, top management and CEOs were asked to value the performance on ROA, ROE, and growth basis. Five-Likert



scale was given ranging from 1= “Extremely decline” 2= “Decline” 3= “Neutral” 4= “Improves” 5= “Extremely improved”. In this study, statistical software for the social sciences (SPSS) was used to analyze the data collected. The regression analysis has been performed to scrutinize the hypnotized relationship.

### 3.5. Control Variables

It is better to control some demographic factors of the small and medium enterprises to reduce the chances of spurious results. We controlled the age of the firm, size of the firm, and industry while testing the model. The results are shown in the regression analysis.

| <b>Description</b>                | <b>No. of firms</b> | <b>%</b> |
|-----------------------------------|---------------------|----------|
| Size of the firm (No of employees |                     |          |
| 20-50                             | 43                  | 28.9     |
| 51-100                            | 33                  | 22.1     |
| 101-150                           | 25                  | 16.8     |
| 151-200                           | 21                  | 14.1     |
| 201 to 250                        | 27                  | 18.1     |
| Age of the firms (No of years     |                     |          |
| 10 and less than 10 years         | 75                  | 50.3     |
| 11-20 years                       | 49                  | 32.9     |
| 21 and more than 21 years         | 25                  | 16.8     |
| Industry                          |                     |          |
| Manufacturing industry            | 61                  | 40.9     |
| Services industry                 | 88                  | 59.1     |

## 4. RESULTS AND ANALYSIS

### 4.1. Reliability Analysis

In this study, Cronbach’s alpha was used to capture the internal consistency of the construct items. Below table 2 represents the alpha reliability of different constructs. All the variables have Cronbach’s alpha in acceptable threshold level (greater than 0.70) as per the suggestion of Nunn ally and Bernstein, (1994). Additionally, alpha reliability value for MC ( $\alpha= 0.71$ ), CA ( $\alpha= 0.0.72$ ), and for FP is ( $\alpha= 0.70$ ). Convergent validity is also known as Average Variance Extracted (AVE) of all the construct falls in acceptable threshold level (greater than 0.50) as suggested by Hu and Bentler (1999). Furthermore,

the  $\sqrt{\text{AVE}}$  (discriminant validity) score for all the variables falls in the acceptable range (greater than 0.70) as suggested by Hu and Bentler (1999).

| Variables                    | No of Items | Cronbach's alpha | AVE  | $\sqrt{\text{AVE}}$ |
|------------------------------|-------------|------------------|------|---------------------|
| Managerial Competencies (MC) | 7           | 0.71             | 0.54 | 0.734               |
| Competitive Advantage (CA)   | 7           | 0.72             | 0.55 | 0.741               |
| Financial Performance (FP)   | 5           | 0.70             | 0.52 | 0.721               |

Note: AVE=Average Variance Extracted

#### 4.2. Descriptive Statistics Correlation Analysis

Pearson correlation coefficient was applied to check the link between the main variables. The Pearson coefficient values (see table 3) of the main variables of the study are highly significant and within the acceptable threshold. The results shows that MC and CA are significantly related with FP ( $r=0.335$ ,  $p < 0.01$ ), ( $r=0.332$ ,  $p < 0.01$ ). Similarly, MC and CA are also significantly associated with each other ( $r=0.374$ ,  $p < 0.05$ ). The mean value and standard deviation values of all the constructs such as for MC ( $M=4.131$ ,  $STD=0.474$ ), CA ( $4.079$ ,  $STD=0.476$ ), and FP ( $M=4.222$ ,  $STD=0.421$ ). The data is normal because the Skewness and kurtosis values are in the range of  $\pm 2$  as suggested by George (2011). Furthermore, to check the multicollinearity issue we used SPSS where the impact of the independent variable (managerial competencies) has been scrutinized on the mediator (competitive advantage) and the dependent variable (financial performance). According to Khattak (2020), the VIF score should be (less than 3) and the tolerance score should be ( $> 0.10$ ). Our outcomes reveal in table 3 that VIF and tolerance score falls at the threshold level.

|    | Tolerance | VIF   | M     | SD    | MC      | CA      | FP |
|----|-----------|-------|-------|-------|---------|---------|----|
| MC | 0.860     | 1.163 | 4.131 | 0.474 | 1       |         |    |
| CA | 0.870     | 1.173 | 4.079 | 0.476 | 0.374** | 1       |    |
| FP |           |       | 4.222 | 0.421 | 0.335** | 0.332** | 1  |

Note: FP= Financial Performance, CA =Competitive Advantage, MC=Managerial Competencies, VIF= Variance Inflation Factor (\*\*. Correlation is significant at the 0.01 and \*.at 0.05 level

### 4.3. Common Method Bias (CMB)

As the data has been collected from only one source at the same time, so the issue of CMB may happen. To check the problem of CMB single Harmon factor test has analyzed in SPSS 22. The outcome of Harmon's test displays that the first factor explained only 22.59% variation which is less than from threshold level (less than 50 %). Hence, the outcome of Harmon's test result shows the nonexistence of CMB.

### 4.4. Regression Analysis

Below table 4 reported the mediation results. To test the mediating role of CA between MC and FP the procedure suggested by Preacher and Hayes (2014) has been used. The result reported in table 4 shows that the MC significantly influences both FP ( $\beta = 0.2079$ ,  $p < 0.01$ ) and CA ( $\beta = 0.3753$ ,  $p < 0.01$ ) which strongly support H1 and H2 of the study. Similarly, CA significantly influences FP ( $\beta = 0.2021$ ,  $p < 0.01$ ) which supports H 3 of the study. To scrutinize the mediating role of CA between MC and FP of SMEs, Preacher, and Hayes (2014) method in SPSS has been executed. The mediation outcomes in table 4 indicate that the direct path of MC FP of SMEs is statistically positive significant ( $\beta = 0.2079$ ,  $p < 0.01$ ), and the indirect path of MC on SMEs FP is also positively significant ( $\beta = 0.0758$ ,  $p < 0.01$ ). This indicates that CA plays a partial mediating role between MC and FP of SMEs nexus. These results partially support H4.

| <b>Hypotheses</b>     | <b>Direct Path</b> |       | <b>Indirect Path</b> |       | <b>Total path</b> |       |
|-----------------------|--------------------|-------|----------------------|-------|-------------------|-------|
| FP<...MC (through CA) | 0.2079             | 0.003 | 0.0758               | 0.000 | 0.2837            | 0.000 |
| CA<...MC              | 0.3753             | 0.000 |                      |       | 0.3753            | 0.000 |
| FP<...CA              | 0.2021             | 0003  | -                    | -     | 0.2021            | 0.003 |

Note: FP= Financial Performance, CA =Competitive Advantage, MC=Managerial Competencies,

### 4.5. Validation of mediation result through PROCESS:

To validate the mediation results PROCESS method was used in SPSS. The total effect of the MC on the FP is  $\beta = 0.283$ ,  $t = 4.316$ ). Additionally, the direct path of MC on FP is positively significant ( $\beta = 0.2021$ ,  $t = 2.932$ ). The indirect path of MC on FP via CA is positively significant ( $\beta = 0.075$ ,  $t = 3.007$ ). Hence, we conclude that CA partially mediates the nexus between MC and FP of SMEs. The result of the normal theory test also confirms the partial mediating role of CA ( $z = 2.477$ ,  $P < .01$ )

- 1 Effect of MC on FP ... (c path)  
b= .283, t = 4.316
- 2 Effect of MC on CA ... (a path)  
b= .3753, t = 4.8827
- 3 Influence of MC and CA on FP... (c & b Path)
  - a. Influence of CA on FP: b = 0.075, t= 2.9321
  - b. Influence of MC on FP: b = 0.207, t= 3.0075
- 4 Normal theory test  
z = 2.477, P < .01, K<sup>2</sup>=.039

## 5. DISCUSSION

Prior studies have mostly emphasized qualitative techniques and have focused on advanced economies. However, the role of managerial competencies, CA, and FP has been received negligible attention in emerging economy Pakistan. In particular, the mechanism by which MC influences the financial performance of SMEs has been remained untouched in emerging economy Pakistan. This research fills this gap and tests the CA as an intervening variable between MC and FP of SMEs. The hypothesized model of this study was based on a quantitative approach by collecting empirical evidence through a structural questionnaire from 149 registered SMEs in Islamabad region. The study contributes to the RBV theory that reveals that how intangible resources and capabilities are essential for a firm to gain CA and superior performance (Barney, 1991). Additionally, this research also evaluates the UET which shows how top managers' competencies significantly contribute to enterprises' performance.

First, this study found that MC significantly improves the FP of SMEs in Pakistan that support H<sub>1</sub>. In parallel to this finding Kamukama et al (2017) concluded that management skills and capabilities are vital for the superior performance of enterprises. In a similar vein, Zacca and Dayan (2018) also concluded that MC is not only essential for operating activities but also very essential for the higher financial performance of small enterprises. Additionally, Wang, Lo, and Yang (2004) pointed out that managerial competencies are necessary for firm success and long-term survival.

To substantiate the second hypothesis this study found that MC significantly influences CA. These findings are similar to the outcomes of Ferreira, Coelho, and

Weersma, (2019) who revealed that managerial capabilities significantly contribute to CA and firm performance. In a similar vein Hwang, Choi, and Shin (2020) also reported that SMEs use entrepreneurial competencies to achieve a competitive advantage. In Tallying to this argument, Anwar, Khan, and Khan (2018) demonstrated that an enterprise having a competitive edge over its rival enjoys superior performance.

Third, this study found that CA significantly enhanced FP which favored H<sub>3</sub>. These results are consistent with the outcomes of Shah and Ahmed (2020). They scrutinized that CA is an essential factor that boosts up firm performance.

Lastly, this study reveals that CA significantly partially mediates the nexus between MC and the financial performance of SMEs. These results revealed that Pakistan's small and medium-sized enterprises gain a competitive advantage through their management skills that enable them to increase their performance. This implies that SMEs having skilled and knowledgeable managers are in a better position to gain a competitive advantage which in turn increased financial performance. As a result, SMEs rely on highly professional skills full and knowledgeable managers to achieve better performance. These results are in line with the finding of Kamukama et al (2017) who conclude that CA significantly mediates the nexus between MC and financial institution performance. Similarly

### **5.1. Implication for Practice**

Based on the findings of the research, this study recommends several important implications for policymakers, CEOs, top managers, and owners of SMEs. We confirmed that MC is vital for the FP of enterprises. Therefore, owners and managers need to invest and emphasize MC which in turn assists enterprises to enjoy superior FP in the emerging market Pakistan. In other words, we suggest sufficient capitalizing in MC -being intangible capability is useful for an enterprise instead of devoting a huge amount to tangible resources. As SMEs do have not enough resources to invest intangible resources and investing more funds intangible resources is dicier than investing in intangible resources. This study findings indicate that CA has a positive influence on the FP of SMEs, as well as mediates the nexus between MC and FP of SMEs. The outcomes of this offer signal to CEOs and owners of SMEs to give appropriately consider CA (cost

leadership or differentiation). SMEs can enhance FP by cutting their costs and distinguishing their goods. Though, CA needs an enthusiastic MC. The outcomes of this study are not restricted to the single emerging economy Pakistan, but the other emerging and developed countries can obtain similar assistance to chase the insights. This should assist the Small and Medium Enterprises Authority (SMEDA) in developing policies for protecting new enterprises in Pakistan. A lower failure rate will result in SMEs surviving for the long term, contributing considerably to economic growth and progress.

MC act as an internal capability of the enterprise to attain CA and FP. To summarize, we argue that the manager of the SME's must have to put intense emphasis on the MC to gain CA and FP. In addition, this study recommends the SMEDA and government bodies to assist SMEs monetarily and non-financially to attain useful outcomes.

### **5.2. Limitation and Direction for Future Research**

Some constraints of the study have been discussed in this section. This research is conducted only in the SMEs sector of Pakistan. However, we suggest that conducting a similar study for large firms. Furthermore, we suggest collecting information from other countries such as China, India, and Malaysia, etc. Similarly, evidence from developed economies will also provide important implications for practicing managers. We used a questionnaire in the study that is threatened by bias, especially common method bias. We advise interviewing with a few owners and managers of SMEs to gain more useable evidence. It will provide more relevant and adequate information. We controlled the factors such as age, industry, and size of SMEs in the model. However, future studies need to consider these factors as the main factors for analysis. We focused only on competitive advantage in this study. However, future studies need to consider other variables such as opportunity recognition, tangible, and intangible resources as a mediator to articulate the findings in a good way.

## **6. CONCLUSION**

Several studies have been suggested by previous literature in developing and developed economies. However, the role of managerial competencies, competitive

advantage, and financial performance has been received negligible attention in emerging economy Pakistan. In particular, the mechanism through which MC influences the FP of SMEs has been remained untouched in emerging economy Pakistan. This research fills this gap and tests the mediating role of CA between MC and FP of SMEs. Using a quantitative method data were collected through a structured questionnaire from 149 registered SMEs. The results show that MC and CA significantly contribute to financial performance in the sampled SMEs. We further scrutinized that CA significantly partially mediates the relationship between MC and the financial performance of SMEs.

Several studies have been suggested by previous literature in developing and developed economies. However, the role of managerial competencies, competitive advantage, and financial performance has been received negligible attention in emerging economy Pakistan. In particular, the mechanism through which MC influences the FP of SMEs has been remained untouched in emerging economy Pakistan. This research fills this gap and tests the mediating role of CA between MC and FP of SMEs. Using a quantitative method data were collected through a structured questionnaire from 149 registered SMEs. The results show that MC and CA significantly contribute to financial performance in the sampled SMEs. We further scrutinized that CA significantly partially mediates the relationship between MC and the financial performance of SMEs.

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