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The Effect of Entrepreneurial Competencies and Digital Technology Utilization on Business Performance: The Mediating Role of Financial Management

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ABSTRACT

This quantitative study evaluates the influence of business actors' competence and digitalization on the performance of MSMEs in Gorontalo Province, with financial management as a mediating variable. Using a sample of 51 MSMEs and PLS-SEM analysis (SmartPLS 4), this research fills the empirical gap due to the limited similar literature in that region. The results show that both competence and digitalization positively and significantly influence financial management and business performance. In addition to directly impacting performance, financial management is also proven to significantly mediate the relationship between these two aspects and performance achievement. Therefore, the sustainability of MSME businesses does not merely rely on general skills and digital aspects, but rather demands the implementation of healthy financial management.

Keywords: *MSME Competence, Digitalization Utilization, Financial Management, Business Performance, PLS-SEM*

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSME) sector plays a crucial role as a strategic pillar in driving Indonesia's economic growth. In addition to contributing significantly to the country's Gross Domestic Product (GDP), this sector serves as a major source of employment, effectively reducing poverty and unemployment. Despite facing various market dynamics, including shifting consumer preferences, technological disruption, and increasingly intense business competition, MSMEs have demonstrated remarkable resilience as a key pillar of national economic stability. To promote inclusive and sustainable economic growth, the Indonesian government has prioritized strengthening the competitiveness of MSMEs through various policy initiatives, including expanding access to financing, enhancing human resource competencies, and accelerating digital transformation (Wibowo, 2021; Septiani et al., 2024; Damayanti et al., 2025).

Digital transformation has significantly reshaped the operational landscape of Micro, Small, and Medium Enterprises (MSMEs). The adoption of digital technologies—such as e-commerce platforms, social media, electronic payment systems, and digital bookkeeping applications—has created substantial opportunities for business owners to expand market reach, improve operational efficiency, and enhance competitiveness. In line with this, the Indonesian government has actively accelerated the digitalization of MSMEs as a strategic initiative to boost productivity and strengthen national economic resilience. Nevertheless, the adoption process continues to face several critical challenges, including limited digital literacy, inadequate supporting infrastructure, and suboptimal technology-based business management. Consequently, the full potential of digitalization has yet to be fully leveraged to improve the business performance of MSMEs (Verhoef et al., 2021; Damayanti et al., 2025; Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2024).

The Micro, Small, and Medium Enterprises (MSME) sector plays a crucial role as a primary driver of the economy in Gorontalo Province. The continuous growth in the number of MSMEs has contributed positively to employment generation and improved community welfare. However, the sector's development continues to face several longstanding challenges, including limited human resource capacity, low levels of digital technology adoption, and underdeveloped financial management practices. Most business owners still rely on conventional bookkeeping methods, combine personal and business finances, and have yet to adopt digital tools for financial reporting and business planning. Consequently, the available financial information is often insufficient to support strategic decision-making for business expansion, potentially leading to stagnation in MSME performance. Therefore, integrating human resource capacity development, digital technology adoption, and improved financial management is essential for enhancing the competitiveness of MSMEs in Gorontalo Province (BPS Provinsi Gorontalo, 2024; Damayanti et al., 2025; Ramadhani et al., 2024).

The capabilities of Micro, Small, and Medium Enterprise (MSME) owners constitute one of the most critical internal determinants of effective business management and sustainable business growth. These capabilities represent the integration of knowledge, skills, experience, and entrepreneurial characteristics that enable business owners to allocate resources efficiently and respond effectively to market volatility. MSME owners with strong capabilities are more likely to identify market opportunities, formulate strategic decisions, adapt to changing business environments, and foster innovation that enhances business performance. Numerous empirical studies have confirmed that entrepreneurial capabilities positively influence MSME performance by improving productivity, competitiveness, and business sustainability. Nevertheless, these capabilities may not yield optimal outcomes unless they are complemented by managerial competence, financial literacy, and the effective adoption of digital technologies in business operations (Neneh, 2022; Anwar & Abdullah, 2021; Tehseen et al., 2022).

In the digital economy era, technology implementation has become an increasingly crucial determinant in enhancing the competitiveness and performance of Micro, Small, and Medium Enterprises (MSMEs), alongside the competencies of business owners. The adoption of digital tools—such as e-commerce platforms, social media, electronic payment systems, and digital bookkeeping applications—not only improves marketing and transaction effectiveness but also enhances operational efficiency and the accuracy of strategic decision-making. At the same time, accountable financial management serves as a fundamental foundation for business owners in regulating cash flow, preparing budgets, controlling costs, and evaluating business performance. Several empirical studies have confirmed that digitalization positively affects business performance through improved internal efficiency and strengthened financial management. Nevertheless, disparities in the level of technology adoption have resulted in the uneven distribution of digitalization benefits across MSME sectors. Therefore, the synergy between digital technology utilization and sound financial management is an essential prerequisite for improving MSME business performance (Verhoef et al., 2021; Indriastuti & Kartika, 2022; Damayanti et al., 2025).

Although the relationships among MSME owner competencies, technology adoption, financial management, and business performance have been extensively examined, the findings of previous studies remain inconclusive. Several scholars have reported that entrepreneurial competencies exert a significant and positive influence on MSME performance by fostering innovation, improving strategic decision-making, and enhancing the ability to adapt to changing market conditions (Neneh, 2022; Tehseen et al., 2022). However, other studies suggest that entrepreneurial competencies alone are insufficient to generate meaningful improvements in business performance without the support of effective managerial practices, financial literacy, and the adoption of digital technologies (Anwar

& Abdullah, 2021). Similar inconsistencies have also been observed regarding the impact of digitalization. Some studies argue that digitalization directly enhances business performance by improving operational efficiency and expanding market access (Verhoef et al., 2021). In contrast, other studies contend that the positive effects of digitalization are realized only when supported by sound financial management, which serves as a mediating mechanism (Indriastuti & Kartika, 2022). These inconsistencies in the existing literature reveal a significant research gap. Accordingly, further investigation is warranted to examine the mediating role of financial management in the relationships between entrepreneurial competencies, digitalization, and MSME performance.

Based on the identified phenomenon and research gap, the novelty of this study lies in examining the mediating role of financial management in the relationships between entrepreneurial competencies, digitalization, and the performance of Micro, Small, and Medium Enterprises (MSMEs) in Gorontalo Province. Unlike previous studies, which have primarily focused on the direct effects of entrepreneurial competencies or digitalization in isolation, this research integrates internal determinants (entrepreneurial competencies), external factors (digital transformation), and managerial aspects (financial management) into a comprehensive empirical model. Data are analyzed using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach to simultaneously assess both the direct and indirect relationships among the variables. Accordingly, this study aims to empirically examine the effects of entrepreneurial competencies and digital technology utilization on MSME performance through the mediating role of financial management. The findings are expected to contribute to the theoretical development of the MSME management literature while also providing strategic insights for policymakers and other stakeholders in designing policies to strengthen MSME competitiveness through the synergy of entrepreneurial competencies, digital transformation, and sound financial management (Hair et al., 2022; Verhoef et al., 2021; Neneh, 2022).

LITERATURE REVIEW

Entrepreneurial Competencies of MSME Owners

The competencies of Micro, Small, and Medium Enterprise (MSME) owners constitute one of the strategic resources that significantly influence business success in an increasingly competitive and dynamic market environment. These competencies extend beyond technical knowledge and entrepreneurial skills to encompass the ability to identify business opportunities, make strategic decisions, establish collaborative networks, and allocate resources efficiently. From the perspective of the Resource-Based View (RBV), entrepreneurial competencies are regarded as intangible assets capable of generating sustainable competitive advantage when effectively developed and utilized. Consequently, enhancing the competencies of MSME owners is expected to increase opportunities for business expansion while strengthening their competitiveness in responding to the evolving business environment (Kisubi et al., 2022; Sakib et al., 2022).

Man et al. (2002) proposed that entrepreneurial competence comprises several dimensions, including opportunity competency, relationship competency, conceptual competency, organizing competency, strategic competency, and commitment competency. Recent studies have demonstrated that these competencies play a vital role in enhancing the ability of MSME owners to formulate business strategies, foster innovation, and respond effectively to market changes. Kisubi et al. (2022) found that entrepreneurial competencies have a positive effect on MSME performance, both directly and indirectly through the enhancement of organizational capabilities. Similarly, Sakib et al. (2022) reported that competencies related to organizational management, leadership, learning, and relationship building significantly contribute to improving the performance of MSMEs in developing countries.

In this study, the competencies of Micro, Small, and Medium Enterprise (MSME) owners are defined as the entrepreneurial capabilities to effectively integrate knowledge, skills, experience, and entrepreneurial attitudes in managing business activities to enhance business performance. This construct is operationalized through indicators that measure the ability of business owners to identify market opportunities, manage operational activities, establish networks with customers and strategic partners, and make critical decisions in response to the dynamic business environment. These competencies are regarded as fundamental resources that enable MSME owners to develop sustainable competitive advantages while ensuring long-term business sustainability (Kisubi et al., 2022; Sakib et al., 2022; Aftab et al., 2022).

Digital Technology Utilization

Digital technology utilization refers to the implementation of digital technologies across various business activities to enhance organizational efficiency, effectiveness, and competitive advantage. Within the context of Micro, Small, and Medium Enterprises (MSMEs), this transformation is reflected in the adoption of social media, e-commerce platforms, electronic payment systems, digital bookkeeping applications, and other digital technologies that support business operations. The integration of these technologies enables MSME owners to expand market reach, improve service quality, streamline business processes, and create greater value for customers. Consequently, digital technology adoption is recognized as a strategic imperative for strengthening the sustainability and competitiveness of MSMEs in the digital economy (Verhoef et al., 2021; OECD, 2021).

Numerous empirical studies have confirmed that implementing digital technologies contributes positively to the performance of Micro, Small, and Medium Enterprises (MSMEs) by enhancing productivity, improving operational efficiency, and increasing organizational flexibility in responding to dynamic market conditions. In addition, digital technologies promote more effective financial management through digital bookkeeping applications and electronic payment systems, thereby facilitating more accurate financial records and more informed strategic decision-making. Therefore, the effective adoption of digital technologies by MSME owners is expected to strengthen financial management practices and support the long-term sustainability of business performance (Vial, 2021; Verhoef et al., 2021; OECD, 2021).

Financial Management

Financial management refers to a series of processes encompassing financial planning, bookkeeping, implementation, monitoring, and evaluation of cash transactions to achieve business objectives efficiently. In the context of Micro, Small, and Medium Enterprises (MSMEs), sound financial management serves as a fundamental pillar of business stability by ensuring effective cash flow management, cost control, budgeting, and the clear separation of personal and business finances. Through effective financial management practices, business owners can generate reliable financial information that supports strategic decision-making and facilitates business expansion (OECD, 2022; Ministry of Cooperatives and SMEs of the Republic of Indonesia, 2023).

Numerous studies have demonstrated that financial management makes a significant contribution to improving the performance of Micro, Small, and Medium Enterprises (MSMEs). Business owners who consistently maintain bookkeeping records, prepare financial statements, and utilize financial information as a basis for strategic decision-making tend to achieve superior business performance compared with those who do not implement such practices effectively. In the digital era, advances in technology have further facilitated financial management through the adoption of digital accounting applications. This digital transformation not only enhances operational efficiency but also supports sustainable business growth by enabling more effective financial planning and control (OECD, 2022; Susanti et al., 2023; Ismanto et al., 2024).

Business Performance

Business performance refers to the extent to which a business achieves its objectives over a given period. For Micro, Small, and Medium Enterprises (MSMEs), business performance should not be assessed solely in terms of profitability. It also encompasses other key dimensions, such as sales growth, customer expansion and retention, asset growth, workforce productivity, and the firm's ability to withstand challenging business conditions. Evaluating these aspects enables MSME owners to determine whether their business strategies are effective in responding to an increasingly dynamic and competitive market environment. Therefore, improving business performance remains a primary objective for MSMEs in their pursuit of sustainable growth, long-term competitiveness, and business resilience (Cho & Lee, 2020; OECD, 2023).

Business performance is influenced by a combination of internal and external factors. Internal factors include entrepreneurial competencies, managerial capabilities, innovation, and financial management, whereas external factors encompass digital technology adoption, market dynamics, and the overall business environment. Numerous empirical studies have demonstrated that MSME owners who possess strong entrepreneurial competencies, advanced digital capabilities, and sound financial management practices tend to achieve significantly higher levels of business performance. Therefore, improvements in business performance depend not only on the personal attributes of business owners but also on the organization's ability to manage its resources effectively and integrate digital technologies into its business operations (Verhoef et al., 2021; Neneh, 2022; OECD, 2023).

RESEARCH METHODOLOGY

This study employs a quantitative approach with an explanatory research design to examine the causal relationships between entrepreneurial competencies, digital technology utilization, and business performance, with financial management serving as a mediating variable. The research focuses on Micro, Small, and Medium Enterprises (MSMEs) located in Gorontalo Province, Indonesia. Primary data were collected through a structured questionnaire administered to MSME owners as the research respondents. A purposive sampling technique was employed, whereby respondents were selected based on predetermined criteria relevant to the objectives of the study, resulting in a final sample of 51 respondents. The quantitative approach was chosen because it enables the objective measurement of relationships among variables through hypothesis testing based on empirical data.

Data were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the assistance of SmartPLS software. The PLS-SEM approach was selected because it is well suited for examining relationships among latent constructs, accommodates complex research models, does not require strict assumptions of multivariate normality, and provides robust parameter estimates even with relatively small sample sizes. The analysis began with the evaluation of the measurement model (outer model), including assessments of convergent validity, discriminant validity, and construct reliability. This was followed by the evaluation of the structural model (inner model) through the assessment of the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and hypothesis testing using the bootstrapping procedure to estimate path coefficients, *t*-statistics, and *p*-values. These analytical procedures were conducted in accordance with the latest PLS-SEM guidelines widely adopted in management and business research.

RESULTS

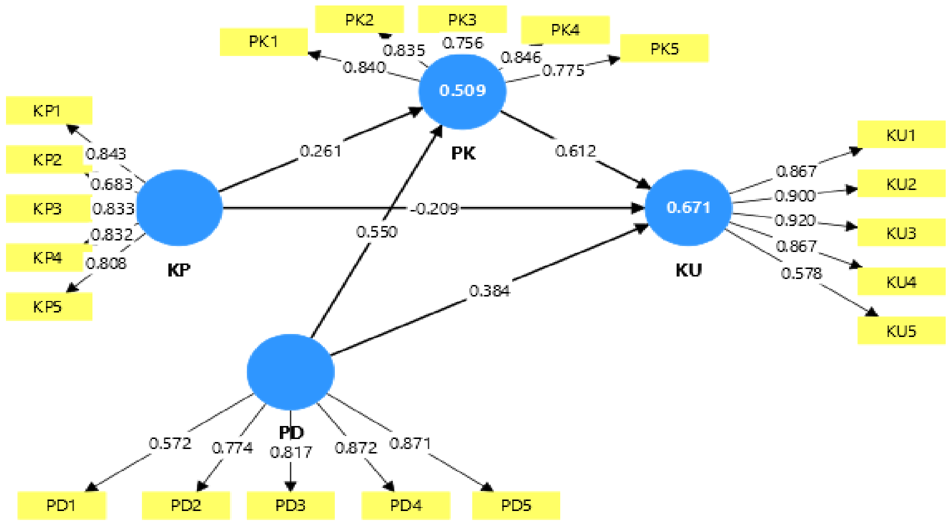

Figure 1. Result of the study

Table 1. Result of the study

Variable	Dimension	Loading Factor	AVE	Description
Entrepreneurial Competencies	KP1	0,843	0,643	Valid
	KP2	0,683		Invalid
	KP3	0,833		Valid
	KP4	0,832		Valid
	KP5	0,808		Valid
Digital Technology Utilization	PD1	0,572	0,699	Invalid
	PD2	0,774		Valid
	PD3	0,817		Valid
	PD4	0,872		Valid
	PD5	0,871		Valid
Business Performance	KU1	0,867	0,623	Valid
	KU2	0,900		Valid
	KU3	0,920		Valid
	KU4	0,867		Valid
	KU5	0,578		Invalid
Financial Management	PK1	0,840	0,658	Valid
	PK2	0,835		Valid
	PK3	0,756		Valid
	PK4	0,846		Valid
	PK5	0,775		Valid

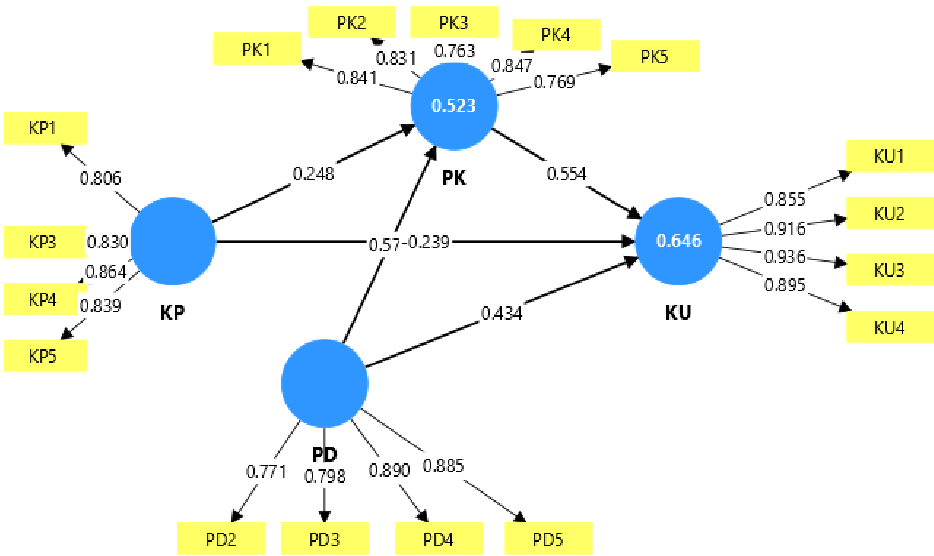

Figure 2. Result of the study

Table 2. Result of the study

Variable	Dimension	Loading Factor	AVE	Description
Kompetensi Pelaku	KP1	0,806	0,697	Valid
	KP3	0,830		Valid
	KP4	0,864		Valid
	KP5	0,839		Valid
Pemanfaatan Digitalisasi	PD2	0,771	0,812	Valid
	PD3	0,798		Valid
	PD4	0,890		Valid
	PD5	0,885		Valid
Kinerja Usaha	KU1	0,855	0,702	Valid
	KU2	0,916		Valid
	KU3	0,936		Valid
	KU4	0,895		Valid
Pengelolaan Keuangan	PK1	0,841	0,658	Valid
	PK2	0,831		Valid
	PK3	0,763		Valid
	PK4	0,847		Valid
	PK5	0,769		Valid

Table 3. Relationship and t-statistics

Relationship	**(β)**	**T-statistics**	**Description**
KP → KU	-0,239	1,651	Not Significant
KP → PK	0,248	1,943	Not Significant (Marginally Significant)
PD → KU	0,434	2,910	Significant
PD → PK	0,571	3,904	Significant
PK → KU	0,554	3,979	Significant

R1. Effect of Entrepreneurial Competencies (EC) on Business Performance (BP)
The data analysis reveals that Entrepreneurial Competencies do not have a significant effect on Business Performance, as indicated by a path coefficient of **−0.239** and a *t*-statistic of 1.651, which is below the critical threshold of 1.96. These findings provide statistical evidence to reject the research hypothesis proposing that the competencies possessed by MSME owners have a direct positive effect on business performance.

R2. Effect of Entrepreneurial Competencies (EC) on Financial Management (FM)
Hypothesis testing showed that the Actor's Competence had no significant effect on Financial Management, which was evidenced by a path coefficient of 0.248 and a T-statistic of 1.943 (< 1.96). Results that fall below this criterion of statistical significance provide a solid basis for rejecting the second hypothesis put forward.

R3. Effect of Digital Technology Utilization (DTU) on Business Performance (BP)
The results indicate that Digital Technology Utilization has a positive and significant effect on Business Performance, as evidenced by a path coefficient of 0.434 and a *t*-statistic of 2.910, which exceeds the critical threshold of 1.96. These findings confirm that greater utilization of digital technologies is associated with significant improvements in business performance.

R4. Effect of Digital Technology Utilization (DTU) on Financial Management (FM)
The hypothesis testing produced a path coefficient of 0.571 and a *t*-statistic of 3.904. Since the *t*-statistic exceeds the critical value of 1.96, it can be concluded that Digital Technology Utilization has a positive and highly significant effect on Financial Management. These findings indicate that greater adoption of digital technologies is associated with substantial improvements in financial management practices among MSMEs.

R5. Effect of Financial Management (FM) on Business Performance (BP)
The hypothesis testing yielded a path coefficient of 0.554 and a *t*-statistic of 3.979. Since the *t*-statistic exceeds the critical value of 1.96, the results provide strong statistical evidence that Financial Management has a positive and significant effect on Business Performance. These findings suggest that more effective financial management practices contribute substantially to improving the business performance of MSMEs.

Table 4.

Relationship	(β)	T-statistics	Description	Relationship
KP → PK → KU	0,137	1,808	0,071	Not Significant
PD → PK → KU	0,317	2,668	0,008	Significant

R6. Effect of Entrepreneurial Competencies on Business Performance through Financial Management
The data analysis indicates that Financial Management (FM) does not play a significant mediating role in the relationship between Entrepreneurial Competencies (EC) and Business Performance (BP). This is evidenced by an indirect path coefficient (original sample) of 0.137, a *t*-statistic of 1.808 (below the critical value of 1.96), and a *p*-value of 0.071 (greater than 0.05). These statistical results confirm that the indirect effect is not statistically significant, indicating that Financial Management does not significantly mediate the relationship between Entrepreneurial Competencies and Business Performance.

H7. Effect of Digital Technology Utilization on Business Performance through Financial Management
The data analysis indicates that Financial Management (FM) plays a significant mediating role in the relationship between Digital Technology Utilization (DTU) and Business Performance (BP). This is evidenced by an indirect path coefficient (original sample) of 0.317, a *t*-statistic of **2.668** (exceeding the critical value of **1.96)**, and a *p*-value of **0.008** (below the significance threshold of **0.05)**. These statistical results confirm that the indirect

effect is positive and statistically significant. Accordingly, Financial Management significantly mediates the positive relationship between Digital Technology Utilization and Business Performance, indicating that greater adoption of digital technologies enhances business performance by improving financial management practices among MSMEs.

DISCUSSION

R1. Effect of Entrepreneurial Competencies on Business Performance

Based on the hypothesis testing results, Entrepreneurial Competencies were found to have no significant effect on Business Performance. This is evidenced by a path coefficient of −0.239, a *t*-statistic of 1.651, and a *p*-value of 0.099 (> 0.05). These empirical findings indicate that strengthening the competencies of MSME owners in Gorontalo has not directly translated into improved business performance. Personal attributes such as knowledge, skills, and entrepreneurial experience do not necessarily lead to higher productivity, sales growth, or profitability. This finding suggests that entrepreneurial competencies alone are insufficient to enhance business performance. Instead, their impact depends on complementary factors, including digital technology adoption, market expansion, innovation capability, and effective resource management, which together enable MSMEs to achieve sustainable business growth.

These empirical findings appear to diverge from the Resource-Based View (RBV), which conceptualizes entrepreneurial competencies as strategic resources capable of generating sustainable competitive advantage and enhancing organizational performance. In the context of MSMEs in Gorontalo, however, the competencies possessed by business owners have not yet been transformed into dynamic capabilities that create tangible value for business growth. This finding is consistent with the literature on entrepreneurial competencies and business digitalization, which argues that internal capabilities alone are insufficient to produce optimal organizational outcomes unless they are effectively integrated with digital technology adoption and supported by a conducive business ecosystem. Consequently, efforts to strengthen the competencies of MSME owners should be accompanied by the development of adaptive capabilities that enable them to respond effectively to changing market conditions, particularly those driven by ongoing digital transformation.

R2. Effect of Entrepreneurial Competencies on Financial Management

Based on the analysis results, Entrepreneurial Competencies were found to have no significant effect on Financial Management. This is indicated by a path coefficient of **0.248**, a *t*-statistic of 1.943, and a *p*-value of 0.053 (> 0.05). Although the direction of the relationship is positive, the effect is not statistically strong enough to be considered significant. These findings indicate that the competencies possessed by MSME owners do not automatically lead to improvements in their financial management practices. In practice, many MSME owners still rely on basic bookkeeping methods, have not clearly separated personal and business finances, and have not utilized financial reports as a basis for making strategic business decisions.

The analysis results reveal a gap between general entrepreneurial competencies among MSME owners and their financial management capabilities. The ability to manage business operations does not necessarily guarantee proficiency in recording cash flows, preparing financial plans, or developing financial reports. Recent studies suggest that the effectiveness of MSME financial management is more strongly influenced by factors such as financial literacy, the utilization of digital financial applications, and financial behavior. Therefore, efforts to strengthen MSME capabilities should be directed specifically toward financial aspects through basic accounting training, the preparation of simple financial statements, and the introduction of digital financial management tools.

R3. Effect of Digital Technology Utilization on Business Performance

Based on the data analysis results, Digital Technology Utilization was found to have a positive and significant effect on Business Performance. This relationship is confirmed by a path coefficient of 0.434, a t-statistic of 2.910, and a p-value of 0.004 (< 0.05). These empirical findings demonstrate that the acceleration of digital technology adoption among MSME owners is positively associated with improvements in business performance. The integration of digital technologies—through the optimization of social media, e-commerce platforms, digital payment systems, and business management applications—contributes to enhancing operational efficiency, expanding market reach, and accelerating customer responsiveness and strategic decision-making processes. Ultimately, technological adoption significantly contributes to increasing sales volume, profitability, and business competitiveness.

The findings of this study confirm contemporary literature that positions digitalization as a strategic instrument for enhancing MSME performance within the digital economy landscape. The adoption of digital technologies enables businesses to expand market reach, optimize marketing effectiveness, and restructure operational processes to achieve sustainable performance growth. These results are consistent with the study by Indriastuti and Kartika (2022), which demonstrated that digitalization contributes positively to MSME performance by strengthening organizational capabilities. Furthermore, this positive finding is supported by previous research on MSME digital transformation in Indonesia, which emphasizes that digital strategies and digital competencies are important determinants in improving competitiveness and business outcomes. Therefore, this study further reinforces the argument that digital transformation represents a key strategic pillar that should be accelerated to enhance the success and sustainability of MSMEs in Gorontalo.

R4. Effect of Digital Technology Utilization on Financial Management

Based on the data analysis results, Digital Technology Utilization was found to have a positive and significant effect on Financial Management. This causal relationship is supported by a path coefficient of 0.571, a t-statistic of 3.904, and a p-value of 0.000 (< 0.05). These empirical findings indicate that higher levels of digital technology adoption among MSME owners in Gorontalo are directly associated with improved financial management practices.

The integration of digital tools—such as digital bookkeeping applications, mobile banking services, QRIS, digital wallets, and cloud-based accounting software—enables business owners to record transactions more accurately, monitor cash flows, control expenditures, and prepare financial reports systematically. Therefore, digitalization has undergone a functional transformation; it is no longer limited to serving as a tool for market expansion but has become a strategic mechanism for improving the quality of financial management within MSMEs.

These findings provide empirical support for the Technology Acceptance Model (TAM), which posits that perceived ease of use and perceived usefulness are the primary factors influencing individuals' adoption of technology in business activities. The integration of digital technologies into MSME financial management contributes directly to improving operational efficiency and effectiveness. This argument is consistent with the study by Bananuka et al. (2023), which emphasizes that technology adoption enhances the quality of financial management practices in small-scale businesses by providing more accurate financial information and accelerating strategic decision-making processes. Furthermore, research by Nuseir and Aljumah (2022) reinforces the evidence that business digitalization significantly strengthens managerial capabilities, particularly in financial control and operational management. Therefore, digital transformation plays a crucial role as a fundamental strategy for MSMEs in developing more effective and sustainable financial management systems.

R5. Effect of Financial Management on Business Performance

Based on the path analysis results, Financial Management was found to have a positive and significant effect on Business Performance. This hypothesis is supported by a path coefficient of 0.554, a t-statistic of 3.979, and a p-value of 0.000 (< 0.05). These empirical findings confirm that improved financial management practices among MSME owners are positively associated with enhanced business performance. Effective financial management enables business owners to control cash flows, project working capital requirements, reduce cost inefficiencies, and periodically evaluate profitability levels. The availability of accurate and reliable financial information serves as a critical foundation for strategic decision-making, which subsequently contributes to increased productivity and the development of sustainable competitive advantages. Thus, sound financial management represents an essential managerial capability that supports MSMEs in achieving stronger and more sustainable business performance.

These empirical findings validate the Resource-Based View (RBV), which emphasizes that managerial capabilities—including expertise in financial management—are critical internal strategic assets for building sustainable competitive advantage. Effective financial management facilitates efficient resource allocation, which ultimately contributes to accelerated business performance. This finding is consistent with the study by Musie (2023), which demonstrated that effective financial management practices contribute positively to MSME resilience and performance by strengthening operational efficiency and enhancing adaptive capabilities in responding to economic uncertainties. Similar evidence was also reported by Abubakar et al. (2022), who identified the quality of financial management as one of the key determinants influencing the growth and success of micro and small enterprises. Therefore, strengthening financial management capabilities should be integrated as a priority agenda in MSME development and empowerment programs.

R6. Effect of Entrepreneurial Competencies on Business Performance through Financial Management

The specific indirect effect analysis indicates that Financial Management does not serve as a significant mediator in the relationship between Entrepreneurial Competencies and Business Performance ($\beta = 0.137$, t-statistic = 1.808, p-value = 0.071). These findings suggest that improvements in MSME owners' competencies have not yet been able to enhance business performance when the mechanism operates through financial management practices.

More specifically, the capabilities possessed by MSME owners have not been effectively transformed into sound financial management practices, resulting in limited impacts on business performance improvement. This finding is further supported by the direct effect analysis, which demonstrates that Entrepreneurial Competencies do not have a significant influence on either Financial Management or Business Performance independently. Therefore, entrepreneurial competencies alone appear insufficient to generate better business outcomes unless they are accompanied by specific financial management capabilities and supporting organizational mechanisms that enable the effective utilization of internal resources.

Although entrepreneurial competencies are theoretically considered a fundamental foundation for business success, in practice, the general competencies of MSME owners often do not encompass specific financial management skills. Many business owners operate primarily based on experience and intuition, while neglecting the importance of financial administration, bookkeeping, and structured financial planning. The study by Yusuf et al. (2023) further emphasizes that without adequate financial literacy and managerial capabilities, entrepreneurial competencies cannot generate optimal impacts on business performance. Therefore, efforts to enhance MSME capabilities should be integrated with financial management training to ensure that the potential and competencies possessed by business owners can be effectively transformed into drivers of business growth and sustainable success.

R7. Effect of Digital Technology Utilization on Business Performance through Financial Management

Based on the macro analysis or mediation testing results, Financial Management was proven to significantly mediate the effect of Digital Technology Utilization on Business Performance. This is indicated by the indirect effect coefficient of 0.317, a *t*-statistic value of 2.668, and a *p*-value of 0.008 (< 0.05). Since the direct effect of Digital Technology Utilization on Business Performance also remains statistically significant, the mediation mechanism is categorized as partial mediation.

These empirical findings indicate that accelerating digital technology adoption not only improves business performance directly but also operates simultaneously through the strengthening of financial management practices. In other words, the more intensive the use of digital tools, the more accurate the transaction recording, cash flow monitoring, and financial reporting structures become, ultimately contributing to improved MSME performance. Therefore, digital transformation serves not only as a mechanism for expanding market access but also as a strategic enabler for developing more effective financial governance systems that support sustainable business growth.

These findings reinforce the argument that accelerating digital transformation will generate more substantial impacts when integrated with strong financial management capabilities. Digitalization not only enhances the speed and efficiency of business operations but also generates accurate financial information that serves as a foundation for managerial decision-making.

This result is consistent with the study by Indriastuti and Kartika (2022), which demonstrated that digitalization improves MSME performance by strengthening organizational capabilities and more efficiently allocating resources. Similar evidence was also reported by Ainin et al. (2023), who found that integrating digital technology utilization with effective business governance systems significantly improves operational efficiency, strategic decision-making quality, and MSME performance. Therefore, digital transformation programs initiated by governments and business support institutions should adopt a broader strategic perspective by shifting their focus beyond digital marketing (*e-marketing*) toward the development and strengthening of digital-based financial management systems. Such an approach enables MSMEs not only to expand their market presence but also to build more accountable, efficient, and sustainable business management practices.

CONCLUSION

This study examines the effect of entrepreneurial competencies and digital technology utilization on MSME performance in Gorontalo Province by positioning Financial Management as a mediating variable. The findings confirm that digital technology adoption contributes positively and significantly to improving financial management practices and business performance. Similarly, financial management is proven to have a significant impact on business performance effectiveness. In contrast, entrepreneurial competencies do not demonstrate a significant influence on either financial management practices or business performance outcomes. These findings highlight that strong general capabilities possessed by MSME owners do not automatically guarantee improvements in operational performance.

The research findings reveal differences in the mediating effects of Financial Management: this variable fails to mediate the relationship between *Entrepreneurial Competencies* and Business Performance but provides partial mediation for the influence of Digital Technology Utilization on business outcomes. This phenomenon indicates that digitalization operates through a dual mechanism in enhancing business performance. Beyond generating a direct impact on business performance, digitalization also acts as a catalyst for the development of more effective financial management practices, which subsequently contribute to cumulative improvements in business performance. Thus, digital transformation serves not only as an operational enhancement tool but also as a strategic mechanism that strengthens financial governance and supports sustainable MSME growth.

The data analysis results confirm differences in the mediating role of Financial Management. This financial aspect fails to mediate the effect of Entrepreneurial Competencies on Business Performance, but it significantly provides partial mediation in the relationship between Digital Technology Utilization and business outcomes. This phenomenon demonstrates that digital implementation operates through a double-impact mechanism in enhancing business capabilities. In addition to transmitting a direct effect on business productivity, digitalization also stimulates the development of healthier financial management practices, which subsequently contribute to the cumulative improvement of business performance. Therefore, digital transformation should be viewed not only as a technological innovation but also as a strategic driver that strengthens financial governance and supports sustainable MSME performance.

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