How to Cite This Article: Muse, M. D., Alim, W., Khan, S. N., Majeed, I., & Shah, S. M. (2025). Factors Influencing the Firm Performance of Small and Medium Enterprises: A Case Study of Mogadishu, Somalia. *Journal of Social Sciences Review*, 5(1), 89-102. https://doi.org/10.62843/jssr.v5i1.469

Volume 5, **Issue** 1 (Winter 2025)
Pages: 89-102
ISSN (Online): 2789-4428
DOI: 10.62843/jssr.v5i1.469
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JOURNAL OF SOCIAL SCIENCES REVIEW (JSSR)

Factors Influencing the Firm Performance of Small and Medium Enterprises: A Case Study of Mogadishu, Somalia

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Abstract: *Small and Medium Enterprises (SMEs) play a major role in the country's economies, particularly in developing countries where SMEs contribute particularly to the employment era and are an essential channel to poverty decline. This study investigates the influential factors (Social, Cultural, Innovation, Human Resources, Local Government) affecting the Firm Performance of Small and Medium Enterprises in Mogadishu, Somalia. Data for the current study has been gathered through a structured questionnaire from 218 SMEs in Mogadishu, Somalia. Diagnostic tests, confirm the reliability and validity of the data used in the current study. The findings of the study showed that all factors (Social, Cultural, Innovation, Human Resources, Local Government) positively and particularly influence the financial performance of Small and Medium Enterprises (SMEs) in Mogadishu, Somalia. The study suggests that policymakers and businesses consider key contributing factors for the performance of SMEs, especially in Somalia.*

Keywords: SMEs, Cultural Factor, Innovation, Human Resource, Local Governance, Firm Performance, Economic Development

Introduction

Small and medium enterprises (SMEs) are the backbone of economies worldwide (Anggadwita & Mustafid, 2014). They are important and contribute to economic growth, development, and employment, making them a focus point in all countries (Herlinawati & Machmud, 2020). Similarly, Kimbu and Ngoasong (2020) showed that small businesses are greatly enhanced by active local governance, which shows that policies are specifically developed to meet their unique conditions, promoting competitiveness. Firm performance catches the capability of a firm to realize its goals and develop value for stakeholders. It is measured in financial, operational, and market-based metrics, including profitability, productivity, market share, and innovation capacity. In addition, the quality of local governance, such as regulatory systems, institutional assistance, and public services, significantly impacts the small business environment. Efficient management can allow ease of doing business, reduce bureaucratic barriers, and offer essential infrastructure and services.

Somalia has experienced political instability, no government, and economic difficulty. Regardless of these problems, the entrepreneurial spirit of Somalis has proved remarkably resilient. Business and commercial life in Mogadishu has gradually regained its foundation in recent years, primarily due to the growth of small and medium enterprises. s. These enterprises are of primary importance in creating jobs, innovation, and contributing to the local economy. Somali SMEs are typically smaller than 250 workers and earn less than $50 million in revenue annually. As important employment drivers, sources of creative ideas, and economic diversification, they are an area of interest for World Bank assistance. In Mogadishu,

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economic instability, government rule differences, industry disruptions, and unexpected events in the Somalia economy affected business operations.

Despite these challenges, Mogadishu's SME industry has a high growth and development potential. Small business owners have indicated stability because of factors outside their control, such as variations in Somalia government policies, economic instability or unforeseen market instability (Mohamed et al., 2023). Small and medium-sized enterprises (SMEs) play a vital role in Somalia's economic development, significantly contributing to employment and GDP in the country. Their performance is, however, affected by various factors that may promote or hinder their development. Stakeholders must understand these factors as they work towards improving the operational performance and sustainability of SMEs in Somalia. Investigations also depict political instability, the lack of intellectual capital and infrastructure and the government's policies as other challenges affecting small and medium-sized businesses (Ma'ow, 2021).

While numerous factors influencing the performance of small and medium enterprises in Mogadishu have yet to be thoroughly explored. This study aims to discover those influential factors focusing on cultural, social, human, innovative, and local governance aspects in nexus with the financial performance of small and medium-sized enterprises. Culture, as a fundamental force, shapes business conduct, attitudes, and operational practices. In Mogadishu, a traditional clan-centric society, where religion permeates daily life, and deeply entrenched cultural norms and values profoundly impact entrepreneurial undertakings and operational methods. The societal emphasis on tradition and faith significantly influences commercial interaction and decision-making (Hussain, 2024). In Mogadishu, economic recessions, changes in government regulations, industry disruptions, and unforeseen events in the Somalian economy have significantly impacted business operations and viability. Besides, Hussein (2019) further determined that small-scale business operators in Mogadishu are highly affected by external factors beyond their control, such as changes in Somalia government regulations, economic downturns, natural disasters, or unexpected market disruptions.

Review of Literature and Proposed Hypotheses

Cultural Factors for Small & Medium Enterprise improves the effectiveness of SMEs, as they contribute to the development of small businesses. According to Hussain (2021), consideration of sociocultural factors may even lead to higher success rates for entrepreneurs in SMEs. That is why cultural norms and values become important elements of the entrepreneurial process, especially regarding the empowerment of SMEs and the expectations of society. Numerous cultural factors have an essential effect on organization routines, leadership styles, and personnel relationships, ultimately determining the performance of Small and Medium-sized Enterprises (SMEs). Adjabeng et al. (2022) demonstrated the positive relationships between cultural diversity and entrepreneurial capability. Meanwhile, other studies also affirmed that cultural diversity significantly and positively affects the financial performance of SMEs.

Using different cultures could result in better entrepreneurship and a higher demand for products, products, or services. Scholars have studied the implications of entrepreneurship concerning their cultural perspective; there might be a cultural factor as part of the business model inside a particular society, and people's desire to transform might be distinct. Similarly, Čepel (2019) empirically confirms that social and cultural (national values and beliefs, etc.) factors are important for the business environment of SMEs. The study indicates that support from family members was noticeably significant in motivating the entrepreneurs and assisting in their business activities, positively contributing to SMEs' performance.

H1: Cultural norms have a positive significant role in influencing the performance of SMEs

Social factors contribute to sustainable small and medium enterprise development (Kot, 2018). It focuses on the sustainable environment, business, and social structure, ensuring business practices help the community and society. As Akintimehin et al. (2019) highlighted, internal social capital is important to improve informal small business financial and non-financial performance. Additionally, Bag et al. (2022) studied that social factors positively affected SME performance by bringing about a positive organizational

culture, effective administration, and skills and qualification development. These factors support SMEs in implementing innovative practices, becoming more competitive, and improving sustainability.

Strong social networks also help bring about cooperation and knowledge sharing, which are important in overcoming challenges and long-term success. Ashun et al. (2020) analyzed that internal social networks would improve small and medium enterprises and customer performance. Some studies said that most SMEs in Mogadishu began with family Support and Financial Capital Jeilani (2020). This social aspect indicates that numerous micro-business owners depend on family support for their business undertakings, which can affect the performance of SMEs, particularly financial stability and startup expenses.

H2: Social interactions are positively influencing SME performance.

Elmi (2021) found that human resource competency was generally strong but identified a need for improvement in product innovation. Human resources have competency, which means performing tasks according to detailed requirements, using suitable skills and knowledge, and positively contributing to small and medium enterprises (Awolusi et al., 2013). In the same way, Sheehan (2014) examined that HRM practices played a significant role in the performance of SMEs in the UK. It was also established through results that sound human resource practices provided the highest profitability, innovation, and labour turnover, which helped to generate a sustainable competitive benefit. Equally, Khan et al. (2020) confirmed the significance of HRM practices that influenced the long-term performance of SMEs in Korea and validated a causal connection between HRM practices and performance.

Naima et al. (2024) discovered a positive relationship between training and development practices and performance appraisal systems and the financial performance of SMEs. The research highlighted that HRM practices were not just administrative activities but strategic investments. It offered a framework to put training, development, and performance evaluation systems in place to find financial success in SMEs worldwide. Riana et al. (2020) suggested that effective HRM practices contribute to value in innovation and organizational performance, putting forward the strategic nature of HRM in competitive conditions. They also identified insufficient investment in HR as an important obstacle to innovation, suggesting deliberate HR development to boost the innovative potential of SMEs towards sustainable development.

H3: Human resource management practices are positively influencing SMEs' performance

Riana et al. (2020) found that innovation significantly and positively impacted organizational performance. However, the findings also proclaim that innovation alone could not fully enhance performance but remain influential along with other factors. Chege and Wang (2020) highlighted that technological innovation positively impacted SMEs' performance, especially those engaged in environmental and social community projects. Kaua (2021) found that different innovations (technological, marketing, organizational, and strategic) positively impacted financial performance, with organizational innovation having a more significant effect. Mutuku et al. (2022) suggested that innovation positively and significantly impacted SME performance in Kenya. It concluded that innovative businesses outperformed others. The study emphasized the importance of fostering a creative culture within SMEs, advising management and business owners to prioritize innovation for success in the competitive market.

H4: Innovation practices are increasingly recognized as vital for SME performance

Quality governance (QG) can play a significant function in supporting the small and medium enterprises (SMEs) sector by encouraging improved management practices and more aggressive internal audits (Tumwebaze et al., 2018). Corporate governance is critical to corporations and assists SMEs in operating more efficient businesses. It minimises business risk and enhances financial outcomes and performance (Asiimwe, 2017). Sound governance practices are more likely to minimise information asymmetry, provide a safe environment for investors investing in small and medium businesses, and optimise performance.

In addition, sound policies, including an efficient business registration process and equitable taxation, encourage entrepreneurship and business development. Studies have shown that public-private partnerships (PPPs) and microfinance programs significantly improve SMEs' growth opportunities. For example, Oyegbade et al. (2022) discovered how PPPs and low-cost lending models synergistically can

address financing issues SMEs face, promoting inclusive growth and backing long-term SME sector development.

H5: The quality of local governance can significantly impact SME performance.

Methodology

This study was established on primary data from 218 small and medium-sized businesses (SMEs) in Mogadishu, Somalia, in 2024. The data were collected using structured questionnaires and surveys from SME owners, managers, and employees. The surveys were created to comprehensively understand the factors affecting SME performances. The sample used significantly offers adequate statistical power for hypothesis testing and the study's validity.

Dependent Variable

The dependent variable in this study is the firm performance of small and medium enterprises, which is the result of their business operations. Different indicators, such as sales growth, profitability, and customer satisfaction.

Independent Variable

This study aimed to determine five factors that impact the firm performance of small and medium enterprises. They are cultural factors (CF), social Factors (SF), human resource factors (HRF), innovation factors (INF), and quality of local Governance Factors (QLGF).

Based on the human capital theory, the research established by Gary Becker in 1964 points to the significance of employees' ability, education, and experience for enhanced performance. This is a key factor in the SME performance theory in Somalia and underscores the significance of human capital and the implementation of innovations as a determinant of profitability growth.

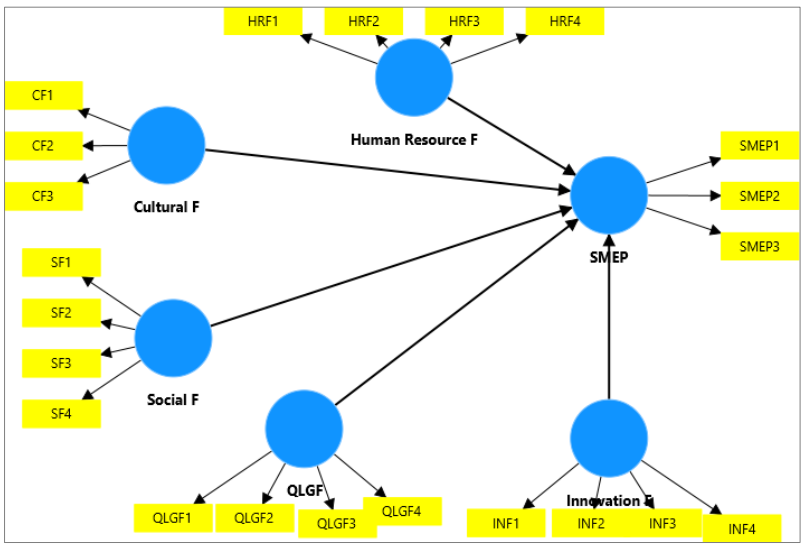
The study employed a quantitative approach to examine data from Google Forms and interviews. Quantitative data obtained from the online survey were examined using descriptive statistics (mean and standard deviation) and multiple regression analysis to determine the important factors affecting the firm performance of SMEs. Data triangulation was used to enhance validity and reliability, comparing results from both the online survey and interviews. This approach provided a holistic perception of the determinants of SME performance in Somalia.

$$FP = F(C + S + HR + IN + QLG) + e$$

$$FPi = \alpha + \beta 1CFi + \beta 2SFi + \beta 3HRFi + \beta 4INFi + \beta 5QLGFi + \mu i$$

Firm Performance (FP) is treated as the dependent variable in this study. The parameter α(alpha) represents the intercept, while β (1,2,3,4,5) are the coefficients that measure the impact of the independent variables and (i) represent cross-sectional data units.

Figure 1



Results and Discussion

Table 1

Personal Information

PI	Fre	%	AG	Fre	%	GEN	Fre	%
Owner	84	38.5	Under20	7	3.2	Male	183	83.9
Manager	34	15.6	21-30	171	78.4	Female	35	16.1
Employee	100	45.9	30-40	34	15.6			
			Over 40	6	2.8			
Total	218	100.0		218	100		218	100.0

Table 2

Qualification of the Respondents

Quali	Fre	%	B- type	Fre	%	Yrs	Fre	%
Seco	8	3.7	Goods	91	41.7	>1yr	66	30.3
Un-gra	106	48.6	Services	113	51.8	1 to 5	95	43.6
Post-gra	104	47.7	Manufacture	14	6.4	Over 5	57	26.1
Total	218	100.0	Total	218	100.0	Total	218	100.0

The table 1, provides a clear overview of the distribution of participants' personal information, age, and gender. The sample size is 218. The individual part shows that Owners are 84 (38.5%) respondents, Managers constitute 34 (15.6%) respondents, and Employees comprise the largest group of 100 (45.9%) respondents. On the other hand, the age has been split into four categories: below 20 years old, 21-30, 31-40, and over 40. Seven participants fell below 20, 171 were between 21-30 years, 34 were 31-40, and only 6 were over 40 with their percentage of the total participants in each age bracket. The gender part shows that the majority of the participants are male comprising 183 (83.9%) of the respondents while 35 (16.1%) are female.

Table 2, shows that the educational level of the participants is bachelor's degree holders, which is 106 (48.6%), and master's degree holders are 104 (47.7%), secondary high certificate holders are 8 (3.7%) of the sample. The business type is classified under business type, including Goods, Services, and Manufacturing. Most respondents 113 (51.8%) fall under the services sector, while 91 (41.7%) fall in the service sector. Finally, the manufacturing sector accounts for 14 (6.4%) of the sample. The table also affirms that out of 218 respondents, 66 (30.3%) have been in business for less than 1 year, 95 (43.6%) fall within the 1 to 5-year range, and 57 (26.1%) have been operating for over 5 years, reflecting more established businesses.

Table 3

Descriptive Statistics of Cultural Factors

	N	Mean	Min	Max	S. D	Kurt.	Skew
Cultural values in Somalia support our small and medium enterprises	218	3.748	1	5	0.998	0.735	-0.981
Cultural norms encourage the growth of our business	218	3.807	1	5	1.088	0.115	-0.945
Cultural factors have a positive impact on our small and medium enterprises' performance	218	3.734	1	5	1.126	-0.102	-0.818

The descriptive statistics show that respondents believe, cultural factors play a significant role in supporting SMEs. "The Cultural Values in Somalia Support of Our SMEs," has a mean of 3.748, low dispersion, and is left-skewed. The second " Cultural norms encourage the growth of our business " has a mean value of 3.807, moderate variability, and left-skewed distribution. The final descriptive details can

be seen in the statement "Cultural Factors Positively Impact SME Performance," which has a mean of 3.734 with a moderate spread and left-skewed distribution. The results imply a common understanding of the favorable impact of cultural aspects.

Table 4

Descriptive Statistics of Cultural Factors

	N	Mean	Min	Max	S. D	Kurt.	Skew
Our social networks and connections help in growing our SMEs	218	3.890	1	5	1.095	0.357	-1.025
Our social status and reputation influence the success of our SMEs	218	3.784	1	5	1.081	0.15	-0.899
Support from our local communities contributes to the growth of our SMEs	218	3.881	1	5	1.111	0.319	-1.016

Table 4, highlights the descriptive statistics of the social factors in nexus to the performance of SMEs. Social Networks Help in Growing SMEs carries a mean value of 3.890 which indicates agreement with moderate variability. The second statement is "Social Status Influences SME Success," which has a mean of 3.784 showing a low variance. Furthermore, "Support from Local Communities Contributes to SME Growth" has a mean value of 3.881, indicating agreement with some variance. Finally, "Social Factors Play a Role in Firm Performance" is the least relied healer, with a mean of 2.060.

Table 5

Descriptive Statistics of Human Resource Factors

	N	Mean	Min	Max	S. D	Kurt.	Skew
Availability of skilled labor is crucial for our small and medium SME's success	218	2.138	1	5	1.241	-0.286	0.896
Training and developing our employees improve our SMEs' performance	218	1.945	1	5	1.086	0.716	1.147
Employee motivation and satisfaction positively affect our SMEs' growth	218	2.940	1	5	1.113	1.095	1.303
Human resource management practices significantly influence our firm's performance	218	2.977	1	5	1.064	0.09	0.897

The descriptive statistics reflect participants' perceptions of the effect of human resource factors (HRF) considerations on SMEs. The first statement, "Availability of Skilled Labor is Crucial," has a mean of 2.138, revealing the perception that skilled labor is scarce. The second principal statement, "Training Improves SME Performance," has a mean of 1.945, indicating that the training style is ineffective. The third statement, "Customer motivation has an impact on SME growth," got a mean of 2.940, indicating moderate agreement of low motivation levels. The fifth and last statement, "HRM practices Investments Affecting Firm Performance," reflects a mean of 2.977, showing moderate agreement with lower ratings on HR practices.

Table 6

Descriptive Statistics of Innovation Culture

	N	Mean	Min	Max	S. D	Kurt.	Skew
Innovation is key to maintaining our competitiveness and SMEs growth	218	3.913	1	5	0.971	0.642	-0.946
Our SMEs' environment in Somalia encourages innovation	218	3.812	1	5	0.998	0.185	-0.812
Our access to resources for innovation (e.g., funding, knowledge) is sufficient	218	3.817	1	5	1.02	0.329	-0.853
Our innovation practices directly impact on SMEs' performance	218	3.963	1	5	0.928	0.507	-0.863

Table 6, unveils that "Innovation is Key to SME Growth," has a mean of 3.918, indicating strong agreement with low variability. The second, "SME Environment in Somalia Encourages Innovation," with a mean score of 3.812, indicates a positive approach and very low variation. The third is "Access to Resources for Innovation is Sufficient," with a mean of 3.817, which indicates sufficient resources for innovation with moderate variance. Finally, "Innovation Practices Impact SME Performance," has a mean of 3.963, indicating that respondents agreed with grouped responses relatively close to the higher end.

Table 7

Descriptive Statistics of Local Governance Factors

	N	Mean	Min	Max	S. D	Kurt.	Skew
Local government policies are supportive of our SMEs	218	3.697	1	5	1.141	-0.315	-0.708
The regulatory environment is conducive to our SMEs' growth	218	3.748	1	5	1.065	0.396	-0.928
Corruption and bureaucracy are significant barriers to our SMEs' performance	218	3.885	1	5	1.142	0.106	-0.984
The quality of local governance positively affects our firm's performance	218	3.867	1	5	1.043	0.792	-1.05

This table provides descriptive statistics about respondents' opinions on governance and institutional factors influencing SMEs. The mean score of 3.697 for the first statement (i.e., Local government policies support SMEs") aligns (corresponds with) to a general agreement, with moderate variability. The second conviction, "Regulatory Environment Supports SME Growth," has a mean equal to 3.748, meaning agreement with low variation. The 3rd statement is "Corruption and Bureaucracy is an Obstacle to Performance of SME," with a mean score of 3.885 with slight dispersion showing strong agreement. The last, "Quality of Local Governance Positively Affects Firm Performance," has a mean of 3.867, indicating a general agreement, but with low variability clustered towards higher ratings.

Table 8

Factor Loading

Factors	Outer loadings
CF1 <- Cultural F	0.808
CF2 <- Cultural F	0.872
CF3 <- Cultural F	0.876
HRF1 <- Human Resource F	0.755
HRF2 <- Human Resource F	0.767
HRF3 <- Human Resource F	0.740
HRF4 <- Human Resource F	0.738
INF1 <- Innovation F	0.785
INF2 <- Innovation F	0.693
INF3 <- Innovation F	0.731
INF4 <- Innovation F	0.786
QLGF1 <- QLGF	0.747
QLGF2 <- QLGF	0.833
QLGF3 <- QLGF	0.793
QLGF4 <- QLGF	0.779
SF1 <- Social F	0.849
SF2 <- Social F	0.838
SF3 <- Social F	0.869
SF4 <- Social F	0.822
SMEP1 <- SMEP	0.975
SMEP2 <- SMEP	0.981
SMEP3 <- SMEP	0.982

Table 8, presents the factor loading of the items, indicating how well be observed variables represent the underlying latent construct. The outer loading values are greater than 0.7, indicating a stranger relationship between the observed variables and the latent variable. The higher loading show that the observed variables are more closely to the latent construct.

Table 9

Findings of the Cronbach's Alpha

	Cronbach's alpha	Composite reliability (Alpha)
CF	0.812	0.818
HF	0.746	0.751
INF	0.743	0.76
QLGF	0.797	0.801
SMEP	0.979	0.979
SF	0.866	0.868

The reliability of the data in the current study is measured by two methods, Cronbach's Alpha and Composite reliability (Alpha). Cronbach's Alpha of every item in the scale has a value larger than 0.7, indicating higher internal consistency. Composite reliability (Alpha) also has a value greater than 0.7, which confirms the strong intercorrelation among all items in the constructs.

Table 10

Convergent Validity

Construct	Average variance extracted (AVE)
CF	0.727
HF	0.562
InF	0.562
QLGF	0.622
SMEP	0.959
SF	0.713

Table 10, shows the findings of the convergent validity. According to Fornell and Larcker (1981), the constructs have satisfactory convergent validity if the average variance extracted is greater than 0.5. In all cases in this study, the average value surpassed the 0.5 threshold, which indicates that the scale used is valid.

Table 11

Fornell-Larcker Criterion

	CF	HRF	INF	QLGF	SMEP	SF
CF						
HF	0.496					
InF	0.533	0.845				
QLGF	0.626	0.859	0.804			
SMEP	0.434	0.642	0.744	0.749		
SF	0.898	0.667	0.636	0.664	0.53	

Table 11, demonstrates that the values along the diagonal exceed those below them, indicating discriminant validity for the constructs of the instrument employed in this study. Each item exhibits loadings exceeding 0.70 on the diagonal, meeting the criteria set by Fornelli and Larcker for establishing discriminant validity in the present study's instrument.

Table 12

Heterotrait-Monotrait Ratio (HTMT) – Matrix

Construct	CF	HRF	InF	QLGF	SMEP	SF
CF	0.852					
HRF	0.392	0.75				
InF	0.42	0.654	0.75			
QLGF	0.499	0.682	0.708	0.789		
SMEP	0.388	0.57	0.65	0.664	0.979	
SF	0.753	0.549	0.516	0.548	0.49	0.845

Heterotrait-Monotrait Ratio of correlation (HTMT) is the average of all correlations of indicators across various constructs relative to the geometric mean of the average correlations of indicators measuring the same constructs. A value of HTMT above 0.90 suggests a lack of discriminant validity. Table 12 shows that all values are less than the threshold of 0.90, indicating that discriminant validity has been established for the current study.

Table 13

Cross Loadings

	CF	HRF	InF	QLGF	SMEP	SF
CF1	0.808	0.348	0.382	0.45	0.311	0.578
CF2	0.872	0.340	0.349	0.443	0.317	0.714
CF3	0.876	0.318	0.347	0.389	0.361	0.635
HRF1	0.276	0.755	0.522	0.536	0.499	0.413
HRF2	0.233	0.767	0.504	0.501	0.374	0.386
HRF3	0.276	0.740	0.426	0.421	0.310	0.344
HRF4	0.374	0.738	0.489	0.553	0.471	0.474
INF1	0.326	0.583	0.785	0.497	0.502	0.444
INF2	0.267	0.398	0.693	0.452	0.390	0.382
INF3	0.271	0.399	0.731	0.542	0.425	0.297
INF4	0.376	0.549	0.786	0.614	0.594	0.415
QLGF1	0.428	0.461	0.441	0.747	0.466	0.468
QLGF2	0.426	0.553	0.607	0.833	0.542	0.423
QLGF3	0.372	0.488	0.591	0.793	0.515	0.443
QLGF4	0.354	0.635	0.581	0.779	0.564	0.404
SF1	0.641	0.437	0.435	0.432	0.439	0.849
SF2	0.681	0.484	0.479	0.484	0.421	0.838
SF3	0.656	0.443	0.417	0.478	0.370	0.869
SF4	0.564	0.487	0.409	0.459	0.417	0.822
SMEP1	0.381	0.538	0.620	0.636	0.975	0.492
SMEP2	0.370	0.558	0.633	0.657	0.981	0.478
SMEP3	0.388	0.578	0.656	0.658	0.982	0.469

Table 13, displays the correlation between the indicators of the latent variables. It can be concluded that the items included to measure the construct are valid and do not represent the other construct. The correlation of all items in the construct is greater than 0.5, showing the presence of discriminant validity for the current study.

Table 14

Path Coefficients

	Sample	Mean	St-dev	t-statistics	P values
CF -> SMEP	0.250	0.255	0.070	3.571	0.000
HRF -> SMEP	0.220	0.225	0.065	3.385	0.001
InF -> SMEP	0.304	0.299	0.09	3.368	0.001
QLGF -> SMEP	0.341	0.344	0.096	3.560	0.000
SF -> SMEP	0.210	0.215	0.068	3.088	0.002

Table 14, gives the path coefficients for factors influencing Small and Medium Enterprise Performance (SMEP). Each coefficient specifies the strength and direction of the independent variables' including Cultural Factors (CF), Human Resource Factors (HRF), Innovation Factors (InF), Quality of Local Governance Factors (QLGF), and Social Factors (SF). The CF -> SMEP path has a p-value of 0.000, showing a positive significant relationship. This affirms that cultural factors significantly influence the financial performance of SMEs. The findings align with the previous findings of Rujirawanich et al. (2011), while opposing the result of Ibijoju & Akeke (2022) and Abbasi (2021), which highlighted a negative relationship. Similarly, HRF -> SMEP (p-value 0.001) indicates that Human Resource Factors positively, and significantly influence the financial performance of SMEs, confirming findings by Semrau et al. (2016) and Idris et al. (2023), while goes in contrast with Shiferaw, T. (2022). The Innovation Factor (InF) offers a significant impact (p-value 0.001), presenting that innovation plays a critical role in SME growth, aligning with Ndesaulwa & Kikula (2016), and Adam & Alarifi (2021). The considerably significant factor, QLGF, highlights the role of governance quality in SME performance, with a p-value of 0.000, confirming a positive and significant influence on the financial performance of SMEs in Somalia. This aligns with the previous findings of Nasrallah and El Khoury (2022), Nguyen et al. (2018), and Sofyani et al. (2022). Finally, the Social Factor shows a moderate positive effect (p-value 0.002) on the financial performance of SMEs, which aligns with the previous study of Semrau et al. (2016), Ioanid et al. (2018), and Laras et al. (2023), which goes in contrast to Gamage (2020) which highlighted that local governance policy has a negative effect to SME performance. The findings confirms that all these factors are very influential to the financial performance of SMEs in Somalia.

Table 15

R-Square and R-square adjusted

	R-square	R-square adjusted
SMEP	0.519	0.508

Table 15, shows that the R-square value is 0.519, indicating the model explains 51.9% of the variation in the dependent variable SMEP. The adjusted R-square is 0.508, confirming the model is well-fitted.

Table 16

Effect size of F-square

Construct	f-square
CF -> SMEP	0.08
HRF -> SMEP	0.166
InF -> SMEP	0.260
QLGF -> SMEP	0.245
SF -> SMEP	0.025

Table 16 highlights the F-Square effect sizes for factors influencing SME performance (SMEP). Cultural factors (0.08) and human resource factors (0.166) explain the moderate variance, while innovation (0.260) and quality of local governance (0.245) contribute significantly. Social factors (0.25) also show a moderate impact. Overall, these variables have a meaningful role in explaining SMEP variance.

Conclusion

The study examined the influential role of some factors, including cultural, social, human resource, innovation, and governance, in nexus to the financial performance of small and medium enterprises in Somalia, which have a share in the development and economic growth of the country. Local governance emerged as the most influential factor for the SMEs' performance. This underscores the vital role of supportive government policy, an enabling regulatory environment, and efforts at reducing corruption and red tape. These measures foster a friendly environment for the business. Furthermore, innovation is the second important factor in association with the performance of SMEs, with a path coefficient of 0.304, affirming that the availability of funding, knowledge, and other resources is a prerequisite for creativity and competitiveness within SMEs. Innovation is necessary to sustain growth and competitiveness, and respondents agreed strongly about this statement; this is notable considering innovation is at the heart of every business environment. Similarly, human resource factors positively influence the financial performance of SMEs with a Path Coefficient of 0.220. Even though employee motivation and satisfaction play a massive role in growth, SMEs face challenges like skilled labor and training programs. Addressing these challenges can dramatically boost productivity and sustainability. In addition, a cultural factor also influences the SME's performance in Somalia showing that values and norms are too much important for financial performance. However, their effectiveness indicates the potential for better alignment between culture dynamics and business imperatives to realize the potential they offer. Social factors are statistically significant but have the lowest path coefficient of 0.210. This suggests that, somehow, we have not fully exploited social networks, community support, and trustworthy reputation on our path to success. Therefore, reinforcing these elements can foster the growth of SMEs, particularly in contexts where social cohesion represents a resource. These findings underscore the importance of a multidimensional strategy in fostering the growth of SMEs in Somalia. Moreover, future research should explore the critical factors that influence the sustainability and profitability of SMEs. This would provide insights into optimal strategies involving finance, innovation, technology adoption, and human resource development to enhance SME performance.

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