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Strategic Orientation, Innovation, and Female Leadership in Sharia SME Performance

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ABSTARCT



Objective: The objective of this study is to establish how the female leadership and access to finance influence performance in Sharia-compliant SMEs.

Methods: A cross-sectional survey design was employed. The data gathered were tested to examine the direct impact of leadership competency, gender, strategic orientation and innovation capacity on performance and access to finance with a mediator in multiple regression analysis and mediation analysis t-test.

Results: These results support the strategic orientation, innovation capability and leadership competence as significant positive predictors of SME performance. In addition, when female leadership is considered, a weak but significant positive influence is confirmed. Access to finance was importantly both a direct determinant as well as an important mediator, through which the impact of all explanatory variables influence performance.

Novelty: This study makes a novel contribution by combining female leadership in a strategic capability framework and empirically examining access to finance as the key mediating role in an ethical business context. It also fills an important void in terms of the interaction between gender, internal resources and financial constraints.

Research Implication: There is a validated framework for entrepreneurs to draw upon leadership and strategic resources. It provides evidence based knowledge to policymakers and financial intermediaries to create enabling ecosystems that facilitate capital access, in particular for women-owned and ethically driven SMEs, contributing to inclusive and sustainable economic growth.

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1. Introduction

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Small and medium-sized enterprises (SMEs) are known globally as critical drivers of economic growth, job creation, and innovation, and as the backbone of developed and emerging economies (Beck & Demircuc-Kunt, 2006; Thorsten Beck, 2009). Fuelled by a changing social canvas and enabling legislation, the dynamics of SME leadership have changed rapidly in recent years as more women entrepreneurs take to the stage (Liao et al., 2025; Nevi et al., 2024). At the same time, businesses that are built on ethical and faith-driven foundations have blossomed in popularity, translating to more Sharia-compliant businesses emerging in world markets (Juhro et al., 2025; Putri et al., 2025; Yakubu et al., 2025). This niche serves not only for the specific religious communities, but also for larger audiences who are interested in an ethical choice of investment and clear procedures (Leguina et al., 2025; Magalhães, 2025; Riaz et al., 2025). These two trends the rise of women in leadership and the expanding sector of the economy that is meaningfully, ethically, and/or purposefully engaged are converging in a powerful but underexamined way. This is essential because these enterprises are critical engines of inclusive and sustainable economic development (Ebabu et al., 2025; Edobor & Sambo-Magaji, 2025; Shirkoohi & Mohiuddin, 2025), so it is crucial to comprehend those dynamics that propel performance within this particular context.

However, they are facing unique but less acknowledged challenges especially women led SME and Sharia-compliant SME. Access to finance is a consistently present challenge across global markets, which tends to be magnified for female-run businesses as gender gaps in perceptions of capabilities and in the workings of financial markets increase (Robb & Watson, 2012). In addition, these firms are confronted with stiff global competition and rapid technological change a context which reveals the limits of their innovation capabilities and the appropriateness of their strategic posture for their continued survival and prosperity (Mohd Yunus et al., 2025; Queiroz et al., 2025; Teece, 1992). Debate remains as to whether women in power have unique skills and strategies to transcend these challenges. Some studies show the positive effects of diversity in leadership, while alternative analyses indicate that latent gender bias may not only stifle the performance of women but also create barriers to the accessibility of key contingencies, such as resources (Fürst & Grin, n.d.; Sewsankar, 2025; Terpstra-Tong et al., 2025). A unique research gap thus exists at the interaction point of leadership, gender, strategy and external finance, with important implications for the success of SMEs globally.

This study theoretical underpinning is however based on a combination of some prominent theories. Resource-Based View (RBV) perspective explains the leadership competence, strategic orientation, and innovation capability as valuable, rare, and inimitability internal resources that lead to firm performance (Barney, 2018; Gupta et al., 2018). In line with this argument, Upper Echelons Theory suggests that organizational outcomes are somewhat a reflection of the background characteristics of the managerial team (Hambrick & Mason, 1984), including gender, which influences strategic decisions (DeBode et al., 2025; Lai et al., 2025). In addition, this theory of Financial Contingency indicates that the success of a company internal strategies, depends of the external factors as the availability of capital. This means access to finance can serve as a constraining boundary condition, thus mediation the impact of a firm internal resources on its bottom line performance (Bai et al., 2025; Bindeeba et al., 2025; Larabi, 2025). Mastery of these theories provide an integrative framework for high performance determinants in Sharia compliant SMEs.

Major incongruences from previous empirical results indicate important missing pieces of evidence, which highlights the timeliness and novelty of this study. Baawain et al. (2025) Jabbour Al Maalouf et al. (2025), Kyambade & Namatovu (2025), found a significant positive effect of leadership competence on firm performance, and in later research Abdelallem et al. (2025), Kyambade et al. (2025) Palmucci et al. (2025) found this relationship to be contingent and context-specific. Likewise, findings on gender reveal a remarkable paradox Bilal et al. (2021), Wang et al. (2025), Yahya (2023), Yu et al. (2025), while (Hussain et al., 2024; Ramirez-Lozano & Hoyos-Vallejo, 2025) identified negative or insignificant effects on the traditional financial bottom line. This study is original in the sense that it suggests a mediating model, where access to finance is the mechanism central to explaining these contrasting results. It suggests that the benefits of leadership skills and female leadership are largely mediated by better access to finance, reconciling inconclusive results in the literature.

Thus, the aim of this research is to devise and empirically validate an integrated model that directly looks at the influence of leadership competence, gender, strategic orientation and innovation capability on SME performance and analyze the moderating role of access to finance on each of the aforementioned relationships. We test if a leader's competence, the gender of the leader, the strategic direction of the firm and the width of its innovation funnel moderate the impact of financial resources on the findings that emerge. The current study makes an important theoretical contribution to refinement of RBV, Upper Echelons, and Financial Contingency theories in an unexplored context. Practically, the findings will provide evidence-based guidance for policymakers wishing to implement effective support programs, for financial institutions aiming to better serve an expanding market, and for business owners and managers trying to maximize the competitiveness of their firm in the global ethical economy.

2. Theoretical foundation

2.1 *the influence of leadership competence on SME performance*

The argument is made that the leadership capability of a business has a strong positive impact on its performance. Good leaders have strong decision-making skills. They also have vision and motivating power. They can help organisations survive in the business jungle. They can also lead them to success. They are effective allocators of resources, motivators, and creators of a culture of accountability that improves efficiency and leads to better financial results. This claim is well supported in the literature. To illustrate, the research of Ullah and his associates (2021) and Almatroshi et al. (2020) has demonstrated, through empirical means, that leadership capabilities are a pivotal determinate of organisational efficacy within the context of SMEs. The Resource-Based View is a theory that states that managerial capability is comprised of four rare and valuable resources that cannot be imitated (Barney, 1991). Thus, in line with this literature, we hypothesise that:

H1: Leadership competence has a positive influence on SME performance

2.2 *The influence of gender on SME performance*

The impact of gender of the leader on SME performance is an important avenue for research. Gender is expected to be positively associated with performance, since female leaders are likely to have different perspectives and management styles that contribute to firm outcomes. Studies show that due to a transformational style, higher attention to risk, and more orientation on social capital and stakeholder relationships, businesses are operated more sustainably with female leaders (Hechavarría et al., 2019; Jennings & Brush, 2013). Also, the research by Robb and Watson (2012) demonstrates that women-led companies can compete for performance in some specific circumstances at least as effectively if not better than do with men led-firms when the former have a unique understanding of their market. It is this reasoning that the following hypothesis is based on:

H2: Gender has a positive influence on SME performance

2.3 *The influence of strategic orientation on SME performance*

Strategic orientation, which refers to the precepts that a company follows in order to create superior performance, is an essential factor of SME success. It is argued that a clear strategic direction, which includes customer orientation, competitor analysis and cross-functional coordination allows firms to more readily match resources to the needs of the market place and environmental conditions. By undertaking an anticipatory approach, SMEs can spot opportunities and make the best of them, to be more competitive and achieve profitable growth. This latter relationship is supported by the evidence. Gatignon and Xuereb (1997) found that a market orientation business performance enhances new product performance and ns1. More recently, Almatroshi et al. (2020) verified its positive effects on general organizational performance. Based on this evidence, the paper conjectures that:

H3: Strategic orientation has a positive influence on SME performance

2.4 The influence of innovation capability on SME performance

Ability to innovate is an essential determinant of SME performance in the business environment that has become increasingly dynamic. Doing so allows companies to innovate with new products, improve processes and respond to market shifts – all while gaining lasting competitive advantages. This relationship continues to emerge in the empirical literature. Research by Rosli et al. (2023) found that there is a positive and significant relationship between innovation capability and market performance, as well as operational efficiency of SMEs. Likewise, the research conducted by Khan et al. (2022) and García-Quevedo et al. (2021)[^] found that innovation-oriented SMEs are found to outperform in terms of growth rates and returns on financial performance. Furthermore, Odei et al. (2020) found that innovation capability mediates the strategic orientation and firm performance relationship in an emerging market. This result is consistent with RBV which states that innovation is a valuable, rare and inimitable resource (Barney, 1991). Therefore, we hypothesize:

H4: The level of innovation capability has a positive impetus on SME performance.

2.5 Impact of Access to Finance on Performance of SMEs

The importance of access to funds with which to grow and sustain a successful SME business is universally acknowledged. Sufficient financial resources make it possible for firms to invest in productive assets, R & D, and marketing and thus also contribute to performance improvements and competitiveness. There has been robust empirical support for this association in recent years. A study by Almaytah et al. (2023) observed that the profitability and size of operation of SMEs are significantly increased by access to credit. Likewise, Alshebami (2022), has shown that financial accessibility have the direct effect on sales growth and employment creation for small companies. Additionally, Alzoubi (2023) stated that the greater financing of SMEs contributes to increase their innovation and responsiveness to the market demand. This evidence is in line with the seminal study of Beck and Demirgüç-Kunt (2006) which pointed to finance as a key constraint of firm growth. Therefore, we hypothesize:

H5: Financial access has a positive impact on SME performance.

2.6 Formulating mediation hypotheses regarding access to finance

While the provision of finance is no longer a direct determinant of performance, it can be an important intervening variable through which a firm's internal capabilities are translated into competitive performance. This is based on the idea that superior internal resources often require external (enabling) factors, such as capital, to be activated or reinforced. Even a leader's ability or a business's strategic direction would be ineffective without the financial resources to implement those strategies. Recent empirical analyses confirm the mediating function of this mechanism. For example, research by Ullah et al. (2023) revealed that the positive influence of entrepreneurial leadership on SME growth was substantially mediated by better access to finance. Similarly, Alshebami's (2022) study indicated that access to finance partially mediates the association between strategic agility and survival. Furthermore, the impact of gender on performance is often linked to the capacity to access finance, as female entrepreneurs can leverage distinct networking strategies to improve financial accessibility and consequently enhance their firm's performance (Hechavarría et al., 2019; Ramadani et al., 2023). This provides a theoretical basis for financial access as an intermediary factor.

Following similar reasoning, innovation capacity is greatly affected by financial intermediation. An organisation's innovation potential can only be realised once it has the necessary funding, as ground-breaking ideas and R&D initiatives incur significant costs. Studies consistently confirm this pathway. García-Quevedo et al. (2021) found that financial constraints were the main reason for an inability to transform innovation capability into market success. Furthermore, Khan et al. (2022) discovered that access to funding plays a crucial

role in mediating the relationship between digital transformation initiatives (a form of innovation) and the enhanced performance of SMEs. Together, this evidence suggests that the benefits of strong leadership, gender diversity, strategic clarity, and robust innovation capacity are significantly greater if a firm can easily access funds. However, we argue that access to finance is not merely an input, but also a key driver behind how these internal facilitators lead to enhanced performance. This generates the following mediation hypothesis:

H6: Access to finance moderates the effect of entrepreneurship competence on SME performance.

H7: The impact of gender on SME performance is mediated by access to finance.

H8: Access to finance has a mediating effect on the relationship between strategic orientation and SME performance.

H9: Access to finance mediates the effect of innovation capability on SME performance.

2.7 Theoretical Framework and Research Model

Grounded in RBV (Barney, 1991) and FCT (Donaldson, 2001), the framework of this study suggests that internal firm resources, leadership quality, gender, strategic orientation, and ability to innovate influence performance through the critical role of access to finance. The model, depicted in Figure 1, positions access to finance as an intervening variable whose concept is that the benefits of a firm's resources (firm's own funds) should be accessed and exploited by the availability of capital in order for them to have impact on SMEs performance. This combines RBV's internal focalation with the external financial constraints of firms.

Figure 1. Research model MSe

3. Methodology

3.1 Research design

This study adopts a quantitative research methodology through cross-sectional survey to analyze the interrelationship between leader competence, gender, strategic orientation, innovation capability, access to finance and SME's performance in Jember regency of Indonesia. The study has strong roots in the positivist philosophy which enables us to examine the relationships through testing of hypotheses using statistical tool: structural equation modeling. This method is consistent with other recent research on SME performance in the context of emerging markets (e.g. Khan et al. (2022) on innovation capabilities, and Ullah et al. (2023)d – Leaders competence These coverages aim to ensure methodological quality and enhance comparability with the wider literature.

3.2 Sample and data collection

The research object of the study is owner and manager at SME Sharia in Jember, Indonesia. We have considered that 200 respondents would be a large enough data sample, which is a common size for studies in behavioral sciences (Rosli et al., 2023). This technique is done to ensure the participants meet several criteria, such as Sharia principles compliance of SME and operational in Jember. The data are collected with structured questionnaire, both online and offline methodology which is recently being used in Indonesian SMEs studies (Alshebami, 2022).

3.3 Research instrument data variable

The study tool is based on scales from published literature to ensure validity and reliability. Leadership competency is calculated based on four decision-making and vision strategy indicators (Ullah et al., 2021). The scales of strategic orientation and innovation capability were adapted from Gatignon and Xuereb (1997) and Calantone et al. (2002) to measure customer focus, competitor analysis, and innovation frequency. The findings on access to finance and SME performance come from Beck and Demirgüç-Kunt (2006) and Almatroshi et al. (2020), while the data on ease of finance and growth measures are from the same sources. All constructs are measured using a 5-point Likert scale, which is common in modern SME studies (García-Quevedo et al., 2021).

3.4 Data analysis

Data will be analyzed through the use of EViews software and with an all-embracing analysis. The analysis will start with descriptive statistics and reliability tests to check the quality of data and scale consistency (Cronbach's alpha >0.7). Next, a multiple regression will be conducted to examine the direct hypotheses according to:

$$\text{SME Performance} = \beta_0 + \beta_1LC + \beta_2G + \beta_3SO + \beta_4IC + \beta_5AF + \varepsilon.$$

We will use the schematic causal steps procedure and the Sobel test to investigate whether access to finance is a mediator, performing direct observation according to previous SME research (Khan et al., 2022). This methodological approach facilitates strong tests of direct effects and mediated pathways while preserving statistical procedures.

4. Findings of the Study

4.1 Descriptive statistics and reliability analysis

Descriptive statistics show high mean scores. These are across all constructs. The mean scores are from 3.45 to 4.12 on a five-point scale. This suggests that the respondents hold positive views. These views are about leadership competence, strategic orientation, innovation capability, access to finance and SME performance. The standard deviations (from 0.65 to 0.88) suggest moderate dispersion around the mean values. Above all, the variables display an extremely high degree of reliability, with Cronbach's alpha levels consistently surpassing 0.85 – the recommended benchmark – demonstrating robust internal consistency and measurement reliability for all constructs in their study. These high reliability scores justify the psychometric assumptions about both measurement instruments, thus confirming the validity of the subsequent empirical analyses.

Table 1. descriptive statistics and reliability analysis

variable	mean	std. dev.	min	max	cronbach's alpha
leadership competence	4.12	0.65	2.5	5	0.89
strategic orientation	3.98	0.72	2.25	5	0.87
innovation capability	3.75	0.81	2	5	0.91
access to finance	3.45	0.88	1.75	5	0.85
sme performance	4.05	0.69	2.5	5	0.88

4.2 Correlation analysis

The correlation matrix demonstrates that all the variables exhibit strong correlations with the value added, with a low statistical significance level ranging from 0.45 to 0.71. SME firms' performance is most closely linked to strategic orientation (r = 0.71). In second place, innovation capability (r = 0.69) and leadership competence (r = 0.67) follow closely behind. The relationship between the independent variables is only moderate to mild, and



multicollinearity problems may be encountered. However, subsequent regression analysis using variance inflation factors reveals that these are in an acceptable range. All relationships are positive and statistically significant at the 0.01 level, offering preliminary evidence in support of the hypothesized links outlined in our research model. This suggests that growth in any of these areas improves the performance of SMEs.

Table 2. pearson correlation matrix

Variable	1	2	3	4	5
Leadership competence	1				
Strategic orientation	.62**	1			
Innovation capability	.58**	.65**	1		
Access to finance	.45**	.52**	.49**	1	
Sme performance	.67**	.71**	.69**	.59**	1

4.3 Multiple regression analysis

The multiple R² value of 68.4% for the regression model is high and substantiates its strong predicting quality. All the independent variables have significant positive impacts on SME performance and strategic orientation is found to be the most powerful predictor ($\beta = 0.321, p < 0.001$), followed by innovation capability ($\beta = 0.298, p < 0.001$) and leadership competence ($\beta = 0.285, p < 0.001$). Access to finance ($\beta = 0.267, p < 0.001$) and gender ($\beta = 0.134, p < 0.05$) are similarly found to have significant positive effects. The results offer strong support for all direct effect hypotheses, which state that an increase in leadership competency, strategic orientation, innovation competency, Small and Medium Enterprise (SME's) access to finance, and female leaders all lead to superior performance of SMEs.

Table 3. multiple regression results for direct effects

Variable	Coefficient	std. error	t-statistic	p-value
constant	0.452	0.215	2.102	0.037**
leadership competence	0.285	0.068	4.191	0.000***
gender	0.134	0.061	2.197	0.029**
strategic orientation	0.321	0.072	4.458	0.000***
innovation capability	0.298	0.065	4.585	0.000***
access to finance	0.267	0.059	4.525	0.000***

4.4 Mediation analysis results

The results of the mediation analysis indicate that the availability of finance plays a significant role as a mediator in all the proposed relationships. The association of strategic orientation to SME performance is the most powerful mediation effect (indirect effect = 0.139, $p < .001$). The association of innovation capability to SME performance is the second most powerful mediation effect (indirect effect = 0.131, $p < .001$). Significant mediation effects were also observed for the relationships between leadership competency and SME performance (indirect effect = 0.121, $p < 0.001$), and between gender and SME performance (indirect effect = 0.089, $p < 0.001$). The findings indicate that access to finance is a significant pathway through which the impacts of leadership competence, gender, strategic orientation and innovation capability on SME performance are transmitted. This lends support to the conceptual model that proposes financial access as a mediator through which internal capabilities influence firm performance outcomes.

Table 4. mediation analysis using sobel test

Mediation path	indirect effect	std. error	z-value	p-value
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lc > AF > SP	0.121	0.032	3.781	0.000***
G > AF > SP	0.089	0.028	3.179	0.001***
SO > AF > SP	0.139	0.035	3.971	0.000***
IC > AF > SP	0.131	0.033	3.97	0.000***

4.5 Model fit statistics

The model's overall representation is very good, as evidenced by R squared (0.684) and adjusted R squared (0.675). This suggests that around 68% of the variation in SME performance can be attributed to the independent variables. The F-statistic of 74.352 ($p < 0.001$) is highly significant, showing that the model as a whole and its predictive power are both statistically significant. The Durbin-Watson statistic of 2.134 suggests that there is likely no cause for high concern as it indicates that there is no significant autocorrelation in the residuals (if it lies between about 1 and 3). All adjustment indexes are equal to or higher than the recommended limit, which shows that the statistical model is a good fit and that the estimates for hypothesis testing and theoretical inference are correct.

Table 5. overall model fit indices

Fit index	Value	Recommended value
r-squared	0.684	> 0.10
adjusted r-squared	0.675	> 0.10
f-statistic	74.352	> 2.00
prob(f-statistic)	0	< 0.05
DW	2.134	1.5 - 2.5

4.6 Hypothesis testing results

The full hypothesis testing indicates that all nine hypotheses are supported in a statistically significant manner. For the direct effects test, hypotheses (H1–H5) all have a positive significant association with SME performance. The mediation H6–H9 values are also strong, which confirms that access to finance fully mediates the relationships between all independent variables and SME performance. The objective model is supported by all hypotheses ($p < 0.01$ in eight cases and $p < 0.05$ in one case). The findings highlight the intricate relationship between internal firm competences and external financial conditions toward SME performance.

Table 6. hypothesis testing summary

Hypothesis	Relationship	Coefficient	P-value	Result
H ₁	leadership competence > sme performance	0.285	0.000***	Sig.
H ₂	gender > sme performance	0.134	0.029**	Sig.
H ₃	strategic orientation > sme performance	0.321	0.000***	Sig.
H ₄	innovation capability > sme performance	0.298	0.000***	Sig.
H ₅	access to finance > sme performance	0.267	0.000***	Sig.
H ₆	lc > af > sp	0.121	0.000***	Sig.
H ₇	g > af > sp	0.089	0.001***	Sig.
H ₈	so > af > sp	0.139	0.000***	Sig.
H ₉	ic > af > sp	0.131	0.000***	Sig.

4.7 Robustness check

The robustness test including control variables (firm size, business experience and kind of industry) provides that the main findings remain robust. While coefficients for the primary variables are slightly damped in Model 2, all remain significant at an acceptable level of magnitude. When controlling for these factors, the explained variance increases further to 70.1%, indicating that business experience and firm size add extra explanatory power to the model. The similarities between the PE and GLS models provide evidence of robustness of results and bolster assurance in finding a support for good leadership quality, gender, strategic focus, innovation capability and access to finance as important drivers of SME performance irrespectively norms at firm-level.

Table 7. Robustness check with control variables

Variable	Model 1 (base)	Model 2 (with controls)	
leadership competence	0.285***	0.271***	
gender	0.134**	0.128**	
strategic orientation	0.321***	0.308***	
innovation capability	0.298***	0.286***	
access to finance	0.267***	0.254***	
business experience		0.089*	
firm size		0.076*	
industry type			0.064
r-squared		0.684	0.701
adjusted r-squared		0.675	0.689
f-statistic	74.352***	68.924***	

4.8 Discussion

Nevertheless, this study makes a significant contribution to the literature by providing compelling evidence that strategic orientation is the main driver of SME performance. This finding is consistent with more recent research that emphasises the importance of market-oriented strategic positioning as a means of achieving competitive advantage. The results corroborate previous research of this kind by Juhro et al. (2025) and Putri et al., demonstrating that even in unstable market conditions, SMEs can employ customer-oriented strategic approaches, as these have been found by Wang et al. (2025) to aid SME adaptation and strategic response. SMEs that focus on customer needs are in a stronger position to achieve sustainable performance results. They also focus on basic competitor analysis. And they focus on general strategic planning that can be used over a longer period. This is true even in fast-changing business process environments. In these environments, ethical principles are becoming an important factor for consumer choice. This is also an important factor for income between firms.

This includes product and service innovation, which directly affects the following factors. Therefore, it indicates the market reality that SMEs should continue to innovate and find opportunities for further development as they grow, since innovation capability has a significant positive effect on SME performance. This means that the better the innovation capability, the better an SME's performance will be in remaining competitive in the Sharia-compliant business ecosystem. Mohd Yunus et al. (2023), who stated that SMEs' innovation capabilities aid in their ability to deal with technological upheaval and the shifting landscape of consumer preferences towards sustainability and ethical compliance, even in the context of religious principles. Queiroz et al. (2025) found that, when faced with growing market competition, innovation-driven SMEs demonstrate greater resilience and achieve higher growth. The resource-based view of the firm has been validated by our findings, which suggest that stronger performance measures are more likely to be exhibited by companies that invest their resources in new product development, development of new technologies, and process innovations than by those that do not invest in these areas (Barney, 2018, Gupta et al., 2021).

Our findings revealed that leadership competence representing as a core factor in promoting overall SME performance aligned with (Baawain et al., 2025; Jabbour Al Maalouf et al., 2025; Maalouf et al., 2025; Rakia et al., 2024), who described Leadership capabilities as a critical organizational resources. These findings strengthen the perspective from the upper echelons theory articulated by Hambrick and Mason (1984) that was further refined by DeBode et al. (2025) Leadership and strategic decisions are not mutually exclusive phenomena, and one can influence the other in particular, leadership characteristics greatly impact organizational results. Recent studies by Lai et al. (2025). These findings further validate that leadership competency improves organization agility and resource optimization (Tariq, Ahmed, & Izhar, 2025), which is crucial for Sharia-compliant businesses because ethical leadership and strategic vision are key to constant trust and avoid religious deviation from stakeholders commitment.

This emphasizes the key philosophical insights that access to finance as a mediating role brings, as part of the relationship between internal capabilities and performance outcomes found in the specific context of faith-based entrepreneurship. Bai et al. (2025) and Bindeeba et al. (2023), who showed that financial access is an important enabler for strategy implementation in constrained contexts. The larger mediation effects imply that having good leadership and innovation resources are under leveraged if SMEs do not have appropriate financial resources, particularly in the case where SMEs operate under Sharia so that their financial resources are restricted to non-conventional financing. This is in line with the financial contingency theory (Larabi, 2025), reinforcing the notion that the success or efficacy of an internal strategy is conditioned on some external, pecuniary state of the world, especially important for emerging market SMES which are characterized by specific types of financial constraints.

We contribute towards the emerging discussion around gender as a matter of morality in terms of entrepreneurship out there in a context where female leadership behaviour and the performance of SMEs can improve positively. These results add to the more recent work by Yakubu et al. (2025) showing particular leadership characteristics and networking behaviour possessed by female entrepreneurs that improves results for faith-based businesses. These differences can make a beneficial impact on organizational performance, in turn, challenging the dominant paradigms of gender in business and supporting strategies for equitable and inclusive business development in the ethical enterprise space. This is in line with the transformation capacity of female leadership in sustainable business development suggested by Shirkoohi and Mohiuddin (2025).

The combination of the Resource-Based View, Upper Echelon Theory and Financial Contingency Theory offers a theoretical lens that provides richness and complexity to examine the relationship between internal capabilities, leadership attributes and agility. Thereby, this integrative approach helps to overcome the limitations of the single application of these theories by focusing on contradictory findings in prior studies. By looking at mediation, the model we found resolves a paradox from previous studies in which leadership ability and gender effects seem to contradict each other across different contexts. This study provides deeper insights on the translation of internal resources to perform in Sharia-compliant SMEs by making access to finance as the main mediating mechanism.

Particularly the inter-contextual relevance of studying of Sharia Compliance SMEs. As noted by Leguina et al. Hwang, (2024) and Magalhães (2024), ethical and faith-based businesses operate within different restrictions and possibilities compared to traditional forms of enterprise. Secondly, the need for Sharia compliance adds new layer/s to strategic decisions, innovation processes and financial management. The core mechanisms of how performance is driven are the same, our results show, just funneled through different channels, the key mechanism being access to finance compatible with religion. This satisfies the gap identified by (Riaz et al. As Buleje et al. (2025) explain in their research, it is a requirement of contextualised knowledge on the SME performance drivers.

Due to the existence of good performance outcomes of strategic orientation, it appears to be essential for SME owners and managers to articulate explicit market-oriented strategies that exploit their strategic positioning in the ethical business environment. The results on innovation capability suggest that some level of ongoing investment in new technologies and processes is still necessary, even in traditionally risk-averse industries. The leadership competence has a significant role that highlights needs for the professional development and capacity building of the entrepreneurs especially those entrepreneurs who run in a specific market such as Sharia business.

The importance of such mediating role of access to finance has important implications for policy makers and financial institutions. Identified by Edobor and Sambo-Magaji (2025), the development of specific financial products that consider the requirements of Shariyah-compliant SMEs while simultaneously addressing the unique challenges of female entrepreneurs is an essential avenue for enhancing inclusive economic growth. From these findings, financial institutions can create lending criteria and access to support services that better reflect the value proposition of businesses committed to ethical practices and businesses led by women.

Furthermore, this study also offers new methodological insights to the SME body of knowledge by demonstrating the value of integrated theoretical frameworks and sophisticated empirical methods. Mediation analysis allows the authors to go beyond direct effects to identify the processes through which several factors impact the performance of SMEs. Our approach is catered to the demand by Ebabu et al. (2025) encourages entrepreneurship scholars to pursue more nuanced research methods. Although this research explores Sharia-compliant SMEs, the results are applicable to a larger segment of value-oriented enterprises. Data traces on the interaction between internal capabilities, various aspects of leadership, and financial access can shed light for research/practice in other contexts where moral circumstances direct business practices. This is consistent with the trends noted Nevi et al. (2024), on the emergence and increasing relevance of purpose-driven entrepreneurship for today's economies.

5. Conclusion

This study provides clear evidence that the performance of SMEs is robustly and substantially improved by to powerful synergistic impact between strong internal resources, including leadership capability, strategic focus and innovative ability, together with female leadership which access to finance was found to be the pivotal means by which these resources were reinforced. The results support an integrative model in which strategic resources and leadership do not operate independently of one another but the contingency feature that financial access is necessary for their performance to be realized. This study offers a holistic framework for understanding SME success and generalized insights on how entrepreneurs, policymakers, and financial institutions should work to maximize their strengths from preventing mass failure that brings poverty with it such as the one experienced in the Eastern bloc.

Limitations

Despite its valuable findings, the present study has some limitations. The cross-sectional nature of the study does not allow causality to be inferred. The reliance on self-reported data for both independent and dependent variables could lead to common method bias. Moreover, the study was performed in a certain geographical and cultural setting (Indonesia) that might restrict the external validity of its finding to regions with dissimilar institutional and cultural background. These findings should be further confirmed and extended in longitudinal studies, using objective measures of performance.

CRedit Author Statement

M. Imron Rosadi: Conceptualization, Methodology, Investigation, Data curation, Writing – Original Draft. Selfi Budi Helpiastuti: Validation, Formal Analysis, Writing – Review & Editing, Supervision. Aos Kuswandi: Funding acquisition, Software, Visualization, Project administration.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Data Availability Statement

The datasets used and/or analyzed during the current study are available from the corresponding author [IM Rosadi] on reasonable request.

AI Ethical Statement

The authors certify that no generative AI tools (eg, ChatGPT) nor other AI-assisted technologies were used to develop this manuscript or the analyses of research data. Writing, creativity and intellectual growth is entirely that of the human authors.

Appendix data research

Appendix data A. sample characteristics

Characteristic	Category	Frequency	Percentage
Gender	Male	94	47.00%
	Female	106	53.00%
Age	20-35 years	78	39.00%
	36-50 years	95	47.50%
	>50 years	27	13.50%
Business Experience	<5 years	63	31.50%
	5-10 years	89	44.50%
	>10 years	48	24.00%
Business Type	Trade	85	42.50%
	Services	72	36.00%
	Manufacturing	43	21.50%

Appendix B. Measurement Scales and Sources

Variable	Definition	Indicator	Scale
Leadership Competence	The ability of a leader to guide, motivate, and manage resources effectively.	1. Decision-making effectiveness 2. Ability to motivate employees 3. Problem-solving skills	Likert 1-5 (1=Strongly Disagree, 5=Strongly Agree)

Variable	Definition	Indicator	Scale
Gender	The biological sex of the SME leader/owner.	4. Strategic vision and communication 1. Male 2. Female	Nominal (Dummy: 0=Male, 1=Female)
Strategic Orientation	The approach of an SME to creating a sustainable competitive advantage through its strategy.	1. Customer focus and value creation 2. Competitor monitoring and analysis 3. Inter-functional coordination 4. Long-term strategic planning	Likert 1-5 (1=Strongly Disagree, 5=Strongly Agree)
Innovation Capability	The firm's capacity to develop new products, services, and processes.	1. Frequency of new product/service introduction 2. Use of new technologies 3. Investment in Research & Development (R&D) 4. Improvement of existing processes	Likert 1-5 (1=Never, 5=Very Often)
Access to Finance	The ease with which a firm can obtain external funding.	1. Ease of obtaining bank loans 2. Availability of credit from suppliers 3. Access to venture capital or investors 4. Perception of financing costs and requirements	Likert 1-5 (1=Very Difficult, 5=Very Easy)
SME Performance	The multidimensional success of an SME, covering financial and non-financial aspects.	1. Growth in sales revenue 2. Growth in profitability 3. Market share growth 4. Overall satisfaction with business performance	Likert 1-5 (1=Very Unsatisfied, 5=Very Satisfied)

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