

# Effect of Entrepreneurial Capabilities and Cultural Diversity on SMEs' Performance

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## Abstract

Although several studies have analyzed how entrepreneurial capability and cultural diversity affect SME performance, this study aims to demonstrate the effect of a range of entrepreneurial capabilities and cultural diversity on small and medium-sized enterprises (SME) performance. The study involved the analysis of 200 questionnaire-based SME owner-manager surveys within Kumasi metropolis, Ghana, influenced by the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique. The study found that there is a significant positive correlation between cultural diversity and entrepreneurial capability, cultural diversity and SME performance, entrepreneurial capabilities and SME performance. These findings contribute to an empirical study comparing entrepreneurial capability and cultural diversity on Ghanaian SME performance. Further recommendations are made for SME managers, policy makers and future researchers.

## Keywords

Entrepreneurial Capability, Cultural Diversity, SME Performance, Ghana

## 1. Introduction

Entrepreneurship plays an important role in the development of a country's economy, as this can be the key contributor to innovators, product improvement and unemployment reduction (Kabuo et al., 2019). According to a World Bank review on SMEs, SMEs are the vital elements in ways to foster growth economy and development, employment and poverty alleviation (Ayyagari, Beck, & Kunt

2005). A capability refers to a company's ability to play out or do a task or activity in pursuit of its mission. Entrepreneurial Capabilities empower and enable an organization's change through sensing and shaping opportunities and providing explicit heuristics for opportunity assessment, selection, and exploitation (Bingham, Eisenhardt, & Furr, 2007; Teece, 2007). Limited research exists on Entrepreneurial Capabilities and whether it differs from other dynamic capabilities (Burgelman, 1983; Vu, 2020; Phan, Wright, Ucbasaran, & Tan, 2009). It is significant that Entrepreneurial Capabilities are defined with their key dimensions (Vu, 2020).

The entrepreneurial landscape in Sub-Saharan Africa (SSA) is multi-faceted (Petti & Zhang, 2011). It includes informal and formal sectors, traditional and modern, as well as local and foreign-owned enterprises, all of which are geographically dispersed across rural and urban areas. It ranges from small enterprises (providing employment for a single person) to large corporations (employing hundreds). Small and Medium-sized Enterprises (SMEs), however, are the dominant forms of entrepreneurial activity in Sub-Saharan Africa (Djenontin, Foli, & Zulu, 2018). Globally, entrepreneurial capabilities through SMEs have been instrumental in accelerating economic growth, social development and stability (OECD, 2016). According to Petti & Zhang (2011), entrepreneurial capabilities through SMEs constitute around 90% of Sub-Saharan African business operations and contribute over 50% to employment and Gross Domestic Product.

According to Abor and Quartey (2010), entrepreneurial capabilities through SMEs constitute the largest proportion of business establishments in both developed and developing countries, accounting for about 92% of active businesses in Ghana, generating some 85% of employment and contributing about 70% to the country's Gross Domestic Product (GDP). Indeed, entrepreneurial activity through SMEs played an important role in the economic growth of Sub-Saharan Africa (Djenontin, Foli, & Zulu, 2018). Entrepreneurship has become a major concern to both scholars and policymakers because of its significant role in economic and social transformation of the continent of Sub-Saharan Africa (Ibrahim & Mas'ud, 2016). It is increasingly important in today's culturally diverse environment and competitive market that Small and Medium-sized Enterprises (SMEs) develop and build entrepreneurial capability to continuously explore and exploit opportunities (Abdelgawad, Zahra, Svejnova, & Sapienza, 2013). This research aligns the entrepreneurial capability in a single study to explain the performance of SMEs in the cultural diversity environment in Ghanaian context. The outcome is expected to give valuable benefits to both entrepreneurship theory and practice.

Results from research on Ghana's SMEs would be adequate to persuade the analyst that SMEs face problems (Acheampong, Narteh, & Rand, 2017). Despite the existence of entrepreneurship structure and policy interventions to promote entrepreneurial capability and improve SME growth and efficiency, there is a very high persistent failure of SMEs and enterprises in general across Ghana

(Acheampong, Narteh, & Rand, 2017). Acheampong, Narteh and Rand (2017) posit that more SMEs in Ghana die prematurely. According to Ropega (2011) on business failure estimated that after three years of existence, only 50 percent of the small businesses founded still operate. Kusi, Opata, & Narh (2015) also reported that, during the first five years of establishment, an average of 60 percent of micro and small businesses collapsed. This means that only forty percent of companies survive in Ghana beyond the fifth year of existence. Approximately other studies reveal that, 75 percent of Ghana's companies collapse within the first three years of existence, anecdotally (Kingma, 2018). This strong and persistent failure of SMEs is a common phenomenon in emerging economies (World Bank, 2016), and has been a major concern not only for practitioners and governments, but also for the academic community. These aforementioned problems are as a result of lack of entrepreneurial capabilities and cultural diversity which are under-researched in Ghana.

Works by Quader & Abdullah (2020) revealed the significant roles of small and medium scale industries to the development of both developed and under-developed economies, socially and economically. There is so much focus in promoting the growth and development of firms or enterprise so as to propel growth through income and creation of jobs and creation of wealth. This has awakened the world or global interests and concerns on understanding the dynamics and factors influencing enterprise/firms establishment and development. Despite these benefits from SMEs, culture therefore has a major influence on it of which few has been analyzed extensively in relation to the research topic. For instance, Cultural industries like weaving, pottery works, etc. are established as a results of the values and culture of individuals within a community (Walters & McGlothlin, 2015). At the person or individual level, factors like gender, age, educational level, ideologies, and employment experience influence the form of economic activity the individual engages in (Walters & McGlothlin, 2015). However, these individual attributes are superseded by the attributes of the whole community or group. The traditional and cultural beliefs, norms, values, existing raw materials and cultural features of the community inform type of enterprise that are established. The establishment of enterprises or industries as mentioned plays a significant role in the development of the individual and spatial unit making it possible to assess the effect of entrepreneurial capabilities and cultural Diversity on SMEs performances. Therefore, extensive research is needed to understand the impact of entrepreneurial capacity and cultural diversity on the performance of these SMEs in Ghana.

Practically, the study is significant to entrepreneurs on how culture affects SMEs performance. Theoretically, the study is significant because the research findings add to the development of knowledge on the variables understudy, that is, Entrepreneurial capabilities and Cultural diversity on SMEs performance. And finally, the study serves as a reference to people who wish to grasp a lot regarding the study topic to expose them to the literature, research findings and

giving out a fundamental knowledge on the topic.

## 2. Literature Review

### 2.1. Theoretical Framework

SMEs, according to Nkuah et al. (2013), are primarily private firms with a small number of employees, low revenue, and fixed assets. SMEs occur in all forms and sizes, and their makeup differs depending on the region and industry. This section discusses the meanings, characteristics, accomplishments, and challenges of SMEs in Ghana.

#### Dynamic Capabilities Theory

The Dynamic Capacity Theory was created by Teece and Pisano in 1994. Dynamic Capabilities was a development of the resource-dependent concept. Teece and Pisano (2003) stated that in the past, firms used a resource-based strategy to obtain significant technological properties, with a protective approach to intellectual property being reserved for success. The Dynamic Capability Theory defines an organization's ability to assimilate, develop, and reconfigure internal and external abilities to address dynamically changing surroundings (Teece, Pisano, & Shuen, 1997). Companies' ability to achieve new creative forms of competitive advantage, given path dependencies and market positioning, is reflected in dynamic capacities. The proper notion to highlight is Dynamic Capacity Theory, which highlights a company's ability to use the changing internal and external climate to overcome the competition, achieve company / organizational objectives, and stay in business. Stakeholder expectations typically signal that the organization needs to improve its ability to leverage present resources, utilize capacity, and interact in capacity building in addition to developing business capacity (Ahenkora & Ajei, 2012). Efficient managers who follow the Dynamic Capacity principle will often achieve wise results. The concept of sophisticated skills as the ultimate source of competitive advantage is at the forefront of strategy research (Hou & Chien, 2010). It's an extension of the capitalist principle. The Dynamic Theory of Capacity addresses a gap in the accounting of market dynamic (Priem & Butler, 2001; Gürlek, 2020). This supports the requirement for certain businesses to achieve established goals over time in order to obtain a competitive advantage in dynamic markets (Taka, 2021). Intangible resources like skill and information, they added, may be redesigned and altered to match the changing market conditions by adding value. Business orientation, information management, and client relationship management are the three important parts of organizational or operational abilities needed or required for the generation of outstanding client or customer value (Gürlek, 2020).

### 2.2. Entrepreneurial Capabilities

Entrepreneurial capability is associated with an entrepreneur's ability to be original, imaginative, and recognize opportunities, strengths, and flaws. Entre-

preneurial capability was defined by [Ahmad, Ramayah, Wilson, and Kummerow \(2010\)](#) as an entrepreneur's full ability to efficiently fulfill his responsibility. [Mitchelmore and Rowley \(2013\)](#) advocated calculating entrepreneurial potential using people-level skills, which are separated into four categories: personal and interpersonal skills, business and management skills, entrepreneurial and human relationship skills. The ability to negotiate with others is related to personal and relational abilities. Finance management, budgeting, company operations, and company planning are just a few of the commercial activities that require company and management abilities. The convergence of human relationship duties and business leadership necessitates the use of human relations abilities. Personnel advancement, recruitment of new employees, leadership, and employee encouragement are all part of this. Entrepreneurial capabilities refer to an entrepreneur's capacity to be imaginative, creative, and capable of identifying opportunities, strengths, and flaws. [Sharam \(2020\)](#) defined entrepreneurial capability as a distinct set of individual and organizational capabilities and skills as well as actions, practices, and routines that aim to explore, integrate, and exploit untapped business opportunities within an instituted market context.

### 2.3. Cultural Diversity

Culture, according to [Gumede \(2016\)](#), is a multifaceted, complex construct that can be investigated on a variety of scales, including worldwide, national, regional, business, and organizational. A vast range of cultural influences, including ethnic, organizational, and national influences, have an impact on each individual. Cultural diversity is commonly defined as racial, sexual, organizational, professional, and national heterogeneity ([Berry & Sam, 2013](#)). The heterogeneity of team members' national cultures is known as cultural diversity. According to [Berry and Sam \(2013\)](#), an individual's national culture is that of his or her country of residency. Culture is defined as the collective mental programming that separates members of one team or category of individuals from those of another. People from diverse cultural origins, according to [Burgoon, Manusov, & Guerrero \(2021\)](#), communicate and make decisions differently, and their verbal and nonverbal communication methods differ. Cultural diversity broadens people's options and is at the heart of their development ([Gumede, 2016](#)), and the issue isn't just about economic progress, but also about how to attain knowledge, emotion, morality, and spirit in the context of cultural tolerance. Respect, sharing, and mutual understanding are all aspects of cultural tolerance. According to [Berry and Sam \(2013\)](#), cultures that are unable to get a foothold in the global culture will progressively become dependent on the dominant culture. Because of the many changes in the cultural makeup of businesses, it is critical for leaders and supervisors to understand cultural diversity and how it affects their organization.

### 2.4. Performance

Performance is a broad concept, and its meaning varies depending on the user's

perspective and need (Okoi et al., 2021). Traditionally, company success has been interpreted and calculated in accounting terms. However, the evaluation of the relationship between corporate performance and marketing activities is what marketing efficiency assessment of operations is all about (Clark & Ambler, 2001). Promotional strategy (PS), customer/customer relationship management (CRM), and marketing planning effectiveness (MPE) are marketing approaches used by a company to increase its efficiency and differentiate itself from competitors, especially in the face of fierce competition. Business success, as defined by the preceding definition of concepts, may be calculated using customer-customer relationship marketing (Okoi et al., 2021). Most businesses, particularly small and medium-sized businesses, are hesitant to use strategic marketing strategies to advertise their products or services, which has a negative impact on their performance (Olaniyan, 2018). A company's performance is successful if it meets its revenue or market share goal based on productivity, but an organization's performance is effective if it uses its resources to reach a high degree of performance (Adeleke, Ogundele, & Oyenuga, 2008).

## **2.5. Hypothesis Development**

### **2.5.1. Effect of Cultural Diversity on Entrepreneurial Capabilities and Performance**

According to Selvaraj (2015), both cultural diversity and personnel efficiency provide multiple benefits to the workplace. One of the key concepts of diversity is that a company with a diversified workforce understands the global economy better (Klarsfeld, 2014). Employers have indicated (Culture and Diversity in the Workplace 2013) that corporate cultures that encourage employees to work to their full capacity benefit their businesses by providing a diverse range of experiences, increased efficiency, and profit. Employers should also consider the immediate benefits of workplace diversity. Customers who speak different languages or who are from other countries may require customer service in their native tongue. In industries like marketing and advertising, knowing what clients want from various backgrounds is critical to success. Chen, Galvez, & Carlson (2022), listed the following advantages of having a culturally varied workforce: High Productivity Level; when management cares about its employees' well-being by providing them with fair compensation, health insurance, and employee appraisals, as well as respecting their cultural backgrounds, regardless of their cultural backgrounds, a sense of belonging to the firm develops. As a result, they remain loyal and productive, which contributes to the company's efficiency and advantage. Exchange of varieties of ideas and team work; a single person performing multiple tasks will not be able to perform at the same speed as a team. As a result, each team member contributes different ideas to the group and offers a unique perspective during issue solving in order to arrive at the best answer in the least amount of time. Individuals from other countries are workaholics, while oth-

ers prefer to complete assignments and others even believe in not leaving work until it is completed. These attitudes are rubbing off on other members and forming a culture (Chen, Galvez, & Carlson, 2022). Growth and Learning; Employees are motivated to grow personally when their workplace is diverse. When workers are exposed to various cultures, ideas, and perspectives, they can broaden their intellectual horizons and gain a greater knowledge of their place in the world, and thus their own surroundings. Different cultures have different work ethics, which will most likely make it difficult for teams to reach their maximum potential. Various cultures work in various ways, with different perspectives and approaches to problems, and members of the team will grow as a result (Chen, Galvez, & Carlson, 2022). Effective communication; by improving communication, diversity in the workplace will dramatically strengthen a company's interaction with a certain community of customers. Customers from their specific region or venue should be matched with customer service representatives, helping the consumer feel at ease with the professional and therefore with the company. Better communication among varied people improves task comprehension and stimulates the delivery of necessary production faster and more effectively (Chen, Galvez, & Carlson, 2022). Diverse Experience; Coworkers from various backgrounds bring unique perspectives and experience to the table during cooperation or group activities. Pooling the different abilities and knowledge of culturally diverse people together will considerably help the company by boosting the team's responsiveness and efficiency in responding to changing conditions (Chen, Galvez, & Carlson, 2022). Therefore, we proposed the following hypothesis;

H1: Cultural diversity has a positive influence on Entrepreneurial capabilities.

H2: Cultural diversity has a positive influence on firm performance.

### 2.5.2. Entrepreneurial Capabilities on Performance

Entrepreneurial capabilities greatly contribute to a corporation or organization's success and development (Mitchelmore & Rowley, 2010). Small business owners must have great entrepreneurial skills in order for their companies to succeed both locally and internationally.

Entrepreneurial capabilities are demonstrated by persons who start and grow businesses. SMEs must constantly improve their entrepreneurial capabilities in order to survive and thrive in today's competitive and fast changing economy (Ng & Kee, 2013). There are numerous aspects that contribute to the success of small businesses. Entrepreneurial acts and inactions have been shown in previous research to have a significant impact on the growth of a business. According to Camuffo, Gerli, and Gubitta (2012), SMEs owners need a wide range of abilities, knowledge, imagination, innovation, and the ability to spot chances. These are crucial aspects that affect the performance of SMEs or businesses not only early on, but also later on (Camuffo et al., 2012). According to recent studies, entrepreneurial capabilities are critical for a compa-

ny's success. The existence or lack of strategic planning, according to [Mitchelmore & Rowley \(2013\)](#), is a major factor in corporate success. In addition, strategic planning is defined as a continual mechanism for monitoring and analyzing a company's strategic goals. A strategic aim includes company objectives (vision, mission, and objectives), such as recognizing long- and short-term difficulties, opportunities, and threats ([Mitchelmore & Rowley, 2013](#)). This is proof that strategic planning improves firm performance. Furthermore, if a company ignores strategic planning, it may not be able to fulfill its full potential in terms of profitability and growth, putting its survival at risk. Strategic planning is more common in higher-performing SMEs, according to various studies in the literature. Return on assets, sales growth, income, and employee growth are all likely to increase when a company engages in strategic planning. [Michelmore and Rowley \(2013\)](#) identify various entrepreneurial characteristics based on prior studies' material. Innovative abilities, risk-taking, idea generating, opportunity imagining, and creativity were among them. [Sharam \(2020\)](#) also outlined that entrepreneurial capability as a distinct set of individual and organizational capabilities and skills as well as actions, practices, and routines that aim to explore, integrate, and exploit untapped business opportunities within an instituted market context. The study focuses on [Faroque, Mostafiz, Faruq and Bashar \(2020\)](#), which indicated that entrepreneurial capability construct is operationalized by the prior; entrepreneurial experience, managerial experience, technical experience and industry experience. As such, we proposed this hypothesis:

H3: Entrepreneurial capabilities a positive influence on firm performance.

## 2.6. Conceptual Framework

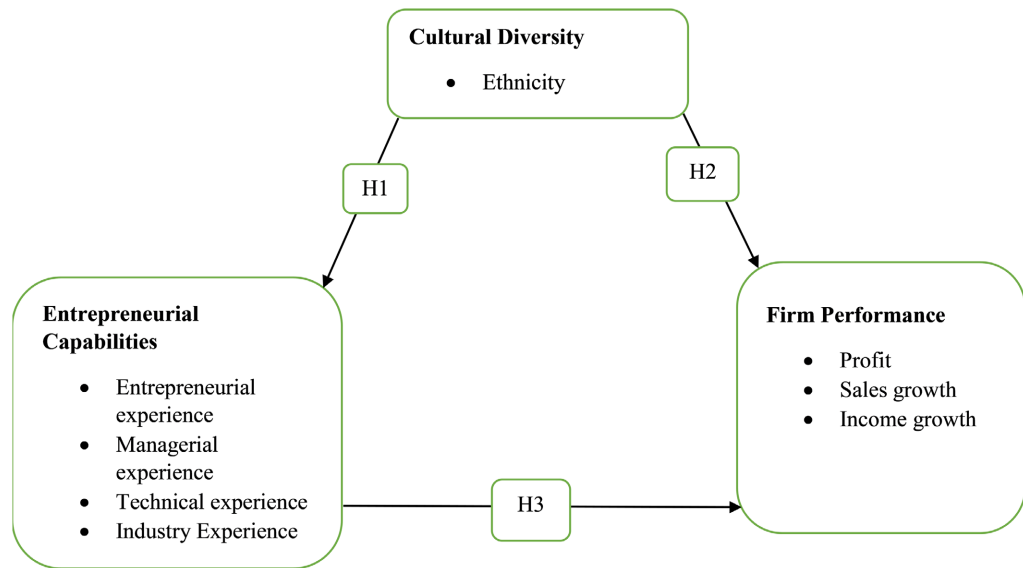
Some researchers have focused their efforts on studying entrepreneurial aptitude and cultural diversity. Since the expansion of entrepreneurial capabilities and the development of cultural diversity ([Mitchelmore & Rowley, 2010](#)) and [Baltacı \(2017\)](#), several attempts have been made to operationalize the company's performance. Many ideas from entrepreneurial capabilities and cultural diversity were used in [Michelmore and Rowley \(2013\)](#) and [Berry and Sam \(2013\)](#) studies. Entrepreneurial capabilities and cultural diversity have a favorable impact on the performance of small and medium-sized businesses (SMEs) ([Figure 1](#)).

## 3. Methodology

### 3.1. Sample Description and Data Collection

This study used a cross-sectional design to collect quantitative survey data from 200 Ghanaian SME owner managers within Kumasi metropolitan area. The sample selection method used was snowball sampling. This approach is considered appropriate because it is based on a well-understood structure and reliable and valid measures for testing hypotheses. In particular, the study used previous literature to identify key independent and dependent variables and to highlight





**Figure 1.** Conceptual framework for Entrepreneurial capabilities and cultural diversity on performance.

the general mechanisms behind the phenomenon (Edmondson & McManus, 2007). About 250 SMEs firms were first contacted via email. After explaining the purpose of the study, they asked to cooperate, keeping their identities secret (Twycross & Shields, 2005). The design of the questionnaire was based on a literature review. The questionnaire was edited and administered to a pilot sample of 10 participants. Feedback received is used to refine and improve the survey. Following feedback and revisions to the pilot version, questionnaires were subsequently distributed and data collected using Google Forms (Rey et al., 2021). The survey was conducted for about a month from late February to late March 2021. A total of 200 responses were surveyed after incomplete content was discarded.

### 3.2. Data Analysis

To analyze the impact of entrepreneurial capabilities and cultural diversity on SMEs performance within Kumasi metropolitan area, this study applied partial least squares (PLS) to structural equation modeling (SEM). PLS-SEM is used in various disciplines (Hair et al., 2011) and is an alternative to CB-SEM. This technique enables statistical analysis of proposed relationships by exploring and predicting dependent variables and allowing the calculation and quantification of the effects of certain variables on others (Hallak et al., 2018). PLS-SEM allows us to perform exploratory analysis (Edmondson & McManus, 2007) followed by predictive analysis (Hair et al., 2014) of the structure of SMEs performance (Ciocirlan et al., 2020). Our analysis of entrepreneurial capabilities and cultural diversity is relatively new, so using PLS-SEM is a good choice (Hair et al., 2014). Finally, PLS-SEM is estimated to be more resistant to normality bias than CB-SEM (Hair et al., 2011). Furthermore, according to Landau and Everitt (2004), the Statistical Software Package for Social Sciences (SPSS), used to analyze raw data

collected in the field, is a “wrap up” of a tool that enables researchers to manipulate, examine, and present data. Statistical packages for the social sciences are used to analyze the demographic variables of the study.

### 3.3. Questionnaire Development

The questionnaire was broken into sections, with the first section gathering demographic data from respondents and the other sections separated into each objective. This study adapted constructs from prior studies, measured on five-point Likert scales (1 = strongly disagree to 5 = strongly agree) with except for survey questionnaires on demographic information. Entrepreneurial Capabilities: (independent variable) was modified scale of (Ucbasaran et al., 2008; Kammerlander, Burger, Fust, & Fueglistaller, 2015). Cultural Diversity: adoption (independent variable) was adapted from Gumedé's (2016). SME performance (dependent variable) was measured using seven items adapted from Adomako, Danso, and Ofori Damoah (2016) and Jayiddin, Jamil, & Roni, (2017).

## 4. Results

### 4.1. Demographic Profile of Respondents

**Table 1** shows the demographic profile of the respondents who were needed for the study. Gender, age, marital status, position in the business, type of business, years in business, and employee strength of the business have all been used to profile respondents.

**Table 1** show the demographic profile of the respondents who were needed for the study. Gender, age, marital status, position in the business, type of business, years in business, and employee strength of the business have all been used to profile respondents. The demographic profile of respondents was engaged for the study. The results showed that out of 200 (100%) respondents, 122(61%) were males and 78 (39%) were females. This shows that majority of the respondents were males, as compared to females. Again, the results showed that 68 (34%) of the respondents were not married (single), 106 (53%) of the respondents were married and 26 (13%) of the respondents were divorced. Furthermore, the results showed that 20 (10%) of the respondents were up to 30 years, 62 (31%) of the respondents were between 31 to 40 years, 76 (38%) of the respondents were between 41 to 50 years and 42 (21%) of the respondents were 51 and above. Thus, majority of the respondents were between 41 to 50years, while the least were respondents who were up to 30 years. Additionally, the results showed that 112 (56%) of the respondents were the owners of the firm, 54 (27%) of the respondents were the managers of the firm and 34 (17%) of the respondents were the head of operations of the firm. This shows that majority of the respondents were the owners of the firm. As regard to the type of business of the respondents, 88 (44%) of the respondents were the owners of the firm, 68 (34) of the respondents were partnership business, 30 (15%) of the respondents were family business limited and 14 (7%) of the respondents were liability business.

**Table 1.** Demographic characteristics of the respondents.

Variables	Categories	Frequency	Percent
Gender	Male	122	61
	Female	78	39
	Total	200	100.0
Marital Status	Single	68	34
	Married	106	53
	Divorced	26	13
	Total	200	100.0
Age	Up to 30 yrs	20	10
	31 to 40 yrs	62	31
	41 to 50 yrs	76	38
	51 and Above	42	21
	Total	200	100.0
Position in the business	Owner	112	56
	General Manager	54	27
	Head of Operations	34	17
	Others Specify	0	0
	Total	200	100.0
Type of business	Sole proprietor	88	44
	Partnership	68	34
	Family Business Limited	30	15
	Liability Company	14	7
	others specify	0	0
	Total	200	100.0
Years business has been operating	Less than 5 yr	79	39.5
	6 to 10 yrs	84	42
	11 to 15 yrs	20	10
	More than 15 yrs	17	8.5
	Total	200	100.0
employee strength of the business	Less than 5 workers	63	31.5
	6 - 29 workers	94	47
	30 - 99 workers	32	16
	100 and above	11	5.5
	Total	200	100.0

Source: Field data (2021).

Moreover, 79 (39.5%) of the respondents indicated that their business has operated in less than 5 years, 84 (42) of the respondents indicated that their business has operated between 6 to 10 years, 20 (10%) of the respondents indicated that their business has operated between 11 to 15 years and 17 (8.5) of the respondents indicated that their business has operated for over 15 years. Lastly on employee strength of business, 63 (31.5%) indicated that their firm contain less than 5 employees, 94 (47) of the respondents indicated that their firm contain 6 to 29 employees, 32 (16%) of the respondents indicated that their firm contain 30 to 99 employees and 11 (5.5%) of the respondents indicated that their firm contain 100 and above employees.

## 4.2. Structural Equation Modelling

Structural Equation Modelling (SEM) was used in testing the hypothesis arising from the theoretical model. The two-stage approach endorsed by [Anderson & Gerbing \(1988\)](#) was adopted in this study, given that the accurate representation of the reliability of each construct is best conducted in two stages to avoid any interaction between the measurement and structural models ([Hair et al., 2010](#)).

## 4.3. Validity and Reliability Results

Reliability test was conducted to ensure the level of consistency in measuring the intended latent construct. Cronbach's alpha was used to assess the reliability and

**Table 2.** Validity and Reliability results

Research constructs	Cronbach's alpha	Rho_A	CR	AVE	Loadings
Cultural Diversity	0.901	0.917	0.939	0.838	
AS1					0.827
AS2					0.962
AS3					0.951
Entrepreneurial Capabilities	0.922	0.929	0.945	0.812	
EC1					0.862
EC2					0.877
EC3					0.963
EC4					0.900
Firm Performance	0.991	0.991	0.993	0.966	
FP1					0.990
FP2					0.976
FP3					0.979
FP4					0.989
FP5					0.980

Source: Field data (2021).

the results exceeded the satisfactory level > 0.70, which shows a high reliability for the instruments adopted (Drost, 2011).

The Composite Reliability (CR) values were also greater than 0.80, and the Average Variance Extracted > 0.50, demonstrating convergent validity where the multiple items measuring a single concept are in agreement, and indicating adequate internal consistency of the constructs (Fornell & Larcker, 1981; Hair et al., 2012; Babin & Zikmund, 2016). The table above shows the details of the reliability, factor loadings, and average variance extracted of the constructs.

#### 4.4. Discriminant Validity

When establishing discriminant validity, each construct must be distinct from the others (Hair et al., 2017). To obtain discriminant validity, Chin (1998) suggested that all index loadings should be higher than the corresponding cross loadings. Therefore, the entire index loading is larger than the corresponding cross loading, and sufficient discriminative validity is demonstrated (see Table 3 & Figure 2).

Table 3. Discriminant validity

	Cultural Diversity	Entrepreneurial Capabilities	Firm Performance
Cultural Diversity	0.915		
Entrepreneurial Capabilities	0.930	0.901	
Firm Performance	0.934	0.961	0.983

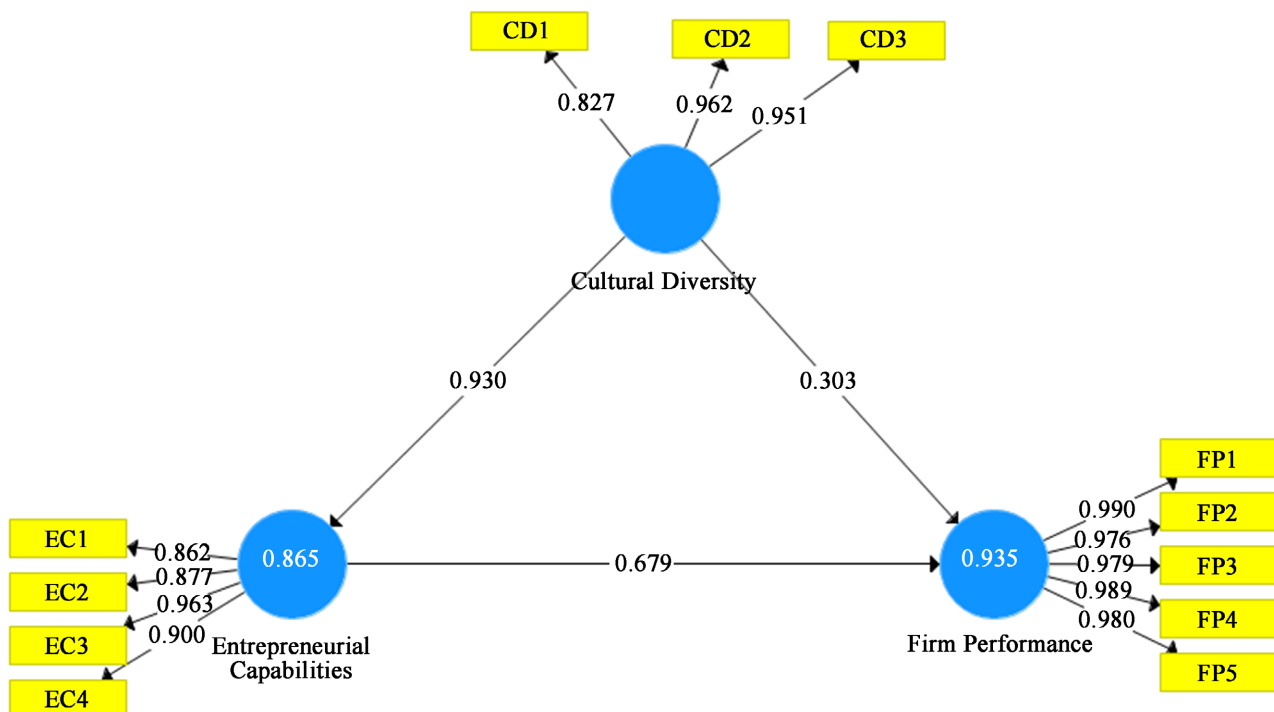


Figure 2. The positive reading of all the variables confirm that the model fits the data perfectly.

#### 4.5. Discussion of the Study

This study was occasioned by the neglect of the process perspective of investigating the persistent failure of SMEs. According to [Ropega \(2011\)](#), business failure is a process which could occur at any stage. Even though [Hukom, Arbiani, & Saribanon \(2021\)](#), conceptualization of Entrepreneurial Capabilities suggests that there is a theoretical link between Entrepreneurial Capabilities on Firm Performance and Cultural Diversity on Firm performance. It is established also that entrepreneurial capabilities are embedded on firm performance ([North, 2005](#)), which has the tendency to constrain and/or enable entrepreneurial capabilities on ultimate performance outcomes. However, a unified framework that explains the interactions between Entrepreneurial Capabilities and Cultural Diversity and their resultant effect on SMEs' performance outcomes is limited in extant literature.

**Table 4** shows that, cultural Diversity ( $\beta = 0.930$ ,  $t = 74.714$ ,  $p = 0.000$ ) was found to have a significantly positive effect Entrepreneurial Capabilities, thus supported H1. This study seeks to investigate and examine the aggregate impact of the interaction between Entrepreneurial Capabilities and Cultural Diversity on SMEs' performance, in a theory driven and process-oriented framework. The results presented in the earlier chapter are discussed and elaborated in the subsequent sections vis-à-vis previous studies reported in the extant literature in the light of the research questions.

The regression result shows that, cultural Diversity ( $\beta = 0.303$ ,  $t = 3.884$ ,  $p = 0.000$ ) was found to have a significantly positive effect on firm performance, thus supported H2. The findings of this study support suggestions in the related literature that Cultural Diversity can provide new capabilities that enhance a firm's performance and overcome resource limitations ([Aljanabi, Hamasaleh, & Noor, 2019](#)) by bridging cultural boundaries and offering fundamental solutions for sophisticated problems ([Jehn & Bezrukova, 2004](#); [Pless & Maak, 2004](#); [Todorovic & Ma, 2008](#)). From an empirical viewpoint, this study suggests that managers of foreign firms should be aware of the essential role of Cultural Diversity. Hiring employees from different cultures and developing an organisational culture that supports Cultural Diversity can have significant effects in reinforcing firm performance.

**Table 4.** Structural analysis.

Study's hypothesis	Hypothesis	Path coefficients	T -Statistics	P-Values	Supported/ Rejected
CD -> EC	H1	0.930	74.714	0.000	Supported
CD -> FP	H2	0.303	3.884	0.000	Supported
EC -> FP	H3	0.679	8.506	0.000	Supported

Note: CD = Cultural Diversity; EC= Entrepreneurial Capabilities whereas FP= Firm Performance. \*Significance at  $p < 0.05$ ; \*\*Significance at  $p < 0.01$ ; \*\*\*Significance at  $p < 0.001$ .

With regards to entrepreneurial capabilities, the regression results show that, it has a positive relationship with firm performance with ( $\beta = 0.679$ ,  $t = 8.506$ ,  $p = 0.000$ ). The study contends that complementary outcomes of entrepreneurial capabilities, yield performance benefits. This empirical evidence supports earlier studies which suggest that the entrepreneurial capabilities lead to firm performance, such as sales growth rate (Ireland & Webb, 2007). While the findings suggest that Entrepreneurial Capabilities leads to SME performance, it also reveals that Entrepreneurial Capabilities accounts for only 24.3% of the performance attained by SMEs. This shows that the performance of SMEs in Ghana depends on other factors beyond Entrepreneurial Capabilities, which are recommended for future studies.

Managers of SMEs firms should adopt strategic attitudes towards valuing diversity by encouraging members of different backgrounds to learn from each other to increase their knowledge and eliminate stereotypes, which will in turn lead to improved firm Performance. In addition, this study provides empirical evidence supporting the arguments of Engelen et al. (2015) that Entrepreneurial Capabilities enhances a firm's ability to explore more opportunities with genuine achievements. This finding contributes to the development of the literature by clarifying that, firms with entrepreneurial capabilities have a greater ability to rejuvenate and create new resources, capitalize on riskier opportunities, and encourage fresh ideas. Managers also need to develop capabilities to cultivate an environment of entrepreneurship. The fear of failure may represent the main obstacle to performance, particularly for new and small foreign firms (Aljanabi, et al, 2019).

## 5. Conclusion of the Study

The research aims to close the gap between entrepreneurial capabilities, cultural diversity, and SMEs' performance. We looked into entrepreneurial capabilities as antecedents to cultural diversity because Dynamic Capability theory defines the capabilities inherent in the emergence and prevalence of SMEs in which entrepreneurs are the main actors and their leadership style is a critical antecedent to cultural diversity (Gumede, 2016), so we looked into entrepreneurial capabilities as antecedents to cultural diversity. In an international context, the utilization of multi-scales of market and marketing orientation demonstrates the complementarity of diverse scales. To achieve the performance advantage enabled by entrepreneurial capabilities in SMEs, such individual level capabilities must be role by organization-wide market and marketing oriented capabilities and behaviors, according to the significant direct effects of entrepreneurial capabilities and the significant role of cultural diversity. Firms with appropriate Entrepreneurial Capabilities can capitalize on perceived opportunities faster than their competitors (Urban & Ratsimanetrimanana, 2015). To improve firm performance, foreign firm managers are advised to focus on Entrepreneurial Capabilities and hire people based on cultural qualities. Foreign firm managers, on the other hand, must be dexterous enough to face these practical problems, as prior research has

demonstrated that culture is an imperfect resource for improving business performance and enhancing competitive advantage (Fayolle et al., 2010; Lumpkin & Dess, 1996).

### **5.1. Implications for Management and Practice**

The findings reveal some significant insights that are applicable to entrepreneurship management and practice in Ghana. As a result, entrepreneurial capabilities support a cycle of opportunity recognition and strategic mobilization of resources to act on opportunities to transform them into new or enhanced goods, processes, and services that result in performance improvements. Entrepreneurial Capabilities enable SMEs to continuously seek opportunities and, as a result, act on such opportunities to generate value. This suggests that businesses should not only be able to identify or create new opportunities, but also be able to successfully deploy strategic resources such as financial capital, human resources, and technological know-how in order to start or expand their business. Firms are successful, according to the study, when they can consistently innovate/exploit new chances that open new markets or change existing markets for entrepreneurs. It suggests that SMEs should not solely rely on the opportunity in order to generate value. This is because focusing solely on potential may drive an organization to forego short-term revenue or gains in exchange for long-term opportunities for innovation. Overreliance on an opportunity may produce rapid results, but the SME runs the danger of becoming outmoded and missing out on new opportunities. As a result, Entrepreneurial Capabilities is a process-oriented concept that captures the dynamics of the entrepreneurial process and explains how innovative opportunities are identified or created, as well as how innovation-supporting behaviors underpin effective entrepreneurial activity and, as a result, superior SMEs performance. In conclusion, our findings show that management-level heterogeneity can be a valuable asset in certain strategic circumstances, but the relationship between diversity and performance is complicated. Other contextual elements must be considered in addition to the strategic stance of cultural diversity that we discovered to influence the relationship. Future research that considers the complexities of the diversity-performance link, as well as its potential mediators, should help researchers get closer to a general theory of entrepreneurial capability in the organization.

### **5.2. Limitations and Directions for Future Research**

Due to the high degree of economic and entrepreneurial capability in the Kumasi Metropolitan of Ghana, the study looked into entrepreneurial capabilities, cultural diversity, and SME performance. Although the findings are generalizable, they only provide insight into the nature of the phenomena as it relates to SMEs in one metropolitan in Ashanti Region-Ghana. Future research should include a multi-district, multi-metropolitan and multi-regional survey of SMEs across Ghana. This would lead to a better knowledge and pattern in multi-group



or regional analyses of how entrepreneurial capabilities and cultural diversity interact to influence SME performance in Ghana. A longitudinal study could help us grasp the constructs and their interactions better. Second, in order to relate entrepreneurial capabilities and cultural diversity, we have exclusively employed financial performance measurements. Financial and non-financial/strategic measures could be used in the future study. Finally, this research was done in a developing country's unique industry; hence, the generalizability of the findings to other nations and industries might be limited.

### Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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