

IMPACT OF FINANCIAL LITERACY AND ENTREPRENEURIAL LITERACY ON COMPETITIVE ADVANTAGE AND FIRM PERFORMANCE OF COMMUNITY ENTERPRISES IN CHIANG MAI*

Wipawee Srika¹ and Kamolthip Kumjai²

¹⁻²Faculty of Management Sciences, Chiang Mai Rajabhat University, Thailand

Corresponding Author's Email: wipawee@g.cmr.ac.th

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Abstract

This research article aims to: (1) examine the effects of financial literacy on competitive advantage and firm performance; (2) investigate the influence of entrepreneurial literacy on competitive advantage and firm performance; and (3) analyze the mediating role of competitive advantage in the relationships between financial literacy, entrepreneurial literacy, and firm performance among community enterprises in Chiang Mai, Thailand. This study employs a quantitative research design, collecting data from 400 community enterprises using a cross-sectional survey. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The research results found that, In response to Objective 1, financial literacy has a significant positive effect on competitive advantage ($\beta = 0.34$, $p < 0.001$) and firm performance ($\beta = 0.21$, $p < 0.01$). In response to Objective 2, entrepreneurial literacy has a significant positive effect

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on competitive advantage ($\beta = 0.41$, $p < 0.001$) and firm performance ($\beta = 0.25$, $p < 0.01$). In response to Objective 3, competitive advantage has a strong positive effect on firm performance ($\beta = 0.39$, $p < 0.001$) and partially mediates the relationships between both financial literacy and entrepreneurial literacy and firm performance. These findings provide important practical implications. Strengthening financial management capabilities such as budgeting, cost control, and financial planning alongside developing entrepreneurial competencies, including innovation, opportunity recognition, and strategic decision-making, can enhance competitive advantage and improve firm performance. Policymakers and development agencies should support targeted training and capacity-building initiatives to promote sustainable growth among community enterprises.

Keywords: Financial Literacy, Entrepreneurial Literacy, Competitive Advantage, Firm Performance, Community Enterprises

Introduction

In recent decades, small and medium-sized enterprises (SMEs) and community enterprises have emerged as key drivers of economic development, particularly in emerging economies. In Thailand, especially in Chiang Mai, community enterprises play a significant role in generating local income, creating employment opportunities, and preserving indigenous knowledge and cultural heritage. These enterprises function as socio-economic anchors within rural and semi-urban communities, fostering inclusive growth while strengthening local identity. Despite their importance, many community enterprises face persistent structural challenges, including limited access to financial resources, inadequate managerial capabilities, and weak competitive positioning in broader markets. Such constraints often result in suboptimal performance and hinder long-term sustainability. Consequently, identifying internal capabilities that can enhance

competitiveness and improve firm performance has become a critical research priority.

Among these capabilities, financial literacy has gained considerable attention as a fundamental determinant of entrepreneurial success. Financial literacy refers to the ability to understand, interpret, and apply financial information to support effective decision-making. It enables entrepreneurs to manage cash flow, control costs, evaluate investment opportunities, and mitigate financial risks. According to Organization for Economic Co-operation and Development (2020), financial literacy encompasses not only knowledge but also the skills, attitudes, and behaviors required for sound financial decision-making. Empirical evidence consistently demonstrates that higher levels of financial literacy are associated with improved business performance, particularly among small enterprises operating in resource-constrained environments (Lusardi & Mitchell, 2014; OECD, 2020). This suggests that financial literacy is a critical capability that enhances both operational efficiency and financial resilience in community enterprises.

In addition to financial literacy, entrepreneurial literacy often conceptualized as entrepreneurial competencies has been widely recognized as another key driver of firm success. Entrepreneurial literacy includes a range of competencies such as opportunity recognition, analytical thinking, innovation, interpersonal communication, and strategic decision-making. These competencies enable entrepreneurs to adapt to dynamic market conditions, identify new opportunities, and respond effectively to competitive pressures. Mitchelmore and Rowley (2010) emphasize that entrepreneurial competencies are essential for promoting firm growth and long-term sustainability, as they directly influence the entrepreneur's ability to manage and develop business operations. Similarly, Man, Lau, and Chan (2002) found that entrepreneurial competencies significantly enhance firm performance by strengthening organizational capabilities and improving strategic positioning. Therefore,

entrepreneurial literacy represents a vital form of human capital that contributes directly to the success of community enterprises. The theoretical foundation of this study is grounded in the Resource-Based View (RBV), which posits that firm performance and competitive advantage are determined by internal resources and capabilities. Barney (1991) argues that resources that are valuable, rare, inimitable, and non-substitutable (VRIN) can generate sustainable competitive advantage. Intangible resources—such as knowledge, skills, and competencies—are particularly important because they are difficult for competitors to replicate. Within this framework, financial literacy and entrepreneurial literacy can be conceptualized as strategic intangible resources that enhance a firm's ability to achieve superior performance. However, RBV also emphasizes that resources must be effectively deployed and leveraged to create value and achieve competitive differentiation.

Competitive advantage serves as a critical mechanism linking internal capabilities to firm performance. It refers to a firm's ability to outperform competitors through strategies such as cost leadership, differentiation, and responsiveness to market demands. Porter (1985) emphasizes that competitive advantage is achieved by creating value in ways that are not easily imitated. Empirical studies support this perspective, indicating that firms with strong internal capabilities are better positioned to develop competitive advantages that lead to superior performance (Newbert, 2007). Accordingly, competitive advantage can be conceptualized as a mediating variable that translates financial and entrepreneurial literacy into improved firm performance.

Despite the growing body of literature, several research gaps remain. Many prior studies have examined financial literacy, entrepreneurial competencies, and firm performance independently, without integrating them into a comprehensive framework. Moreover, limited empirical evidence exists regarding the mediating role of competitive advantage, particularly in the context

of community enterprises in developing economies. Most research has also focused broadly on SMEs, with relatively little attention given to community enterprises, which operate under distinct socio-economic conditions. These gaps highlight the need for a more holistic and context-specific investigation.

To address these gaps, this study examines the effects of financial literacy and entrepreneurial literacy on competitive advantage and firm performance among community enterprises in Chiang Mai. It investigates both direct and indirect relationships using a structural equation modeling (SEM) approach. The study contributes theoretically by extending the RBV framework and practically by providing insights that can support the development of more competitive and sustainable community enterprises.

Objectives

1. To examine the effect of financial literacy on competitive advantage and firm performance.
2. To investigate the effect of entrepreneurial literacy on competitive advantage and firm performance.
3. To analyze the mediating role of competitive advantage in the relationships between financial literacy, entrepreneurial literacy, and firm performance.

Literature Review

Financial Literacy and Firm Performance. Financial literacy is widely recognized as a critical determinant of both individual and organizational economic outcomes. It refers to the ability to understand financial concepts and apply such knowledge to make effective financial decisions. According to Organization for Economic Co-operation and Development (2020), financial literacy encompasses not only knowledge but also the skills, attitudes, and

behaviors required for sound decision-making. In small businesses and community enterprises, financial literacy is essential for budgeting, financial planning, investment evaluation, and risk management. Empirical studies consistently demonstrate a positive relationship between financial literacy and firm performance. Lusardi and Mitchell (2014) argue that financial literacy enhances individuals' ability to make informed decisions, thereby improving economic outcomes. Similarly, Wise (2013) found that financial literacy significantly affects the survival and success of small businesses by enabling efficient resource allocation. In developing economies, where access to formal financial systems is often limited, financial literacy becomes even more critical for sustaining operations and achieving growth. Thus, it can be conceptualized as a key intangible resource that directly contributes to firm performance.

Entrepreneurial Literacy and Firm Performance. Entrepreneurial literacy, often conceptualized as entrepreneurial competencies, refers to a set of knowledge, skills, and abilities that enable individuals to identify opportunities and effectively manage business ventures. These competencies include analytical thinking, innovation, communication, and strategic decision-making. Mitchelmore and Rowley (2010) emphasize that such competencies are fundamental to improving business performance and ensuring long-term sustainability. Prior research provides substantial evidence of the positive impact of entrepreneurial literacy on firm performance. Man, Lau, and Chan (2002) contend that entrepreneurial competencies directly influence the competitiveness and growth of SMEs. Likewise, Ahmad, Ramayah, Wilson, and Kummerow (2010) demonstrate that entrepreneurial skills enhance business success by strengthening strategic capabilities and adaptability. These findings indicate that entrepreneurs with strong competencies are better equipped to navigate dynamic and complex business environments. In the context of

community enterprises, where resources are often constrained, entrepreneurial literacy becomes a crucial driver of innovation and competitive positioning.

Competitive Advantage as a Mediating Variable. Competitive advantage is central to strategic management and organizational performance, referring to a firm's ability to outperform competitors by creating superior value. Porter (1985) posits that such advantage can be achieved through cost leadership, differentiation, or focus strategies. From the Resource-Based View (RBV), competitive advantage arises from the effective utilization of internal resources and capabilities. Barney (1991) highlights that valuable, rare, inimitable, and non-substitutable (VRIN) resources can generate sustainable competitive advantage. Financial and entrepreneurial literacy, as intangible resources, enhance decision-making and strategic execution, thereby fostering competitive advantage. Empirical evidence supports its mediating role; Newbert (2007) found that the relationship between firm resources and performance is often indirect, operating through competitive advantage, while Ismail, Rose, Abdullah, and Uli (2012) confirmed its mediating effect. Thus, these literacies may influence firm performance indirectly by strengthening competitive positioning.

Integration of Constructs and Research Gap. Although prior studies have examined financial literacy, entrepreneurial competencies, and competitive advantage, most have treated these constructs independently. Limited research integrates them into a comprehensive framework, particularly within community enterprises in developing economies. Furthermore, the mediating role of competitive advantage remains underexplored in such contexts. This study addresses these gaps by integrating financial and entrepreneurial literacy within the RBV framework and examining their direct and indirect effects on firm performance through competitive advantage. By employing structural equation modeling (SEM), this research provides a more comprehensive understanding of how internal capabilities shape organizational outcomes in community enterprises in Chiang Mai.

Methodology

Research Design. This study employed a quantitative research design to investigate the relationships among financial literacy, entrepreneurial literacy, competitive advantage, and firm performance of community enterprises in Chiang Mai, Thailand. A cross-sectional survey approach was adopted to collect data at a single point in time, which is appropriate for testing theoretically grounded relationships using structural models. Structural Equation Modeling (SEM) was utilized as the primary analytical technique to simultaneously assess both measurement and structural models. SEM is widely recognized as a robust multivariate method for examining complex relationships among latent constructs (Hair et al., 2021).

Population and Sample. The population of this study consisted of 400 community enterprises operating in Chiang Mai province, representing grassroots economic units that contribute significantly to local development. From this population, a sample of 112 enterprises was selected, consistent with the dataset used in the original research. A stratified sampling technique was employed to ensure adequate representation across different types of community enterprises, thereby enhancing the generalizability of the findings and minimizing sampling bias (Cochran, 1977). Although SEM generally requires relatively large sample sizes, the use of Partial Least Squares SEM (PLS-SEM) is appropriate for small to medium samples and exploratory research contexts (Hair et al., 2021).

Research Instrument. Data were collected through a structured questionnaire developed based on established literature and prior empirical studies. The instrument comprised four sections corresponding to the study's latent constructs: (1) Financial Literacy (FL), measured through indicators such as budgeting, accounting knowledge, tax understanding, debt management, and financial planning; (2) Entrepreneurial Literacy (EL), assessed via analytical skills, interpersonal skills, communication skills, business skills, and personal

competencies; (3) Competitive Advantage (CA), measured by cost advantage, differentiation, and responsiveness; and (4) Firm Performance (FP), evaluated using profitability, growth, market share, customer satisfaction, and operational efficiency. All items were measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), a widely accepted approach for capturing perceptions and attitudes (Likert, 1932).

Validity and Reliability. The rigor of the measurement instrument was ensured through systematic assessment of validity and reliability using SEM procedures. Content validity was established through expert evaluation, with Index of Item-Objective Congruence (IOC) values ranging from 0.67 to 1.00. Construct validity was confirmed using Confirmatory Factor Analysis (CFA), which demonstrated acceptable model fit (CFI = 0.93, RMSEA = 0.068). Convergent validity was supported by factor loadings ranging from 0.65 to 0.91, Average Variance Extracted (AVE) values between 0.52 and 0.74, and Composite Reliability (CR) values between 0.78 and 0.92. Reliability was further confirmed through Cronbach's alpha coefficients ranging from 0.76 to 0.90. Discriminant validity was verified using the Fornell–Larcker criterion and HTMT ratios (0.61–0.84), indicating that all constructs were distinct and statistically sound.

Data Analysis. Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with Smart PLS software, following a two-step approach. First, the measurement model was evaluated in terms of indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Second, the structural model was assessed by examining path coefficients (β), coefficients of determination (R^2), and predictive relevance (Q^2). Hypothesis testing was performed using bootstrapping with 5,000 resamples to determine the significance of both direct and indirect effects. The mediating role of competitive advantage was tested using the bootstrapping procedure, which

is recommended for mediation analysis due to its robustness and accuracy (Preacher & Hayes, 2008).

Ethical Considerations. This study adhered to established ethical research standards. Participation was voluntary, and respondents were assured of confidentiality and anonymity. Data were collected and used solely for academic purposes.

Results

This section presents the research results in alignment with the objective of examining the impact of financial literacy and entrepreneurial literacy on competitive advantage and firm performance, including the mediating role of competitive advantage.

Descriptive Statistics. The descriptive statistics of the key variables are presented in Table 1. The results indicate that all constructs exhibit moderate to high mean values. Financial literacy ($M = 3.87$, $SD = 0.52$) and entrepreneurial literacy ($M = 3.91$, $SD = 0.48$) show relatively high levels, suggesting that most community enterprises possess essential financial and entrepreneurial competencies. Competitive advantage and firm performance also demonstrate favorable levels.

Table 1 Descriptive Statistics of Key Variables among Community Enterprises in Chiang Mai

Variable	Mean	S.D.
Financial Literacy (FL)	3.87	0.52
Entrepreneurial Literacy (EL)	3.91	0.48
Competitive Advantage (CA)	3.76	0.55
Firm Performance (FP)	3.82	0.50

Measurement Model Results. The measurement model was evaluated to ensure reliability and validity before testing the structural relationships. The results indicate that all factor loadings range from 0.65 to 0.91, exceeding the acceptable threshold. The Average Variance Extracted (AVE) values are above 0.50, and Composite Reliability (CR) values exceed 0.70, confirming convergent validity and internal consistency reliability. Discriminant validity is also established using the Fornell–Larcker criterion and HTMT ratio, indicating that all constructs are distinct.

Structural Model Results To address the research objective, the structural model was assessed using path coefficients (β), t-values, and p-values obtained through bootstrapping (5,000 resamples). The results demonstrate strong explanatory power. Financial literacy and entrepreneurial literacy jointly explain 58% of the variance in competitive advantage ($R^2 = 0.58$), while all predictors explain 64% of the variance in firm performance ($R^2 = 0.64$).

Table 2 Structural Model Results: Coefficient of Determination (R^2) for Endogenous Variables

Endogenous Variable	R^2
Competitive Advantage (CA)	0.58
Firm Performance (FP)	0.64

Direct Effects (Hypothesis Testing). In line with the research objective, the direct effects of financial literacy and entrepreneurial literacy on competitive advantage and firm performance were examined. The results show that all direct relationships are statistically significant. As show in Tabel 3.

Table 3 Results of Hypothesis Testing for Direct Effects in the Structural Model

Hypothesis	Path	β	t-value	p-value	Result
H1	FL $\rightarrow$ CA	0.34	4.12	<0.001	Supported
H2	EL $\rightarrow$ CA	0.41	4.85	<0.001	Supported
H3	FL $\rightarrow$ FP	0.21	2.67	0.008	Supported
H4	EL $\rightarrow$ FP	0.25	3.01	0.003	Supported
H5	CA $\rightarrow$ FP	0.39	4.56	<0.001	Supported

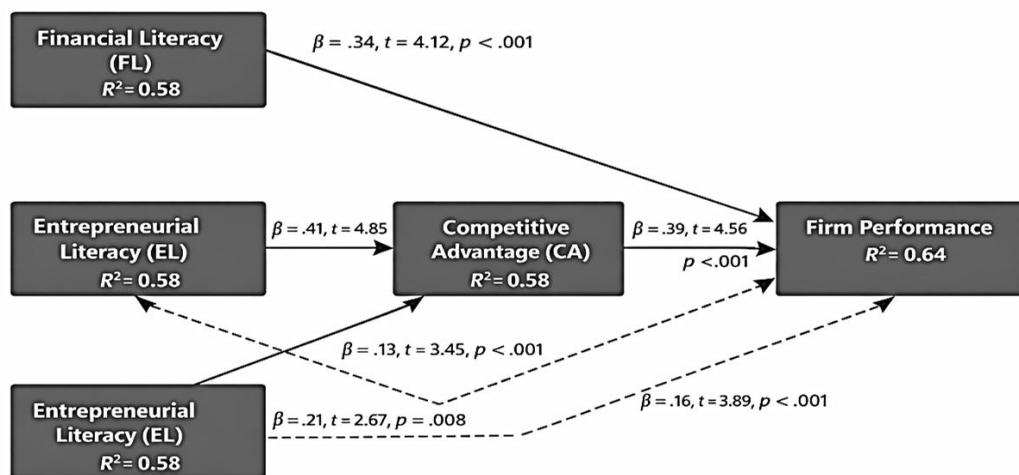
The findings indicate that both financial literacy and entrepreneurial literacy significantly enhance competitive advantage and firm performance. Additionally, competitive advantage has a strong positive effect on firm performance.

Mediation Analysis. To further address the research objective, mediation analysis was conducted using a bootstrapping procedure. The results confirm that competitive advantage significantly mediates the relationships between financial literacy and firm performance, as well as between entrepreneurial literacy and firm performance. Because both direct and indirect effects remain significant, the mediation is classified as partial. This suggests that financial literacy and entrepreneurial literacy influence firm performance both directly and indirectly through competitive advantage. As show in Table 4 and Figure 1.

Overall, the results directly address the research objective by demonstrating that financial literacy and entrepreneurial literacy significantly affect competitive advantage and firm performance, while competitive advantage serves as a key mediating mechanism linking internal capabilities to performance outcomes.

Table 4 Indirect Effects via Competitive Advantage

Hypothesis	Indirect Path	β	t-value	p-value	Result
H6	FL $\rightarrow$ CA $\rightarrow$ FP	0.13	3.45	<0.001	Supported
H7	EL $\rightarrow$ CA $\rightarrow$ FP	0.16	3.89	<0.001	Supported

**Figure 1** Structural Equation Model (SEM) of Financial Literacy, Entrepreneurial Literacy, Competitive Advantage, and Firm Performance

Discussion

This study aimed to examine the impact of financial literacy and entrepreneurial literacy on competitive advantage and firm performance among community enterprises in Chiang Mai, Thailand, including the mediating role of competitive advantage. The findings provide strong empirical support for the research objective, demonstrating that both financial literacy and entrepreneurial literacy significantly influence firm performance both directly and indirectly through competitive advantage. These results are consistent with the Resource-Based View (RBV), which posits that intangible resources, such as knowledge and

competencies, are critical drivers of sustained competitive advantage and superior organizational performance (Barney, 1991).

In addressing the first part of the research objective, the results confirm that financial literacy has a significant positive effect on both competitive advantage and firm performance. This finding aligns with prior research indicating that financial knowledge enhances entrepreneurs' ability to make informed decisions related to budgeting, investment, and risk management, thereby improving business outcomes (Lusardi & Mitchell, 2014). In the context of Chiang Mai, where community enterprises often operate in sectors such as handicrafts, agriculture, and cultural tourism, financial literacy plays a crucial role in optimizing resource allocation and supporting long-term sustainability.

In relation to the second part of the objective, entrepreneurial literacy was found to have a strong positive effect on both competitive advantage and firm performance. This supports the argument that entrepreneurial competencies—including opportunity recognition, innovation, and strategic thinking—are essential for small enterprises to remain competitive in dynamic environments (Rauch & Hulsink, 2015). These competencies enable entrepreneurs to adapt to market changes and effectively leverage available resources.

Regarding the mediating role specified in the research objective, the findings confirm that competitive advantage partially mediates the relationships between both financial literacy and entrepreneurial literacy and firm performance. This indicates that these literacies not only directly enhance performance but also indirectly contribute by strengthening the enterprise's competitive position. This finding is consistent with Porter's (1985) framework, which emphasizes the importance of differentiation and cost efficiency in achieving superior performance. In Chiang Mai, community enterprises that effectively leverage local wisdom, cultural identity, and unique product

characteristics are better positioned to establish distinctive competitive advantages that appeal to both domestic and international markets.

From a practical perspective, the findings highlight the importance of policy interventions and capacity-building initiatives aimed at enhancing both financial and entrepreneurial literacy. Government agencies and local development organizations should prioritize training programs, workshops, and mentorship opportunities to equip entrepreneurs with essential skills. Furthermore, integrating digital literacy and innovation into these initiatives could further strengthen competitive advantage in an increasingly digital economy (OECD, 2020).

Nevertheless, this study has certain limitations. The focus on community enterprises in Chiang Mai may limit the generalizability of the findings to other regions. Future research should consider broader geographic samples or comparative studies across different contexts. Longitudinal research designs are also recommended to better capture causal relationships and long-term effects. Overall, this study provides empirical evidence that financial literacy and entrepreneurial literacy are key determinants of firm performance, reinforcing their importance in fostering sustainable and competitive community enterprises.

Recommendation

Based on the empirical findings, several policy and practical recommendations are proposed to strengthen community enterprises in Chiang Mai. Given that financial literacy and entrepreneurial literacy significantly influence competitive advantage and firm performance, targeted interventions should prioritize enhancing these capabilities. First, government agencies should implement continuous financial literacy programs focusing on budgeting, financial planning, and access to formal financial systems. Second, entrepreneurial literacy should be strengthened through capacity-building initiatives in innovation,

product development, and strategic decision-making. Third, policies should promote strategies that enhance differentiation and value creation, particularly by integrating local cultural identity into business models. Fourth, multi-sector collaboration among universities, the private sector, and community enterprises should be encouraged to support knowledge transfer and digital transformation. Finally, financial support mechanisms, including microfinance and low-interest loans, should be expanded to improve access to capital and promote sustainable growth.

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