



PUBLIC FINANCING AND ENTREPRENEURIAL OUTCOMES UNDER SAUDI VISION 2030: THE MEDIATING ROLE OF ENTREPRENEURIAL CAPABILITY

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ABSTRACT

This study examines the relationships between government funding and entrepreneurial outcomes in Saudi Arabia under Vision 2030, with particular emphasis on the mediating role of entrepreneurial capability. Drawing on the Resource-Based View and Institutional Theory, the study proposes that government funding is associated with entrepreneurial capability, which in turn is associated with entrepreneurial activity, innovation, and business sustainability. Using a quantitative cross-sectional design, data were collected from 384 entrepreneurs and owners or managers of small and medium-sized enterprises (SMEs) in Saudi Arabia with current or prior exposure to government funding programs. The measurement model demonstrated satisfactory reliability, convergent validity, and discriminant validity across the study constructs. Regression-based path analysis indicated a significant positive relationship between government funding and entrepreneurial capability ($\beta = .59, p < .001$). Entrepreneurial capability was also positively associated with entrepreneurial activity ($\beta = .62, p < .001$), innovation ($\beta = .57, p < .001$), and business sustainability ($\beta = .54, p < .001$). Bootstrapping with 5,000 resamples further indicated significant indirect effects of government funding through entrepreneurial capability on entrepreneurial activity (indirect effect = .37, 95% CI [.28, .46]), innovation (indirect effect = .34, 95% CI [.25, .42]), and business sustainability (indirect effect = .32, 95% CI [.23, .40]). These findings highlight entrepreneurial capability as a mechanism through which government funding is associated with entrepreneurial outcomes. The study contributes to the entrepreneurship and public financing literature by integrating resource-based and institutional perspectives within the context of Saudi Arabia's economic transformation and offers practical implications for designing funding programs that combine financial support with capability development.

Keywords: government funding; entrepreneurial capability; entrepreneurial activity; innovation; business sustainability; Saudi Vision 2030

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INTRODUCTION

Entrepreneurship plays a central role in economic diversification, innovation, employment creation, and private-sector development. Its importance is particularly pronounced in economies undergoing structural transformation, where entrepreneurial ventures can contribute to reducing dependence on traditional sectors and creating new sources of economic value (Mikhno et al., 2026; Georgiev, 2022). However, entrepreneurial development depends substantially on access to financial resources, particularly during the early stages of venture creation and growth, when uncertainty is high, collateral is limited, and access to conventional



financing may be constrained (Aparicio et al., 2016; Beck & Demirgüç-Kunt, 2006; Kerr & Nanda, 2015; Levine, 2005).

In many economies, private financial institutions are often unable or unwilling to fully support small and medium-sized enterprises (SMEs), leading to persistent financing gaps that may constrain entrepreneurial entry, growth, and innovation. To address these limitations, governments frequently intervene through public financing mechanisms, including subsidized loans, guarantees, grants, and structured support programs. In this study, public financing refers to the broader policy framework of publicly supported financial interventions, whereas government funding (GF) refers specifically to the construct measured in the empirical analysis. Although these interventions are intended to promote entrepreneurial development, their effectiveness in generating measurable entrepreneurial outcomes remains subject to debate (Howell, 2017; Lerner, 2009).

Saudi Arabia provides a particularly relevant context for examining these dynamics. Under Vision 2030, entrepreneurship and small and medium-sized enterprise development have become important components of the country's economic transformation, aimed at diversifying the economy, strengthening the private sector, and increasing the contribution of SMEs to economic growth. In support of these objectives, government entities and programs, including the Small and Medium Enterprises General Authority (Monsha'at), the Social Development Bank, and the Kafalah Program, provide financial and institutional support to entrepreneurs and SMEs. These initiatives form part of a broader entrepreneurial ecosystem in which public financing supports capability development, business growth, and economic diversification (Kafalah, n.d.; Monsha'at, 2024; Saudi Vision 2030, n.d.; Social Development Bank, n.d.-a, n.d.-b).

In addition to stimulating entrepreneurial activity and innovation, entrepreneurship can contribute to longer-term economic resilience and business sustainability. In emerging economies, public financing is therefore increasingly viewed as a policy instrument that can support not only venture creation and growth but also the development of more sustainable and resilient businesses.

Despite this strong policy orientation, several gaps remain in the literature. First, much of the empirical evidence on entrepreneurial finance has been generated in developed economies, leaving comparatively less evidence from state-led economic transformation contexts such as Saudi Arabia. Second, prior studies have often examined individual outcomes, such as entrepreneurial activity, innovation, or business sustainability, rather than considering these outcomes within an integrated framework. Third, relatively limited attention has been given to how government funding may operate as both a strategic resource and an institutional support mechanism, particularly through the development of entrepreneurial capability.

To address these gaps, this study develops and empirically tests an integrated framework linking government funding, entrepreneurial capability, and three entrepreneurial outcomes: entrepreneurial activity, innovation, and business sustainability. Drawing on the Resource-Based View (RBV) and Institutional Theory, the framework conceptualizes government funding as an externally provided resource that can support the development of entrepreneurial capability, which in turn is associated with entrepreneurial outcomes. The two



theoretical perspectives therefore provide complementary explanations of how institutional support and firm-level capabilities may jointly shape entrepreneurial outcomes.

Against this background, the study addresses the following research question:

How does entrepreneurial capability mediate the relationship between government funding and entrepreneurial activity, innovation, and business sustainability within a state-led transformation context?

The study makes three main contributions. First, it adopts a multidimensional approach by examining entrepreneurial activity, innovation, and business sustainability within a unified analytical framework. Second, it integrates the RBV and Institutional Theory

to explain how government funding is associated with entrepreneurial outcomes through the mediating role of entrepreneurial capability, thereby linking external institutional support with firm-level capability development. Third, it provides empirical evidence from Saudi Arabia, extending the contextual scope of entrepreneurship research to a state-led economic transformation setting.

LITERATURE REVIEW

1 Government Funding and Entrepreneurship

Government funding can play an important role in supporting entrepreneurial activity, particularly in contexts where access to private finance is limited or constrained. Through mechanisms such as loans, grants, and guarantees, government funding can ease financial constraints and provide entrepreneurs with resources to initiate and expand business ventures. Its potential contribution may also extend beyond access to capital by reducing perceived financial risk and supporting entrepreneurs' ability to pursue business opportunities in uncertain environments.

From a theoretical perspective, the RBV considers financial capital an important strategic resource that can enable firms to develop capabilities and pursue competitive opportunities (Barney, 1991; Wernerfelt, 1984). Complementing this perspective, Institutional Theory emphasizes how government interventions and institutional arrangements can shape the environment in which entrepreneurial activity occurs (Scott, 2008). Together, these perspectives suggest that government funding can be understood both as an externally provided financial resource and as a form of institutional support that facilitates entrepreneurial engagement and capability development (Beck et al., 2005; Minniti, 2008).

2 Government Funding and Innovation

Innovation is widely recognized as an important source of firm competitiveness and long-term economic growth. However, developing and implementing innovative activities often requires substantial financial resources and involves considerable uncertainty. These conditions can make access to external finance particularly important for firms seeking to invest in new products, technologies, and processes.

Government funding can help alleviate financial constraints by supporting investments in research and development, technological adoption, and process improvement. Beyond easing financial limitations, such support may encourage innovation by reducing some of the uncertainty associated with innovative investment.



Empirical research has linked public financial support to greater engagement in innovative activities and improved innovation outcomes, although the magnitude and effectiveness of these effects may vary across firms and institutional contexts (Hall & Lerner, 2010; Howell, 2017).

3 Government Funding and Business Sustainability

Business sustainability refers to a firm's ability to maintain its operations, withstand external shocks, and sustain performance over time. SMEs may face particular sustainability challenges because of limited financial buffers, operational constraints, and greater exposure to market uncertainty. Access to adequate financing can therefore be important for supporting business continuity, resilience, and longer-term growth (OECD, 2019).

Government funding may support business sustainability by improving access to liquidity, facilitating investment, and easing financial constraints during critical stages of business development. Instruments such as credit guarantees and concessional loans can be particularly relevant when otherwise viable firms lack sufficient collateral to obtain conventional bank financing. In such circumstances, government support may provide additional financial stability, helping firms maintain operations and adapt to changing market conditions.

However, business sustainability depends on more than access to financial resources. Internal capabilities, market conditions, and the broader institutional environment may also shape a firm's ability to remain viable and adapt over time. The relationship between government funding and business sustainability should therefore be considered within a broader framework that accounts for how external financial support may contribute to the development of internal entrepreneurial capabilities.

While prior studies have frequently examined the relationship between government funding and entrepreneurial outcomes, less attention has been given to the mechanisms that may explain this relationship. In particular, the role of firm-level entrepreneurial capability as an intermediate mechanism remains comparatively underexplored, especially in state-led economic transformation contexts. In this regard, entrepreneurial capability may provide an important mechanism through which financial resources are translated into entrepreneurial outcomes. Firms require appropriate skills and competencies to identify opportunities, deploy available resources effectively, and adapt to changing conditions, thereby supporting entrepreneurial activity, innovation, and business sustainability (Teece, 2007).

4 Research Gap

Despite the growing literature on entrepreneurial finance, several gaps remain. First, much of the empirical evidence has been generated in developed economies, leaving comparatively less evidence from emerging economies undergoing state-led transformation, such as Saudi Arabia. Second, prior studies have often examined individual entrepreneurial outcomes, such as entrepreneurial activity, innovation, or business sustainability, rather than considering multiple outcomes within an integrated framework.

Third, relatively limited empirical attention has been given to government funding within large-scale national transformation initiatives such as Saudi Vision 2030. In Saudi Arabia, entrepreneurial development is supported by coordinated government policies, institutional reforms, and funding programs. This context



provides an important setting for examining how government funding is associated with entrepreneurial outcomes within a broader state-led transformation framework.

To address these gaps, this study develops an integrated model linking government funding, entrepreneurial capability, and three entrepreneurial outcomes: entrepreneurial activity, innovation, and business sustainability. In particular, the model examines entrepreneurial capability as a mediating mechanism through which government funding is associated with these outcomes in the Saudi context. By integrating external financial support with firm-level capability development, the study seeks to contribute to both the theoretical and empirical literature on entrepreneurial finance.

THEORETICAL FRAMEWORK

This study is grounded in an integrated theoretical framework combining the RBV and Institutional Theory. These perspectives offer complementary explanations of the relationship between government funding, entrepreneurial capability, and entrepreneurial outcomes. The RBV provides a firm-level perspective on how externally provided financial resources may support capability development, whereas Institutional Theory explains how government support operates within the broader institutional environment surrounding entrepreneurial activity. Their integration is particularly relevant in a state-led transformation context such as Saudi Arabia.

From the RBV perspective, entrepreneurial outcomes depend partly on firms' ability to acquire and effectively utilize valuable, rare, and difficult-to-imitate resources (Barney, 1991). In entrepreneurial settings, financial capital represents an important resource that can enable firms to initiate operations, develop capabilities, invest in innovation, and pursue growth opportunities. Government funding can therefore be conceptualized as an externally provided strategic resource that may support the development and deployment of entrepreneurial capability, enabling firms to make more effective use of available opportunities and resources.

However, the RBV alone does not fully account for the institutional context in which government funding and entrepreneurial activity are embedded, particularly in emerging economies where government policies and support structures can play an important role. Institutional Theory complements the RBV by emphasizing how formal rules, policies, and support mechanisms shape the environment in which organizational and entrepreneurial activities occur (Scott, 2008). From this perspective, government funding represents a form of institutional support that can provide entrepreneurs with access to resources and opportunities that may facilitate capability development and entrepreneurial engagement.

The integration of the RBV and Institutional Theory is particularly relevant in the Saudi context, where entrepreneurial development is supported by coordinated government initiatives under Vision 2030. Within this context, government funding operates as part of a broader institutional support framework for entrepreneurship. Combining the two theoretical perspectives therefore allows government funding to be



understood as an externally provided resource embedded within an institutional setting that may support the development of entrepreneurial capability and, in turn, entrepreneurial outcomes.

Building on these complementary perspectives, this study conceptualizes government funding as an externally provided strategic resource operating within an institutional support framework. Rather than assuming that financial support alone produces entrepreneurial outcomes, the framework proposes that government funding is associated with the development of entrepreneurial capability, which in turn is associated with entrepreneurial activity, innovation, and business sustainability. This integrated perspective provides the theoretical basis for examining entrepreneurial capability as the mediating mechanism in the proposed model.

Hypotheses Development

Government Funding and Entrepreneurial Capability

Government funding can contribute to the development of firms' internal capabilities by easing financial constraints and providing resources that support capability-building activities. From the RBV perspective, access to financial capital can enable firms to acquire, develop, and deploy strategic resources that support opportunity recognition, innovation, and strategic decision-making. In this sense, government funding may provide entrepreneurs with the financial foundation needed to strengthen their entrepreneurial capability.

Institutional Theory further suggests that government support can create conditions that facilitate firms' access to resources and capability-building opportunities. In state-led transformation contexts such as Saudi Arabia, government funding operates within a broader institutional support system designed to promote entrepreneurial development. Combined with the RBV perspective, this suggests that government funding may provide both financial resources and institutional support that facilitate the development of entrepreneurial capability. Based on this reasoning, the following hypothesis is proposed:

H1: Government funding is positively associated with entrepreneurial capability.

Entrepreneurial Capability and Entrepreneurial Outcomes

Entrepreneurial capability reflects a firm's ability to identify and exploit opportunities, mobilize and deploy resources, and adapt to changing market conditions. Such capability can enable firms to translate available resources and opportunities into entrepreneurial actions and outcomes. Firms with stronger entrepreneurial capability may therefore be more likely to engage in entrepreneurial activity, pursue innovation, and maintain business sustainability over time.

From the RBV perspective, capabilities provide an important means through which firms can deploy available resources and translate them into entrepreneurial outcomes. Entrepreneurial capability may therefore support multiple dimensions of firm-level entrepreneurial performance by enabling firms to recognize opportunities, allocate resources effectively, and respond to changing conditions. Based on this reasoning, the following hypotheses are proposed:

H2: Entrepreneurial capability is positively associated with entrepreneurial activity.

H3: Entrepreneurial capability is positively associated with innovation.

H4: Entrepreneurial capability is positively associated with business sustainability.

Mediating Role of Entrepreneurial Capability

Government funding provides firms with financial resources that may support entrepreneurial development, but the translation of these resources into entrepreneurial outcomes may depend on firms' internal capabilities. Entrepreneurial capability can serve as an intermediate mechanism by enabling firms to identify opportunities, mobilize resources, and adapt to changing conditions. From this perspective, government funding may contribute to entrepreneurial outcomes indirectly through its association with entrepreneurial capability.

This mediating mechanism may be particularly relevant in emerging economies, where the effectiveness of external financial support can depend on firms' ability to develop and deploy internal capabilities. Entrepreneurial capability may therefore help explain how government funding is translated into entrepreneurial activity, innovation, and business sustainability.

Based on this theoretical reasoning, entrepreneurial capability is proposed as a mediating mechanism linking government funding to the three entrepreneurial outcomes. The following mediation hypotheses are therefore proposed:

H5: Entrepreneurial capability mediates the relationship between government funding and entrepreneurial activity.

H6: Entrepreneurial capability mediates the relationship between government funding and innovation.

H7: Entrepreneurial capability mediates the relationship between government funding and business sustainability.

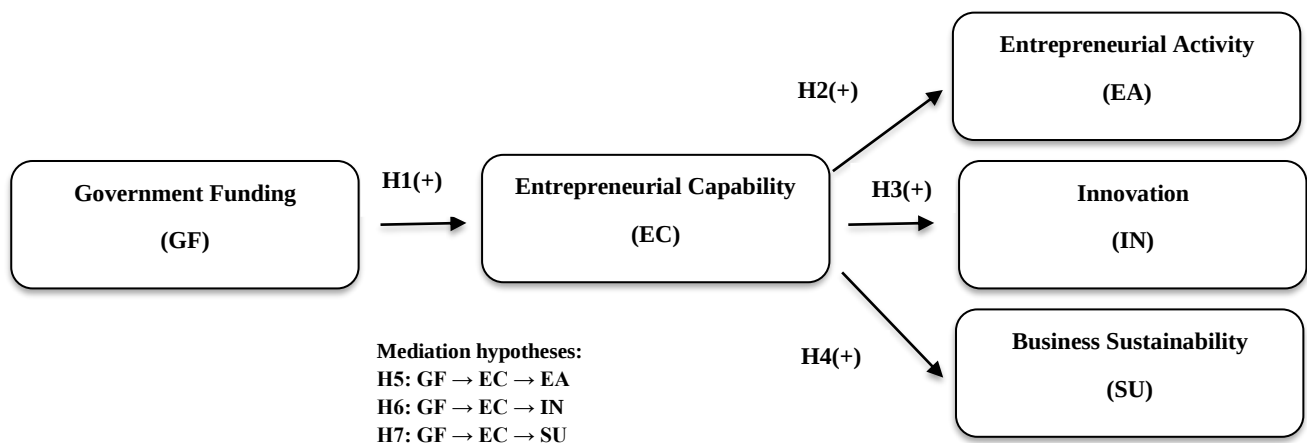


Figure 1. Proposed Research Model

Source: Author's elaboration.

Note. H1–H7 represent the proposed hypotheses. “(+)” indicates a positive relationship. GF = Government Funding; EC = Entrepreneurial Capability; EA = Entrepreneurial Activity; IN = Innovation; SU = Business Sustainability.

Figure 1 presents the proposed research model and the hypothesized relationships among government funding, entrepreneurial capability, and the three entrepreneurial outcomes.



METHODOLOGY

1 Research Design

This study adopts a quantitative, cross-sectional research design to examine the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes. This design is appropriate for empirically testing the hypothesized relationships using standardized data collected from respondents at a single point in time (Hair et al., 2018). The quantitative approach enables systematic statistical analysis of the proposed relationships among the study constructs while remaining consistent with the study's cross-sectional design and sampling approach.

2 Population and Sample

The target population consists of entrepreneurs and owners or managers of SMEs operating in Saudi Arabia. These respondents are directly involved in business decision-making and are therefore well positioned to provide information on their firms' exposure to government funding, entrepreneurial capability, and entrepreneurial outcomes.

A total of 384 valid responses were obtained, providing an adequate sample size for the statistical analyses conducted in this study and meeting established sample-size recommendations for large populations (Krejcie & Morgan, 1970). A non-probability convenience sampling technique was employed because of accessibility constraints and the absence of a comprehensive sampling frame for entrepreneurs and SMEs in Saudi Arabia. Although this sampling approach facilitated access to eligible respondents, its non-probability nature limits the extent to which the findings can be generalized to the broader population.

3 Data Collection Procedure

Data were collected through a structured questionnaire distributed electronically via online platforms and professional networks targeting entrepreneurs and owners or managers of SMEs in Saudi Arabia. Participation was voluntary, and respondents were screened to ensure that they had current or prior exposure to government funding programs, including direct financing, guaranteed financing, or participation in government-supported entrepreneurship initiatives. This screening criterion ensured that respondents had relevant experience with the government funding context examined in the study.

4 Measurement of Variables

The study constructs were operationalized using questionnaire items informed by the relevant literature and adapted to the Saudi entrepreneurial context. All items were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Government Funding was measured using items reflecting accessibility, suitability of funding conditions, and support for business growth (Beck & Demirgüç-Kunt, 2006; Lerner, 2009).

Entrepreneurial Capability was measured using items assessing respondents' perceived ability to identify and exploit business opportunities, mobilize and deploy resources effectively, and adapt to changing market conditions.



Entrepreneurial Activity was measured using items reflecting opportunity pursuit, expansion efforts, and market engagement (Aparicio et al., 2016).

Innovation was measured using items reflecting product development, technological adoption, and process improvement (Howell, 2017).

Business Sustainability was measured using items reflecting financial stability, operational continuity, and long-term growth capacity (OECD, 2019).

5 Measurement Model Assessment (Reliability, Convergent Validity, and Discriminant Validity)

Table 1 presents the results of the measurement model assessment, including reliability and validity indicators.

Table 1. Measurement Model Assessment

Construct	Cronbach's Alpha	CR	AVE
Government Funding	.88	.91	.62
Entrepreneurial Capability	.87	.90	.61
Entrepreneurial Activity	.85	.89	.60
Innovation	.83	.88	.59
Business Sustainability	.86	.90	.61

The results indicate satisfactory internal consistency across all constructs, with Cronbach's alpha values ranging from .83 to .88 and composite reliability (CR) values ranging from .88 to .91, all exceeding the recommended threshold of .70. The average variance extracted (AVE) values ranged from .59 to .62, exceeding the recommended threshold of .50 and providing evidence of adequate convergent validity.

Discriminant validity was assessed using the Fornell–Larcker criterion. As shown in Table 2, the square root of the AVE for each construct exceeded its correlations with the other constructs, providing evidence of satisfactory discriminant validity.

Table 2. Fornell–Larcker Criterion for Discriminant Validity

Construct	GF	EC	EA	IN	SU
GF	.787				
EC	.59	.781			
EA	.61	.65	.775		
IN	.58	.60	.64	.768	
SU	.55	.57	.60	.62	.781

Note. Diagonal values in bold represent the square root of AVE; off-diagonal values represent inter-construct correlations. GF = government funding; EC = entrepreneurial capability; EA = entrepreneurial activity; IN = innovation; SU = business sustainability.

6 Data Analysis

The measurement model was first assessed by examining internal consistency reliability, convergent validity, and discriminant validity using Cronbach's alpha, CR, AVE, and the Fornell–Larcker criterion.



Descriptive statistics were reported for government funding and the three entrepreneurial outcome variables, while Pearson correlation analysis was conducted among all study constructs.

Regression-based path analysis was used to test the hypothesized relationships between government funding and entrepreneurial capability and between entrepreneurial capability and the three entrepreneurial outcomes. The mediating role of entrepreneurial capability in the relationships between government funding and entrepreneurial activity, innovation, and business sustainability was subsequently examined through indirect-effect analysis.

To test the mediating effects of entrepreneurial capability, a bootstrapping procedure with 5,000 resamples was applied to estimate the indirect effects and their 95% confidence intervals, following established guidelines for mediation analysis (Hair et al., 2018; Preacher & Hayes, 2008). An indirect effect was considered statistically significant when its confidence interval did not include zero.

RESULTS

1 Sample Characteristics

To provide an overview of the study sample, Table 3 presents the demographic characteristics of the respondents, including gender, age, and years of experience.

Table 3. Sample Characteristics

Variable	Category	Frequency	Percentage
Gender	Male	240	62.5%
	Female	144	37.5%
Age	Under 30	120	31.3%
	30–40	150	39.1%
	Over 40	114	29.7%
Experience	Under 5 years	180	46.9%
	5–10 years	130	33.9%
	Over 10 years	74	19.3%

Note. Percentages may not total 100% due to rounding.

As shown in Table 3, the sample is predominantly male (62.5%), while females represent 37.5% of respondents. The age distribution is relatively balanced, with the largest proportion falling within the 30–40 age group (39.1%). In terms of experience, nearly half of the respondents (46.9%) have less than five years of experience, indicating that respondents with relatively limited entrepreneurial experience constitute the largest experience group in the sample.

2 Descriptive Statistics

Table 4 reports descriptive statistics for government funding and the three entrepreneurial outcome variables, including their means and standard deviations.



Table 4. Descriptive Statistics

Variable	Mean	SD
Government Funding	3.91	0.72
Entrepreneurial Activity	3.87	0.66
Innovation	3.74	0.69
Business Sustainability	3.79	0.67

As indicated in Table 4, all reported variables have mean values above the midpoint of the scale (3.00), indicating generally positive responses across the reported constructs. Government funding records the highest mean (3.91), followed by entrepreneurial activity (3.87), business sustainability (3.79), and innovation (3.74). The standard deviations range from 0.66 to 0.72, indicating a moderate degree of dispersion in responses across the reported variables.

3 Correlation Analysis

To examine the relationships among the study variables, Table 5 presents the Pearson correlation matrix.

Table 5. Correlation Matrix

Variable	GF	EC	EA	IN	SU
GF	1.00				
EC	.59**	1.00			
EA	.61**	.65**	1.00		
IN	.58**	.60**	.64**	1.00	
SU	.55**	.57**	.60**	.62**	1.00

Note. GF = Government Funding; EC = Entrepreneurial Capability; EA = Entrepreneurial Activity; IN = Innovation; SU = Business Sustainability.

** $p < .01$.

As shown in Table 5, all bivariate correlations among the study variables are positive and statistically significant. Government funding is positively correlated with entrepreneurial capability ($r = .59$, $p < .01$), entrepreneurial activity ($r = .61$, $p < .01$), innovation ($r = .58$, $p < .01$), and business sustainability ($r = .55$, $p < .01$). Entrepreneurial capability is also positively correlated with entrepreneurial activity ($r = .65$, $p < .01$), innovation ($r = .60$, $p < .01$), and business sustainability ($r = .57$, $p < .01$). These correlations provide preliminary evidence consistent with the hypothesized relationships, while the hypotheses are formally assessed in the subsequent regression-based analyses.

4 Hypotheses Testing

To test the proposed hypotheses, regression-based path analysis was conducted. The results are presented in Table 6. As shown in Table 6, government funding is positively and significantly associated with entrepreneurial capability ($\beta = .59$, $p < .001$), supporting H1. Entrepreneurial capability is also positively and significantly associated with entrepreneurial activity ($\beta = .62$, $p < .001$), innovation ($\beta = .57$, $p < .001$), and business sustainability ($\beta = .54$, $p < .001$), supporting H2–H4.



Table 6. Regression Results

Hypothesis	Relationship	Beta	Sig.	Decision
H1	GF → Entrepreneurial Capability	.59	p < .001	Supported
H2	EC → Entrepreneurial Activity	.62	p < .001	Supported
H3	EC → Innovation	.57	p < .001	Supported
H4	EC → Business Sustainability	.54	p < .001	Supported

Overall, the results provide support for H1–H4 and provide the basis for the subsequent examination of the indirect effects through entrepreneurial capability.

5 Mediation Analysis

To examine the mediating role of entrepreneurial capability, a bootstrapping analysis was conducted to test the indirect effects of government funding on entrepreneurial outcomes.

Table 7. Mediation Analysis (Bootstrapping Results)

Path	Indirect Effect	Lower CI	Upper CI	Decision
GF → EC → EA	.37	.28	.46	Supported
GF → EC → IN	.34	.25	.42	Supported
GF → EC → SU	.32	.23	.40	Supported

Note. Bootstrapping was based on 5,000 resamples. CI = confidence interval. All confidence intervals excluded zero, indicating statistically significant indirect effects.

As shown in Table 7, the indirect effects of government funding on all three entrepreneurial outcomes through entrepreneurial capability were statistically significant. The indirect effect of government funding through entrepreneurial capability was .37 for entrepreneurial activity (95% CI [.28, .46]), .34 for innovation (95% CI [.25, .42]), and .32 for business sustainability (95% CI [.23, .40]). Because all three confidence intervals excluded zero, H5–H7 were supported.

Overall, the significant indirect effects provide support for the proposed mediation hypotheses (H5–H7), indicating that entrepreneurial capability serves as a mediating mechanism linking government funding to entrepreneurial outcomes.

DISCUSSION

The findings of this study provide empirical evidence on the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes within the Saudi Arabian context. The results show that government funding is positively associated with entrepreneurial capability and that entrepreneurial capability, in turn, is positively associated with entrepreneurial activity, innovation, and business sustainability. The mediation analysis further indicates significant indirect associations between government funding and all three entrepreneurial outcomes through entrepreneurial capability, highlighting the importance of capability development within the broader institutional context of Saudi Vision 2030.



First, the results show that government funding is positively associated with entrepreneurial capability, which is subsequently associated with entrepreneurial activity. This finding is consistent with prior research emphasizing the importance of access to financial resources in addressing constraints faced by SMEs (Beck et al., 2005; Beck & Demirgüç-Kunt, 2006). In the present study, however, the findings extend this perspective by indicating that entrepreneurial capability represents a mechanism through which government funding is indirectly associated with entrepreneurial activity.

This finding can be interpreted through both theoretical perspectives adopted in this study. From the RBV perspective, government funding represents an externally provided financial resource that may support the development of entrepreneurial capability. From an Institutional Theory perspective, government funding operates within a broader institutional support environment that can facilitate entrepreneurial development. Taken together, these perspectives help explain why government funding is positively associated with entrepreneurial capability and why this capability, in turn, is associated with entrepreneurial activity.

Second, entrepreneurial capability was positively associated with innovation, and the mediation analysis indicated a significant indirect association between government funding and innovation through entrepreneurial capability. This finding is consistent with prior research emphasizing the importance of financial support in facilitating innovative activities by reducing financial constraints associated with uncertain and resource-intensive investments (Howell, 2017). In the Saudi context, the findings suggest that government funding may support innovation by contributing to the development of entrepreneurial capability, which may help firms to make more effective use of available resources and pursue innovative activities.

The findings also indicate that financial resources alone may not fully explain innovation outcomes. Innovation typically requires firms to combine available resources with internal capabilities that support opportunity recognition, resource deployment, and adaptation to changing conditions. The significant indirect association identified in this study is consistent with this view, suggesting that entrepreneurial capability is a mechanism linking government funding with innovation.

Third, entrepreneurial capability was positively associated with business sustainability, and the mediation analysis indicated a significant indirect association between government funding and business sustainability through entrepreneurial capability. This finding is consistent with the OECD (2019) perspective that access to finance is important for SME stability and resilience. In a transformation-oriented economy such as Saudi Arabia, the results suggest that government funding may support longer-term business sustainability by contributing to the development of entrepreneurial capability, which may help firms deploy resources effectively and adapt to changing conditions.

From a theoretical standpoint, the findings support the complementary explanatory roles of the RBV and Institutional Theory. The positive association between government funding and entrepreneurial capability is consistent with the RBV perspective that financial resources can support the development of firm-level capabilities. At the same time, Institutional Theory helps situate government funding within the broader institutional environment that supports entrepreneurial development. The significant indirect effects identified



in this study suggest that integrating these perspectives offers a useful theoretical perspective on how externally provided financial resources are associated with entrepreneurial outcomes through entrepreneurial capability. Furthermore, the Saudi context provides important insights into the role of government support within a state-led entrepreneurial ecosystem. Under Vision 2030, government funding operates alongside broader institutional initiatives aimed at supporting entrepreneurship and SME development. The findings of this study suggest that, within this context, the relationship between government funding and entrepreneurial outcomes is closely associated with the development of entrepreneurial capability, highlighting the importance of considering financial support and capability development together.

Overall, the findings contribute to the growing literature on entrepreneurial finance by showing that government funding is associated with multiple entrepreneurial outcomes through entrepreneurial capability. By examining entrepreneurial activity, innovation, and business sustainability within a single framework, the study provides a multidimensional perspective on entrepreneurial outcomes and highlights the importance of entrepreneurial capability in explaining how government funding is associated with these outcomes.

These findings highlight the value of moving beyond a purely resource-based perspective toward a more integrated understanding that combines resource availability with capability development. In particular, the findings suggest that the relationship between government funding and entrepreneurial outcomes is partly explained by entrepreneurial capability. This reinforces the theoretical value of integrating external financial resources with firm-level capabilities when examining entrepreneurial development.

In the context of Saudi Arabia's Vision 2030, these findings suggest that policymakers may strengthen entrepreneurship support by complementing government funding with capability-building initiatives, such as training, mentoring, and knowledge-transfer programs. Integrating financial support with capability development may help entrepreneurs and SMEs use available resources more effectively and potentially enhance entrepreneurial outcomes.

From a sustainability perspective, the findings indicate a significant indirect association between government funding and business sustainability through entrepreneurial capability. This suggests that capability development may play a role in linking financial support with longer-term business sustainability. The finding further highlights the value of considering capability-building initiatives alongside financial support when designing entrepreneurship policies in emerging and transformation-oriented economies.

CONTRIBUTIONS AND IMPLICATIONS

1 Theoretical Contributions

This study makes several contributions to the entrepreneurship and entrepreneurial finance literature. First, it advances existing research by examining government funding, entrepreneurial capability, and multiple entrepreneurial outcomes—entrepreneurial activity, innovation, and business sustainability—within a single integrated framework. This multidimensional approach provides a broader understanding of how government funding is associated with entrepreneurial outcomes through entrepreneurial capability.



Second, the study contributes theoretically by integrating the RBV and Institutional Theory. The RBV explains how government funding can be conceptualized as an externally provided financial resource that may contribute to the development of entrepreneurial capability, while Institutional Theory situates such funding within the broader institutional environment supporting entrepreneurial development. By combining these perspectives, the study provides an integrated theoretical perspective on how government funding is associated with entrepreneurial outcomes through firm-level capability development.

Third, the study provides empirical evidence from Saudi Arabia, a state-led transformation context under Vision 2030. By situating the analysis within this setting, the study extends the contextual scope of entrepreneurial finance research and provides evidence on the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes in an emerging economy undergoing substantial economic transformation.

2 Practical Implications

The findings of this study offer several practical implications for policymakers and stakeholders involved in entrepreneurship development. First, the results suggest that government funding programs should be evaluated not only in terms of financial disbursement but also in terms of their potential role in supporting entrepreneurial capability development and associated entrepreneurial outcomes, including entrepreneurial activity, innovation, and business sustainability.

Second, policymakers should consider the accessibility and suitability of government funding mechanisms in relation to entrepreneurs' needs. Because government funding was positively associated with entrepreneurial capability, funding programs may better support capability development when their design facilitates entrepreneurs' ability to access and use financial resources in ways that support capability development.

Third, the findings highlight the value of integrating financial support with complementary capability-building services, such as mentoring, training, and market-access initiatives. Given the mediating role of entrepreneurial capability identified in this study, combining financial resources with initiatives that strengthen firms' competencies and ability to deploy those resources may help support entrepreneurial outcomes.

Limitations and Future Research

Despite its contributions, this study has several limitations that should be acknowledged. First, the cross-sectional design limits the ability to establish causal relationships and does not capture how the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes may evolve over time. Future research could employ longitudinal or panel designs to examine how these relationships evolve over time and provide stronger evidence regarding their temporal dynamics.

Second, the study relies on self-reported data collected through a single survey, which may introduce common method bias and subjective response bias. Because the available data do not permit a definitive assessment of the extent of common method bias, this possibility cannot be ruled out. Future research could



address this limitation by incorporating objective measures, multiple data sources, temporal separation, or longitudinal designs.

Third, the study focuses exclusively on Saudi Arabia, which provides a distinctive institutional context but may limit the generalizability of the findings to countries with different economic and institutional environments. Future research could conduct comparative studies across multiple countries to examine whether the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes vary across institutional contexts.

Finally, future research could examine potential moderating variables, such as firm size, industry sector, entrepreneurial experience, and type of government funding (e.g., direct financing versus guaranteed financing). Examining these factors could provide deeper insight into the conditions under which the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes may vary.

CONCLUSION

This study examined the relationships among government funding, entrepreneurial capability, and entrepreneurial outcomes in Saudi Arabia within the context of Vision 2030. Drawing on the RBV and Institutional Theory, the study investigated entrepreneurial capability as a mediating mechanism linking government funding with entrepreneurial activity, innovation, and business sustainability.

The findings indicate that government funding is positively associated with entrepreneurial capability, while entrepreneurial capability is positively associated with entrepreneurial activity, innovation, and business sustainability. The mediation analysis further shows significant indirect associations between government funding and all three entrepreneurial outcomes through entrepreneurial capability, providing support for the proposed mediation hypotheses.

These findings highlight entrepreneurial capability as a mechanism through which government funding is associated with entrepreneurial outcomes. Rather than attributing entrepreneurial outcomes to financial support alone, the results suggest that capability development plays a role in linking government funding with entrepreneurial activity, innovation, and business sustainability.

In the context of Vision 2030, the findings suggest that government funding may be more appropriately considered as part of a broader entrepreneurial support ecosystem rather than as an isolated financial intervention. Combining financial support with capability-building initiatives, such as training, mentoring, and knowledge transfer, may strengthen entrepreneurs' ability to use available resources effectively and potentially enhance entrepreneurial outcomes.

Overall, the study contributes to the entrepreneurial finance literature by showing how government funding is associated with entrepreneurial outcomes through entrepreneurial capability within a state-led transformation context. It also provides practical insights for policymakers seeking to design entrepreneurship support strategies that integrate financial resources with capability development.



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