

Article

Does Strategic Change Enhance the Relationship between Firms' Resources and SMEs Performance in Pakistan?

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Abstract: There are approximately 3.2 million SMEs in Pakistan. It is believed that more than 90% of the economic establishments are SMEs. They contribute 40% of the economic growth and create 70% of Pakistan's overall employment opportunities. Despite substantial presence and contribution, 95% of SMEs fail within the first five years. Out of the remaining 5%, 25% of the SMEs survive up to four more years, adversely impacting economic growth, employment, and living standards. Previous studies indicated SMEs' low performance as a significant cause and provoked entrepreneurs to shut down their businesses. Therefore, this study aims to examine the performance of SMEs in Pakistan. Based on the problem, the study contextualized the research model that investigates the relationship between financial capital availability (FCA) and innovative work behavior (IWB), which is believed to be crucial for enhancing small and medium-sized businesses' performance through accelerated strategic change (SC). In addition, the moderating role of Government support (GS) on SMEs' performance was also considered. The quantitative, cross-sectional research design was considered appropriate for this research. Data was collected through a structured questionnaire to 340 SMEs in the Pakistan manufacturing sector. The hypothesized relationships were tested through structural equation modeling (SEM) using Smart-PLS 4. Results showed a positive link between FCA, IWB, and SMEs' performance. Furthermore, FCA and IWB are the key drivers to achieving an optimum level of SME performance, which translates the SC process within the SMEs in Pakistan. Additionally, this research discovered that SC partially mediates the relationship between FCA and IWB on SMEs' performance. Moreover, GS strengthens the relationship between SC and SMEs' performance. The present findings offer valuable insight to SME owners, policymakers, and first-line managers to understand the radical change in the process. The study also outlined policy interventions to uplift the diminishing SMEs' performance.

Keywords: SMEs' performance; financial capital availability; strategic change; innovative work behavior; government support



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1. Introduction

The performance gap of small and medium-sized enterprises (SMEs) is the primary cause of their high failure rate and diminishing contribution. Therefore, the poor performance of SMEs ultimately causes business owners to close their doors and discourages new businesses from entering the market [1,2]. Several studies show that Pakistani SMEs face numerous obstacles that directly or indirectly affect their performance adversely, such as a lack of entrepreneurial skills, poor adaptability to change, a lack of innovation, complex systems of borrowing, a lack of direct foreign investments, political instability, and inflation, all of which contribute to the closure of numerous companies in Pakistan [2,3]. The United Nations 2030 Agenda for Sustainable Development also emphasizes promoting

the sustainable use of natural resources to prevent depletion [4]. In addition, Competitive advantage can be achieved through sustainable business processes, which leads to a sustainable business environment [5].

Concerning SMEs, literature such as OECD [6], Rodriguez-Espindola et al. [7], and Khoja et al. [8] found that SMEs have a worldwide impact on the environment. Henceforth, it is essential to investigate those strategies that encourage SMEs to engage in efficient and less harmful operations [8,9]. It is revealed in emerging economies where small business owners have insufficient financial resources, lack innovative leadership, and are reluctant to change processes [5,10]. To successfully support their change toward sustainability, it is essential to examine their peculiarities and environment [9]. Moreover, sustainability might contribute to their market competitiveness [11]. Despite SMEs' undeniable importance and contribution to the world's economies, the failure rate of SMEs remains the prominent bone of contention among entrepreneurs, tycoons, and state policymakers [12–14].

The World Bank [15] has indicated the massive contribution of SMEs to world economies which is 90 percent and generates 60 percent of employment. However, SMEs struggle to survive in the competitive environment for the long term to gain a competitive edge and benefits at large [16–18]. SMEs' failure is considered severe distress for emerging and developed economies [19]. In Pakistan, 3.3 million SMEs comprise approximately 99 percent of total enterprises and generate 99 percent of the country's employment, with 90 percent from the industrial sector and 78 percent from the non-agriculture labor force [20,21]. Moreover, SMEs contribute to 40 percent to the GDP and 30 percent to export shares and have proved to be a lifeline in worse economic situations [22–24]. However, the contribution of SMEs to the Pakistani economy is relatively less in comparison to a neighboring country like China, which contributes to 64 percent of national income, versus only 40 percent for Pakistan's SMEs [20,25]. Pakistan and China had almost the exact same percentages of SMEs, but there is a massive difference in the contribution of SMEs to GDP and the social sector. In this context, there is a dire need to investigate the low-performance phenomena in Pakistan's SMEs, as there is an enormous gap in the contribution to GDP among both countries [26,27].

The low performance of SMEs is considered a significant cause of the high failure rate and diminishing contribution of SMEs in Pakistan. Thus, the low performance of SMEs ultimately provokes entrepreneurs to shut down their businesses and discourage newcomers from entering the market [1]. The struggling state of the SME sector is also reflected in Pakistan's business environment. For example, the World Bank [15] report on ease of doing business ranking as well as the World Economic Forum [19] global competitive index, where Pakistan ranks 108 among 190 and 110 among 141 countries, respectively. These indicators show that Pakistan, as an emerging economy, faces the dilemma of unfavorable business environments that lead to lower success rates for SMEs [24,28,29]. Keeping the massive influence of SMEs on prosperity and the overall growth in the economy of the country, previous researchers underlined the importance of SMEs, but there is less consideration in studying the factors influencing SMEs' performance [18,30,31]. Thus, continuously diminishing performance of SMEs, sudden shutdowns, and weakening growth rates [32] show an alarming situation which triggered scholars to conduct more research to explore the primary reasons which may create the hindrance to gaining the optimum level of performance.

In this context, many researchers have studied various issues that could be the causes of SMEs' failure [33,34]. However, research did not precisely outline the specific reasons due to different internal and external factors influenced by different settings and geographical conditions. Thus, the notion becomes complex to understand. In contemporary research on SMEs' performance, innovation seems to be the most crucial component in business for accelerating the optimum level of performance [31,35]. The research shows that large organizations are investing more in innovation training and adaptability of technology, leading to higher yield and better working conditions than SMEs [1]. According to Raza et al. [2], this productivity gap results in a low-income generation, informality, and

poor SME growth performance. To fill this void, researchers must identify the problems and challenges faced by SMEs from both the employer's and employee's perspectives. Therefore, SMEs emphasize IWB in the owners and frontline managers who proactively and efficiently manage limited resources to ensure their long-term survival [36].

In relation to innovation, little access to credit availability impedes innovation and lack of awareness regarding the SC in the existing setups [37,38] which ultimately adversely influences performance. Very few studies focus on SC, particularly as a mediator and GS as a moderator, which intervenes and interacts between the SC and SMEs' performance. To address this gap, this study examines how FCA and IWB influence the performance of SMEs through the mediating and moderating role of SC and GS, respectively. Figure 1 presents the conceptual framework and addresses the following research questions:

1. Do financial capital availability and innovative work behavior impact strategic change and SMEs' Performance?
2. To what extent is the financial capital availability and innovative work behavior—performance relationship mediated by strategic change?
3. Does government support strengthens the relationship between strategic change and SME performance?

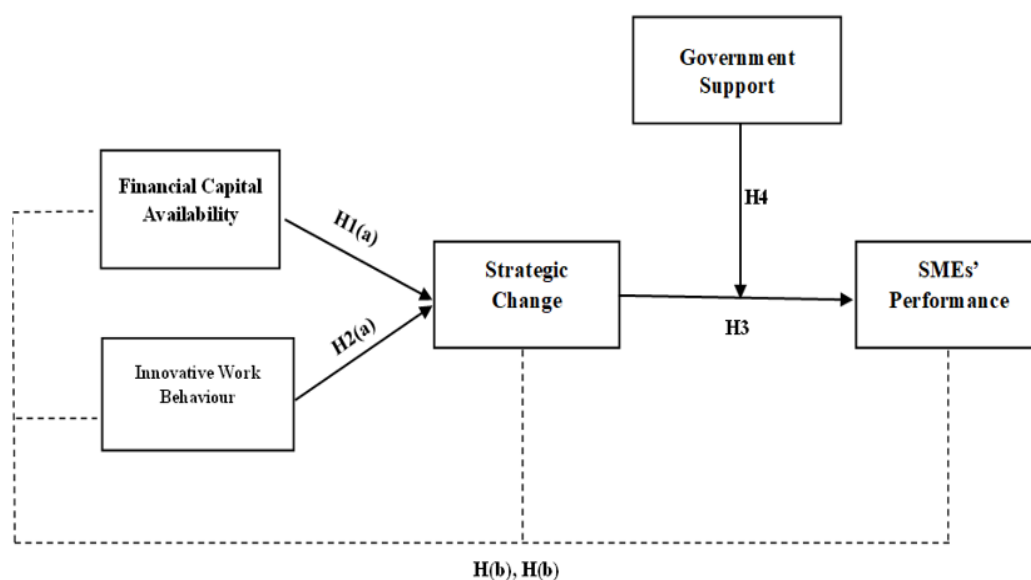


Figure 1. Conceptual Framework.

The present study contributes distinctly. First, it contributes the body of knowledge in the existing literature on FCA, IWB, SC, GS, and SMEs' performance. As a result, it's an essential inquiry since SC has been highlighted as a critical factor in SMEs' success [3,39,40]. Second, it explores the influence of IWB on the performance of SMEs; to the best knowledge of the researcher, this is a rare find to investigate a relationship between IWB with SME performance. Lastly, the theory of Resource-based view (RBV) asserts that business requires the competencies, resources, and technology to adopt a new creative strategy that is tricky for competitors to imitate and enables SMEs to have sustainable competitive advantages and enhance their performance [41–43]. To undertake this research the first section of this research article examines the appropriate literature on SMEs' performance. It shows the evidence that SC and GS support have superior value in describing the intervening and interacting role among variables. The second section thoroughly discusses the methodology and data collection approaches. Finally, this study delineates the SMEs' performance with the relationship between SC and GS.

2. Literature Review

2.1. Theoretical Background

The current study adds new insights to the body of knowledge by introducing distinct and inimitable resources FCA and IWB and their relationship to SME performance with the mediating effect of SC and buffering effects of GS with the help of a conceptual framework (Figure 1). Sustainable performance with the disclosure of innovation, dynamic change, and strategic development practices are essential to reach the optimum level of growth in SMEs [25,44]. In previous studies, SC was recurrently examined as a predictor to investigate firm performance [45–47]. Hence, based on RBV, this study evaluated how SC can reinforce the relationship between firm resources FCA and IWB and organizational competitive advantage. In this way, RBV provides the foundation of this research model in the framework of firm resources. SC and GS are deemed internal and external organizational capabilities to show positive performance and survival for the long term. For understanding the theoretical context, Table 1 shows the most recent studies pertaining to the present study variables.

Table 1. Recent Studies on Investigated Variables.

	Variables (Hypothesis)	Article Name	Authors Name
1.	Financial Capital Availability	Benefiting from economic crisis? Strategic orientation effects, trade-offs, and configurations with resource availability on SME performance.	Beliaeva et al. [48]
2.	Innovative Work Behavior	Employability and innovative work behavior in small and medium-sized enterprises.	Stoffers et al. [49]
3.	Strategic Change	Do new ventures benefit from strategic change or persistence? A behavioral perspective.	Batra [50]
4.	Government Support	Impact of network structure on sustainable competitive performance among Pakistani small and medium enterprises: does government financial support matter?	Khan et al. [51]
5.	SMEs' Performance	Entrepreneurial orientation, entrepreneurial competencies, innovation, and performances in SMEs of Pakistan: Moderating role of social ties.	Aftab, Veneziani, Sarwar and IshaqAftab, Veneziani [3]

2.2. Hypothesis Development

2.2.1. Financial Capital Availability and Strategic Change and SMEs' Performance

FCA refers to the firm's most pivotal and flexible resource, which can be gratifying in times of crisis. Finance reflects a liquid current asset, which can be easily modified into other forms of resources and guards against resource constraints in critical operational areas. Wiklund and Shepherd [52] stated that financial capital could, to an extent, accelerate business operations along with strong support to expand the business's operations. Memon, Yong An and Memon [44] have argued that SMEs still believe in informal sources to arrange the finance for business operations because commercial banks have high-security concerns for long-term loans and require time-taking procedures. These prerequisites discourage SME owners from borrowing money from the bank. The second most crucial discouraging factor is the interest rate which restricts the business owner from opting for financing from commercial banks and financial institutions [53,54]. Therefore, SMEs have just confined the overdraft facilities, short-term financing, and letters of credit. Many researchers have found that limited access to financial resources is the primary constraint for SMEs growth and may become the reason for failure [2,44,55].

Similarly, Mishra and Yadav [56] observed that products have a short life span to survive in the competitive market in the current business environment. Consequently, SMEs are not solely relying on the future profits of existing operations, and business needs to search for new opportunities continuously for long-term survival. Therefore, SMEs may utilize the SC in the firm to get a competitive edge over competitors. Zhang [57] explained the SC as an overall change in the firm based on a 360-degree level, which includes resource allocation in multiple key strategic aspects that cover all the business unit's central areas. SC

is predominant because it entitles footing in their advantages to achieve firm performance. SC instigates new innovative ideas which have the desired results to reach SMEs' optimum level of performance [39].

Moreover, the strategy can be found as an action plan to achieve the firm's goals [58]. SMEs are more financially constrained than large firms because they are opaque [59]. Therefore, having access to financial resources facilitates the pursuit of strategic goals in times of economic crisis, and firms with adequate financial capital may be able to strengthen their strategic orientations [48].

Some empirical studies identified that financial capital could easily acquire tangible and intangible assets to exploit new opportunities in the firm. It ultimately leads toward an SC, such as product line extension and new cost-effective methods, which provide the desirable outcome from the innovative strategies [60,61]. A scarcity of research can be observed in examining the relationship between FCA and SC in the context of SMEs. Therefore, the absence of research encourages scholars to investigate the relationship further. Thus, this study hypothesizes that FCA has a positive influence on SC.

Scholars have analyzed the effect of resource flexibility on performance, such as financial and innovation performance. Performance can be achieved when firms exploit new opportunities such as corporate diversification, product innovation, or enter new international markets, which are the specified dimensions of SC [17,62,63].

A significant conclusion is that resource flexibility increases performance. For example, resource flexibility has been argued to enhance the firm's ability to transform resources effortlessly, respond quickly to the changing environment, and exploit the change in the firm [64]. Indeed, when resource flexibility and access to finances are improved, firms will be more able to adopt the change in production methods, marketing strategies, and innovation to promote a unique set of capabilities [65,66]. Therefore, firms can enhance their performance with the increase in SC. Hence, this study suggests the following hypothesis.

Hypothesis 1a (H1a). *Financial capital availability positively raises strategic change.*

Hypothesis 1b (H1b). *Strategic change mediates the relationship between financial capital availability and SMEs' performance.*

2.2.2. Innovative Work Behavior and Strategic Change and SMEs' Performance

IWB can be defined as an individual act (within a work role, group, and organization) that aims to explore new innovative ideas, procedures, and production methods [67,68]. Janssen [69] delineated IWB as "initiatives and application of new ideas within a work role, with peers and colleagues in the organization, to benefit role performance, the group, or the organization" (p. 288). IWB has a broader definition that can be used to create, promote, and implement new ideas that benefit the firm's overall performance. Innovation deals with all employees of the firm rather than with the ones who are confined to innovative or innovation-oriented positions. Moreover, Fayolle and Basso [70] revealed that innovation has a significant role in SMEs to accelerate the core skills and transform these into optimum levels of performance outcomes.

As there is a non-availability of literature regarding IWB and SC relationships in the SME sector of Pakistan, this study investigates the relationship between IWB and SC in SMEs. In the literature, researchers have extensively investigated that innovative products positively correlate with strategic change. Ultimately it influences the SMEs' capabilities to survive in the dynamic market, which enhances the overall SMEs' performance and survival in the long term [71–73]. Shanker, Bhanugopan, van der Heijden and Farrell [72] discuss that creative and innovative behavior toward work supported this belief in their research and asserted that cognitive and creative behavior is endorsed when personality traits are combined with work settings, leading contributors to boost the firm to renew their strategy policies. An empirical study has found that IWB attempts to promote strategic renewal after seeking the crises in the local market of emerging countries [74].

Furthermore, innovation directly or indirectly influences small firms' values [45,75] via strategic changes in the operation level of SMEs. In the same way, ref. [72] argued that IWB among owners and managers of the firm is critical for improved firm performance. Rothwell, Hohne and King [40] identify that focus on SC will effortlessly achieve the firm's targets and goals, indicating that necessity translates to a greater need for continuous innovation of products and internal processes and behaviors. The RBV theory also asserts that businesses require talent, funds, and technology to develop a new innovative strategy that will be impossible for competitors to imitate and that empowers SMEs to obtain superior performance and long-term competitive advantages [41–43,76]. Therefore, the direct hypothesis proposed between IWB and SC. Besides, the relationship between IWB, SC, and SMEs' performance is still largely unexplored; subsequently, the mediating role of SC between IWB and SMEs' performance can be studied.

Hypothesis 2a (H2a). *Innovative work behavior positively raises strategic change.*

Hypothesis 2b (H2b). *Strategic change mediates the relationship between innovative work behavior and SMEs' performance.*

2.2.3. Strategic Change and SMEs Performance

Zhang [57] stated that strategic change systematically leads to firms' performance. Few past empirical studies argued that strategic change could be processed if the firm has financial resources [77,78]. Instead, Haveman [79] focused that strategic change can be a solid reason for the firm's long-term survival. Similarly, Hambrick and Schecter [80] revealed that the changes in the firms and enhanced financial performance were contingent on the type of change and the industrial environment. Consequently, changes are a compulsory requirement for SMEs to stay long-term in the competitive environment, such as the availability of new technology [81] the emergence of new innovative ideas [39], and the introduction of new methods of production [82].

In the literature mentioned above, SC may be necessary to enhance business performance when technology-based new ventures grow their international presence. Precisely what those SC should be will inevitably depend on unique firm technologies, markets entered, and current strategies [83]. In strategic management, conceptual literature assumes that environmental changes lead SMEs to change their overall strategy. Similarly, SMEs' performance is denoted by the success and increase in the firm performance. Moreover, SMEs' performance has different parameters to quantify the SMEs' survival and growth. Arshad and Arshad [31] stated, "The value creation of the firm in terms of sales, revenue, employee growth comparison with last three-year performance and expectation of the owner after putting his all efforts to achieve an optimum level of performance". Hence, we argue that through mediation, strategic change directly affects SMEs' performance and indirectly influences FCA, IWB, and SMEs' performance. Therefore, this study can be hypothesized that:

Hypothesis 3 (H3). *Strategic change positively raises SMEs' performance.*

2.2.4. Moderating the Role of Government Support between Strategic Change and SMEs' Performance

The study anticipated that GS could be considered a robust phenomenon that helps SMEs exploit SC to enhance the firm's performance. SMEs should be trained and supported by SMEDA (Small Medium Enterprise Development Authority) and the Chamber of Commerce, working under the umbrella of government [21]. Literature has focused on the various types of government schemes which can be taken as an external factor in providing sufficient training to entrepreneurs regarding technology and infrastructure, which is essential to grasp innovation to meet future expectations [84]. Cerulli and Poti [85] described a positive relationship between GS schemes and business performance by conducting empirical research on Asian countries.

Literature also supports that SMEs are self-driven. They bear risks due to less access to finance, dependency on their savings, and fewer clients. Due to fewer records of financial statements, banks are reluctant to give loans without collateral. The interest rates of financial institutions are too high to be paid by any small- and medium-sized firm. However, governments support SMEs with financial incentives and assistance to cultivate strategic change to increase performance of the SMEs. Furthermore, SMEs using updated technology as demanded by the public can get a competitive edge in the fiercely competitive environment. Successful government intervention is tricky to make effective at realistic costs–benefit ratios [86]. Thus, it is impossible to suggest that any type of GS is better than any other type of GS for SMEs.

The statement above points out the positive moderating effect of GS on the relationship between the practice of SC and SMEs' performance. Therefore, the ability of GS to moderate the relationship between SC and SMEs' performance can be predicted.

Hypothesis 4 (H4). *Government support strengthens the relationship between strategic change and SMEs' performance among Pakistani manufacturing firms.*

3. Methods and Materials

3.1. Sample and Data Collection Process

A quantitative cross-sectional research design was deemed appropriate for this study [87]. The population consists of Pakistan's manufacturing SMEs. This sector was chosen due to its significant contribution to the GDP of a country, employment creation, and poverty alleviation. Due to the absence of a sampling frame, the study relied on purposive sampling. Purposive sampling was considered appropriate for the present study due to adequate alignment with research objectives. It also enhances the findings validity and rigorously [88]. In a recent study on Pakistani SMEs, i.e., He [89] also found purposive sampling as a suitable technique to deliver authenticity in the data results. The SMEs were chosen on inclusive criteria [90]. The study's inclusion criteria are: participants should have ownership or frontline managers of the SMEs who currently own or have been working in SMEs for at least three years. As this study also investigates the SC, the sample was selected to consider Kirtley and Mahony's analysis [39]. They stated that small firms usually take six to twelve months to exploit change within the firm. Henceforth, data was gathered from the owner and respective business managers directly involved in the strategic actions using a structured questionnaires [91].

Moreover, the current research adopts a survey technique to collect the data from two provinces of Pakistan, i.e., Punjab and Sindh- also known as the most densely populated manufacturing-based SMEs [20]. Punjab has approximately 399,152 (68.4%) and Sindh has 80,804 (13.9%) together represent 82.3% of all SMEs in Pakistan [92]. To access these SMEs, SMEDA Pakistan was contacted. SMEDA has documented various SMEs and characterized their facilities [21]. Official permission was obtained from SMEDA Pakistan before the data collection process started. Once permission was granted, researchers with SMEDA's officials assistance collected data. They also used their personal contacts to access the SMEs (see Figure 2 for data collection process).

Table 2 shows the complete data collection process which formally starts with the obtaining permission of SMEDA. Once the official permission granted the rest of the process was intensively carried out. The data was collected from seven different cities Faisalabad, Gujrat, Sialkot, Gujranwala, Sukkur, Khairpur and Hyderabad. Written consent was also obtained from SMEs to ensure confidentiality and satisfy ethical perspectives for research. A total of 465 structured questionnaires were distributed, and among them, 340 were found usable and included to conclude the results.

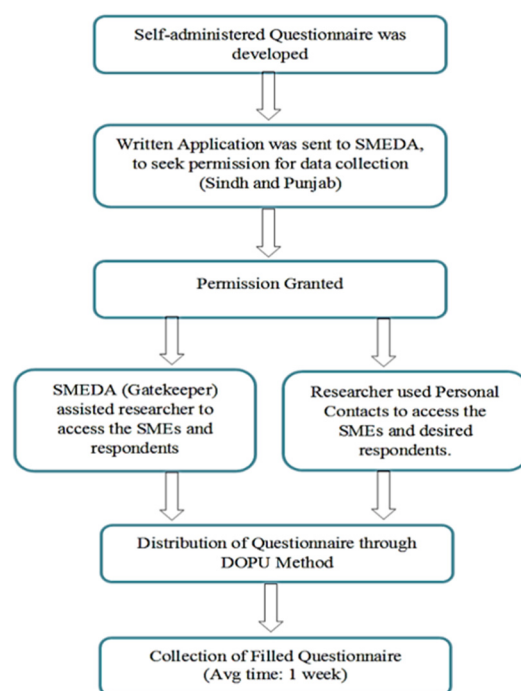


Figure 2. Data Collection Process.

Table 2. Profile of the firms.

Description	Frequency	Percentage
Name of industry		
Textile	104	30.6
Sports	101	29.7
Pharmaceuticals	85	25.0
Leather and Cotton	30	8.80
Marbles & Ceramics	20	5.9
Educational background		
Intermediate and less	95	28.0
Bachelor	139	40.9
Master	106	31.1
Firms size		
20–50 employees	159	46.8
51–100 employees	95	28.0
101–150 employees	45	13.2
151–200 employee	31	9.11
201–250 employees	10	3.0
Firms age		
Ten years and less	178	52.35
11–20 years	90	26.5
21–30 years	35	10.3
31–40 years	20	5.9
41 and above	16	4.7
Total (n)	340	100

3.2. Participants Information

The sample shows 104 (30.6 percent) SMEs fall in the textile sector, and almost 29.7 percent are from the sports sector. Next, 25 percent, 8.80 percent, and 5.9 percent of SMEs were from pharmaceuticals, leather/cotton, and Marble & Ceramics. Likewise, the participants' profile shows that 31.1 percent hold a master's degree while the majority (40.9 percent) possess a bachelor's degree. Concerning SMEs size in terms of employees, 46.8 percent of SMEs had 20–50 employees, 28 percent had 51–100 employees, 13.2 percent had 101–150 employees, and the remaining 9.1 percent and 3 percent of participating SMEs had 151–200 and 201–250 employees, respectively (see Table 2).

3.3. Measurement Instruments of the Study

A survey instrument was employed for data collection. The participants were asked to rate a series of items on a 7-point Likert scale ranging from 1 = “strongly disagree” to 7 = “strongly agree”. All the scale items in this study were adapted from previous research. Four items from Wiklund and Shepherd [52] were chosen to assess FCA. Scott and Bruce's [67] seven items scale was used to evaluate IWB. SC was assessed using 13 items proposed by Zhang [57]. Ahmad [93] assessed GS using a five-item scale, while Wiklund and Shepherd [94] five-item scale was used to evaluate the performance of SMEs (see Appendix A for survey items).

3.4. Data Analytical Tool and Common Method Bias

3.4.1. Data Analytical Tool

The data were analyzed using the path modeling approach of partial least square structural equation modeling (PLS-SEM) with SmartPLS 4.0 software Becker et al. [95] to anticipate the associations between variables. The extensive use of the PLS-SEM technique in social and management science makes it a holistic approach to variance-based SEM [96,97]. It permits the assessment of unobservable variables using indicators and does not need normalcy [95]. In addition, a larger sample size is not required to run the program. PLS-SEM is preferable to regression analysis when a mediation and moderation test are required, as in the present study [98,99].

3.4.2. Common Method Bias

To ensure the absence of common method bias (CMB) in the data, the variance inflation factor (VIF) test is recommended [97]. Using Smart-PLS 4.0, the VIF values for this study were determined to be between 1.166 to 1.771, below the acceptable criterion of 3 (See Table 2) [100–102]. In addition, the study followed Henseler [103] who indicated that CMB is possible “if the correlation between the constructs is more than 0.90”. However, none of the constructions had a value greater than 0.90 (the permissible level). In addition, following Henseler et al. [104], we used the HTMT to check for non-response bias. The results indicated no significant difference between early and late participants, confirming the lack of non-response bias in the data.

4. Result Analysis

Given the exploratory nature of the study, SPSS 25 was employed to assess the SMEs' profiles, and Smart-PLS version 4.0 was used to test the model's hypotheses. The questionnaire's validity was assessed using the measurement model in the first stage, and the validity of the hypotheses was tested using the structural model.

4.1. Assessment of Measurement Model

Convergent and discriminant validity are the two most important steps in analyzing the study's measurement. According to past conducted studies, all the constructs belong to reflective-reflective. Beginning with factor loading, Composite Reliability (CR) and Average Variance Extracts (AVE) are measured through convergent reliability. The factor loadings in this study must meet a minimum threshold of 0.5, as proposed by Hair et al. [105],

Kock et al. [106], Fan et al. [107] and the AVE threshold value should be 0.5. The AVE of constructs ranges from 0.81 for SMEs' performance usage to 0.52 for SC. Table 3 showed that the CR for the measurement model's constructs was greater than the threshold value of 0.700 [106]. Thus, the findings in Table 3 demonstrate that the measurement model has sufficient convergent validity. The Heterotrait-Monotrait (HTMT) ratio of correlations and VIF can be used to examine the confirmation of discriminant validity [99]. In addition, HTMT ratio analysis has also been tested in the systematic examination of its ability to assess discriminant validity [96,99].

Table 3. Measurement Model.

Latent Variables	Items	Loadings	CR	AVE	Inner VIF
Financial Capital Availability (FCA)			0.938	0.792	1.166
	FCA1	0.882			
	FCA2	0.896			
	FCA3	0.899			
	FCA4	0.883			
Innovative Work Behavior (IWB)			0.935	0.674	1.160
	IWB1	0.792			
	IWB2	0.820			
	IWB3	0.856			
	IWB4	0.834			
	IWB5	0.780			
	IWB6	0.842			
	IWB7	0.819			
Strategic Change (SC)			0.935	0.526	1.52
	SC1	0.623			
	SC10	0.804			
	SC11	0.804			
	SC12	0.732			
	SC13	0.776			
	SC2	0.700			
	SC3	0.714			
	SC4	0.730			
	SC5	0.515			
	SC6	0.674			
	SC7	0.709			
	SC8	0.762			
	SC9	0.782			
Government Support (GS)			0.937	0.747	1.771
	GS1	0.889			
	GS2	0.881			
	GS3	0.887			
	GS4	0.873			
	GS5	0.787			

Table 3. Cont.

Latent Variables	Items	Loadings	CR	AVE	Inner VIF
SMEs Performance (P)			0.955	0.81	
	P1	0.889			
	P2	0.900			
	P3	0.920			
	P4	0.910			
	P5	0.881			

Table 4 shows that the inter-construct correlation was less than any of the HTMT criterion standards in terms of specificity HTMT 0.85, HTMT 0.90, or HTMT inference. Based on the traditional discriminant analysis and more comprehensive discriminant analyses, it is claimed that the discriminant validity is well established. Convergent and discriminant validity are the most critical steps in assessing the measurement model of the study.

Table 4. Heterotrait–Monotrait ratio of correlations (HTMT).

Variables	1	2	3	4	5
1. Financial Capital Availability	—				
2. Government Support	0.627	—			
3. Innovative Work Behavior	0.416	0.472	—		
4. SMEs Performance	0.411	0.417	0.328	—	
5. Strategic Chang	0.514	0.546	0.514	0.676	—

4.2. Assessment of Structural Model

The present study supported hypotheses with a 1.96 t-value. All hypotheses with a value below 1.96 were deemed to be unsupported. FCA ($\beta = 0.340$, $t = 4.657$, $p = 0.000$) and IWB ($\beta = 0.354$, $t = 4.612$, $p = 0.000$) are positively associated with SC based on the relevance of the proposed path in the current investigation (Figure 3)

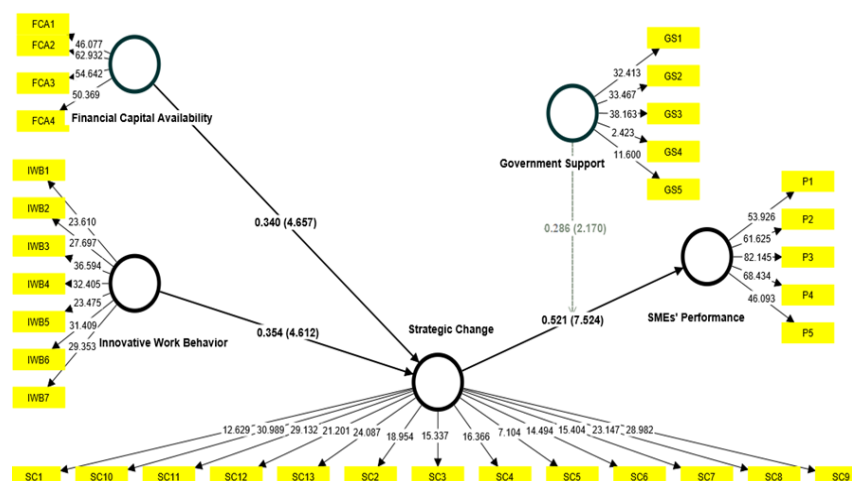


Figure 3. Representation of Structural Model.

Consequently, H1a and H2a are supported. Similarly, SC is statistically related to SME performance ($\beta = 0.521$, $t = 7.524$, $p < 0.000$). Thus, H1b and H2b is also supported. In terms of mediation analysis, it is also hypothesized that SC can mediate the positive relationship between FCA and SME performance ($\beta = 0.201$, $t = 4.277$, $p < 0.05$). Similarly, the same

result was found in the relationship between IWB and SME performance via the mediating effect of SC ($\beta = 0.208$, $t = 4.07$, $p < 0.05$) (see Table 5). Thus, both Hypotheses 3 and 4 indicate that SC has a favorable impact on the internal resources of SMEs.

Table 5. Structural model results.

Hypotheses	Relationship	β	t-Value	p-Value	Results
Direct effect					
H1a	FCA \rightarrow SC	0.340	4.657	0.000	Supported
H2a	IWB \rightarrow SC	0.354	4.612	0.000	Supported
H3	SC \rightarrow Perf	0.521	7.524	0.000	Supported
Indirect effect					
H1b	IWB \rightarrow SC \rightarrow Perf	0.208	4.07	0.000	Supported
H2b	FCA \rightarrow SC \rightarrow Perf	0.201	4.277	0.000	Supported
Moderation effect					
H4	SC \times S \rightarrow Perf	0.286	2.170	0.021	Supported

Considering the measurement of the indirect effect of SC and SMEs' performance, the variance accounted for (VAF) method is being used [105].

$$\text{VAF} = \text{Indirect effect} / \text{Total effect}$$

where, total effect = indirect effect + direct effect. According to Hair et al., (2016) mediation effect can be determined through VAF values of no mediation < 20%, partial mediation 20–80%, and full mediation > 80%, respectively. The results of this study show an indirect effect of SC and SMEs performance of 69.8% and 44.4%, respectively, that falls between 20% and 80%, thus regarded as partial mediation. Intriguingly, the moderation result was also found to be significant in the present study; GS positively moderates the relationship between strategic change and SME performance ($\beta = 0.286$, $t = 2.170$, $p < 0.05$), such that a higher GS indicates a stronger positive relationship between SC and SME performance in manufacturing firms (see Figure 4). The moderation hypothesis H4 is therefore supported.

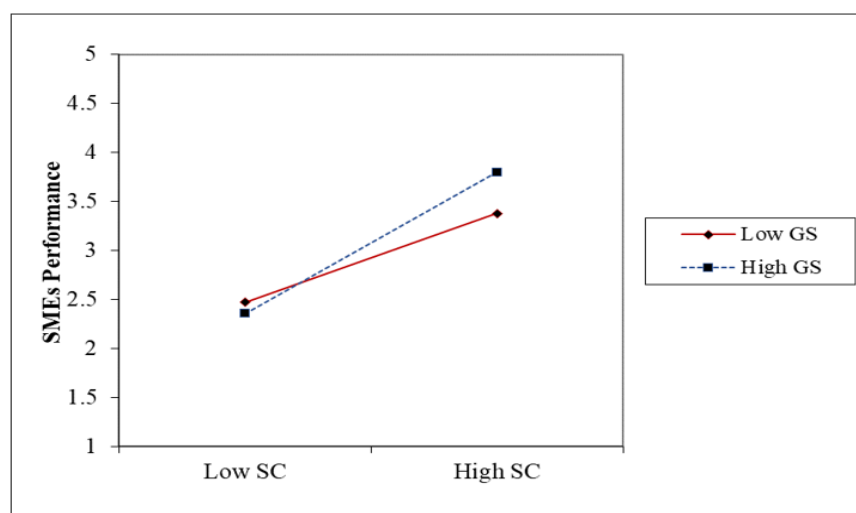


Figure 4. Interaction plot.

5. Discussion

The results show that the FCA and IWB significantly influence the SC within SMEs. These findings are consistent with previous studies by Agarwal et al. [108], Beliaeva, Shirokova, Wales and Gafforova [48], and Camuffo et al. [109]. These studies indicate that the sufficient availability of finance for firms with innovative behavior promotes the

strategic change process and practice among manufacturing-based SMEs. In this way, FCA needs to be merged with the ideal SC that uplifts business development, and SMEs can attain the strategic objectives by enhancing the SMEs' overall performance. Similarly, IWB in the work systems acts as a catalyst to achieve desired performance.

The present study also found strong evidence that SC positively and significantly influences SMEs' performance. In addition, the results show that SC can mediate a positive relationship between FCA and SMEs' performance. Likewise, SC also mediates the positive relationship between IWB and SMEs' performance. Consequently, the proposed research model in this study indicates that SC plays a crucial role in translating the effects on the performance of SMEs. Thus, it is essential to instigate and enhance the process of SC of SMEs, which can be possible with adequate financial capital alongside the integration of various forms of IWB [42,110]. In regard to innovation, the competitive business environment needs more innovation to sustain itself long-term. SMEs need to adopt innovative operational practices that produce innovative products. In turn, the performance of SMEs will improve, and SMEs may survive and sustain in the competitive market for the long term [3,17,25].

In this context, the variable GS significantly modifies the relationship between SC and SMEs' performance. This means the SMEs with GS in their business have a significant positive impact between SC and the performance of SMEs. The findings are also consistent with the study of Ahmad [93] who revealed that government assistance to SMEs allows a firm to contribute more to national economies. In addition, the GS may facilitate SMEs' easy access to finance, which is necessary for new valuable start-ups, innovation, and expansion to sustain their business performance [27,34,111].

5.1. Theoretical Implications

The present study undertakes RBV as an underpinning theory. It points out 'firm resources' as a significant driver to gaining a competitive advantage that leads to increased performance and sustainability in the business environment [112,113]. In addition, RBV focuses on the firm's distinctive competencies, especially the unique resources considered crucial for growth [55,56]. This study focused on FCA and IWB intangible capabilities. FCA is regarded as an ability that accelerates the new idea-generation process among owners and frontline managers toward updating technology and markets [31]. Similarly, the concept of IWB in the RBV postulates that firms can exploit their resources through their ability to innovate their business operations and also explore other innovative ways to compete in the industry [17]. Moreover, the role of an entrepreneur is equally vital in timely decision-making, particularly in the change process within the firms [39,114].

Pertaining to the theoretical contributions, we provide essential evidence on SMEs' performance. Extensively focusing on exploring factors leading to increased business performance in SMEs with support to results from previous studies [3,94,115]. Interestingly, previous studies have mainly focused on the FCA and IWB on SC. However, the mediating effect of SC on SMEs' performance is still being explored. Undoubtedly, SC has a significant favorable influence on the final version. Therefore, the present study's findings confirmed that active SC creates an ability for firms to sustain their business. In addition, SC can be established as a mediator between the FCA, IWB, and SMEs' performance.

5.2. Practical Implications

The current research drew several implications for the practitioners as each construct in the research model plays its role and suggests implications. As discussed earlier, FCA and IWB had a positive and significant relationship with the performance of SMEs with a mediating effect of SC. In this context, practitioners may develop an innovative workplace where innovative ideas proposed by SME owners and managers may resolve the daily task issues and advance the business's performance.

Similarly, this research draws attention to financial institutions to provide and facilitate SMEs in terms of capital. This facility allows them to identify and tap new business

opportunities without hindrance. In this context, GS to SMEs in financial and technological departments can be a “game-changer”. For example, different financial short- or long-term loans are provided at minimum markup. Additionally, the government may provide adequate training on attaining financial capital, innovation, and an emphasis on the entrepreneurial mindset needed to compete in the market. These activities enable owners to take bold initiatives for strategic change. In addition, a series of systematic programs can be added to educate SMEs. For instance, SME development schemes and skills upgrading programs uplift Pakistan’s overall SME sector.

Lastly, IWB can be seen in practice when a system processes relevant business data. In this process, competitive and distinct information insights must be utilized to ensure overall business objectives. The dissemination of such unique information initiates the change and bridges the structural gaps in the SC to increase the SMEs’ performance. Similarly, the firms in Pakistan need to focus on innovation creation, delivering to customer needs, and value proposition, as the findings of this study showed a significant relationship between SC and firm performance. Firms must fulfill the expressed and latent needs by changing their business philosophy towards more customer orientation. Without fulfilling the customers’ needs, SMEs have no way of exploring and taking opportunities to create and deliver value to customers.

5.3. Limitations and Future Avenues of Research

There are inevitable limitations in research. However, significant attempts were made to mitigate the effects of these limitations on the results. First, the scope of this study was confined to Pakistani SME manufacturers. This may impede the applicability of the findings to other sectors. In addition, the research examines the SME population in selected cities of Pakistan’s two most populous provinces, Punjab and Sindh, due to their high density of SME establishments. This study was also limited to the experimental investigation of SME performance by self-administered questionnaires. In addition, the scope of this study is restricted to understanding the testing and development of FCA and IWB on the performance of SMEs via the mediating influence of SC. Second, this quantitative study is based on deductive methods that evaluate the link between factors to predict the outcome (DV). However, the purpose of this study is not to investigate the fundamental causes and impacts of SME performance. Despite its limitations, this study may be expanded in several ways to analyze SME performance in more depth. A future study might explore services and tertiary SMEs in Pakistan with a greater focus on cities. To analyze the deteriorating performance of Pakistan’s SMEs, comparisons might also be made across industries. Through interviews, qualitative research might also be conducted to examine SME performance and SC. More predictors should be added to the conceptual framework to understand SMEs’ performance through the SC as a mediator. Additionally, cultural influences might be incorporated into the conceptual framework of this study. This study was done within Pakistan, a collectivist country with a strong culture of uncertainty avoidance, i.e., risk aversion.

6. Conclusions

This study examines the effect of internal resources on the performance of Pakistani SME manufacturers. In emerging markets, business owners and managers can employ internal resources to turn into the business’s strength. While examining theoretical contributions raises several issues for manufacturing entrepreneurs and policymakers, it does so in several ways. Entrepreneurs in the manufacturing sector. This research has added an element to the puzzle. It is believed that such improvements and developments in knowledge will inspire other researchers to investigate and practitioners to establish and sustain comprehensive SC processes for improved SME performance. This study will contribute to the body of quantitative research on SC and SME performance and enhance our understanding of the links between the FCA, IWB, and SME performance. Thus, this study encourages additional research on SC in general and Pakistan’s SME service industry.

Internal resources and SC were utilized to investigate the presented hypothesis considering RBV theory. Interestingly, all supported hypotheses directly influence the performance of SMEs.

In contrast, GS enhances the performance link between SC and SMEs, our research, which is substantially confirmed by Hassan et al. [116]. This study suggested numerous consequences for the government, senior management, the banking sector, and SMEDA. Consequently, there are several consequences for the government that urge SME's top management and owners to implement the SC process, which finally propels small businesses to their optimal level.

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Data Availability Statement: Data will be available on the request from the authors.

Conflicts of Interest: The authors declare no conflict of interest.

Appendix A. Survey Items

Financial Capital Availability

- Item1. My company has easy access to financial capital to support its business operations.
 - Item2. When our company need more financial assistance for our business operations, we could easily get it.
 - Item3. My company has substantial financial resources at the discretion of managers for funding business initiatives.
 - Item4. My company can obtain financial resources at short notice to support business operations.
-

Innovative Work Behavior

- Item1. My company searches out new working methods techniques or instruments.
 - Item2. My company generates ideas on how to optimize knowledge and skills within the department.
 - Item3. My company generates original solutions for problems.
 - Item4. My company provides new solutions to old problems.
 - Item5. My company elaborates appropriate plans for the implementation of new ideas.
 - Item6. My company develops adequate plans and schedules for the implementation of new ideas.
 - Item7. My company eliminates obstacles in the process of idea implementation.
-

Strategic Change

- Item1. My company works on conscious staff reduction.
 - Item2. My company works on major cost reduction.
 - Item3. My company is cutting down, selling, and closing down ineffective businesses.
 - Item4. My company is introducing a more sophisticated cost control system.
 - Item5. My company is starting to do business with a country the company had previously not done business with.
 - Item6. My company is starting a business in a new place within Pakistan.
 - Item7. My company is starting marketing oneself in a new way.
 - Item8. My company is carrying out a considerable change in the company's organization.
 - Item9. My company is carrying out a considerable change in the Company's internal operation.
 - Item10. My company is introducing an important new product or service or in any other way substantially changing offerings to customers.
 - Item11. My company is commencing the development of a new important product, service or similar, which has not yet been introduced.
 - Item12. My company is carrying out measures in advance that the company otherwise would have been forced to do sooner or later.
 - Item13. My company is carrying out changes particularly to get ahead of competitors.
-

Government Support

- Item1. In my country, government financial policies (e.g., public procurement) consistently favor new firms.
- Item2. In my country, the support for new and growing firms is a high priority for policy at the national government level.
- Item3. In my country, the financial support for new and growing firms is a high priority for policy at the local government level.
- Item4. In my country, new firms can get most of the required permits and licenses in about a week.
- Item5. In my country, the amount of taxes is NOT a burden for new and growing firms.
- Item6. In my country, taxes and other government regulations are applied to new and growing firms in a predictable and consistent way.
- Item7. In my country, coping with government bureaucracy, regulations, and licensing requirements is not unduly difficult for new and growing firms.
-

SMEs Performance

- Item1. My company is doing well for the last three years.
- Item2. My company sales growth is doing well for the last three years
- Item3. My company revenue growth is doing well for the last three years
- Item4. My company Growth in the number of employees is doing well for the last three years.
- Item5. My company net profit margin is doing well for the last three years.
- Item6. My company new product is doing well for the last three years.
-

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