



FACTORS AFFECTING SME PERFORMANCE, COMPETITIVE ADVANTAGE, AND RISK MANAGEMENT PRACTICES WITH THE MEDIATING ROLE OF PUBLIC POLICY IN PAKISTAN

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DOI: <https://doi.org/10.63544/jbii.v5i9.225>

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Article History:

Received: 24.07.2026

Accepted: 29.08.2026

Published: 20.09.2026

Abstract

Small and Medium-Scale Enterprises (SMEs) serve as a pivotal force in boosting global economic advancement, with a particular emphasis on their vital role in developing countries. In Pakistan, SMEs account for over 90% of all businesses. Since the Pakistani SME sector includes a diverse range of economic sectors such as manufacturing, services, agriculture, tourism, construction, fishing, mining, etc. Despite government and policymakers' efforts to promote SME development in Pakistan, the sector continues to face persistent challenges, including energy shortages, limited financial literacy, inadequate infrastructure and business information, low value addition, weak strategic planning, limited access to bank financing, and a shortage of skilled human resources. Their contributions extend to foster economic growth, generating employment opportunities, and facilitating exports. This study examines the factors affecting SME's performance, competitive advantage, and risk management practices with the mediating role of public policy in Pakistan. Data was collected through survey questionnaire from 442 respondents. Data analysis was done through SPSS and PLS software. Empirical research demonstrates that SMEs' views towards hazards and their risk assessment are very different from those of large corporations.

Keywords: SME's Performance, Competitive Advantage, Risk Management Practices, Public Policy

1. Introduction

Small and medium-sized enterprises (SMEs) are widely recognized as essential drivers of economic growth, employment generation, poverty reduction, innovation, and balanced regional development. In Pakistan, the concept of small-scale industries emerged during the First Five-Year Plan in the 1960s and continued to receive policy attention during later development plans. The establishment of the Small Business Finance Corporation in 1972 reflected an early institutional effort to promote self-employment, reduce poverty, and support small business development. Over time, this support structure evolved, and the Small and Medium Enterprise Bank was later introduced to strengthen the financing and development of SMEs. Globally, SMEs have been regarded as an economic engine, particularly in developing economies, because they mobilize local resources, create jobs, and contribute significantly to gross domestic product and exports.

The role of SMEs is especially important in Pakistan, where they constitute nearly 90% of private enterprises and employ a large proportion of the non-agricultural labour force. They contribute substantially to GDP, manufacturing value addition, and exports, particularly in sectors such as textiles, information technology, agriculture and food processing, light engineering, surgical instruments, sports goods, leather, footwear, furniture, wholesale and retail trade, construction, ceramics, and hospitality. The provincial distribution of SMEs also indicates their broad presence across the country, with Punjab hosting the largest share, followed by Sindh, Khyber Pakhtunkhwa, and Balochistan. Their flexibility, lower capital requirements, and ability to respond quickly to market change distinguish SMEs from large corporations and make them vital contributors to inclusive economic development.

Despite their importance, Pakistani SMEs face persistent structural and operational challenges. These include energy shortages, weak infrastructure, limited financial literacy, restricted access to formal finance, inadequate skilled labour, insufficient market information, weak strategic planning, low value addition, and limited integration into global value chains. The COVID-19 pandemic further intensified these difficulties by disrupting production, reducing demand, and weakening cash flows. In addition, political instability, inflation, currency volatility, high borrowing costs, and law-and-order concerns have



created an uncertain business environment. These constraints directly affect SME performance and reduce their ability to compete locally and internationally.

Risk management practices and competitive advantage are therefore central to understanding SME performance. SMEs often operate with limited managerial capacity and fewer specialized resources, making them more vulnerable to financial, operational, market, and policy-related risks. Effective risk management enables firms to identify uncertainties, reduce losses, improve decision-making, and strengthen resilience. Similarly, competitive advantage allows SMEs to differentiate their products, improve service quality, respond to customer needs, innovate, and sustain performance in competitive markets. However, these internal capabilities can be strengthened or weakened by the external policy environment in which firms operate.

Public policy plays a mediating role by shaping access to finance, infrastructure, taxation, training, export facilitation, innovation support, and regulatory efficiency. The National SME Policy 2021 highlights the need to create an enabling environment for SMEs through coordinated institutional support, improved competitiveness, export promotion, employment generation, and inclusive growth. Initiatives linked with infrastructure development, industrial parks, and the China-Pakistan Economic Corridor also offer opportunities for SMEs to expand and modernize. Nevertheless, the effectiveness of such policies depends on their implementation and their alignment with the real needs of enterprises. Therefore, this study examines the factors affecting SME performance, competitive advantage, and risk management practices, with public policy as a mediating mechanism in Pakistan. By focusing on these relationships, the study contributes to a better understanding of how SMEs can improve performance while operating within a challenging but policy-relevant business environment.

2. Literature Review and Hypothesis Development

2.1 Role of Enterprise Risk Management in SME Performance

Enterprise risk management (ERM) is described as "a process implemented by an entity's board of directors, management, and other personnel" by COSO (Committee of Sponsoring Organizations of the Treadway Commission, 2004, p. 12). Its aim is to identify probable occurrences or conditions that could have an influence on the business and then manage such risks efficiently to keep them within the organization's risk tolerance. ERM was also developed as a way to strengthen corporate governance by reducing risks (Maruhun et al., 2018). Credit risk, liquidity risk, interest rate risk, operational risk, compliance risk, regulatory risk, environmental risk linked with projects related to SME financing, and reputation risk are just a few of the issues that the Risk Management Division (RMD) is in charge of managing. According to Ittner and Oyon (2019), effective risk management practices (RMP) lead to better results for business. Whether firms should use strategic risk management has been the subject of recent debates (Pierce & Goldstein, 2018). According to Malik et al. (2020), a well-established ERM system may significantly influence company results. Because IT strategy has such a big impact on acquiring a competitive edge. It's important to note that there is a negative link between ERM and competitive advantage (Saeidi et al., 2019). As a way to save costs, control risks, and lessen possible losses, the banking industry has adopted ERM techniques more and more (Adam et al., 2021; Mustafa & Al-Nimer, 2018). In order to maximize profits while minimizing losses, ERM facilitates the creation of a company plan (Chen et al., 2020). Organizations may improve their resource management for social and environmental good by adopting ERM practices (Rajapathirana & Hui, 2018). As a result, grounded on the discussed literature the first is:

H1: There is a considerable relationship between risk management practices and the performance of SMEs.

2.2 Competitive Advantage and SMEs Performance

The phrase "competitive advantage" refers to a variety of elements that allow small and medium-sized firms (SMEs) to distinguish themselves from rivals and become leaders in their field. The creation and maintenance of a competitive edge is a major issue business strategy. Due to their insufficient strategic resources, SMEs may face an even greater challenge, which might considerably erode their competitive advantages. Competitive advantage in the next years may be based on things like speed of reaction, constantly improving goods and services, offering value-added services, and having unique expertise (Kume, 2010). To achieve goals and maintain long-term competitive superiority, businesses face enormous obstacles due to market players' constantly changing and inventive character (Porter, 1980; Yadav et al., 2017; Dong et al., 2019).

The success or failure of a business is heavily dependent on the skills and knowledge of its owner/manager. Onuoha's study (2020) highlights the importance of entrepreneurial talents in the development and expansion of any business. Six abilities, opportunity skills, association capabilities, theoretical capabilities, coordinating skills, vital capabilities, and responsibility capabilities, have been recognized as potential development inciting factors for SMEs endeavours (Stouraitis et al., 2017; Minimol, 2021). According to the Resource-Based View (RBV) paradigm, a company's competitive advantage and better performance are largely attributable to its resources, which are in turn predicated on their being rare, unique, and in high demand. Businesses need to understand the interplay among internal resources, competitive advantage, and overall performance if they want to achieve a level of competitive advantage that allows them to not only compete effectively but also surpass their industry rivals. As a result, the study's second hypothesis is:

H2: Competitive advantages are strongly related to the performance of SMEs.

2.3 Enterprise Risk Management Practices and Public Policies in SMEs



Public policymaking is an evolving and intricate procedure that aims to address societal issues by formulating new regulations or revising existing ones. For instance, "a systematized proposition to tackle a focal issue, directed by an origination" is one meaning of the public approach that has arisen lately (Lassance, 2020). Public policy may be broken down into its component parts—laws, rules, guidelines, and actions. It is a measure of all activities undertaken by a government, both directly and indirectly. As per Soliman and Adam (2021), there is areas of strength between monetary exhibition evaluations in the financial area and the utilization of ERM (Dey, 2018). Yang (2018) states that the ERM essentially influences upper hands and company achievement. Rehman and Anwar (2019) claim that ERMP techniques are an intangible resource that greatly enhances organizational performance. Public authority and policymakers ought to give both monetary and non-monetary motivating forces to the modern area to reinforce their presentation and upper hand. ERM makes it easier for businesses to create a business plan that reduces expenses and risks while boosting profitability (Chen et al., 2020).

In Pakistan, government efforts and strategies for company growth and sustainability have been developed to support SME entrepreneurial development. That's why it's so important for the government to implement policies that support and encourage the expansion of small businesses (Alabi et al., 2019). This is commonplace in how the public authority and policymakers in Pakistan address monetary issues that undermine the development and endurance of organizations, particularly small and medium-sized ventures. Risk management practices are essential for attaining a sustainable competitive position and increasing profitability (Yang et al., 2018) specifically by industrial firms to improve operational efficiency (Agha-pour et al., 2017). To lower costs, risks, and possible losses, the banking industry has established Risk Management Practices (RMP) procedures (Adam et al., 2021) also.

H3: Risk Management Practices significantly impact public policy.

2.4 Competitive Advantage and the Emergence of Public Policy in SME

Small and medium-sized enterprises (SMEs) place a importance on identifying and capitalizing on competitive advantage sources in all of their corporate decision-making. It is challenging for businesses to achieve their objectives and sustain competitive performance over the long-term because of the ever-changing nature of the market and the innovative prowess of their rivals. Small and medium-sized enterprises (SMEs) often struggle with this issue because they lack strategic resources and Government Public Policies, which may significantly reduce their competitive advantage.

In order to analyses their environments, learn about their markets, and identify and seize opportunities, SMEs may benefit from developing dynamic skills (Eikelenboom & Jong, 2018; Muhic & Bengtsson, 2019). In this context, the value of dynamic capabilities cannot be overstated (Rashidirad & Salimian, 2020). Business's ability to build and maintain sustainable competitive advantages is strongly influenced by both their physical and intangible assets. Financial, physical, and technological assets are clearly observable and of great value to small and medium-sized enterprises (SMEs). In order to increase SMEs' competitiveness, the government must provide its designated regulatory agencies and other important stakeholders the authority to create a set of efficient and effective regulations.

In Pakistan, SMEs encounter substantial challenges in gaining a foothold in international markets and value chains due to a prevailing lack of competitiveness. The industry faces multiple repercussions from issues like power shortages and high operational costs, resulting in prolonged manufacturing durations, increased overhead expenses, and diminished workforce productivity. Additionally, the existing tariff structure is unfavourable to the industrial sector, with businesses effectively subsidizing power costs for residential and commercial customers, contrary to international norms. To alleviate financial burdens on SMEs and enhance their output, there is a need for the harmonization of various taxation policies (Hassan et al., 2020). In fiercely competitive markets, particularly in emerging economies, maintaining high performance necessitates a competitive edge for SME operations (Anwar, 2018). Government policies hold a central role in cultivating a favourable business environment. Atuahene and Li (2000) and Setiowati and Arifin (2015) have delineated eight processes that contribute to a company's marketing prowess. These encompass customer service, promotional endeavours, the calibre of sales personnel, distribution networks, resources allocated to advertising, marketing research, product distinctiveness, and the swiftness of product launches. Research shows that ERM practices increase productivity and provide businesses a competitive edge (Callahan & Soileau, 2017). Hence, fourth hypotheses are formulated as follows:

H4: Competitive advantages substantially impact public policy.

2.5 Impact of Public Policies in SMEs

Small and medium-sized enterprises (SMEs) have a hard time implementing sustainable practices because of their limited access to capital and personnel. They may perform better and be more competitive if the government offers financial and non-financial incentives. Growth of small and medium-sized enterprises (SMEs) has been boosted in certain areas by government-led capacity-building efforts, improved infrastructure, and financial aid (Akawu et al., 2018). Inflation, currency volatility, and high borrowing costs are all factors that might have a negative impact on small and medium-sized enterprise (SME) performance. SMEs in Pakistan face several problems and institutional shortcomings due to lack of public policies. Evidence suggests that SMEs that benefit from government assistance are more likely to grow (Turner et al., 2016). In



developing nations, national governments (Khoase & Govender, 2013; Maleka & Fatoki, 2016; Njinyah, 2018; Zulu-Chisanga et al., 2021) and local governments (Akudugu, 2020) have received special attention.

SMEs must build strong relationships with government authorities in order to obtain resources. The nation's tax system is complex and inefficient, with a wide tax base and frequent tax payments made throughout the year. SMEs must navigate a difficult, expensive, and time-consuming appeals procedure against a tax assessment. If the government is serious about addressing the issues that SMEs confront, it must improve infrastructure and onerous regulatory frameworks, which are key barriers to SMEs' development. These constraints have limited SMEs' capacity to capitalize on the fast-changing global business environment and prospects. Similarly, Pakistan should deal with these challenges since the country's current SME growth pattern cannot be changed until these structural issues are resolved (Katua, 2014). Small and medium-sized enterprises (SMEs) in Pakistan benefit from the government's fiscal, monetary, labor, and business policies since they provide a conducive business environment, investment facilitation, and productivity improvement. The business development policy of the government determines the survival and growth of SMEs.

H5: Public policy significantly influences the performance of SMEs.

2.6 Mediating Role of Public Policy Between Risk Management Practices and SMEs Performance

Enterprise Risk Management (ERM) enables top management to effectively handle various forms of risks (Annamalah et al., 2018), enhancing adaptability and seizing opportunities, thus providing a competitive advantage (Armeanu et al., 2017). The policy is one of the most critical variables influencing the survival and development of businesses throughout the epidemic. Government support strategies for SMEs are plans or drives the public authority and its administrative bodies utilize to shape and settle on dynamic techniques that advance financial development by maintaining an environment that is helpful for business tasks. The public authority needs have obviously characterized establishments set up Aligning company strategy is essential in the field of risk management. Managers must adapt risk-reduction strategies to various hazards, which will affect decision-making and overall business performance (Abrahamsen et al., 2017; Yilmaz & Flouris, 2017). ERM may improve strategic positioning and financial performance, especially in developing markets like Pakistan (Yang et al., 2018). In specific settings, research demonstrates that risk the board has a positive connection with monetary achievement yet a negligible negative relationship with functional execution (Channar et al., 2015):

H6: Public Policy acts as a mediates between risk management practices and the performance of SMEs.

2.7 Mediating Role of Public Policy Between Competitive Advantage and SMEs Performance

Public policy can be seen as a positive commitment by the government to address issues, backed by legal authority, or as a negative stance when the government chooses not to take action on pressing matters. It provides the fuel for a nation and its peoples progress and prosperity. An effective policy is the engine that drives national success, yet without one, no nation or government can achieve its goals. Without public policy and planning, a country cannot avoid becoming irrelevant in the international community and falling more and further behind. As per Makinde (2019), partnerships with governments that provide resources supportive of financial success, environmental responsibility, and competitiveness may enable SMEs to support economic growth and environmental sustainability (Longoni & Cagliano, 2015). Public officials have increasingly used AI to improve services and efficiencies throughout government in recent years.

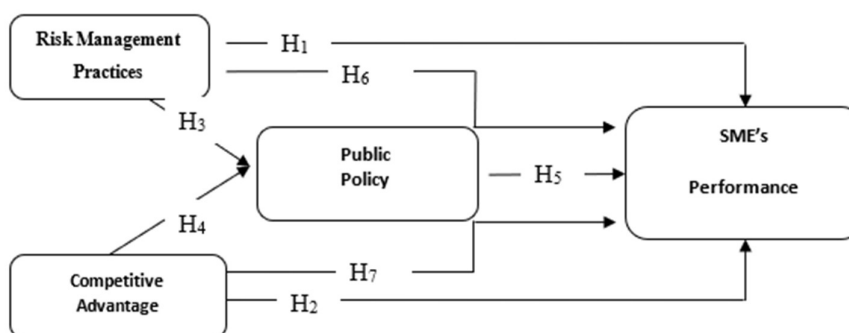
The success of policy design, implementation, and monitoring is ultimately dependent on policy analysis. The focus turned to management and administration to determine why the policies were failing to fulfill their goals. It is critical for SMEs to gain, retain, and expand their competitive edge through the resources they have and insure. SMEs, on the other hand, must do external analysis to discover opportunities and dangers, as well as internal analysis to find specific skills. While some businesses have huge intangible assets, others have significant tangible assets, both have a big impact on creating long-term competitive advantage. For SMEs, financial, physical, and technological assets are important and accessible resources. The majority of SMEs in Pakistan are attempting to gain a competitive edge through differentiation. Some of them are doing it on the cheap. Initially, SMEs did not pay enough attention to creating a competitive advantage, but this has changed for the better. Distanont and Khongmalai (2018) contend that efficiency is the key to managing a profitable business and gaining a competitive edge. Reducing barriers to entrance into the competition, supplier strengths, buyer strengths, and accuracy in making decisions in the midst of intense market rivalry are all ways to gain a competitive edge (Lorenzo et al., 2018).

H7: Public policy mediates the relationship between competitive advantages and SMEs' performance.



Figure 1

Hypothesized Relationship of Variables



3. Methods

3.1 Population and Sample

Owners or managers of SMEs, encompassing both men and women, served as the study's unit of analysis. Because the sample frame was also inaccessible, convenience sampling was the most appropriate sampling strategy to apply in the current research (Saunders et al., 2011). 442 complete useable responses from target sample are used for empirical testing using SPSS and PLS software for descriptive and inferential statistics.

3.2 Measurement Scales

There are two independent variables (risk management practices and competitive advantage), one mediating variable (public policy), and one dependent variable (SME's performance) in this study. Risk management practice is measured using a six-items 5-point Likert scale from a previous study (Al-Nimer et al., 2021). Competitive advantage is measured by four items Likert scale of Wang (2019). Public policy is measured by five items 5-point Likert scale taken from Van Engen (2017). The dependent variable SME's performance has nine items and 5-point Likert scale taken from the study Schulz et al. (2010). All scales are reliable. Questionnaire and the field survey technique were used to collect the data.

4. Findings

4.1 Analysis of Demographics

This section includes an analysis of the demographics of the respondents. Detailed information on all demographic questions is given below.

Table 1

Demographics

Category	Group	Frequency	Percent
Gender	Female	181	41.0
	Male	261	59.0
	Total	442	100.0
Age	18–24	103	23.3
	25–34	218	49.3
	35–44	98	22.2
	45–50	20	4.5
	Above 50	3	0.7
	Total	442	100.0
Qualification	Intermediate	82	18.6
	Bachelor	121	27.4
	Master	115	26.0
	MS/M.Phil	109	24.7
	PhD	15	3.4
	Total	442	100.0

4.2 Reliability Analysis

This study relies on a scale known as the Likert scale. Therefore, Cronbach's Alpha is utilized as the most reasonable test for testing the unwavering quality of the measure.



Table 2

Measurement Scale Reliability

Variable Types	Variable Names	Items	Alpha
Independent Variable	Risk Management Practices	6	0.828
Independent Variable	Competitive Advantage	4	0.824
Mediating Variable	Public Policy	5	0.864
Dependent Variable	SME's Performance	9	0.883

4.3 Descriptive Statistics and Normality Analysis

A descriptive analysis of predictor variables and outcome variables is given in table 3. The mean value reveals the centre tendency of respondents' replies. To assess if the sample population is normal, normality analysis is performed. According to Trochim and Donnelly (2006), the ranges for skewness and kurtosis are -1 to +1 and -3 to +3, respectively, when the data is normal. All the variables' values of current research appear to be within acceptable ranges. The correlation value of RMP and CA is 0.617, RMP and PP are 0.557, and RMP and SMEP are 0.630. All the correlation results show good correlation results between the variables.

Table 3

Correlation

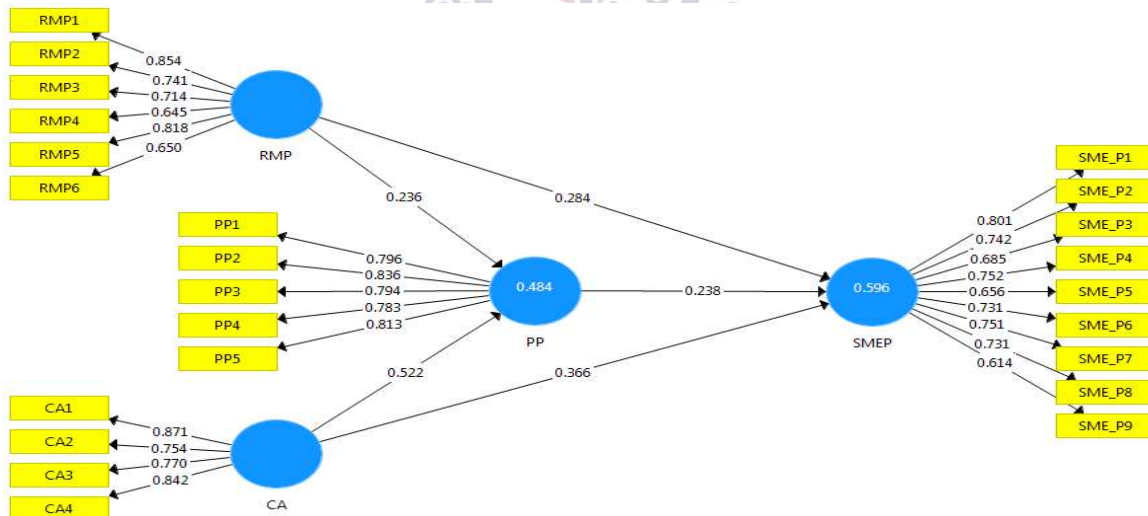
Variable	RMP	CA	PP	SMEP
RMP	1			
CA	0.617**	1		
PP	0.557**	0.659**	1	
SMEP	0.630**	0.683**	0.628**	1

4.4 Measurement Model Assessment

A measurement model assessment was conducted to ascertain convergent and discriminant forms of validity.

Figure 2

Measurement Model



In this research, Structural Equations Modelling (SEM) was applied to investigate recommended associations of the research. SEM technique is a strong measuring technique. The measurement model (see Table 4) is performed with the help of smart PLS-3 to check the reliability and validity of the constructs. First of all, results showed that the factor loading of all constructs is in a good range; the loading of RMP ranges from 0.645 to 0.854. The factor loading of CA ranges from 0.754 to 0.871, PP loadings range from 0.783 to 0.836, and the loading of SMEP ranges from 0.614 to 0.801. The researcher can retain items having loadings above 0.40. All the constructs of this study have loadings of more than 0.40. So, there is no need to remove any item of the construct as loading above 0.7 is a preferred value (Vinzi et al., 2010). The values of the variance inflation factor (VIF) are used to check multicollinearity issues between constructs. VIF for RMP ranges from 1.334 to 2.214, CA ranges from 1.587 to 2.145, PP 1.717 to 2.133, and SMEP ranges from 1.378 to 2.167, which are in the acceptable range, less than 5 (Gareth et al., 2013). The Cronbach's alpha and composite reliability (CR) values are above 0.7, showing suitable constructs' reliability.



The rho-A values are between Cronbach's alpha and composite reliability values (Hair et al., 2014). The average variance extracted (AVE) values should above 0.50 are recommended. AVE values for RMP, CA, PP, and SMEP are 0.549, 0.657, 0.648, and 0.519, respectively, more than a recommendation. Fornell and Larker Criterion (F&L) test was used to establish the discriminant validity of constructs. The results show that there is good discriminant validity of constructs. According to Henseler et al. (2016), the Heterotrait-Monotrait (HTMT) correlation ratio with values below 0.85 was used to evaluate the discriminant validity which is confirmed. R2 values represent the change in dependent variables due to independent variables. The R2 values for PP and SMEP are 0.484 and 0.596, respectively.

Table 4

Convergent Validity

Construct	Items	Loadings	VIF	Alpha	rho_A	CR	AVE
Risk Management Practices	RMP1	0.854	2.214	0.833	0.852	0.878	0.549
	RMP2	0.741	1.716				
	RMP3	0.714	1.586				
	RMP4	0.645	1.400				
	RMP5	0.818	2.074				
	RMP6	0.650	1.334				
Competitive Advantage	CA1	0.871	1.956	0.864	0.867	0.894	0.648
	CA2	0.754	1.902				
	CA3	0.770	1.717				
	CA4	0.842	1.900				
Public Policy	PP1	0.796	2.133	0.836	0.864	0.894	0.648
	PP2	0.836	2.133				
	PP3	0.794	1.902				
	PP4	0.783	1.717				
	PP5	0.813	1.900				
SME's Performance	SMEP1	0.801	2.167	0.884	0.891	0.898	0.519
	SMEP2	0.742	1.914				
	SMEP3	0.685	1.652				
	SMEP4	0.752	2.033				
	SMEP5	0.656	1.659				
	SMEP6	0.731	1.805				
	SMEP7	0.751	1.935				
	SMEP8	0.731	1.884				
	SMEP9	0.614	1.378				

Table 5

R-Square and Adjusted R-Square

Construct	R Square	R Square Adjusted
Public Policy	0.484	0.482
SME's Performance	0.596	0.593

Table 6

Fornell and Larker Criteria

Construct	CA	PP	RMP	SMEP
CA	0.811			
PP	0.671	0.805		
RMP	0.633	0.566	0.741	
SMEP	0.705	0.644	0.650	0.720

Table 7

Heterotrait-Monotrait Ratio (Discriminant Validity)

Construct	CA	PP	RMP	SMEP
CA				
PP	0.781			
RMP	0.750	0.658		
SMEP	0.800	0.718	0.736	

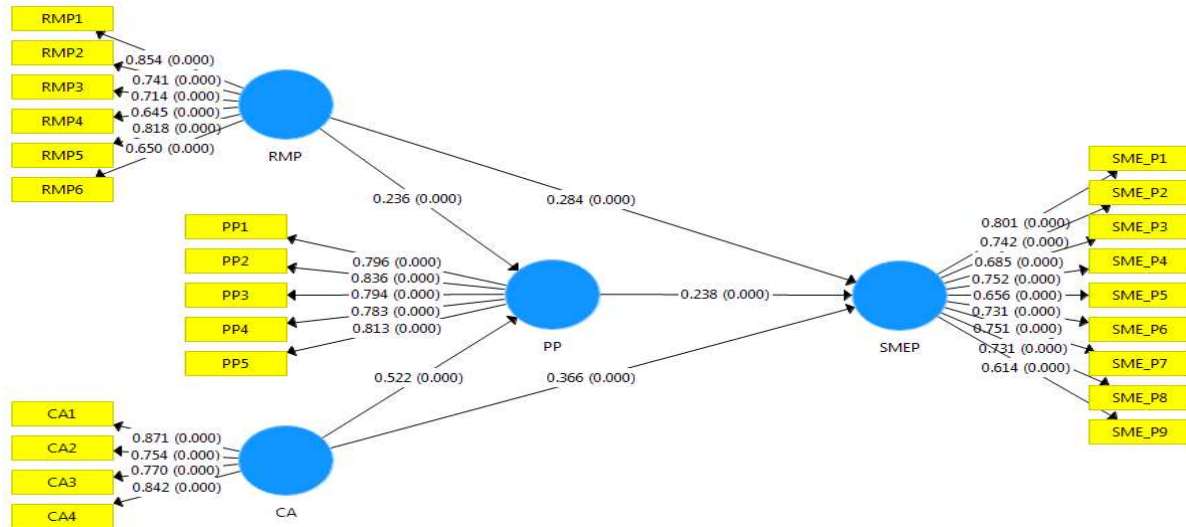


Note. CA, Competitive advantage; PP, Public Policy; RMP, Risk Management Practices; SMEP, Small and Medium Enterprise Performance.

4.5 Structural Model Assessment

Figure 3

Structural Model



The result revealed that Risk Management Practices significantly and positively influence SME's Performance ($\beta = 0.340$, $T = 6.836$, $p = 0.000$), so H1 was accepted (see Table 8). H2 result revealed that Competitive Advantage significantly and positively influences SME's Performance ($\beta = 0.490$, $T = 10.238$, $p = 0.000$), so H2 was accepted. H3 showed that Risk Management Practices significantly and positively influence Public Policy ($\beta = 0.236$, $T = 4.115$, $p = 0.000$), so H3 was accepted. The result of H4 revealed that Competitive Advantage significantly and positively influences Public Policy ($\beta = 0.522$, $T = 8.175$, $p = 0.000$), so H4 was accepted. H5 evaluates Public Policy significantly and positively influences SME's Performance ($\beta = 0.238$, $t = 4.355$, $p = 0.000$), so H5 was accepted. All direct hypotheses are given in Table 8 below.

Table 8

Path Coefficients of Total Effect

Construct	Beta	SD	T Statistics	P Values	2.50%	97.50%
RMP -> SMEP	0.340	0.050	6.836	0.000	0.243	0.437
CA -> SMEP	0.490	0.048	10.238	0.000	0.392	0.580
RMP -> PP	0.236	0.057	4.115	0.000	0.126	0.351
CA -> PP	0.522	0.064	8.175	0.000	0.394	0.645
PP -> SMEP	0.238	0.055	4.355	0.000	0.147	0.368

Note. CA, Competitive advantage; PP, Public Policy; RMP, Risk Management Practices; SMEP, Small and Medium Enterprise Performance.

Mediation analysis was performed to check Public Policy's mediating role in the relationship between Risk Management Practices and SME's Performance. The impact of Risk Management Practices on SME's Performance without mediating effect was significant; with the inclusion of mediation, the direct and indirect effect was also significant. The current study shows a complementary partial mediation of Public Policy between the relationship between Risk Management Practices and SME's Performance. H6 was accepted. Another Mediation analysis was performed to check Public Policy's mediating role in the relationship between Competitive Advantage and SME's Performance. The impact of Competitive Advantage on SME's Performance without mediating effect was significant; with the inclusion of mediation, the direct and indirect effect was also significant. The study shows a complementary partial mediation of Public Policy between the relationship of Competitive Advantage and SME's Performance, so H7 was accepted. All mediating hypotheses are given in Table 9 below.

Table 9

Mediation Analysis

Construct	Total Effect β	T	P	Direct Effect β	T	P	Indirect Effect β	SD	T	p
RMP -> PP -> SMEP	0.346	6.836	0.000	0.284	6.095	0.000	0.056	0.019	2.956	0.003
CA -> PP -> SMEP	0.491	10.238	0.000	0.366	7.168	0.000	0.124	0.034	3.664	0.000



Some researchers advocate for the calculation of the f^2 value. The f^2 explained how much endogenous construct is impacted by exogenous construct (Gotz et al., 2010). f^2 values for small, medium, and large are 0.02, 0.15, and 0.35, respectively (Cohen, 1998). Q^2 value in smartPLS explained the predictive relevance of the model, which can be obtained by the blindfolding procedure. The value of Q^2 should not be zero (Chin, 1998). The results explained the high predictive relevance of the study model. The Predictive relevance and effect size is given in below.

Table 10

Effect Size of the Model and Predictive Relevance

Construct	RMP	CA	PP	SMEP	Q^2
RMP			0.065	0.112	
CA			0.316	0.151	
PP				0.072	0.307
SMEP					0.290

Table 11

Summary of Path Analysis

Hypothesis	Statement	Decision
H1	RMP has a positive and significant impact on SMEP	Supported
H2	CA has a positive and significant impact on SMEP	Supported
H3	RMP has a positive and significant impact on PP	Supported
H4	CA has a positive and significant impact on PP	Supported
H5	PP has a positive and significant impact on SMEP	Supported
H6	PP mediates between the relationship of RMP and SMEP	Supported
H7	PP mediates between the relationship of CA and SMEP	Supported

Note. CA, Competitive advantage; PP, Public Policy; RMP, Risk Management Practices; SMEP, Small and Medium Enterprise Performance.

5. Discussion

The main goal of this research was to examine the variables that affected SMEs' performance in Pakistan while also examining how public policy mediated these connections. Seven hypotheses were developed based on these study goals and tested statistically using PLS. SMEs' performance pertains to the outcomes resulting from their operational activities, as highlighted by Kotane and Kuzimina-Merlino (2017). This performance can be assessed using various indicators. Startup SMEs often find themselves in situations requiring rapid decision-making amidst high levels of uncertainty. Empirical studies have revealed substantial differences in SMEs' attitudes towards hazards and risk assessment when compared to larger enterprises. The unique challenge faced by SMEs in risk management stems from their typical lack of human resources, extensive data repositories, and specialized subject knowledge required for conventional and systematic risk management.

Furthermore, a common characteristic of many SMEs is their limited resources, which often result in the inability to staff every role within the company with specialized professionals. Instead, they tend to focus on their core competencies while entrusting generalists with administrative tasks, in contrast to larger corporations, SMEs are often owned and managed by a single individual. Among the primary challenges faced by SMEs, financial risk and risk management procedures are prominently featured. Effective management of financial risk plays a crucial role in sustaining the existence and fostering value generation within SMEs. The findings show that effective risk management has a favourable effect on the performance of small and medium-sized enterprises (SMEs). This leaves room for discovering more variables that may determine the prosperity or failure of small and medium-sized enterprises. Because the SME market is broad and competitive in comparison to other companies, it is critical to examine the many dimensions of risk while analysing the business market. This research fills a knowledge need by emphasizing the role of risk management strategies, competitive pressures, and public policies in boosting SMEs' bottom lines.

According to Barney's (1991) claim, a business might have an edge over rivals when it uses a strategy that adds value and is not used by them. This competitive advantage can take many different forms, including the provision of distinctive products, sensitivity to market trends, participation in cooperative partnerships, focus on high-value clients, responsiveness to market shifts, exploitation of client assets, promotion of information transparency, and leadership in the supply chain. The research confirms the key tenet of the resource-based approach, i.e., that a competitive advantage has a favourable influence on a firm's financial success. Ismail et al. (2010), Majeed (2011), Muafi and Roostika (2014), Wijetunge (2016), and Zhou et al. (2009) all reached similar conclusions, which are supported by this conclusion.

6. Contributions of the Study

The goal of this study was to understand how changes in risk management, competitive advantage, and governmental policies have impacted the performance of SMEs in Pakistan. This research offers practical managerial suggestions for



enhancing SMEs competitive advantage via improved risk management techniques. It also aids in our understanding of the intricate relationships that exist between risk management, competitive advantage, governmental regulation, and the success of SMEs. This research is based on the idea that state policies must be carried out effectively if Pakistan's SME sector is to succeed and contribute to the economic and social development of the nation.

By serving as a mediator between the independent variables, such as competitive advantage and risk management, and the dependent variable, which is SME performance, this study clarifies the significance of public policies within the SME environment. It underscores the interplay between these factors and the attitudes of political bodies toward acquiring valuable resources from the government. This opens up avenues for future research to explore how governments in emerging economies leverage their relationships with various government agencies to access substantial resources, as indicated by Songling et al. (2018).

Moving forward, there are several areas that warrant further research attention. For instance, delving deeper into the study of entrepreneur risk management practices, competitive advantages, public policy, and their impact on SME performance is essential. Researchers may consider adopting a broader perspective by examining a larger sample size, encompassing both public and private firms. Such an approach can facilitate a more comprehensive exploration of the impacts and significance of these variables. Additionally, future studies could investigate how risk management practices relate to other factors, such as innovation and creativity, in SMEs, thereby enriching our understanding of these dynamics in the business context.

7. Limitations of the Study

The findings of this study have several implications for managers overseeing SMEs in Pakistan aiming to achieve operational excellence. However, it's important to acknowledge certain limitations in the research design that should be considered by academics and researchers in similar studies.

To begin with, our study relied on cross-sectional data, which may limit the depth of our insights. Additionally, the study had a narrow focus on SMEs and utilized a relatively small sample size to draw conclusions. It's crucial to recognize that findings based solely on small and medium-sized businesses may not be universally applicable. In the future, addressing these limitations could involve diversifying the study by encompassing multiple sectors and including larger corporations.

Furthermore, there are various aspects related to this topic and specific study variables that warrant exploration in future research endeavours. Expanding the scope of investigation to include these aspects could provide a more comprehensive understanding of the subject matter.

Lastly, while the study's results pertain specifically to Pakistani small and medium-sized businesses, they may also offer valuable insights for the manufacturing sectors of other developing nations such as India, Bangladesh, Iran, and Malaysia. However, it remains uncertain whether the study's conclusions can be directly applied to the manufacturing industries of these other developing nations. Further research would be needed to validate such applicability.

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