The Role of Government Support in Sustainable Competitive Position and Firm Performance

Yang Songling 1, Muhammad Ishtiaq 1*, Muhammad Anwar 2* and Hamid Ahmed 3

1 Faculty of Finance, School of Management and Economic, Beijing University of Technology, 100 Pingleyuan, Beijing 100124, China; yang.sl@bjut.edu.cn
2 Faculty of Management Sciences, International Islamic University Islamabad, Islamabad 44000, Pakistan; m.anwar.ims@gmail.com
3 Skans School of Accountancy, F8 Markaz Islamabad, Islamabad 44000, Pakistan; Hamid_acca60@yahoo.com

* Correspondence: ishtiaqktk@163.com

Received: 21 August 2018; Accepted: 22 September 2018; Published: 29 September 2018

Abstract: Achievement of sustainable competitive position and superior performance is the first priority of business organizations. However, small firms, due to fairly known reasons; lack of resources, financial capabilities and lack of managerial skills are often unable to succeed in their mission. Hence, they often look for less risky and convenience sources to compete in the market. A variety of factors has been tested towards a firm competitive position and performance but the role of government support in this perspective has received minor attention. The present study examines the influence of government financial support and nonfinancial support on firm performance with mediating role of the sustainable competitive position. Hypotheses were tested using structural equation modeling in Analysis Moment of Structure (AMOS) on a data set of 326 Pakistani Small and Medium Size Enterprises (SMEs). The results indicate that government financial and nonfinancial support have a significant influence on sustainable competitive position and firm performance. Additionally, a sustainable competitive position partially mediates the relationship between government support and firm performance. Government bodies and policy makers are advised to provide financial and nonfinancial support to SMEs which in turn can upsurge economic growth and sustainability.

Keywords: government financial support; nonfinancial support; sustainable competitive position; firm performance

1. Introduction

Over the years, a variety of policies and programs have been put forth by governments across the globe to enhance economic sustainability, the standard of living as well as economic growth [1–3]. Governments, irrespective of countries, are engaged to determine regional and local factors which influence entrepreneurship. This is because, in the current knowledge-based economy, entrepreneurship has become one of the most significant drivers of sustainable economic growth and development Doh and Kim [4]. Despite having a substantial contribution of SMEs (results of entrepreneurship) to GDP, economic growth and sustainable development goals, there is a high failure ratio of ventures across the globe [5]. Studies, in this perspective, have been discussed a variety of determinants which may affect success for example, [6,7] and failure of SMEs [8,9]. Due to the lack of resources and capabilities, SMEs need not only financial support but also equally required non-financial support to survive in the turbulent markets. Studies have been ignored the role of Government Financial Support (GFS) and Non-Financial Support (GFNS) in term of firm financial
performance and Sustainable Competitive Position (SCP) Joo and Suh, [10]. This study aims to check if government support indirectly influences firm financial performance through SCP.

The proposed study is vital for several reasons, especially in the third world countries SMEs market. For instance, the failure ratio of SMEs in emerging economies is reported higher than in developed economies. Mainly, newly established ventures are unknown to markets, they spent tremendous amount of money on building the relationship with customers and suppliers. Though, many firms do not give sufficient time to strengthen ties with government and political bodies. In results, these firms (especially newly born) are not capable of surviving for a long run and they quite off. Moreover, the market conditions in emerging economies are unfavorable and institutional support is also fragile [5]. Hence, SMEs in the regions often look for external supports and sources to ensure their survival and to avoid failure. There is a significant rationale for government support in SMEs innovativeness as the supportive programs and actions enable and empower SMEs to move forward [11,12]. Hence, the building relationship with government and political bodies is not only essential for newly established ventures to acquire useful resources but equally essential for established SMEs. We argue that both the hard support (financial) and soft support (advisory) by government are essential for smooth running of operation.

Though, a variety of support services are provided by governments for SMEs survival including provision for targeted business services, quality support, technical, immediate, management skills enhancement, cutting administration costs, building ties with external bodies, financial incentives, financial assistance, foreign market entry and legal framework reinforcement Wilson [11]. Although, a majority of SMEs in emerging economies receive lack of government incentive and services which may hinder their survival and growth [13,14]. Government support, in such regions is essential to gain a competitive position. For instance, in emerging economies, a majority of valuable resources are possessed by a government Pruthi and Wright [15]. Quality of government can facilitate economic growth of a firm not only by providing tangible public goods such as infrastructure, machinery and other physical resources but also offering financial incentives, cutting transaction costs and quick approval of foreign direct investment [16]. As aforementioned that survival of business sector need hard and soft support of government in emerging and developing economies. It is also acknowledged in the literature that a firm, with strong ties, is more able to gain rare resources and SCP as compared to a firm with a weak network with government and political bodies. In other words, in emerging economies, firms who receive strong support from the government can better perform over the other firms Guan et al. [17].

Thus, there is a substantial need to study the role of GFS and GNFS in the success of SMEs. As posited by Resource Base View (RBV) theory, firms’ internal and external, tangible and intangible resources enable them to gain a competitive position and higher profitability over their major competitors Barney [18]. Similarly, social network theory also demonstrates that building a connection with external bodies such as political and financial institutions and so forth can upsurge access to valuable resources which in turn enhance the firm’s position and empower profitability Burt [19]. This study, based on the RBV theory and social network theory, is an attempt to assess how government support (financial and non-financial) can influence a firm competitive position and profitability.

2. Literature Review

2.1. Government Support and Firm Performance

Firms can get a variety of support from their government including tax allowances, grants, loans, information technology, social support, productivity assistance and financial capital and so forth Storey and Techer [20]. As posited by social network theory Burt [19], a firm having strong external ties (with a government, financial institutions and other firms) can get access to rare resources which are beneficial for superior performance and survival. Similarly, resource-based view theory suggests that
in a turbulent market, those firms gain sustainable competitive position and superior performance over their competitors who have unique, rare and inimitable resources Barney [18].

Rapid industrial development is typically backed by government support, subsidiaries and tariffs that helps to promote entrepreneurship Amsden [21]. Building connection with external bodies (e.g., business firms and political bodies) is a significant driver in firm performance. However, in emerging economies such as China, government tie is deemed a key indicator to upsurge a substantial success Sheng, Zhou and Li [22]. Additionally, it is also argued in the emerging markets, investment by government in different R & D projects can positively enhance a firm innovative performance which useful for high performance Wei and Liu [23]. Government financial incentives enable SMEs to expand their operational activities which can enhance their performance and in return can contribute to the economy Clement and Hansen [12]. For instance, in emerging economies such as China, a firm receives substantial support from government can better performance than other firms having less support Guan et al. [17]. Having strong ties with political and government bodies an emerging market can give a higher advantage in term of performance over those firms having a weak connection with government and political people Li et al. [24]. Moreover, [25] claimed that managers who have built strong ties with political and government department could enjoy a higher return and profit in turbulent markets. Hence, we claim that a firm having support from government can gain high performance in dynamic markets. Therefore;

Hypothesis 1 (H1). Govt. financial support has a significant influence on firm performance.

Hypothesis 2 (H2). Govt. Nonfinancial support has a significant influence on firm performance.

2.2. Government Supports and Sustainable Competitive Position

Government financial and non-financial incentives are deemed as significant drivers to boost technological development among the industrial sector. In return, this development can bring a positive change in SMEs innovativeness to sustain a competitive position Doh and Kim [4]. Support from the government does not only help to access scarce resources but also facilitates small firms in startup, growth and creating a sustainable position in a turbulent market Hansen, Rand and Tarp [26]. It is also claimed that government support (credit, training, services, loan, tax payment etc.) does not significantly contribute to a firm profitability but in fact, it is a significant driver for firm survival and success Fajnzylber et al. [27]. In contrast, it is also claimed that government support has no direct influence on a firm survival. This may be, where there is a lack or no government support Hansen, Rand and Tarp [26]. However, it is clear that government support plays a positive role in the improvement of a firm performance Han, et al. [28]. A strong emphasis of government support in the technological development can contribute significantly to firms’ growth Guan and Yam [29].

There are several aims of government supports in term of the business sector. A study of 29 developing nations, for instance, indicates that out of several policies, innovation among the business sector is at the top Cooke et al. [1]. Especially government financial incentive is deemed a major factor to upsurge innovation among the business sector in developed and developing economies Mustar and Laredo [30]. Both financial and non-financial assistance of government tended to improve market position and innovativeness of business sector Ma and Gao [31]. Therefore;

Hypothesis 3 (H3). Govt. financial support has a significant influence on the sustainable competitive position.

Hypothesis 4 (H4). Govt. Nonfinancial support has a significant influence on the sustainable competitive position.

2.3. Sustainable Competitive Position and Firm Performance

A firm sustainable competitive position can be achieved by offering unique products and services, with lower costs and good features as compared to its major competitors [32,33]. The underlined
qualities of a sustainable competitive position and existence are based on markets and industry pressure. A firm loses its competitive position in the competitive market when they fail to respond to external change or demand Lado, Boyd and Wright [32]. As suggested by resource base view theory, a firm having unique resources, capabilities and skills can gain a sustainable competitive position and superior performance in a turbulent market Barney [18]. More preciously, Porter [33] suggests that a firm can gain cost based sustainable competitive position by reducing different types of costs related to material, operation, management and adverts as well as can gain differentiation based sustainable competitive position by offering unique products and services which may not be offered by competitors. Studies, from this perspective, have concluded that both cost-based and differentiation based competitive advantage/position can improve profitability and performance of firms Lechner and Gudmundsson [5,7,34]. Therefore;

**Hypothesis 5 (H5).** The sustainable competitive position has a significant influence on firm performance.

2.4. Sustainable Competitive Position as a Mediator

Government support helps firms to gain new information, knowledge and sources which are necessary for a competitive position. Moreover, support from the government in term of R & D findings and networking with foreign partners can help to access a strong position in the market which is essential for innovation and performance Kang and Park [35]. Using resource base view theory by Bennett and Robson [36], external government supports and assistance in term of advice service can configure SMEs sustainability. Moreover, it is also argued that government support can give an advantage to a firm to access unique resources which are not easily available. The resources, in turn, facilitate ventures to improve their profitability Pruthi and Wright [15]. It is doubtless that a firm having strong political ties enjoys more earning activities as comported to non-affiliated political firms. Moreover, it is also confirmed that the relationship between political affiliations (e.g., government ties) and performance can be mediated by a firm earning management and earning resources Ding and Wu [37]. Additionally, it is scrutinized that a connection with government and political bodies does not directly contribute to firm performance in emerging economies such as China but a firm internal feature such as opportunity recognition and so forth can mediate the relationship Guo, Xu and Jacobs [38]. Pergelova and Angulo-Ruiz [39] examined the influence of government financial support (government equity, government loan and guarantees) on firms overall competitive advantage (innovation, marketing, licensing, human capital) and argued that government support has a significant direct influence on firms’ competitive advantage while it has an indirect influence on performance. Therefore;

**Hypothesis 6 (H6).** Sustainable competitive position mediates the relationship between Govt. financial support and firm performance.

**Hypothesis 7 (H7).** Sustainable competitive position mediates the relationship between Govt. nonfinancial support and firm performance.

Research model is presented in Figure 1.
view theory, a firm having unique resources, capabilities and skills can gain a sustainable competitive position and superior performance in a turbulent market Barney [18]. More preciously, Porter [33] suggests that a firm can gain cost based sustainable competitive position by reducing different types of costs related to material, operation, management and adverts as well as can gain differentiation based sustainable competitive position by offering unique products and services which may not be offered by competitors. Studies, from this perspective, have concluded that both cost -based and differentiation based competitive advantage/position can improve profitability and performance of firms Lechner and Gudmundsson [5,7,34]. Therefore;

Hypothesis 5 (H5).
The sustainable competitive position has a significant influence on firm performance.

3. Methodology

3.1. Sample and Data

Motivate by the fact that, emerging SMEs have lack of resources and capabilities which can hinder their survival and growth, we targeted SMEs of the emerging market Pakistan to assess how government financial and non-financial support can help SMEs to survive and grow in the turbulent market. A structured questionnaire was used to collect data from owners and top management as they are more responsible for strategic planning and performance Anwar [40]. Total 700 questionnaires were distributed among the SMEs operating in the big cities namely; Rawalpindi, Islamabad, Lahore and Karachi. 357 Questionnaires were received back but some of these questionnaires were filled incorrectly and some have missed the required information. Hence, only 326 usable responses were included in the final analyses of the research with a response rate of 46.57%.

3.2. Demographic Detail

The demographic detail of the respondents has presented in Table 1.

| Description          | Frequency | Percentage |
|----------------------|-----------|------------|
| Size                 |           |            |
| 1. 20–50 employees   | 64        | 19.6       |
| 2. 51–100            | 39        | 12.0       |
| 3. 101–150           | 59        | 18.1       |
| 4. 151–200           | 94        | 28.8       |
| 5. 201–250           | 70        | 21.5       |
| Age                  |           |            |
| 1. 10 years and less | 89        | 27.3       |
| 2. 11–20 years       | 114       | 35.0       |
| 3. 21 and above years| 123       | 37.7       |
| Industry             |           |            |
| 1. Manufacturing     | 123       | 37.7       |
| 2. Trading           | 128       | 39.3       |
| 3. Services          | 75        | 23.0       |
| Education            |           |            |
| 1. Intermediate and below | 70    | 21.5       |
| 2. Bachelor          | 89        | 27.3       |
| 3. Master            | 143       | 43.9       |
| 4. PhD and so forth. | 24        | 7.4        |
| N                    | 326       | 100        |
4. Measures

**Government Financial Support:** A firm can get financial support from various institutions including internal funds, angel investors, banks and financial institutions and so forth. However, in many countries, governments have taken responsibility of financial support to facilitate new and established ventures. In the present study, we deem GFS in term of financial resources available, growth and operation of the firm. The measures of financial sources available for ventures were obtained from a prior study by Zamberi Ahmad and Xavier [41]. However, the items are slightly modified according to the study and culture. Six items were used to measure GFS of which a sample item is “In my country, there are sufficient government financial subsidies available for new and growing firms.” Though the items were already validated and tested in emerging economies, we checked different types of validity and reliability of the items to ensure the final results.

**Government Non-Financial Support:** Non-financial supports are referred to the supports other than money which is available for ventures growth, promotion and survival. In many countries, ventures can get non-financial support from the government because SMEs can contribute a major portion to GDP. The present study used seven items to measure GNFS which are adapted from a prior study of Zamberi Ahmad and Xavier [41] and slightly modified. A sample item is “In my country, government policies (e.g., public procurement) consistently favor new and established firms.”

**Sustainable Competitive Position:** A variety of dimensions can indicate a sustainable competitive position of a firm. However, the majority of studies have agreed upon the proxy suggested by Porter (1980). For instance, porter [33] suggested two strategies which enable a firm to gain a competitive position in the industry and market. The cost-based competitive position where firms reduce different types of financial costs and differentiation based competitive position where firms offer unique products and services. This research relied on Porter’s approaches to assess a sustainable competitive position of the firms. Total 8 items adopted from Su, Guo and Sun [42] were used of which 4 items were for cost-based and 4 were for differentiation based competitive position.

**SMEs Performance:** In the case of large firms, financial data can be easily accessed from annual reports, stock exchange and banks and so forth. However, SMEs do not publish their financial data to the public, hence it is difficult to measure SMEs performance based on the financial statement. Researchers, in this perspective, are recommended a self-reported approach to measure SMEs performance for example [34,41]. In the present study, we used 8 items for SMEs performance adopted from the prior studies of Yang, Ishtiaq and Anwar [7] and Anwar [41]. The respondents were asked how they rate their firm performance based on return on equity, return on assets and market growth compared to their major competitors since last three years.

GFS and GNFS were measured using 5 points Likert scale ranging from strongly disagree 1 to strongly agree 5. Firm performance was assigned 5 Likert scales ranging from extremely declined 1 to extremely improved 5.

**Control Variables**

For the purpose to reduce spurious results, we tested the model in the presence of several control variables; such as the age of firm, size of the firm, nature of the industry and educational background of top management. In order to get more useful insights, we executed group difference analysis in AMOS for nature of the industry—a categorical variable. After comparing each group with one another (e.g., manufacturing 1, trading 2 and services 3), we found no significant difference in the results. Hence, the industry was dropped to be controlled as variable were not significant for our model. However, size, age and education have a significant influence on SMEs performance while the only significant influence of size was found towards SCP in a structural model.
5. Data Analysis

In order to test model fits and hypotheses, we applied AMOS 2.1 on the data set. However, prior to applying AMOS, we tested data normality by using skewness and kurtosis in SPSS. The results (see Table 2) indicate that the data are normal as the skewness and kurtosis values are below the cutoff ±2 as recommended by George and Mallery [43]. Skewness and Kurtosis are the most used tests to check normality of data in AMOS based studies Anwar [40]. Additionally, we also tested the normality test item wise. The results confirmed that the data are normal and there is no threat of abnormality in the sample. Mean and standard deviation values are also presented in Table 2.

5.1. Confirmatory Factor Analyses

We executed confirmatory factor analyses (See Figure 2) in order to ensure the fitness of model, validity and reliability and so forth. We found an acceptable model fit (see Figure 2) in term of $\chi^2/df$ as the value is 1.865 which is below 3 as suggested by Hair et al. [44]. The values of GFI, AGFI, CFI and NFI and so forth are also shown acceptable values (above 0.90) as per the recommendation of Hu and Bentler [45]. All the standardized factor loadings were significantly loaded on their respective constructs ($p < 0.001$).

![Figure 2. Measurement Model.](image-url)
After the model fits, we assessed the convergent validity of the constructs (see Table 3). All the constructs have their values above 0.50 indicate that sufficient Average Variance Extracted (AVE) as suggested by Hu and Bentler [46]. We took the square root of AVE to calculate the discriminant validity of the constructs. The results provided acceptable values (above 0.70) for all the constructs (see Table 3). In addition, we checked composite reliability to ensure the internal consistency of the factors. The results presented acceptable values (above 0.70) for all the constructs as suggested by Hu and Bentler [46]. Thus, all the criteria of measurement model are achieved.

| Table 2. Descriptive Statistics. |
|----------------------------------|
| **Factors** | **Mean** | **S.D.** | **Skewedness** | **Kurtosis** |
| GFS | 3.2759 | 0.36081 | −0.086 | 0.674 |
| GNFS | 3.7144 | 0.41780 | 0.280 | 0.614 |
| SCP | 3.8986 | 0.38710 | 0.614 | 1.333 |
| Performance | 3.4072 | 0.33065 | −0.117 | 1.474 |

| Table 3. Factor Loading, Validity and Reliability. |
|----------------------------------|
| **Variables and Items** | **Estimate** | **AVE** | **√AVE** | **CR** |
| **Govt. Financial Support** | 0.65 | 0.81 | 0.92 |
| gfs6 | 0.757 *** |
| gfs5 | 0.855 *** |
| gfs4 | 0.779 *** |
| gfs3 | 0.797 *** |
| gfs2 | 0.811 *** |
| gfs1 | 0.842 *** |
| **Govt. Nonfinancial Support** | | 0.54 | 0.74 | 0.89 |
| gnfs7 | 0.835 *** |
| gnfs6 | 0.538 *** |
| gnfs5 | 0.865 *** |
| gnfs4 | 0.635 *** |
| gnfs3 | 0.730 *** |
| gnfs2 | 0.644 *** |
| gnfs1 | 0.835 *** |
| **Sustainable Competitive Position** | 0.54 | 0.73 | 0.90 |
| scp8 | 0.810 *** |
| scp7 | 0.560 *** |
| scp6 | 0.704 *** |
| scp5 | 0.820 *** |
| scp4 | 0.790 *** |
| scp3 | 0.692 *** |
| scp2 | 0.779 *** |
| scp1 | 0.687 *** |
| **Firm Performance** | 0.65 | 0.81 | 0.94 |
| fp8 | 0.762 *** |
| fp7 | 0.760 *** |
| fp6 | 0.867 *** |
| fp5 | 0.709 *** |
| fp4 | 0.875 *** |
| fp3 | 0.757 *** |
| fp2 | 0.782 *** |
| fp1 | 0.921 *** |

Note: *** Significant (p < 0.001), AVE = Average Variance Extracted, C.R = Composite Reliability.
5.2. Correlation Coefficients

In order to check the correlation among the constructs, we applied the Pearson correlation in SPSS as shown in Table 4. The results indicate a significant positive correlation between GFS and SCP ($r = 0.345$, $p < 0.01$), a significant positive correlation between GFS and SMEs performance ($r = 0.364$, $p < 0.01$), a significant positive relationship between GNFS and SCP ($r = 0.462$, $p < 0.01$), a significant positive correlation between GNFS and SMEs performance ($r = 0.508$, $p < 0.01$) and there is also a significant positive relationship between SCP and SMEs performance ($r = 0.53$, $p < 0.01$). The correlation values posit that older and large firms, those that already have a sustainable position and better performance are more likely to get support. Because, as firms are going older, they probably hire more employees—hereby increasing their size. Literally, an older firm has more capable to get strong support from the government because of its relationship (already build) with political bodies. In contrast, newly established ventures are new to markets, so it may take time to get familiar in a big market.

Table 4. Correlation.

|          | Size | Age  | Education | GFS  | GNFS | SCP  | Performance |
|----------|------|------|-----------|------|------|------|-------------|
| Size     | 1    |      |           |      |      |      |             |
| Age      | 0.160 ** | 1    |           |      |      |      |             |
| Education| 0.046 | 0.087 | 1          |      |      |      |             |
| GFS      | 0.143 ** | 0.131 * | 0.083      | 1    |      |      |             |
| GNFS     | 0.182 ** | 0.241 ** | 0.103      | 0.331 ** | 1    |      |             |
| SCP      | 0.334 ** | 0.188 ** | 0.063      | 0.345 ** | 0.462 ** | 1    |             |
| Performance | 0.326 ** | 0.470 ** | 0.228 ** | 0.364 ** | 0.508 ** | 0.530 ** | 1          |

** Correlation is significant at the 0.01 level (2-tailed). * Correlation is significant at the 0.05 level (2-tailed).

5.3. Common Method Bias

To check for potential threats of common method bias, we executed Harman’s One-factor test SPSS. The results indicate that only 5 factors have eigenvalues above 1, of which the first factor only explained 35.84% variance which is less than 50% Podsakoff and Organ [46]. Hence it ensures the nonexistence of common method bias as none of the factors is apparent. Additionally, we also checked the impact of a common latent factor in the measurement model to validate if there is a common method bias problem. The results confirmed that the sample is free of the threats.

5.4. Structural Models

In order to acquire more clear results, we performed a separate structural model for GFS and GNFP toward performance and SCP.

5.4.1. Structural Model 1

This structural model is tested to check the impact of GFS on performance which is presented in Figure 3. We achieved all the required values for model fitness. The results indicate that GFS has a significant influence on performance ($\beta = 0.248$, $p < 0.05$) which supported H1 of the study.
5.4.2. Structural Model 2

In this model, we checked the influence of GNFS on performance (see Figure 4). We found a good model for fitness. The results show that GNFS has also a significant influence on performance ($\beta = 0.276$, $p < 0.05$) which supported H2 of the study.

5.4.3. Structural Model 3

We also checked the combined influence of GFS and GNFS on the performance (see Figure 5). All the required model fitness is achieved. However, compared to GFS, the GNFS is more influenced on performance as shown in Table 5.
Table 5. Hypotheses Results (Without Mediation).

| Structural Model | Dependent | Independent | Estimate | S.E. | C.R. | p    |
|------------------|-----------|-------------|----------|------|------|------|
| 1                | Performance ← GFS | 0.248 | 0.050 | 4.945 | 0.000 |
| 2                | Performance ← GNFS | 0.276 | 0.041 | 6.808 | 0.000 |
| 3                | Performance ← GFS | 0.171 | 0.049 | 3.506 | 0.000 |
|                  | Performance ← GNFS | 0.239 | 0.041 | 5.835 | 0.000 |
| 4                | SCP ← GFS | 0.315 | 0.069 | 4.570 | 0.000 |
| 5                | SCP ← GNFS | 0.352 | 0.055 | 6.399 | 0.000 |
| 6                | SCP ← GFS | 0.214 | 0.068 | 3.151 | 0.002 |
|                  | SCP ← GNFS | 0.304 | 0.056 | 5.410 | 0.000 |

5.4.4. Structural Model 4

In this model, we checked the impact of GFS on SCP (see Figure 6). We achieved the desire model fitness. The results indicate (see Table 5) that GFS has a significant influence by SCP ($\beta = 0.315, p < 0.05$) which supported H3 of the study.

![Figure 6. Structural Model 4.](image)

Model Fits: $\chi^2/df=2.069$, GFI=0.92, AGFI=0.89, CFI=0.96, TLI=0.95, NFI=0.95, RMR=0.033, and RMSEA=0.057

5.4.5. Structural Model 5

We checked the influence of GNFS on the SCP (see Figure 7). All the required values for model fitness have achieved. The results show (see Table 5) that GNFS has a significant influence on the SCP ($0.352, p < 0.05$) which supported H4 of the study.

![Figure 7. Structural Model 5.](image)

Model Fits: $\chi^2/df=2.043$, GFI=0.92, AGFI=0.89, CFI=0.96, TLI=0.95, NFI=0.92, RMR=0.040, and RMSEA=0.057
5.4.6. Structural Model 6

In this model, we checked the combined influence of GFS and GNFS on the SCP (see Figure 8) to assess which government support has more influence on the SCP. Surprisingly, we concluded that GNFS has a more significant influence on the SCP as compared to GFS. Thus, we conclude that GNFS is better for the performance and SCP of SMEs operating in the emerging market of Pakistan.

\[ \chi^2/df = 1.792, \ GFI = 0.90, \ AGFI = 0.88, \ CFI = 0.96, \ TLI = 0.95, \ NFI = 0.91, \ RMR = 0.036, \text{ and } \text{RMSEA} = 0.049 \]

Figure 8. Structural Model 6.

5.4.7. Structural Model 7 (Mediation Testing)

Structural model 7 (see Figure 9) is executed to test the mediating role of SCP. We checked the mediating role of SCP between GFS and SMEs performance as well as between GNFS and SMEs performance by applying bootstrapping method (2000 re-sampling with 95% confidence interval) in AMOS. First, we ensured the model fits and confirmed that \( \chi^2/df \) and seventh (H7) hypotheses are partially supported in this study. R square indicates GFS and GNFS explain 22% change in SCP and 42% change in firm performance (through SCP).

Table 6. Hypotheses testing (With Mediation).

| Hypotheses                  | Direct Effect | \( p \) | Indirect Effect | \( p \) | Total Effect | \( p \) |
|-----------------------------|---------------|--------|----------------|--------|-------------|--------|
| Performance ← GFS (through SCP) | 0.140         | 0.011  | 0.053          | 0.004  | 0.193       | 0.003  |
| Performance ← GNFS (through SCP) | 0.235         | 0.001  | 0.089          | 0.000  | 0.325       | 0.001  |
| SCP ← GFS                   | 0.196         | 0.004  | -              | -      | -           | -      |
| SCP ← GNFS                  | 0.332         | 0.001  | -              | -      | -           | -      |
| Performance ← SCP           | 0.270         | 0.001  | -              | -      | -           | -      |
| Performance ← Age (through SCP) | 0.374         | 0.001  | 0.012          | 0.396  | 0.386       | 0.001  |
| Performance ← Size (through SCP) | 0.142         | 0.009  | 0.073          | 0.001  | 0.215       | 0.001  |
| Performance ← Education (through SCP) | 0.171         | 0.001  | -0.002         | 0.880  | 0.170       | 0.001  |
| SCP ← Age                    | 0.044         | 0.446  | -              | -      | -           | -      |
| SCP ← Size                   | 0.272         | 0.001  | -              | -      | -           | -      |
| SCP ← Education              | -0.006        | 0.894  | -              | -      | -           | -      |
6. Discussion

This study examined the influence of GFS and GNFS on SMEs performance with a mediating role of SCP. Unlike other studies where more emphasis has given to developed economies, moreover, the only direct influence of government support toward performance has been assessed. This study checked the mediating role of SCP between GFS, GNF and firm performance. The study collected empirical evidence from SMEs operating in the emerging market of Pakistan to test the model. The findings of this research give strong support to resource base view theory of Barney [18] who argued that firms with strong resources and capabilities gain an SCP in a turbulent market. However, prior studies have often ignored to test government support as resource base view theory in emerging markets. Moreover, this study also builds arguments for social network theory which indicates a firm connection with external bodies (businesses, government and financial institutions) to gain a competitive position and superior performance. To summarize the theoretical contribution of this research, we argue that this study presents ample evidence for resource base view and social network theory by examining the undiscussed zone for example, government support in rarely discussed markets.

Our findings show that GFS and GNFS have a significant influence on firm performance which supports H1 and H2 of the research. In the line with Clement and Hansen [12] who argued that government financial incentive enables firms to boost its operational performance and expand their business to gain a higher return. Similarly, Wei and Liu [23] pointed out that investment by government in different R & D projects and industries can enhance innovative performance and profitability of SMEs in emerging economies. Unlike Guan and Yam [29] who claimed that government financial incentive does not significantly related to SMEs performance in the emerging market of China, our results strongly favor Zhang et al. [47] who scrutinized a significant positive influence of government subsidies and supports on firm performance.

We found that both GFS and GNFS significantly contribute to a firm SCP in emerging markets and thus supported H3 and H4 of the research. Similar to the findings of Doh and Kim [4] who indicated that both for example, government financial and non-financial incentives can significantly enhance the...
competitive position of a firm. Similarly, Fajnzylber et al. [27] claimed that government support in term of credit, tax and loan access can facilitate a firm to achieve SCP in a turbulent market. Additionally, Mustar and Laredo [30] also argued that GFS can increase a firm innovativeness and reputation in a market. To summarize, our findings strongly support the arguments of Ma and Gao [31] who suggested that both financial and non-financial incentive by the government can improve innovativeness of business sectors which in turn help to gain an unbeatable position in the markets.

Our findings indicate a significant positive influence of SCP on firm performance which supported H5 of the study. Our findings are consistent with Yang, Ishtiaq and Anwar [7] who scrutinized that a firm competitive position can boost its performance in the turbulent market. As claimed by Schrettle et al. [48], a sustainable position or sustainability is deemed a significant driver to enhance a firm performance in future both in developed and developing economies. We hereby suggest that a firm with a competitive position can show monopoly in the markets which in turn gives high sales as compared to those firms who have no such position.

We found that SCP can partially mediate the relationship between GFS and firm performance as well as partially mediates the relationship between GNFS and firm performance—hereby partially supported H6 and H7 of the research. Our findings partially support Pergelova and Angulo-Ruiz [39] who claimed that GFS and GNFS have a significant direct influence on competitive advantage and indirect influence on firm performance. Moreover, Ding and Wu, [4] also argued that the relationship between the government supports or connection and firm performance can be mediated through firm internal capabilities including opportunity recognition. Based on the findings of this research, we scrutinized that SCP only partially mediates the relationship between government support and firm performance in the emerging market of Pakistan.

6.1. Implications for Practices

The present research has several implications for owners, top managers and policymakers. Our findings confirm that government support (financial and non-financial) ensure SCP and can boost the performance of SMEs. A firm with a small size and lack of resources can get the advantage of government support to expand its business operation. Many firms especially SMEs have a lack of financial resources, hence government financial incentives can be used for the development of new product, new services and technological adaptation to survive in the markets. Sustainability of a firm, however, considered to boost the performance in an environment where many alternatives exist. The same can be applied in emerging economies such as Pakistan where markets conditions are unstable and competition is at their peak. Moreover, government advisory service can help SMEs to enter into new markets or obtain the necessary information about market trends. In spite of the fact that SMEs are spending enough time and resources to gain a competitive position, we hereby suggest less risky and convenient ways to gain a SCP which in turn help in high profitability.

We suggest a few implications for managers of SMEs who face a big challenge to gain the SCP. We recommend building strong ties with government and political bodies. Building such kinds of relationship will enable them to acquire more useful resource easily. As aforementioned that governments have control over resources especially in emerging economies. Thus, this study suggests owners and top management team of SMEs to build new connections with political bodies as well as expand the existing ties. Unlike large firms and more stable firms, ventures in emerging economies can configure their survival through government facilitation. Hence, they are advised not to break ties with government bodies but are recommended to strengthen such network. As pointed by Anwar [40], many firms in the initial stage fail in Pakistan due to lack of resources. Hence, support from government will enable them to avoid financial shocks and expand their business easily. Since, Pakistan has many features in common with other emerging and developed economies. So, the implications are useful for owners and managers of SMEs operating in other neighbor countries including China and India and so forth.
We suggest government organizations and responsible bodies such as SMEDA to formulate their strategies in order to enhance the growth and survival of SMEs. For instance, a higher failure ratio of new ventures is pointed out in an emerging market, hence responsible authorities are advised to facilitate the firms which in turn can contribute to GDP and economic development. Additionally, it is argued that SMEs can contribute more than 40% to GDP, so their support will not be underestimated in any case. The implications are not only limited to the emerging economies, developed economies can also apply similar applications to enhance the growth of their small firms.

6.2. Limitations and Future Research

The present study has several significant implications in the current era but it is not free of limitations that should be addressed in future studies. The present study tested the model in the emerging market of Pakistan which may not be deemed a good representative of the whole world. Hence, more evidence can be collected from other emerging markets and developed economies to gain more useful insights. Though, we tested only financial and non-financial support of government towards SCP and SMEs performance, however, other factors such as financial institutions can also affect the performance. Bamgbade, Kamaruddeen and Nawri [49] suggested that market culture can mediate the relationship between government support and corporate sustainability. It is important to examine how market conditions can affect the relationship between GFS, GNFS and SCP. We focused on only SMEs, future researchers can collect data from large firms if they can get help from the government to gain an SCP and superior profitability.

7. Conclusions

This study examines the impact of GFS and GNFS on firm performance with a mediating role of SCP by using data set of 326 Pakistani SMEs. A structured questionnaire is used to collect data from top management team of SMEs operating in the emerging economy Pakistan. After applying AMOS, the results indicate that GFS and GNFS have a significant influence on SCP and firm performance. SCP partially mediates the relationship between GFS and firm performance as well as partially mediates the relationship between GNFS and firm performance. Policy makers and responsible authorities are advised to support the ventures in order to enhance the economic growth of nations. SMEs are supported in Europe by offering various forms of financial assistance to improve the environment. SMEs play a vital role in every economy but most importantly in the developing economy, it is used as an economic regulator. Therefore, this study argued for improving the performance of SMEs through government financial and non-financial support. Alternatively, we derived that older and large firms have more benefits to get government support as compared to newly established ventures because old firms have the advantage of early entry and time. However, we equally recommended for new and established to build very strong ties with government officials to access valuable resources.

Author Contributions: All the authors are equally contributed.

Funding: This research received no external funding.

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

References

1. Cooke, P.N.; Heidenreich, M.; Braczyk, H.J. (Eds.) Regional Innovation Systems: The Role of Governance in a Globalized World; Psychology Press: Hove, UK, 2004.
2. Heidenreich, M. Regional inequalities in the enlarged Europe. J. Eur. Soc. Policy 2003, 13, 313–333. [CrossRef]
3. Howells, J. Innovation and regional economic development: A matter of perspective? Res. Policy 2005, 34, 1220–1234. [CrossRef]
4. Doh, S.; Kim, B. Government support for SME innovations in the regional industries: The case of government financial support program in South Korea. Res. Policy 2014, 43, 1557–1569. [CrossRef]
5. Anwar, M.; Khan, S.Z.; Khan, N.U. Intellectual Capital, Entrepreneurial Strategy and New Ventures Performance: Mediating Role of Competitive Advantage. *Bus. Econ. Rev.* 2018, 10, 63–94. [CrossRef]

6. Gupta, N.; Mirchandani, A. Investigating entrepreneurial success factors of women-owned SMEs in UAE. *Manag. Decis.* 2018, 56, 219–232. [CrossRef]

7. Yang, S.; Ishtiaq, M.; Anwar, M. Enterprise Risk Management Practices and Firm Performance, the Mediating Role of Competitive Advantage and the Moderating Role of Financial Literacy. *J. Risk Financ. Manag.* 2018, 11, 35. [CrossRef]

8. Gupta, J.; Gregoriou, A. Impact of market-based finance on SMEs failure. *Econ. Model.* 2018, 69, 13–25. [CrossRef]

9. Desai, D.A.; Shaikh, A.J.A. Reducing failure rate at high voltage (HV) testing of insulator using Six Sigma methodology. *Int. J. Prod. Perform. Manag.* 2018, 67, 791–808. [CrossRef]

10. Joo, H.Y.; Suh, H. The Effects of Government Support on Corporate Performance Hedging against International Environmental Regulation. *Sustainability* 2017, 9, 1980. [CrossRef]

11. Wilson, R. Making development assistance sustainable through Islamic microfinance. *J. Econ. Manag.* 2007, 15, 197–217.

12. Clement, K.; Hansen, M. Financial incentives to improve environmental performance: A review of Nordic public sector support for SMEs. *Eur. Environ.* 2003, 13, 34–47. [CrossRef]

13. Anwar, M.; Shah, S.Z.A.; Khan, S.Z. The role of personality in SMEs internationalization: Empirical evidence. *Rev. Int. Bus. Strategy.* 2018, 28, 258–282. [CrossRef]

14. Dieleman, M.; Boddewyn, J.J. Using organization structure to buffer political ties in emerging markets: A case study. *Organ. Stud.* 2012, 33, 71–95. [CrossRef]

15. Pruthi, S.; Wright, M. Social Ties, Social Capital, and Recruiting Managers in Transnational Ventures. *J. East-West Bus.* 2017, 23, 105–139. [CrossRef]

16. Choi, J.J.; Jiang, C.; Shenkar, O. The quality of local government and firm performance: The case of China’s provinces. *Manag. Organ. Rev.* 2015, 11, 679–710. [CrossRef]

17. Guan, J.C.; Richard, C.M.; Tang, E.P.; Lau, A.K. Innovation strategy and performance during economic transition: Evidences in Beijing, China. *Res. Policy* 2009, 38, 802–812. [CrossRef]

18. Barney, J. Firm Resources and Sustained Competitive Advantage. *J. Manag.* 1991, 17, 99. [CrossRef]

19. Burt, R.S. The network structure of social capital. *Res. Organ. Behav.* 2000, 22, 345–423. [CrossRef]

20. Storey, D.J.; Tether, B.S. Public policy measures to support new technology-based firms in the European Union. *Res. Policy* 1998, 26, 1037–1057. [CrossRef]

21. Amsden, A.H. *Asia’s Next Giant: South Korea and Late Industrialization*; Oxford University Press on Demand: Oxford, UK, 1992.

22. Sheng, S.; Zhou, K.Z.; Li, J.J. The effects of business and political ties on firm performance: Evidence from China. *J. Mark.* 2011, 75, 1–15. [CrossRef]

23. Wei, J.; Liu, Y. Government support and firm innovation performance: Empirical analysis of 343 innovative enterprises in China. *Chin. Manag. Stud.* 2015, 9, 38–55. [CrossRef]

24. Fan, J.P.; Wong, T.J.; Zhang, T. Politically connected CEOs, corporate governance, and Post-IPO performance of China’s newly partially privatized firms. *J. Financ. Econ.* 2008, 84, 330–357. [CrossRef]

25. Li, H.; Meng, L.; Wang, Q.; Zhou, L.A. Political connections, financing and firm performance: Evidence from Chinese private firms. *J. Dev. Econ.* 2008, 87, 283–299. [CrossRef]

26. Hansen, H.; Rand, J.; Tarp, F. Enterprise growth and survival in Vietnam: Does government support matter? *J. Dev. Stud.* 2009, 45, 1048–1069. [CrossRef]

27. Fajnzylber, P.; Maloney, W.F.; Montes-Rojas, G.V. Releasing constraints to growth or pushing on a string? Policies and performance of Mexican micro-firms. *J. Dev. Stud.* 2009, 45, 1027–1047. [CrossRef]

28. Han, Y.J.; Kwon, S.J.; Chung, J.Y.; Son, J.S. The Effects of the Innovation Types of Venture Firms and Government Support on Firm Performance and New Job Creation: Evidence from South Korea. *Acad. Strat. Manag.* 2017, 16, 1–14.

29. Guan, J.; Yam, R.C. Effects of government financial incentives on firms’ innovation performance in China: Evidences from Beijing in the 1990s. *Res. Policy* 2015, 44, 273–282. [CrossRef]

30. Mustar, P.; Larédo, P. Innovation and research policy in France (1980–2000) or the disappearance of the Colbertist state. *Res. Policy* 2002, 31, 55–72. [CrossRef]

31. Ma, C.; Gao, C. Technical Innovation and Economics. *Sci. Technol. Rev.* 1997, 4, 18–22. (In Chinese)
32. Lado, A.A.; Boyd, N.G.; Wright, P. A competency-based model of sustainable competitive advantage: Toward a conceptual integration. *J. Manag.* 1992, 18, 77–91. [CrossRef]

33. Porter, M.E. *Competitive Strategy*; Free Press: New York, NY, USA, 1980.

34. Lechner, C.; Gudmundsson, S.V. Entrepreneurial orientation, firm strategy and small firm performance. *Int. Small Bus. J.* 2014, 32, 36–60. [CrossRef]

35. Kang, K.N.; Park, H. Influence of government R&D support and inter-firm collaborations on innovation in Korean biotechnology SMEs. *Technovation* 2012, 32, 68–78.

36. Bennett, R.; Robson, P. Changing use of external business advice and government supports by SMEs in the 1990s. *Reg. Stud.* 2003, 37, 795–811. [CrossRef]

37. Ding, R.; Li, J.; Wu, Z. Government affiliation, real earnings management, and firm performance: The case of privately held firms. *J. Bus. Res.* 2018, 83, 138–150. [CrossRef]

38. Guo, H.; Xu, E.; Jacobs, M. Managerial political ties and firm performance during institutional transitions: An analysis of mediating mechanisms. *J. Bus. Res.* 2014, 67, 116–127. [CrossRef]

39. Pergelova, A.; Angulo-Ruiz, F. The impact of government financial support on the performance of new firms: The role of competitive advantage as an intermediate outcome. *Entrep. Reg. Dev.* 2014, 26, 663–705. [CrossRef]

40. Anwar, M. Business model innovation And SMEs Performance—Does competitive advantage mediate? *Int. J. Innov. Manag.* 2018, 1–35. [CrossRef]

41. Zamberi Ahmad, S.; Xavier, S.R. Entrepreneurial environments and growth: Evidence from Malaysia GEM data. *J. Chin. Entrep.* 2012, 4, 50–69. [CrossRef]

42. Su, Z.; Guo, H.; Sun, W. Exploration and firm performance: The moderating impact of competitive strategy. *Br. J. Manag.* 2017, 28, 357–371. [CrossRef]

43. George, D.; Mallory, P. *SPSS for Windows Step by Step. A Simple Study Guide and Reference*, 10th ed.; Allyn and Bacon: Boston, MA, USA, 2010.

44. Hair, J.F.; Anderson, R.E.; Babin, B.J.; Black, W.C. *Multivariate Data Analysis: A Global Perspective*; Pearson: Upper Saddle River, NJ, USA, 2010; Volume 7.

45. Podsakoff, P.M.; Organ, D.W. Self-reports in organizational research: Problems and prospects. *J. Manag.* 1986, 12, 531–544. [CrossRef]

46. Hu, L.T.; Bentler, P.M. Cutoff criteria for fit indexes in covariance structure analysis: Conventional criteria versus new alternatives. *Struct. Equat. Model.* 1999, 6, 1–55. [CrossRef]

47. Zhang, H.; Li, L.; Zhou, D.; Zhou, P. Political connections, government subsidies and firm financial performance: Evidence from renewable energy manufacturing in China. *Renew. Energy* 2014, 63, 330–336. [CrossRef]

48. Schrettle, S.; Hinz, A.; Scherrer-Rathje, M.; Friedli, T. Turning sustainability into action: Explaining firms’ sustainability efforts and their impact on firm performance. *Int. J. Prod. Econ.* 2014, 147, 73–84. [CrossRef]

49. Bamgbade, J.A.; Kamaruddeen, A.M.; Nawari, M.N.M. Malaysian construction firms’ social sustainability via organizational innovativeness and government support: The mediating role of market culture. *J. Clean. Prod.* 2017, 154, 114–124. [CrossRef]

© 2018 by the authors. Licensee MDPI, Basel, Switzerland. This article is an open access article distributed under the terms and conditions of the Creative Commons Attribution (CC BY) license (http://creativecommons.org/licenses/by/4.0/).