

ISSN 1561-8706 (print)  
ISSN 2521-005X (online)

# PAKISTAN BUSINESS REVIEW

An HEC Approved “X” Category Journal

Volume 20, Issue 2

July, 2018



**INSTITUTE OF BUSINESS MANAGEMENT (IoBM)**  
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# THE IMPACT OF RELATIONSHIP BENEFITS ON CUSTOMER LOYALTY IN SERVICE FIRMS

Abdul Qayyum <sup>1</sup>, Sana-ur-Rehman <sup>2</sup> and Asif Sanaullah <sup>3</sup>

## Abstract

*Customer Loyalty (CL) is largely determined by the amount of relationship benefit and commitment associated with service providers. The purpose of this study is two-fold: First, to investigate the impact of relationship benefit facets namely confidence, social and special treatment benefits on CL and secondly, to investigate the impact of multi-dimensional commitment on CL. Data collected from the customers of three different service industries: fast food outlets, restaurants and dress cleaning services was analyzed by factor analysis and regression procedures. Sobel's procedure was used to confirm the mediation effect of commitment. The results demonstrate that relational benefits have significantly positive impact on CL in selected service sectors. Moreover, relationship benefits have positive and strong impact on three facets of customer commitment and commitment influence the impact of relationship benefits on CL. This study might help marketing manager in service organizations to understand the impact of relationship development and commitment mechanism in a way that it may enhance customer's loyalty towards the current service provider.*

**Keywords:** Customer Relationship Benefits, Customer Commitment, Customer Loyalty, Loyalty to Service Provider, Special Treatment Benefits.

**JEL Classification:** L 800

## Introduction

Building strong customer base is an essential element in contemporary marketing dynamics. Firms may attain such a customer base and competitive advantages over rival firms through customer relationship management (CRM) (Reichheld, 1993). Retaining loyal customers for repeat selling, instead of increase in market share by finding new customers is considered more economical for companies (Sheikh & Beise-Zee, 2011). Loyal customer tends to pay a premium price to

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service provider because of the value of relationship (Reichheld & Sasser, 1990). In services sector, relationship benefits are considered as predictor of satisfaction which ultimately leads to positive consumer behavior such as loyalty (Henning-Thurau et al., 2002). On the other hand, commitment towards relationship marketing has been considered as internal aspiration for consumer and producer for remaining in long term and mutually benefited relationship (Moorman et al., 1992). This internal aspiration based on mutual benefit sets the foundation for customer and service provider to make relationship successful and fruitful (Morgan & Hunt, 1994; Gundlach et al., 1995).

Numerous research studies have examined the impact of developing customer relationship on Customer Loyalty (CL) and other related consequences, such as positive word-of-mouth, repurchase or goodbye intentions (Hassan et al., 2015; Rahimi & Kozak 2017; Al-Qeed, et al., 2017). Yet the research studies fail to the mediating role of multi-dimensional construct of customer commitment on relationship benefits and CL in the context of a developing country like Pakistan. The present research is an effort to explore the impact of multi facet relationship benefit on affective, continuance and normative types of commitments and on the positive behavioral consequences of loyalty.

### **Theoretical Background**

#### *Relationship Benefits*

In addition to the core product and services benefit, customer may value long-term relationship with the service provider. Relationship benefits are such which customers are likely to receive after engaging in long term relationships with the service providers (Gwinner et al., 1998). Such benefits may be further categorized as confidence, social and special treatment benefits.

Confidence benefits is defined as a positive psychological state of customer attitude towards service provider which helps in building trust and confidence at the time of encounter (Gwinner et al., 1998). Confidence benefit plays an important role in creating a loyal and committed customer, by increasing relationship competence and by decreasing the cost associated in transaction (Henning-Thurau et al., 2002). Moreover, results of the above mentioned researcher finds a strong positive association between confidence benefit and positive behavioral outcomes such as commitment.

Social benefits refer to the benefits associated with human emotions, including friendship, association, liking and personal recognition (Gwinner et al., 1998). Bitner (1995) contends that in a client-service provider relationship, social benefits help in developing mutual understanding in the pursuit for fostering beneficial relationship. Goodwin and Gremler (1996) and Henning-Thurau et al. (2002) confirm significantly positive relationship among social benefits and commitment as positive behavioral outcome.

Treatment benefits include benefits that are tangible in nature, such as, customized service to

individuals, discounts, rebate cards and any sort of special treatment (Gwinner et al., 1998). Special treatment benefit is so important that customers may leave the existing relationship with the service provider on account of expecting special treatment from the new service provider (Patterson & Smith, 2001). Customer with intent to stay in a long term relationship with a service firm expect more than satisfaction in the form of confidence, social and special treatment benefits (Gwinner et al., 1998). To be in a long term relationship between service provider and customers is considered a two way process. Each entity in this process seeks its own benefits in some way or the other. Service firms hope long lasting profitable relationship through customers in order to achieve strategic goals such as loyalty, increased customer life time value and increase in sales (Kinard & Capella, 2006; Patterson, 1996). On the other hand customers are expecting to get augmented benefits along with the core product in the form of confidence, social and special treatment benefits (Gwinner et al., 1998; Reynolds & Beatty, 1999).

### *Commitment*

The concept of commitment stems from the literature of sociology and psychology, where the term 'commitment' is used for a particular pattern of individual behavior related to motivation or decision (Kiesler, 1971). Commitment is considered as one of the most important variables in a long lasting relationship between parties (Morgan & Hunt, 1994; Fullerton, 2003). It is a force which compels both parties to be in a long lasting relationship (Morgan & Hunt, 1994). Commitment has been used to measure such future buying intentions of buyers. Due to differences in conceptualization and operationalization, as well as, advancement in organizational psychology research, literature divides commitment construct mainly into affective (i.e. attachment because of liking and identification), calculative (referring attachment because of instrumental reasons) and normative (attachment due to felt obligations) approaches (Cater & Zabkar, 2009).

Relational partners want to stay in relationship for the reason of liking and identification elements, which create a sense of belongingness and loyalty. Emotional aspect, such as, attachment with service provider, likings and positive feelings are considered the core elements of affective commitment (Allen & Meyer, 1990). Emotionally attached customers trust their service provider more than that of non-affectively devoted customers. Affective commitment shows the affective nature of relationship amongst client and service provider based on the positive psychological condition of client towards service provider (Kumar et al., 1994; Gundlach et al., 1995). This positive psychological state and feeling in the direction of a particular brand or service provider ultimately transfers into attitudinal loyalty (Fullerton, 2003).

Calculative commitment is grounded on cost and benefit analysis by client in association with the service or product (Morgan & Hunt, 1994). It means that customer will decide to stay in a relationship if they find greater benefit than cost. One motivation for being in a relationship is to reduce the massive switching cost (Jones et al., 2002). Absence of viable alternative, discount and

other exogenous variable might be the root cause of calculative/continuance commitment which lead to the continuity consequence (Evanschitzky et al., 2006). Gilliland and Bello (2002) identifies calculative commitment as “task-oriented attachment bond based on rational decision” (p. 34).

The relational partners may also stay in a relationship due to a sense of obligation (Kumar et al., 1994) and decide to be committed to a specific service provider or company. The underlying reason of customers’ this obligation might vary, ranging from company’s association to a specific cause or customer’s specific source of obligation toward the company or product or cause (Sheikh & Beise-Zee, 2011). According to Gruen et al. (2000) normative commitment is a level by which a customer is psychologically bond to the institution on the basis of his sense of obligation to the institution. This felt obligation might be developed from a social pressure to act in certain manner or conform to certain behavioral standards (Meyer & Allen, 1997). Normative commitment is the most understudied variable among all different types of commitments.

### *Customer Loyalty*

Customer loyalty is “a deeply held commitment to re-buy or re-patronize a product or service consistently in the future, despite situational influences and rival marketing efforts having the potential to cause switching behavior” (Oliver, 1997). CL can be a permanent and significant attitude towards anything which might be a brand, service or product. Loyalty is different than commitment in a way that commitment consists of a sense of motivation and a particular attitude towards a relationship while loyalty is a set of complex behavioral factor (Cater & Zabkar, 2009).

Zeithmal et al. (1996) argue that loyalty, as a study variable, will remain limited and neglected without its holistic view. On the basis of research findings and empirical evidences they proposed a number of behavioral dimensions namely, word of mouth communication, re- purchase intentions, price insensitivity and complaint behavior.

Relationship marketing is an important and essential component for an organization to get economic benefit by retaining the customer (Verhoef et al., 2002). As a service provider and customer engage in the process of exchange and transaction, element of relationship benefits especially confidence benefit proves to have significant impact on commitment and loyalty (Henning-Thurau et al., 2002). The impact of social benefit on loyalty is a relation that has been proved empirically in many research settings (Reynold & Beatty, 1999; Henning-Thurau et al., 2002). However, the impact of special treatment benefits on loyalty is discussed to a lesser degree with a limited discussion by Ruiz-Molina et al. (2009) focusing on retail business only. It is pertinent to mention here that the current study is an effort to see the combine impact of confidence, social and special treatment benefits on customer loyalty specifically, in retail service sector in a developing country. Therefore, it is proposed that;

*H1:* There is a significant positive impact of relationship benefits on customer loyalty.



Consumer perception regarding relationship benefits depends on the nature of product. Highly customized product customers tend to be more interested in relational benefits offered by the service provider than that of standardized moderate service provider (Kinard & Capella, 2006). According to the reciprocity principle, among relational benefits, confidence benefit is positively associated with the continuation of service used by the customer (Gwinner et al., 1998), and is deliberated as the utmost important factor in creating and improving commitment (Goodwin & Gremler, 1996; Henning-Thurau et al., 2002). Social benefit helps companies in building service based social relationship with customers in order to improve and extend relationship for a long period of time i.e. commitment (Bitner, 1995). According to Dagger et al. (2011) among the different relational benefits social benefit found to have significant impact on commitment. Combining all these three components of relationship benefits it is proposed that:

*H2: There is a significant positive impact of relationship benefits on customers' commitment.*

In persuasion of fostering long term relationship between the client and the service provider commitment plays a very important role (Wang et al., 2009). The stability of relationship mainly depends on commitment. Commitment has always been considered as one of the main antecedent of positive behavioral outcomes from customer. Committed customers tend to regard relationship and give proper attention in fostering relationship. Majority of researcher consider commitment and loyalty as two distinctive construct and consider commitment as antecedent of loyalty (Havitz, & Howard, 1999; Henning-Thurau et al., 2002; Fullerton, 2005; Brown & Peterson, 1994). Commitment of customer develops at the stage when they repurchase or re-buy without any expectation of encouragement from the service provider. In fact, the deeply held commitment from customer results in development of loyalty. Commitment is also termed as "resistance to change" and an antecedent of loyalty (Havitz & Howard, 1995). Among the multi-dimensional construct of commitment, affective commitment has significant influence than of calculative/continuance commitment (Fullerton, 2003; Evanschitzky et al., 2006). Furthermore, Evanschitzky et al. (2006) concluded that behavioral loyalty from customer is mainly because of affective commitment. Hence it is proposed that:

*H3: There is a significant positive impact of customer's commitment on customer's loyalty.*

*H4: Customer commitment mediates the impact of relationship benefits on customer loyalty.*

Considering the above mentioned hypothesis and literature a schematic diagram is proposed as shown in Figure 1. Relationship Benefit as independent variable helps to determine customers' commitment and customer loyalty towards the product or services of a company.

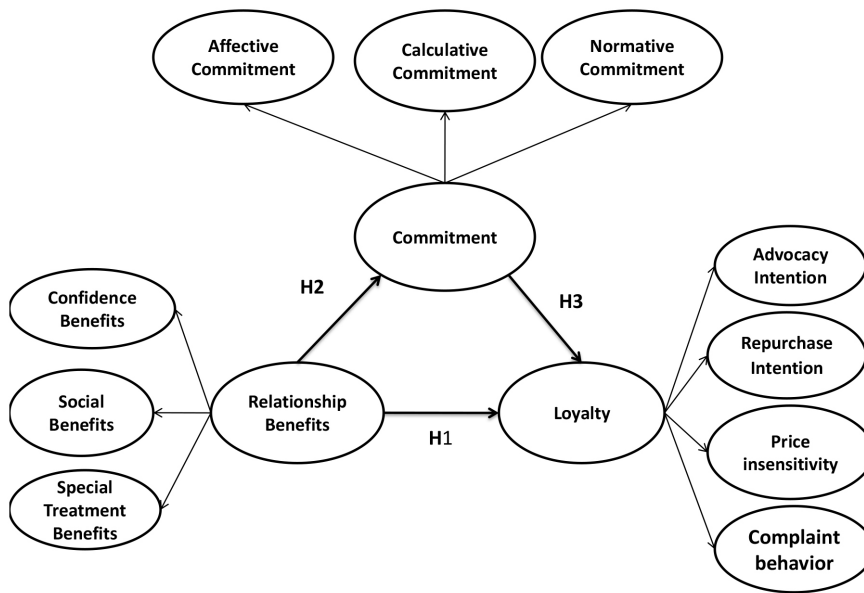


Figure 1: Conceptual framework

### Research Methodology

The current research was designed to examine the association among Relationship Benefit (RB) on behavioral CL, and to check the mediating role of commitment. Confidence benefits, Social benefits and Special treatment benefits were taken as facets of RB. RB was used as a independent variable, while LOYALTY as dependent and facet of COMMITMENT as mediating variable. The data was collected from customers of restaurants, dry cleaning and fast-food service providers located in Rawalpindi/Islamabad, the twin cities of Pakistan, following the taxonomy of service categorization as proposed by Bowen (1990). Service sector was divided in three groups namely; (1) “High contact, customized personal service”, (2) “Moderate contact, semi customized, non-personal services” and (3) “Moderate contact, standardized service”. High contact, customized personal service category includes 10 restaurants, moderate contact customized personal service sector include the 5 laundry services and the moderate contact, semi customized, non-personal service organization used for survey includes 10 fast food outlets. The names of the organizations/companies have not been shown for the sake of anonymity but broadly categorized as displayed in Table 1.

Table 1

*Broader categories encompassing different respondents approached in different sectors.*

	<b>No &amp; Types of Organizations</b>	<b>Respondents' Distribution</b>
High contact, customized personal service	10 Restaurants	200
Moderate contact, semi customized, non-personal services	5 Dry Cleaning Companies	200
Moderate contact, standardized service	10 Fast-food Outlets	200
Total		600

Total 700 subjects were approached randomly, of which 600 participants actively contributed in the study, 200 customers from each group. For data collection, structured close ended questionnaire was adopted having combined items related to RB, Commitment and CR. RB scale was adopted from the study of Gwinner et al. (1998), while for the affective commitment, continuance commitment and normative commitment from the work of Allen & Meyer (1990) and for Loyalty from Zeithaml et al. (1996). Seven point Likert scale was used for measuring all the items, with 1 representing 'strongly disagree' and 7 'strongly agree'.

### *Analysis*

Data is analyzed through descriptive statistics, and applying correlation, regressions, exploratory and confirmatory factor analysis by using IBM SPSS 20 and AMOS 20. Sobel (1982) test is used to check the mediating effect between independent and dependent variable. Descriptives are shown in Table 2. The relative position of the key responses is shown through mean and standard deviations (SD). The value of means show that majority of the responses fall within 5 (agree somewhat) category.

Table 2

*Descriptive Statistics of Variables*

Variables	No. of Items	M	SD	A	VE
Confidence Benefit	4	5.04	1.20	.82	.55
Social Benefit	4	5.24	1.11	.80	.51
Special Treatment Benefit	4	5.21	0.97	.88	.45
Affective Commitment	3	5.20	1.23	.77	.56
Calculative Commitment	3	5.18	1.21	.73	.56
Normative Commitment	3	5.18	1.18	.82	.62
Advocacy Intentions	3	5.39	1.04	.71	.50
Price Insensitivity	3	5.27	1.02	.70	.45
Repurchase Intentions	2	5.04	1.23	.71	.47
Complaint Behavior	4	5.09	1.05	.78	.47

$\alpha$  represents Cronbach alpha.

As there are 33 items measuring different theoretical constructs, Exploratory Factor Analysis (EFA) is employed by Principal Component Analysis (PCA) in order to confirm that items are factor-loading together in expected number of groups. Our conceptual model has three basic constructs i.e. RB, COMMITMENT and LOYALTY, that's why, three different EFA are performed for related items separately, as shown in Figure 1.

Table 3

*Extracted Rotated Component Matrix*

		Extracted Components			
		1	2	3	4
For Relationship Benefits (RB)	CB1	.742			
	CB2	.822			
	CB3	.841			
	CB4	.814			
	SB1		.801		
	SB2		.836		
	SB3		.768		
	SB4		.748		
	STB1			.731	
	STB2			.782	
	STB3			.796	
	STB4			.714	
For COMMITMENT AC1	AC1	.778			
	AC2	.864			
	AC3	.831			
	CC1		.809		
	CC2		.806		
	CC3		.787		
	NC1			.841	
	NC2			.865	
	NC3			.857	
For LOYALTY	ADI1	.799			
	ADI2	.823			
	ADI3	.712			
	PRI1		.552		
	PRI2		.836		
	PRI3		.834		
	RI1			.882	
	RI2			.845	
	CMB1				.725
	CMB2				.776
	CMB3				.794
	CMB4				.771

Extraction Method: Principal Component Analysis for all constructs separately.

Rotation Method: Varimax with Kaiser Normalization for all constructs separately.

This process extracted three components for RB construct, explaining 62.871% of total cumulative variance, as shown in section one of Table 3. Three components are extracted for COM-

MITMENT related construct, which explains 70% of total cumulative variance. Finally, four components are extracted for customer LOYALTY construct, which explains 64.767% of total cumulative variance. For all components Varimax with Kaiser Normalization rotation technique was applied in order to get explicit identification of factor loadings.

### *Confirmatory Factor Analysis*

Confirmatory Factor analysis (CFA) is performed in order to check measurement models validity aimed at RB, COMMITMENT and LOYALTY constructs and to check either hypothesized measurement models as specified by theory best fit the collected data. First and second order levels of CFA models for each constructs are shown in different sections of Figure 2, with related measurement error terms and estimation residuals. Number of estimated parameters and goodness-of-fit statistics in lieu of all these constructs are presented in Table 4. It is evident from the hypothesized model of RB that it fits well with the collected data as indicated by different statistics, such as, CFI of 0.913 and RMSEA of 0.081. Same is true for other two constructs as well.

Table 4:  
*Parameters and Goodness-of-Fit statistics*

	Constructs		
	RB	COMMTMENT	LOYALTY
1 <sup>st</sup> order Regression Coefficients	9	6	8
2 <sup>nd</sup> order Regression Coefficients	3	3	4
No. of measurement error variances	12	9	12
No. of residual error terms	3	3	4
Total No. of estimated parameters	27	21	28
Moments or No. of data points [p (p*+1) ] /2	78	45	78
df= No. data points - No. of estimations	51	24	50
$\chi^2$	252.356	51.168	223.905
Goodness-of-fit index (GFI)	.930	.981	.942
CFI	.913	.983	.897
RMSEA	.081	.043	.076
Hoelter's .01 index	184	504	204

\*P represents total number of variables used in a construct

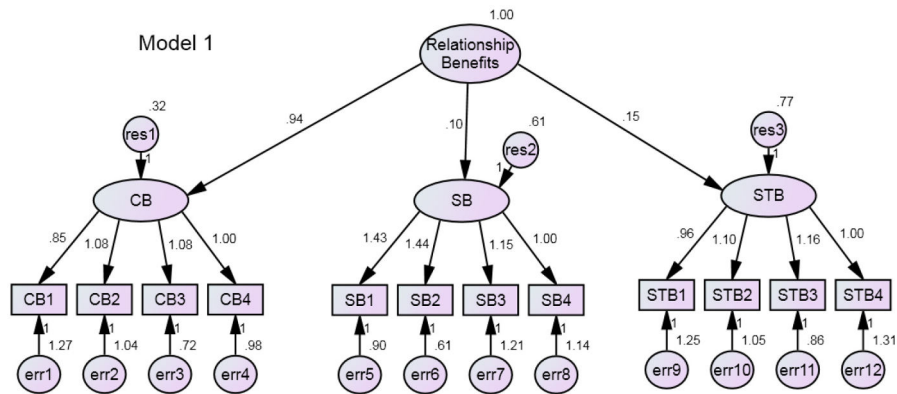


Figure 2: Unstandardized Models Estimation

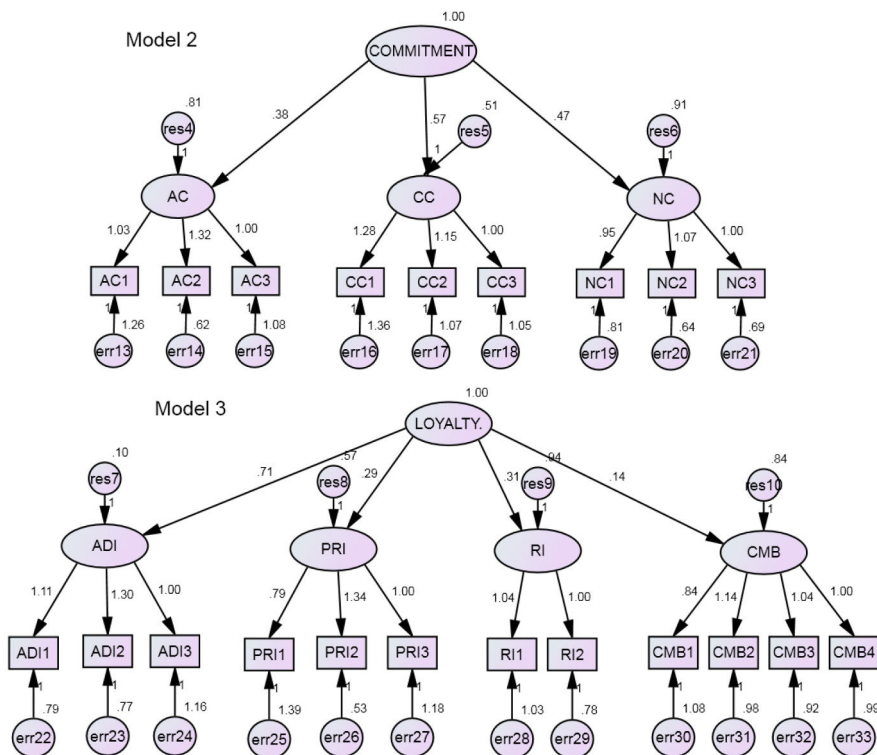


Figure 3

Table 5  
*Regression Models*

<b>Independent Variable</b>	<b>Model A</b>	<b>Model B<sup>a</sup></b>	<b>Model C</b>	<b>Model D</b>
<b>Constant term</b>	3.198*** (0.178)	2.575*** (0.218)	3.241*** (0.153)	2.471*** (0.185)
<b>Relationship Benefits (RB)</b>	0.387*** (0.034)	0.505*** (0.042)		0.245*** (0.036)
<b>Commitment<sup>a</sup></b>			0.378*** (0.029)	0.283*** (0.031)
<b>R</b>	0.422	0.526	0.468	0.526
<b>R<sup>2</sup></b>	0.178	0.276	0.219	0.276
<b>N</b>	600	600	600	600

Dependent variable: Customer Loyalty (CL) for Model A, C, D

<sup>a</sup>Dependent variable : Commitment for Model B

\*\*\* indicates  $p < 0.01$ , Standard Error in parenthesis

### *Multiple Regression Analysis*

After validating the measurement models, multiple regression is applied to analyze the stated hypothesis for this research. Regression Model A in Table 5 shows that RB have positive effect on LOYALTY, as a unit change in RB as independent variable fetches 0.387 units change for dependent variable ( $b = 0.387$ ,  $p < .01$ ), hence proving H1. According to Model B, a unit change in independent variable RB brings 0.505 units change in dependent variable COMMITMENT ( $b = 0.505$ ,  $p < .01$ ) with high correlation ( $r = .444$ ,  $p < 0.01$ ), hence proving H2. According to Model C a unit change in COMMITMENT, now as independent variable, brings 0.378 units change in dependent variable LOYALTY with high correlation ( $r = .468$ ,  $p < 0.01$ ), hence proving H3.

For the assessment of mediation effect regression Model D is calculated, by inclusion of an additional variable COMMITMENT in Model A. The contribution or effect of RB variables on LOYALTY decreases from  $b = 0.387$  ( $p < .01$ ) to  $b = 0.245$  ( $p < .01$ ), as evident from Model A and D. However, this reduction in coefficient term of LOYALTY has not shown statistically equal to zero – as a condition of complete mediation. However, value of R<sup>2</sup> improves. Therefore, it is determined that partial mediation effect exists of COMMITMENT on RB –LOYALTY relationship, hence proving H4. Furthermore, significance of this mediation effect is analyzed with the help of Sobel (1982) Test.

### *Sobel Test*

Sobel test as a predictor of mediation effect (Preacher & Hayes, 2004), is essentially, a dedicated t-test. It is tool that helps to determine the amount of effect decrease in independent variable, after adding mediator in the model. Following the Z-distribution, the calculated (critical) ratio between the coefficients' product of indirect paths ( $ab$ ) and respective standard errors ( $sab$ ) is

matched with critical value given by the standardized normally distributed appropriate alpha value. Roughly critical value for the two-tailed test, assuming that the sampling distribution of the product of indirect coefficients ( $ab$ ) normal, at  $\alpha = .05$  is  $\pm 1.96$ . Here 'a' and 'b' represents the coefficients of indirect paths or more precisely saying 'a' is coefficient of RB in regression equation of RB→COMMITMENT and 'b' is the coefficient of COMMITMENT→LOYALTY. The simple total effect of RB on LOYALTY is represented with c, while c' is the effect of RB on LOYALTY with mediation factor of COMMITMENT. Whereas, standard errors of a, b and ab are denoted by  $s_a$ ,  $s_b$  and  $s_{ab}$  respectively as shown in Table 6. The value of  $s_{ab} = 0.021627$  is calculated by using the following formula:

$$s_{ab} = \sqrt{a^2 s_b^2 + b^2 s_a^2 + s_a^2 s_b^2} \dots \dots \dots (1)$$

According to Sobel (1982) if critical ratio falls outside of the stated interval  $\pm 1.96$  at given confidence level the mediation effect is considered significant. The critical ratio  $Z_{ab} = ab / s_{ab}$  is 8.82205 for this study indicating that mediation effect of COMMITMENT falls outside the  $1.96 \pm$  interval, suggesting that the mediation effects is statistically significant.

Table 6  
*Coefficients and respective standard errors*

Coefficients	Model A	Model B	Model C	Model D
c,	0.387			
a, $s_a$		0.505, 0.042		
b, $s_b$			0.378, 0.029	
c'				0.245
ab, $s_{ab}$			.1908, 0.0216	

Where  $s_a$ ,  $s_b$  and  $s_{ab}$  represents standard errors of a, b and ab.

### Discussion and Conclusion

This study was initiated with an objective of testing the relationship of three facets of Relationship Benefits: confidence benefit, social benefit and special treatment benefit from three different service industries categorize by Bowen (1990), on Customer Loyalty and bridging three different facets Commitment as mediator. The study is conducted by contacting the customers of restaurants, fast food and dry cleaning industry, with convenient sampling.

The results are showing significantly positive impact of Relationship Benefits upon customer loyalty as evident from H1. It means that customers strongly tied up in relationship with companies show higher level of loyalty towards company. Moreover, results show a significant positive impact of customer relationship on commitment, as evident from H2, illustrating that customer highly



engaged in relationship with companies find himself/herself more bound to stay with the service provider than those customers with less strong relationship.

The mediating effect of commitment on customer relationship and loyalty, as proved by regression analysis and Sobel test, highlight the importance of customer's commitment. It means that when companies give more attention, dedication and time to the customers, a customer relation is developed with the service provider, leading toward the development of customer commitment. Once customer's commitment is developed towards the company, customer becomes repeat buyer and more loyal and as a result commitment starts playing an affective role. If a company has consistency in delivering relationships and cultivate customer's commitment it will ultimately cultivate customer loyalty.

The findings of this study may help marketing manager of service organizations to understand the importance of design customers' relationship mechanism in such a way that may enhance commitment towards company. This research also suggests that managers should devise different strategies to create customers' positive emotions and long term social bondage for mutual benefits and improving commitment in order to get results in terms of future positive intentions.

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# THE COMBINED EFFECTS OF JOB CHARACTERISTICS AND CULTURAL ORIENTATION ON CITIZENSHIP BEHAVIOR

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## Abstract

*This study examined the relationship of job contextual and relational characteristics with organizational citizenship behavior under cultural orientation at organizational level. The basic assertion was that employees who were more inclined toward collectivist cultural orientation would exhibit Organizational Citizenship Behavior in the presence of enriched job characteristics. Out of 230, only 171 usable responses received. Job contextual and relational characteristics were strongly related with organizational citizenship behavior and cultural orientation at organizational level moderated the relationship of job characteristics with Organizational Citizenship Behavior.*

**Keywords:** Job Characteristics, Perceived Supervisor Support (PSS), Organizational Citizenship Behaviors (OCB), Cultural Orientation (CO).

**JEL Classification:** Z 000

## Introduction

Organizational citizenship behaviour (OCB) is one of the genuinely detected field in industrial-organizational psychology and human resource management literature (Paul, Bamel, & Garg, 2016; Podsakoff, Whiting, Podsakoff & Blume, 2009). Since in the last two decades, OCB has attained noteworthy research contemplation in growing number of studies (Gupta & Singh, 2012). OCB literature make known that researchers have mainly focused on two concerns: firstly, understanding the antecedents of OCB (Tziner & Sharoni, 2014); and secondly, high-lighted the encouraging inferences of OCB on organizations (Tziner & Sharoni, 2014).

Currently, it is being concentrated on finding the positive paradigms that are affecting OCB. One of the positive example of such type of construct is job design; Job design has some attributes

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and that determine their reinforcement behavior such as more efforts for the organization (Kónya<sup>1</sup>, Matic & Pavlovic, 2016). Employee motivation is considered as a vital component in the growth of any organization across the industry (Tampu, 2015). According to Lai, Lam<sup>1</sup> and Lam<sup>2</sup> (2013) in a challenging work environment, the role of culture is crucial in determining employees behavior within groups and organizations. In any Organization culture role is fundamental in making an autonomous environment in the organization for individuals (Girma, 2016). Organizations are characterized by their own job design and management style (Mushtaq, Raja & Khan, 2017) which is highly influenced by the cultural context of any organization and is likely to produce certain outcomes through employees' behavior and attitude (Zahari & Shurbagi, 2012).

Drawing upon the job characteristics theory, social exchange theory and associated literature in existing paper it is being pursuit how culture is considered as a critical factor that will stimulate employees to take up the responsibilities of high scope jobs that would lead to improve productivity.

The drive of the current study is twofold. First, it observed the direct association between job characteristics including contextual, relational perspectives and OCB. Secondly, the impact of culture is taken and checked as a moderator between independent and dependent factors.

### **Literature review**

#### *Organizational Citizenship Behavior (OCB)*

OCB has acquired a large extent academic attention since its conception. It refers to no matter what those employees decide to do with their own will, which is not included in their contractual obligations. Such type of employees' behavior gives benefit to employees and organization (Alizadeh, Darvishi, Nazari & Emami, 2012; Tziner & Sharoni, 2014).

According to Williams and Anderson (1991), organizational citizenship behavior directed toward individuals (OCBI) is related the altruism and courtesy and organizational citizenship behavior directed toward the organization (OCBO) is related the sportsmanship, civic virtue, and conscientiousness. According to Podsakoff, et al. (2009), of the two forms of OCB, OCBI is more likely accustomed with the collectivistic culture (CC). In collectivistic culture oriented (CCO) organization stronger significance is given to social harmony, cooperation, and interpersonal relations (Podsakoff, et al., 2009).

Unexpectedly, a lesser amount of attention is given to the cultural perspective of OCB (Organ et al., 2006). Hence, OCB is affected by cultural dimensions, such as Individualism–collectivism (Gelfand et al., 2007). Therefore, cultural impact on OCB cannot be ignored in various organizations settings.

*Task Identity (TI)*

TI refers to the completeness of work by employees and such identification gives higher motivation to workers for doing the job (Hackman & Oldham, 1976).

Task type theory addresses that without the clear nature of the task, it becomes difficult to perform specific job role (Hackman & Morris, 1975). McGrath (1984), differentiates tasks among four main types including generate, choose, negotiate, and execute tasks. At the execution level interaction helps towards high performance.

Similarly, according to situational strength theory, for good performance, situation at work has important effect on employees' behavior (Cooper & Withey, 2009). The current research investigates that TI provides clear direction and specific situational cues to all employees for better performance (Ebrahimpour, Salarzahi, Tamini, Khalili, Habibian, 2011).

Therefore, it is hypothesized that:

*H1: TI is positively related the OCBI.*

*Task significance (TS)*

While employees recognize that their job tasks have an affirmative and significant impact on the lives of other people, they are to be expected to exercise efforts for the successful and timely completion of tasks (Grant, 2008; Morgeson, Delaney-Klinger & Hemingway, 2005).

Meaningfulness of a task leads to high job performance and extra role behavioral. Employees motivational thrust enhance for completion of their assigned tasks (Ebrahimpour, et al., 2011). The following hypothesis was generated on the basis of the above mentioned arguments:

*H2: TS is positively related the OCBI.*

*Job Autonomy (JA)*

Job Autonomy (JA) refers to the authority of employees so they perform the work duties with freedom and the job permits them sovereignty, independence and freedom of choice to schedule work, make verdicts and to select appropriate methods for the performance of work tasks (Garg & Rastogi, 2006).

JA is an intrinsically motivational factor, used for improving employee's aspiration for a sense of responsibility, and productive change (Chien & Su, 2009; Ebrahimpour, et al., 2011) and provide leverage to the employees existing knowledge and skills and it allows in developing their scope of accountability (Parker, Wall & Jackson, 1997). On the basis of above the arguments, we

expect that JA serves as a significant mechanism to enhance OCB.

*H3: JA is positively related to OCBI.*

#### *Perceived Supervisor Support (PSS)*

According to Oldham and Hackman (2010) ignored relational aspects of job characteristics need attention in the contemporary work design. Social exchange theory depicts that organizations function by means of equally appropriate relationships of parties that give and take different benefits with socio-emotional benefits (Organ, 1988). There have generally been two alike, yet distinctive, intentions within the social exchange perspective for why employees exhibit OCB's. Firstly, when employees identify that they are treated justly, the norm of reciprocity says that they should reciprocate. The second intention is more proactive: when the employees treated impartially by their supervisors and they believe that their acts and contribution will be fairly rewarded over the long-term and in trade-off they sacrifice beyond their limits for their organization and colleagues (Benjamin, 2012; Mushtaq et al., 2017). PSS is an important relational perspective of job characteristics and hence from above mentioned fact it can be hypothesized that:

*H4: PSS is positively related to OCBI.*

#### *Moderating Role of Culture*

Culture is pivotal for the growth of any organization. Theorists and practitioners alike recommend that improved culture support in retrieval organizational; competitiveness and invigorating weakening organizations (Cameron & Freeman, 1991).

Individualism-Collectivism (IC) dimensions of culture are very important to distinguish the individuals on the basis of their orientation toward goal achievement (Hofstede, 1980).

Clear identifiable tasks with JA and PSS with social harmony and cooperation will consider OCBI as desirable employees' behavior (Podsakoff et al., 2009). Highly supportive culture of the organization for example teamwork, synchronization, and interdependence are considered for the improvement of work characteristics to construct the good employees' mack-up. The pressure of work is maintained by the collaborative culture of the organization that leads to interpersonal help.

Cultural influence cannot be overlooked while addressing the other contextual factors which are affecting on the individuals behavior to act beyond their standard duties. On the basis of the above mentioned facts it is hypothesized that:

*H5(a): Culture orientation (CO) moderates the relationship of TI with OCBI; the relationship is stronger for employees who have high collectivist CO than individualistic CO.*

*H5(b): Culture orientation (CO) moderates the relationship of TS with OCBI; the relationship is stronger for employees who have high collectivist CO than individualistic CO.*

*H5(c)*: Culture orientation (CO) moderates the relationship of JA with OCBI; the relationship is stronger for employees who have high collectivist CO than individualistic CO.

*H5(d)*: Culture orientation (CO) moderates the relationship of PSS with OCBI; the relationship is stronger for employees who have high collectivist CO than individualistic CO.

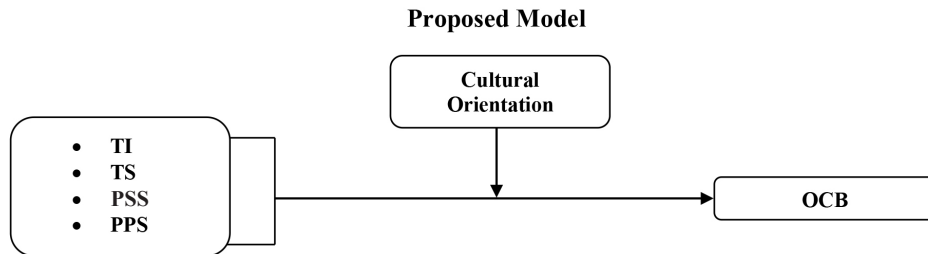


Figure 1: Proposed Model

## Methodology

### *Data Collection and Sample*

Diverse opinions are there regarding sample size decision. In the given study model, the data was collected keeping in view the moderate complexity model requirements with power analysis (Boomsma, 1983). According to Cohen (1992) high power analysis of data is based on statistically significant results not on the basis of big sample size. The existing study is conducted in Pakistan, where individual's approach in the direction of research is not very thoughtful. So for quality data collection those sectors were selected from where the chances of collection of significant data were high. Therefore, survey was distributed respondents including two universities of southern Punjab (Bahauddin Zakaryia University and Ghazi University and two banks (Muslim Commercial Banks, United Bank).

The data was collected by onsite administration of a survey to employees. Simple random sampling technique used for the data collection. Respondents were sent covering letters including the aim of study was mentioned and confidentiality of responses was assured. A total of 230 questionnaires yielded only 171 usable responses with total response rate of 74%. Respondents' age range was from 21 years to 58 years. Male and female ratio was 21% -79% respectively. There were three levels of management in the respondents. The tenure of respondents was from 1 to 30 years.



### *Measures*

Self, peer and supervisory reported questionnaires used for the measures. First three independent variables were rated on 7-point Likert, other variables were rated on 5-point Likert scale. All the items in questioners were being an average for overall scales. Job characteristics were self and peer-reported, OCBI was supervisor reported and CO was self-reported measure.

### *Moderating Variable*

**Culture Orientation.** Individualism-Collectivism dimensions were measured through 11-items scale of Wagner and Moch (1986). Survey items were based on three cultural dimensions including: beliefs, values and norms. In existing study the reliability of this scale was .80 which was better than previously recorded reliability of Wagner (1992) that was .75.

To examine the construct validity of cultural orientation, confirmatory factor analysis (CFA) ran by using AMOS 22 to check the fit indices of model. CFA results revealed goodness of fit index in such a way AGFI = .91; GFI = .92, CFI = .95; RMSEA = .04. This shows superior fit index of the model.

### *Independent Variables*

**Task identity:** TI is measured through self- and peer-reported responses. Three items scale was taken from Hackman and Oldham's (1976) Job Diagnostic Survey (JDS). In the existing study self- and peer- reported reliability of this scale was .81, .89 respectively. CFA results revealed goodness of fit index in such a way AGFI = .90; GFI = .87, CFI = .94; RMSEA = .07.

**Task significance:** TS measured through self and peer-reported responses. Three items scale was taken from Hackman and Oldham's (1976) Job Diagnostic Survey (JDS). In the existing study self- and peer-reported reliability of this scale was .83, .88 respectively. Likely the same CFA results of TS gave the following results AGFI = .89; GFI = .87, CFI = .93; RMSEA = .07.

**Job autonomy:** JA is measured through self and peer-reported responses. Three items scale took from Hackman and Oldham's (1976) Job Diagnostic Survey (JDS). In the existing study self and peer-reported reliability of this scale was .80, .84 respectively. CFA results for JA revealed goodness of fit index in such a way AGFI = .97; GFI = .98, CFI = .95; RMSEA = .03.

**Perceived supervisor support:** For measuring the PSS, the measure of Greenhaus, Parasuraman and Wormley (1990) used with nine items with testified alpha reliability of the scale .93 with 5-point Likert scale. In the existing study self and peer-reported reliability of scale was .91, .88 which is

also good. CFA results for PSS revealed goodness of fit index in such a way AGFI = .96; GFI = .95, CFI = .92; RMSEA = .06.

### *Dependent Variable*

**Organizational Citizenship Behavior:** Citizenship behavior intended for individuals and in-role behavior was measured by means of two scales developed by Williams and Anderson (1991). This measure was supervisory reported. Cumulative reliability of existing scale was .89. CFA results revealed goodness of fit index in such a way AGFI = .93; GFI = .97, CFI = 0.98; RMSEA = .05.

### *Control Variables*

One-way ANOVA revealed significant differences in mean values of dependent variables across different organizations and income levels ( $F = 5.41, p < .01$ ), levels ( $F = 3.51, p < .01$ ) respectively. Therefore that was controlled by creating four- dummy variables.

## **Results**

Table 1(a) displayed mean values, standard deviations and correlation of the variables. All the associations among variables were above .10 were considered significant at  $p < .05$ . All the observed correlations did not show any unexpected association. TI, TS, JA and PSS were positively related with organizational citizenship behavior. The means for TI ( $M = 5.39, SD = .81$ ), TS ( $M = 3.9, SD = .46$ ), JA ( $M = 3.9, SD = .41$ ) social support ( $M = 4.1, SD = .35$ ), organizational citizenship behavior ( $M = 5.2, SD = .66$ ) were above three.

Table 1(b) showed the descriptive statistics and the correlation matrix for the self- reported and peer-reported responses. The correlations of self-reported TI, TS, JA and PSS were significantly high. The peer-reported responses had expected correlation with self-reported responses.

### *Regression Analyses*

Multiple linear regression analyses used to test all hypotheses. Results show that self-reported TI, TS, JA and PSS were significantly related to OCB with following beta values respectively ( $\beta = .41, p < .001$ ), ( $\beta = .14, p < .001$ ), ( $\beta = .12, p < .001$ ) and ( $\beta = .55, p < .001$ ). Same likely peer-reported TI, TS, JA and PSS were significantly related to OCB with following beta values respectively ( $\beta = .45, p < .001$ ), ( $\beta = .24, p < .001$ ), ( $\beta = .10, p < .001$ ) and ( $\beta = .51, p < .001$ ). The results were in predictable direction for all the responses.

*Results of Moderated regression analyses*

Tables 3(a) and 3(b) show the moderation analyses using CO as moderators with TI, TS, JA and PSS with both self and peer-reported responses. The analyses shown that self-reported measures including TI, TS, JA and PSS interacted significantly with CO with respective values ( $\beta = .14$ ,  $p < .001$ ), ( $\beta = .21$ ,  $p < .001$ ), ( $\beta = .18$ ,  $p < .001$ ), ( $\beta = .14$ ,  $p < .001$ ). TI interaction with CO explained 12% of the variance ( $\Delta R^2 = .12$ ,  $p < .001$ ) in OCB. TS interaction with CO explained 17% of the variance ( $\Delta R^2 = .17$ ,  $p < .001$ ) in OCB. JA interaction with CO explained 14% of the variance ( $\Delta R^2 = .14$ ,  $p < .001$ ) in OCB. Social support interaction with CO explained 17% of the variance ( $\Delta R^2 = .17$ ,  $p < .001$ ) in OCB. The strong interaction of independent variables with moderating variable was found.

Similarly, peer-reported responses also gave strong result. Tables 3(b) show the results of the moderated regression analyses using CO as a moderator with peer-reported responses. The analyses revealed that peer-reported responses interacted significantly with cultural orientation. Peer-reported TI interaction with CO explained 13% of the variance ( $\Delta R^2 = .13$ ,  $p < .001$ ) in OCB. TS interaction with CO explained 14% of the variance ( $\Delta R^2 = .14$ ,  $p < .001$ ) in OCB. JA interaction with CO explained 19% of the variance ( $\Delta R^2 = .19$ ,  $p < .001$ ) in OCB. PSS interaction with CO explained 14% of the variance ( $\Delta R^2 = .14$ ,  $p < .001$ ) in OCB.

**Discussion**

In existing research task characteristics and PSS were focused as antecedent of OCB and one organizational characteristic Cultural Orientation (CO) was taken as moderator between the relationship of antecedent and consequences.

Overall, all the 5 hypotheses were confirmed. TI, TS and JA were positively related to OCB. Thus, the hypotheses 1, 2, 3 were fully supported. In hypothesis 4 a positive link between PSS and OCB was also confirmed. CO moderated the relationship between TI, TS, JA, PSS and OCB, such that it was more strongly positive when collectivist CO was higher. Thus, hypothesis 5(a, b, c, d) was fully proved.

The central idea of this paper was to find the moderating role of CO in the link between job task, relational characteristic and OCB (I&O). In the study, strong moderating role of individualism-collectivism as an individual difference was identified. The individuals who tended toward collectivism are more likely to seek ways to aid the welfare of the people even though such assistance does not provide direct benefit to them.

### *Implications for Managers*

Management should believe that citizenship behavior reduce employee apathy and absenteeism. Employees who are knitted with the organization remain for a long time in the organization and their behavior in turn leads to improving OCB (Ebrahimpour, et al., 2011). Employees who retain collectivist tendencies and who believe that their social exchange relationship with organization are fair they exhibit OCB. Managers should not overlook that CO is undeniably the key element in the work. New organizational structures emphasize job characteristics, supportive management and the factors that lead to OCB (I&O). Management trainings and education should give importance to these elements as well to strengthen the good relations of employees.

### *Limitations and suggestions for future research*

There are some limitations that should be addressed when assessing this study's findings. First, the data is collected at one point in time for all the variables which is restraining the causal implications of outcomes. For vigorous results, future research may use experimental or longitudinal design. Second, the research was done in Pakistani cultural settings. For the generalizability of the study's findings, these results can be validated in other cultural settings because Pakistan is very different in terms of various aspects in comparison to Western countries (Mushtaq et al., 2017). Third, even though the data was collected from the two sectors, the an assortment of different types of data can be used for further authenticity of results.

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### Appendix

Table 1(a)

*Means, standard deviations, correlations, and reliabilities for the main variables of interest in the study*

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
<b>1.TI</b>	5.39	.81	(.81)										
<b>2.TS</b>	3.9	.46	.54**	(.83)									
<b>3.JA</b>	3.9	.41	.44**	.46**	(.80)								
<b>4.PSS</b>	4.1	.35	.35**	.37**	.39**	(.91)							
<b>5.CO</b>	2.06	.78	-.49**	-.47**	-.41**	-.29**	(.80)						
<b>6.OCB</b>	5.26	.66	.51**	.46**	.46**	.40**	.39**	(.89)					
<b>7.Age</b>	4.27	.32	.55	.56	.67	.48	.42*	.58*	-				
<b>8.Gender</b>	2.88	1.2	.023	.077	.006	.011	.20	.026	.32	-			
<b>9.Occupation</b>	1.82	.38	.004	.023	.062	.018	.025	.019	.005	.12	-		
<b>10.Income</b>	1.14	.35	.083	.12*	.087	.15**	.17**	.05	.025	.019*	.13	-	
<b>11. Education</b>	2.62	1.4	.17**	.11*	.081	.14**	-.22**	.089	.13**	.044	.11*	.21	-

*Note:* N = 171; control variables are different types organizations. †p < .10, \*p < .05, \*\*p < .01, \*\*\*p < .001.

Table 1(b)

*Means, standard deviations, correlations, and reliabilities for the main variables of interest in the study*

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11
<b>1.TI</b>	5.39	.87	(.81)										
<b>2.TS</b>	3.9	.56	.54**	(.83)									
<b>3.JA</b>	3.9	.48	.44**	.46**	(.80)								
<b>4.PSS</b>	4.1	.45	.35**	.37**	.39**	(.91)							
<b>Peer-Reported Responses</b>													
<b>5.TI</b>	5.0	.77	.51**	.46**	.46**	.40**	(.89)						
<b>6.TS</b>	3.1	.59	.55**	.56**	.67**	.48**	.42*	(.88)					
<b>7.JA</b>	4.0	.35	.23**	.77**	.60**	.11**	.20**	.26**	(.84)				
<b>8.PSS</b>	3.1	.49	.40**	.23**	.62**	.18**	.25**	.59**	.50**	(.88)			

*Note:* N = 171; control variables are different types organizations and Income Level. †p < .10, \*p < .05, \*\*p < .01, \*\*\*p < .001.

Table 2(a)

*Regression analyses showing the main effects of self-reported independent variables on dependent variables*

Predictors	DV		
	OCB		
	$\beta$	R <sup>2</sup>	$\Delta R^2$
<b>Model1:</b>			
Step1:			
Control		.035**	
Step2:			
TI	.41***	.25***	.28***
<b>Model2:</b>			
Step1:			
Control		.042***	
Step2:			
TS	.14**	.19***	.22***
<b>Model3:</b>			
Control		.019**	
Step2:			
JA	.12***	.18***	.24***
<b>Model4:</b>			
Step1:			
Control		.032**	
Step2:			
PSS	.55***	.10***	.18***

*Note:* N = 171; control variables are different types organizations and Income Level. †p < .10, \*p < .05, \*\*p < .01, \*\*\*p < .001.

Table 2(b)

*Regression analyses showing the main effects of peer-reported independent variables on dependent variables*

	<b>DV</b>		
	<b>OCB</b>		
<b>Predictors</b>	$\beta$	R <sup>2</sup>	$\Delta R^2$
<b>Model1:</b>			
Step1:			
Control		.030**	
Step2:			
TI	.45***	.28***	.21***
<b>Model2:</b>			
Step1:			
Control		.047***	
Step2:			
TS	.24**	.14***	.32***
<b>Model3:</b>			
Control		.019**	
Step2:			
JA	.10***	.19***	.24***
<b>Model4:</b>			
Step1:			
Control		.032**	
Step2:			
PSS	.51***	.17***	.19***

*Note:* N = 171; control variables are different types organizations and Income Level. †p < .10, \*p < .05, \*\*p < .01, \*\*\*p < .001.



Table 3(a)  
*oderated regression analyses results for self-reported responses*

OCB		
Predictors	B	$\Delta R^2$
<b>Model 1</b>		
<b>Step1:</b>		
Control		.075**
<b>Step2:</b>		
TI		
CO		.21***
<b>Step 3:</b>		
TI x CO	.14***	.12***
<b>Model2</b>		
<b>Step1:</b>		
Control		.070**
<b>Step2:</b>		
TS		
CO		.26**
<b>Step 3:</b>		
TS x CO	.21***	.17***
<b>Model 3</b>		
<b>Step1:</b>		
Control		.077**
<b>Step2:</b>		
JA		
CO		.31***
<b>Step3:</b>		
JA x CO	.18***	.14***
<b>Model4</b>		
<b>Step1:</b>		
Control		.058***
<b>Step2:</b>		
PSS		
CO		.25***
<b>Step3:</b>		
JA x CO	.14***	.17***

Note: N = 171; control variables are different types organizations and Income Level. †p < .10, \*p < .05, \*\*p < .01, \*\*\*p < .001.

Table 3(b)

*Moderated regression analyses results for peer-reported responses*

OCB		
Predictors	B	Δ R <sup>2</sup>
<b>Model 1</b>		
Step1: Control		.096 <sup>**</sup>
Step2: TI		
CO		.28 <sup>***</sup>
Step3: TI x CO	.15 <sup>***</sup>	.13 <sup>***</sup>
<b>Model 2</b>		
Step1: Control		.070 <sup>**</sup>
Step 2: TS		
CO		.26 <sup>**</sup>
Step 3: TS x CO	.13 <sup>***</sup>	.14 <sup>***</sup>
<b>Model 3</b>		
Step1: Control		.087 <sup>**</sup>
Step2: JA		
CO		.41 <sup>***</sup>
Step3: JA x CO	.18 <sup>***</sup>	.19 <sup>***</sup>
<b>Model4</b>		
Step1: Control		.049 <sup>***</sup>
Step2: PSS		
CO		.24 <sup>***</sup>
Step3: JA x CO	.15 <sup>***</sup>	.14 <sup>***</sup>

Note: N = 171; control variables are different types organizations and Income Level. †p < .10, \*p < .05, \*\*p < .01, \*\*\*p < .001.

# DISCOUNT RATE CHANGES AND INDUSTRY STOCK RETURNS IN PAKISTAN

Sana Tauseef<sup>1</sup>

## Abstract

*This study examines the short-term and the long-term effects of discount rate changes made by State Bank of Pakistan on aggregate market and industry stocks' returns in Pakistan over the period 2005 to 2014. The Findings suggest that the market and the various sector returns in Pakistan do not react significantly on the days when interest rates are changed. Though the aggregate market and various sectors do perform better during the low-rate period, there is no evidence of significant inverse relationship between the changes in the discount rate and the market or sector returns. Finally, the financial sector of Pakistan which operates in a less competitive environment, earns positive returns following the rate increase and negative returns following the rate decrease but these returns are not statistically significant.*

**Keywords:** Discount Rate, State Bank of Pakistan, Financial Sector, Event Study

**JEL Classification:** G 120

## Introduction

Policy makers use the monetary policy to achieve their targets for certain macroeconomic variables like unemployment, output and inflation. The monetary policy actions, such as the discount rate changes, directly and immediately affect the equity prices and returns. An increase in the discount rate signals tightening of the monetary policy and a decrease in discount rate is a signal of expansionary monetary policy. The issue of stock price reaction to the discount rate changes has been studied widely by the researchers in developed economies and the evidence suggests that the stock returns are consistently higher following the reduction in the discount rate and the stock market performs unfavorably following the increase in the discount rate. Little research has been conducted on the issue in developing economies and no research has been conducted on the topic in Pakistan.

Discount rate is the interest rate that State Bank of Pakistan (SBP) charges banks and financial institutions when they borrow funds from SBP on an overnight basis. SBP changes this rate, as and when required, to give a monetary policy signal. By raising the discount rate SBP discourages

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banks to borrow money, indicating that more restrictive monetary policies are in store. If and when the goal is to increase the money supply, the Bank lowers its discount rate to encourage borrowing by the banks and, thus, helps increasing the money supply. Understanding the relationship between the discount rate changes and the equity returns will enable the policy makers in Pakistan to be more careful in designing the monetary policies with an aim of achieving financial and equity market stability. Moreover, evidence on the impact of discount rate changes on stock returns will be useful for the professional investors while performing the fundamental analysis of stocks in Pakistan.

This research has three principal objectives. First, it investigates the manner in which the stock market, in aggregate, reacts to the changes in discount rate by State Bank of Pakistan, both in the short-run and in the long-run. Second, since the stock returns vary across industries based on the sensitivity of the industry to the changes in the discount rate, the study will examine the stock price reaction to the changes in discount rate for different industrial sectors of Pakistan. Lastly, impact of the interest rate changes on financial sectors' returns will be examined in detail.

### **Literature Review**

According to the discounted cash flow techniques, stock price of a firm is calculated as the discounted value of the expected cash flows in future. A change in discount rate can alter the stock price by changing either the stock's required return or by changing the expectations about the company's future profits and cash flows. A number of studies have been conducted in the developed countries to investigate the stock price reaction to the announcements of discount rate changes. These studies have examined the impact of discount rate changes both on aggregate stock market and on stocks of financial and non-financial companies. Studies (e.g Pearce & Roley, 1985 and Bernanke & Kuttner, 2005) have reported the equity returns to be fluctuating more days when the monetary policy changes are announced. Moreover, the price response to the unexpected policy actions was found to be fairly strong.

Literature supports that most industries show a positive price reaction when the interest rates are decreased and a negative price reaction when interest rates are increased (Jensen et al., 1997). Studies have also been conducted to find the reasons for the positive (negative) price impact of decreases (increases) in the discount rate on the equity prices. Bernanke and Kuttner (2005), for example, found that the anticipated future surplus returns account for the biggest part of the stock price reaction to the change in interest rate. With an increase in interest rate, financing costs for the firm increases which makes the equity riskier. Moreover, high interest rate mean higher returns in debt markets which reduces the attractiveness to stock investment, thus adding to the stock's required return. On the other hand, Nissim and Penman (2003) reported the interest rates to be positively associated with the subsequent periods' earnings; however, the increase in expected earnings resulting from increasing interest rate is insufficient to compensate for the impact of the increasing required return and hence the final consequence is the decline in stock value.

Booth and Officer (1985) documented that the stock returns for banks are more sensitive to the changes in interest rates compared to the non-financial firms' stock returns. Moreover, the reaction of the bank stock returns to the changes in interest rate varied depending on the competition within the sector. In a competitive credit environment, banks' profits might not grow with the increases in the interest rates as under such circumstances the banks would ration their lending and charge lesser rates than what the market would be willing to pay. If the banks increase the lending rates, the less risky clients switch the banks and more risky clients are attracted. The increased income resulting from higher interest rates is thus negatively offset by the additional risk inherent in such loans. This increased risk increases the required return on the banks stocks and results in the decline in the value of banks' stocks. This evidence is provided by numerous studies conducted on banking sector in US (Stiglitz, Weiss, 1981, Madura & Schnusenberg, 2000). Kaen et al. (1997) have reported similar results for German bank stocks. As opposed to the mechanism in a competitive banking environment, when the interest rates increase in a less competitive market, the banks are able to pass the costs to the clients, increasing the net interest margins/interest spreads which leads to increase in their profits and returns. This evidence is found in Australia where the banking sector lacks adequate competition and comprises of a few banks having major market power (Ho & Saunders, 2007). Vaz et al. (2008) also reported that for Australian banks, the stock returns are not negatively impacted by the cash rate increases. For rate increases, they found an increase in the cumulative abnormal returns up to two days prior to the event. The CARs dropped after announcement but the overall impact was positive. In case of rate decreases, the CARs were positive for both pre-event and on-event sub-periods.

The reaction of stock returns to the policy rate changes is reported to be inconsistent across different industries and firms. As reported by Gertler and Gilchrist (1994), for example, stocks of small size firms are more responsive to the alterations in policy rate. Moreover, Conover et al. (2005) found the monetary policy-related return patterns in stock prices of small size firms to be consistent over time. Nowak (1993) and Jensen et al. (1997) reported that the reaction of stock prices to policy rate variations is more intense for the sectors which are heavily dependent on consumer spending and on trade conditions as well as for the sectors which are interest-rate sensitive. Conover et al. (2005) documented the cyclical stocks to have a much higher sensitivity to the changes in the monetary conditions than defensive stocks.

A number of studies have been conducted in Pakistan to examine the relationship between the stock market returns and various macroeconomic variables including interest rates, money supply, exchange rates and inflation rates (Nishat & Saghir, 1991; Hussain & Mahmood, 2001; Nishat & Shaheen, 2004; Hasan & Javed, 2009; Mohammad et al., 2009; Rukh et al., 2012; Akbar et al., 2012). These studies have documented that money supply and interest rates have significant impacts on equity market returns (Mohammad et al., 2009; Akbar et al., 2012) and the equity market returns are positively related to money supply and negatively related to interest rates (Hasan & Javed, (2009). Moreover, literature also documents a negative relationship between the trading volume and the policy rates in Pakistan (Rukh et al., 2012).

This study provides a rigorous evaluation of the impact of the discount rate changes on the stock returns, an area which has not been investigated so far in Pakistan. The study contributes to the existing literature in a number of ways. First, all studies conducted on the topic in Pakistan have examined the association between the aggregate equity market returns and macroeconomic variables. These studies have not investigated how the firms in different industries show different sensitivities towards the changes in the discount rates. This study aims to find the impact of discount rate on the aggregate stock market and examine the cross-sectional consistency of this influence by separately evaluating the stock performance of firms in different industries with a detailed examination of the financial sector. Second, all prior studies have either used monthly data or quarterly data to determine the association between the equity returns and macroeconomic variables. This study uses daily stock price data which allows for a more accurate depiction of the influence of discount rate changes on stock returns.

### Research Hypotheses

The international evidence suggests the presence of a systematic relationship between the interest rate changes and the stock returns. Stock returns increase when the central bank announces to tighten the monetary policy and the stock returns decrease when the monetary policy is expansive. Consistent with the international evidence, the aggregate stocks' returns are expected to be negatively affected by rate increases and positively affected by rate decreases. Aggregate equity returns are measured using the daily returns of KSE-100 index across restrictive and expansive monetary periods. *H1*: KSE-100 index returns are negatively (positively) affected by SBP's announced increases (decreases) in discount rates.

The degree to which the stock returns are affected by the change in the discount rate is not same for all industries in the non-financial sector. Numerous studies reported the deviation in the stocks response among different sectors (Nowak, 1993 and Jensen et al., 1997). For this purpose, this study aims at examining the cross-sectional differences in returns of the non-financial sector followed by the discount rate changes.

*H2*: Returns for industry *i* of the non-financial sector are negatively (positively) affected by SBP's announced increases (decreases) in discount rates.

The impact of interest rate change on the financial sector returns depends on the market characteristic. For competitive market, financial sector returns are negatively related to the rate changes whereas in a non-competitive market, financial sector returns are related positively to the rate changes. Financial sector of Pakistan comprises of the commercial banks, investment banks, leasing companies and modarabas. The sector is not highly competitive. Table 1 reports the statistics to measure the extent of concentration in the banking sector which constitutes a major part of financial sector of Pakistan. These statistics are presented for the beginning and the end of the sample period. Herfindahl-Hirschman index for December 2005 is 1125 which shows the banking sector was not

highly competitive at that time. This index has reduced to 877 for the year ended December 2013, but the top four banks continue to hold a high share of the market. Based on the less competitive market structure of Pakistan's financial sector, the sector returns are expected to be positively related to the interest rate changes.

*H3:* Returns for financial sector are positively (negatively) affected by SBP's announced increases (decreases) in discount rates.

Table 1

*Pakistan's Banking Sector Concentration*

	Four Firm Concentration Ratio	Eight Firm Concentration Ratio	Herfindahl-Hirschman Index
	Based on Total Assets		
December 2005	50.37	73.29	1125
December 2013	49.79	72.65	877
	Based on Total Sales		
December 2005	56.74	78.54	1082
December 2013	50.37	73.29	877

### Data and Research Methodology

For the purpose of this study, the relevant sample of events is defined as the union of all days when the discount rate was changed by State Bank of Pakistan (SBP). Since the inception of SBP in 1948 till November 2014, discount rate has been changed 45 times, including 25 upward rate changes and 20 downward rate changes. The study uses the discount rate changes made during the period from 2005 to 2014. The discount rate changes made before 2005 are excluded due to the lack of availability of stock price data. Altogether, the sample contains 22 discount rate changes, including 12 rate increases and 10 rate decreases. Maximum discount rate over the sample period is 15% and the minimum is 9%. The total sample period is divided into three sub-periods: low-rate period, medium-rate period and high-rate period. Table 2 presents the sample events with their respective dates and sub-period category. The study uses the firm-level panel data for all companies listed on Karachi Stock Exchange of Pakistan over the sample period. As of December 2014, there were 557 stocks listed on Karachi Stock Exchange. All listed firms for which the price data is available for at least one rate change period have been examined. Stock price data is taken from Bloomberg, the index data is taken from Karachi Stock Exchange and the discount rate data is taken from State Bank of Pakistan.

Table 2  
*Discount Rate Change Event Dates*

<b>Date</b>	<b>Rate Change</b>	<b>Discount Rate (After Change)</b>	<b>Type of Period</b>
4/1/2005	1.50	9	Low-rate
7/31/2006	0.50	9.5	Low-rate
8/1/2007	0.50	10	Low-rate
2/1/2008	0.50	10.5	Low-rate
5/23/2008	1.50	12	Medium-rate
7/30/2008	1.00	13	High-rate
11/12/2008	2.00	15	High-rate
4/21/2009	-1.00	14	High-rate
8/17/2009	-1.00	13	High-rate
11/25/2009	-0.50	12.5	Medium-rate
8/2/2010	0.50	13	High-rate
9/30/2010	0.50	13.5	High-rate
11/30/2010	0.50	14	High-rate
8/1/2011	-0.50	13.5	High-rate
10/10/2011	-1.50	12	Medium-rate
8/13/2012	-1.50	10.5	Low-rate
10/8/2012	-0.50	10	Low-rate
12/17/2012	-0.50	9.5	Low-rate
6/24/2013	-0.50	9	Low-rate
9/16/2013	0.50	9.5	Low-rate
11/18/2013	0.50	10	Low-rate
11/17/2014	-0.50	9.5	Low-rate

The sample firms are categorized into a financial and ten non-financial sectors for the purpose of analysis. Financial sector comprises of the commercial banks, investment banks, leasing companies and modarabas. Table 3 shows the composition of sample at the beginning and the end of the sample period. KSE-100 index, which is a value-weighted index based on 100 stocks listed on Karachi Stock Exchange, is used as a proxy for market. For the eleven sectors, equally weighted sector indices are formed. These sector indices are constructed for each discount rate change period



which starts from the announcement of a change in discount rate and continues until the next rate change is announced.

Table 3  
*Composition of Sample*

Industry	Number of firms	
	Apr-05	Nov-14
Textile	48	33
Chemicals	15	20
Construction	23	23
Financial	60	52
Food	17	12
Industrial Metals	16	19
Oil & Gas	10	11
Others	15	13
Pharmaceuticals	7	8
Automobile	7	7
Utilities	10	16
<b>Total</b>	<b>228</b>	<b>214</b>

The study analyzes the reaction of discount rate changes on market and industry returns in both short-term and long-term. Event study analysis is used to examine the short-run stocks' returns following the changes in discount rate on the day of discount rate change. Cumulative returns are examined in the pre- and post- event windows for both the rate increases and decreases to see the pattern of returns accumulated in these periods. For the long-run analysis, returns are examined for the three sub-periods: low-rate period, medium-rate period and high-rate period. Long-run returns are also computed for periods following rate increases and rate decreases. Return of the rate-change day is excluded in this computation. Lastly, the following regression model is used to see the impact of rate change on the long run returns of market, all-stock portfolio and individual sector returns:

$$R_t = \beta_0 + \beta_1 \Delta D_t + \varepsilon_t \dots \dots \dots (1)$$

Where  $R_t$  represents the stocks' return,  $\Delta D_t$  is the change in discount rate and the error term  $\varepsilon_t$  represents factors other than the discount rate changes that affect the stock prices. A separate analysis of the financial stocks is also conducted.

### Empirical Results

Annualized mean returns and the beta coefficients for eleven sectors and the market are presented in Table 4. Over the 10-year study period, market yielded a mean annual return of 21%. Financial sector earned the highest mean return (81%) and utilities sectors earned the lowest mean return (12%). Oil and gas sector reported the highest beta coefficient (1.05×) and the food sector reported the lowest beta coefficient (0.34×).

Table 4

*Annualized Mean Returns and Beta Coefficients*

Industry	Annualized Mean Return (%)	Beta Co-efficient
Textile	73.08	0.3414
Chemicals	25.66	0.8434
Construction	27.40	0.8005
Financial	80.92	0.6962
Food	70.20	0.3413
Industrial Metals	35.20	0.4314
Oil and Gas	23.68	1.0499
Others	19.98	0.4064
Pharmaceuticals	29.28	0.4322
Automobile	24.04	0.6287
Utilities	12.31	0.9171
Market	20.78	1.0000

### Short-term Analysis

Table 5 presents the results of short-term event study. The rate-change day (1-day) returns for eleven sectors and the market are reported in the table. Market returns are negative for both the positive and negative rate changes; however the return difference is positive. As evident from the reported figures, there is no clear direction in which the sector indices react as a result of the interest rate increase or decrease. Return differences are positive for some sectors (textile, automobiles, Pharmaceuticals, utilities and industrial metals) whereas negative for others (cement, chemicals, oil and gas, financials and food). Moreover, the return differences are insignificant for the market and all sectors.

Table 5  
*Rate Change Day Returns*

	<b>Increase</b>	<b>Decrease</b>	<b>Return Difference</b>	<b>t-Statistic</b>
Textiles	-0.2854	0.2551	0.5405	0.8265
Automobiles	-0.1827	-0.1337	0.0490	0.0650
Cement	0.1373	-0.1088	-0.2462	-0.3100
Chemicals	0.1294	-0.1769	-0.3063	-0.3330
Oil & Gas	0.2417	-0.3953	-0.6370	-0.7040
Pharmaceuticals	-0.0535	0.2355	0.2889	0.4782
Financials	0.3621	-0.5409	-0.9030	-1.1934
Utilities	-0.3763	0.0808	0.4571	0.4872
Industrial Metals	-0.3822	-0.3246	0.0576	0.1000
Food	0.0225	0.0093	-0.0132	-0.0225
Others	0.4001	-0.1682	-0.5684	-0.9488
Overall	0.0012	-0.1153	-0.1164	-0.1919
Market	-0.5348	-0.0621	0.4728	0.3951

Table 6 presents the 11-day cumulative returns for the pre- and post-event periods for interest rate increases and decreases. The pre-event period comprises of 11 days from event day -11 to event day -1 and the post-event period comprises of 11 days from event day +1 to event day +11. In the pre-event window, cumulative returns are positive and quite high for the rate increases for all sectors as well as the market which indicates that a very good performance of stock market before the interest rates are revised in a positive direction. For the rate decreases, the pre-event window has a mix of positive and negative returns. The post-event cumulative returns are negative for most sectors, in case of both rate increase and decrease.

Table 6  
*Cumulative Returns in Pre- and Post-Event Windows*

	<b>11-day (-11 to -1)</b>		<b>11-day (+1 to +11)</b>	
	<b>Increase</b>	<b>Decrease</b>	<b>Increase</b>	<b>Decrease</b>
Textiles	2.7511	2.4432	1.3644	0.2102
Automobiles	1.5204	-0.7872	-2.9847	-1.3668
Cement	1.1696	-0.6003	-1.5758	0.6862
Chemicals	2.0744	-0.8174	-0.5751	-0.5592
Oil & Gas	2.5874	-1.0358	-0.9345	-0.9683
Pharmaceuticals	4.0284	0.0987	-0.3755	-0.4271
Financials	3.7124	1.0360	0.9329	-0.1113
Utilities	1.3520	0.3127	-1.7242	1.0940
Industrial Metals	3.1422	0.5030	3.8602	-1.7946
Food	0.4270	1.0385	6.4371	-1.7291
Others	2.7269	-0.7935	-1.0143	-2.7181
Overall	2.3174	0.1271	0.3100	-0.6985
Market	2.2382	-1.6593	-1.1266	-0.3509

### *Long-term Analysis*

Table 7 reports the mean annualized percentage returns for market, all-stocks portfolio and individual sectors over the three sub-periods: low-, medium- and high-rate periods. Mean returns presented in the table which are calculated as the annualized geometric mean daily return show that the market, all-stock portfolio and all sectors except textile, cement and financials have earned highest returns in the low interest rate period. While textile, cement and financial sectors yielded highest returns in the medium-rate period, none of the sectors has performed best in the high interest rate period. These results are suggestive of the inverse relationship between the interest rates and the stock returns.

Table 7

*Annualized Returns over the Low, Medium and High Interest rate Periods*

	<b>Low</b>	<b>Medium</b>	<b>High</b>
<b>Textiles</b>	46.36	83.02	67.32
<b>Automobiles</b>	39.31	9.13	-3.94
<b>Cement</b>	31.82	58.34	-16.76
<b>Chemicals</b>	30.34	7.91	23.42
<b>Oil &amp; Gas</b>	32.71	-13.82	8.41
<b>Pharmaceuticals</b>	48.48	13.65	-9.12
<b>Financials</b>	65.08	72.41	53.58
<b>Utilities</b>	21.84	9.66	-12.20
<b>Industrial Metals</b>	39.96	26.61	15.24
<b>Food</b>	78.62	28.13	23.30
<b>Others</b>	28.18	13.73	16.90
<b>Overall</b>	42.06	28.07	15.10
<b>Market</b>	27.05	6.81	2.59

Table 8 reports the mean annualized percentage returns following the discount rate changes. For both the market index and all stocks portfolio the long-run return following the interest rate decrease is greater than the long-run return following the interest rate increase, hence indicating the negative long-run link between the rate change and stocks' returns. However, this finding is not consistent for all eleven sectors. Moreover, the differences in the long-run returns for market index, different sectors and all stocks' portfolio reported for rate increase and rate decrease are not significant. To enhance the robustness of the findings, regression model is run relating the market, all-stocks and individual sector returns to the interest rate changes. Table 9 presents the regression results. Negative coefficient is found for the market, all-stocks and all sectors except financial sector. However, none of these co-efficient is found to be statistically significant.

Based on the short-run and long-run analysis, we are able to reject H1 and H2 and conclude that the market and the various sector returns in Pakistan are not inversely impacted by the changes in the discount rate by State Bank of Pakistan.

Table 8

*Mean Annualized Long-run Returns Following the Rate Change*

	<b>Increase</b>	<b>Decrease</b>	<b>Return Difference</b>	<b>T-Statistic</b>
Textiles	11.0490	25.7641	14.7152	1.4296
Automobiles	6.1089	12.7178	6.6089	0.7592
Cement	5.1669	13.4598	8.2929	0.7757
Chemicals	6.5147	8.4379	1.9232	0.3736
Oil and Gas	7.0582	5.2239	-1.8342	-0.3555
Pharmaceuticals	10.3358	6.7711	-3.5647	-0.4481
Financials	21.3829	19.8295	-1.5534	-0.1441
Utilities	-1.2008	8.0912	9.2919	1.2919
Industrial Metals	6.8092	9.7973	2.9881	0.4890
Food	21.8227	8.6641	-13.1586	-0.7769
Others	6.1934	10.1056	3.9122	0.7200
Overall	9.2037	11.7148	2.5110	0.3826
Market	4.8901	7.5714	2.6813	0.5232

Table 9

*Regression Results*

	<b>Co-efficient</b>	<b>T-Statistic</b>	<b>P-Value</b>
Textiles	-0.595	1.830	0.830
Automobiles	-0.277	-0.680	0.506
Cement	-0.216	-0.520	0.608
Chemicals	-0.269	-0.520	0.610
Oil & Gas	-0.064	-0.130	0.899
Pharma	-0.354	-1.160	0.260
Financials	0.116	0.270	0.789
Utilities	-0.662	-1.370	0.187
Industrial Metals	-0.123	-0.410	0.686
Food	-0.103	-0.330	0.741
Others	-0.029	-0.090	0.932
Overall	-0.234	-0.720	0.480
Market	-0.578	-0.870	0.392

*Financial Sector*

Financial sector makes around one-fourth of the study sample. The results show that the sector accumulates positive returns in the pre-event windows regardless of the direction of interest rate change. However, the pre-event cumulative return is much higher in case of the rate increase (3.7% as compared to 1% for 11-day pre-event period). On the rate change day, the sector has earned a positive return (0.4% on average) in case of rate increase and a negative return (-0.5% on average) in case of rate decrease. Following the rate change, returns continue to be positive in case of rate increase (0.9% on average for 11-day post-event period) and negative in case of rate decrease (-0.1% on average for 11-day post-event period). For the total period of 23 days surrounding the rate changes in the study sample, the investors have earned around 5% in case of positive rate change and 0.4% in case of negative rate change.

In the long-run, the sector has earned an annualized return of 21% following rate increases and 19.8% following rate decreases. However, the difference in the returns of financial sector following the rate increases and decreases, in short-run or long-run, is not significant. Thus we reject H3 lending support to the view that the financial sector returns are not positively related to the discount rate changes made by State Bank of Pakistan.

**Conclusion**

This study examines the short-term and the long-term effect of discount rate changes made by State Bank of Pakistan on aggregate market and industry stocks' returns in Pakistan over the period from 2005 to 2014. The findings suggest that the market and the various sector returns in Pakistan do not react significantly on the days when interest rates are changed. The aggregate market and various sectors do perform better during the low-rate period, but there is no evidence of significant inverse relationship between the changes in the discount rate and the market or sector returns. The financial sector of Pakistan which operates in a less competitive environment, earns positive returns following the rate increase and negative returns following the rate decrease. This is consistent with the findings reported by Vaz et al. (2008) for the Australian Banking stocks. However, the results of this study are not statistically significant.

Further research can be done to examine the impact of interest rates on portfolio returns using different methodology, for example by adding the interest rate factor in the Fama-French (1992) three factor model.

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# ANALYZING THE WORKING RELATIONSHIPS OF YOUNG EMPLOYEES WITH OLDER EMPLOYEES: EVIDENCE FROM THE BANKING SECTOR OF PAKISTAN

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## Abstract

*The study explores the perception of young employees regarding mutual learning, feedback, team work, and collaborative decision making style at work place with older employees. Empirical data were collected from private and public sector banks in Pakistan. The sample of 324 was used for statistical analysis. The results reveal that all concerned variables like mutual learning, feedback, team work and participative decision making impact the satisfaction level of young employees. The findings of the study have implications in understanding intergenerational differences at workplace. Moreover, this study will be helpful for employers in resolving the workplace problems related to relational diversity and to manage diversified work force in a more productive way.*

**Keywords:** Older Employees, Young Employees, Mutual Learning, Team Work, Banking Sector

**JEL Classification:** Z 000

## Introduction

According to Avery, McKay and Wilson (2007) challenges pertaining to age diversity are profound in contemporary organizations. Work force diversity has been imperative research agenda for the last couple of decades (Kulik, Ryan, Harper, George, 2014; Shultz & Wang, 2011; Truxillo,

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Cadiz, & Hammer, 2015; Wang & Shultz, 2010). According to De Lange et al. (2006) aging process comprises of all those changes that may occur in biological, physical, psychological and social functioning in each individual. In advanced countries of the world, the ratio of mature workforce is increasing due to two main reasons. First, greater life expectancy due to improved health facilities creates opportunities for longer expected life. Second, owing to effective birth control initiatives, there is declining trend in population growth resulting into escalating older work force composition (Kulik et al., 2014; Truxillo, Cadiz, & Hammer, 2015). At international level, especially in developed countries where population was controlled for the last couple of decades facing shortage of manpower. Hence, organizations are engrossed to retain and utilize the skill set of older work force. Therefore, effective HR policies are under discussion to integrate and engage older work force (Chand & Tung, 2014; Kulik et al., 2014). For example, organizations are offering them opportunities for training and development for skill enhancement (Kulik et al., 2014) and introducing intervention strategies to integrate young and older work force. At the same time, retaining the young talent is a big challenge for contemporary organizations (Streeter, 2007).

In contrast to developed countries, organizations in developing countries are facing diverse challenges in work force composition through the availability of younger workforce in abundance. According to some estimates, Pakistan has the 10th largest workforce population and 6th populous countries in the world with 1.92 annual population growth rate. The ratio of young employees in labor force is increasing and predicted to upsurge in the coming years. According to 2015 statistics 33 percent of population was under the age of 15 years <sup>5</sup>. In Pakistan, several initiatives have been taken to better place young work force in employment market. For instance, Youth Development Program was designed to educate and sponsor talented young population through loan schemes and technical education. It is estimated that by the end of year 2050, the ageing population would be around 42 million <sup>6</sup>.

In the context of work force diversity, aging work force productivity remains an imperative concern for researchers (Chand & Tung, 2014; Kulik et al., 2014; Truxillo, Cadiz, & Hammer, 2015). A distinctive stream of research highlights the significance of relational diversity/intergenerational diversity which is based on age differences/generations to explore the impact on productivity and performance at work place (Kremer & Thomson, 1998). In literature, it is evident that young and old generations have their own set of values and life perspective that is influencing their work place practices and culture (Avery, McKay & Wilson, 2007; McNamara, 2005). Moreover, this difference in intergenerational thinking is creating tensions among young and old employees (DiRomualdo, 2006) and has a significant impact on workplace productivity.

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<sup>5</sup> Pakistan Economic Survey, 2014-2015: Population, Labour Force and Employment available at [http://www.finance.gov.pk/survey/chapters\\_15/12\\_Population.pdf](http://www.finance.gov.pk/survey/chapters_15/12_Population.pdf)

<sup>6</sup> CIA (2014). The World Fact Book: Pakistan, Retrieved from: <https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html>

The Pakistani banking sector is a major contributor in economy. In particular, how old and young workers can complement and enhance skill-set with the introduction of team work consisting of young and old workers set the directions of research and extend further inquiry into relational diversity perspective. Based on literature, we put forward the following research question:

RQ: What is the young employees' level of satisfaction who are working with experienced employees in the banking sector of Pakistan?

## Literature Review

### *Defining Generation*

There are mixed opinions about the definition of the construct 'Generation' in HR literature (Joshi et al., 2010). Westerman and Yamamura (2006), define generation as a group of individuals with similar interests, preferences and past experiences. In today's working environment, this generation gap is more significant. According to Gursoy et al. (2008) every generation has their own set of values and shared life experiences that make them distinctive from others in terms of work place behavior. Glass (2007) identifies three distinctive generational groups and called it as Baby boomers (born during 1946-1964), Generation X (born during 1965-1980), and Millennials (born during 1981-2000). This research attempts to explore working relationship between Generation X and Millennials working in the banking sector.

### *Defining Young and Older Employees*

The age bracket of older employees by definition is 40 to 75 (Kooij et al., 2008; Warr, 2000). According to Avery, McKay and Wilson (2007), employees older than 55 years of age are considered as old workers. Similarly, literature is not agreed on the universal definition of young employees. The age bracket for young employees has been defined based on cultural context. Brown and Larson (2002) define age bracket of young employees up to mid-30s. Similarly, in the study conducted by Dalen, Henkens and Schippers (2010) they categorize employees under age of 35 as young employees. Therefore, keeping in view the purpose of the study we also take young employees up to 35 years of age.

### *Stereotypic attitudes towards Old and Young workers*

Old worker productivity remains in question. Researchers have tried to answer this question to know whether productivity is related with age or not? (Dalen, Henkens & Schippers, 2010). The older worker productivity and performance at work place is often viewed from stereotypic lens and considered as less productive and uncooperative as compared to young workers (Chand & Tung, 2014; Dalen, Henkens & Schippers, 2010; Kulik & Cregan, 2016; Truxillo, Cadiz & Hammer, 2015). The same stereotypes exist for young workers, for instance on their commitment and loyalty towards organization.

There are mixed findings in terms of age diversity and productivity relationship. Wegee and Colleagues (2008) found negative association between performance and relational or age diversity in routine tasks and positive correlation in complex tasks formation (cited in Truxillo, Cadiz & Hammer, 2015). Apart from generational discrimination, affecting productivity of old workers and young workers, 'generativity' is another salient intervening variable that determine the effectiveness of older employees. Generativity is defined as an ability and willingness of senior leader to educate, develop and guide young employees at work place (Truxillo, Cadiz & Hammer, 2015)

### *Young and Older employees Working Relationships*

In the global competitive business world, team based structure is popular. The organizations make teams of diverse group especially fresh and experienced employees are grouped together. The basic idea of mixed teams is to bring diversified thinking and experiences into team work (Kearney et al., 2009). However, these differences in attitude and life experiences among generations may also affect quality communication and result into conflict. It is argued that quality of working relationship is dependent on age related behavior (Josef & Rene, 2010). For instance, older workers are relatively less adaptable to changing culture and more likely to resist change. Young employees are more dependent in decision making and prefer participative decision making style (Guthrie, 2012).

Avery, McKay and Wilson (2007) opined job engagement act as antecedent of job performance and productivity rather than job attitudes. In this regard, satisfaction of co-workers particularly among different age groups is critical for the engagement of employees. According to social identity theory (Tajfel & Turner, 1986), people relate themselves to group having similar interests and preferences. In this context, people align themselves in similar age groups hence display biases in terms of supporting behavior, resource allocation, and knowledge dissemination at work place (cited in Avery, McKay & Wilson; 2007). Thus group affiliation and resource dependency present challenges to organizations to develop system that promote a knowledge sharing culture among different age groups workforce. Similarly, Gratton, and Scott (2017) found relational diversity as an important predictor engagement which in turn determine the performance and productivity of an individual.

Another source of potential conflict between young and older employees is difference in values, preferences, and dissimilarities (Bova & Kroth, 2001). Communication in team work influence overall organizational productivity (Wok & Hashim, 2013) hence communication problems among younger and older employees are obvious (McCann & Giles, 2002). According to Jablin (1987), junior employees feel satisfaction when their seniors support, communicate, involve them in decision making. On the other hand, young employees also seek support and develop effective working relationship with seniors based on theoretical assumptions of interaction theory. According to interaction theory, networking activities particularly effective working relationship with co-workers is essential for career progression and accomplishment of professional goals (Singh, Kumra & Vinnicombe, 1998 cited in Kiaye & Singh, 2013). Hence, drawing on the interaction theory we propose

The following hypotheses for empirical test:

*H1:* Young employees are more satisfied with their older counterparts.

*H2:* Young employees are satisfied with their older counterparts in terms of working experience.

*H3:* Young employees are satisfied in terms of working relationships with older employees

*H3.1:* Young employees are satisfied in terms of mutual learning

*H3.2:* Young employees are satisfied with regard to participative decision making.

*H3.3:* Young employees are satisfied with regard to receiving feedback.

*H4:* There are positive relationships with regard to communication, mutual learning, collaborative decision making and feedback.

## **Research Methods**

### *Sampling Procedure*

The data were collected from employees working in both private and public sector banks of age up to 35 years. The five banks selected for data collection were representative in terms of diversified workforce based on age groups. The total sample size was around 350, out of which 324 completed questionnaires were returned used for data analysis, yielding a response rate of 92.6%.

### *Measures / Survey Instrument*

The survey instrument developed by Wok and Hashim (2013) was adapted for this study. Dependent variable of Satisfaction was measured by eight items scale. Independent variables: team work was assessed using 8 items scale, mutual learning was measured by 5 items scale, feedback was measured by 5 items, mutual learning was measured with 5 items scale and participative decision making was measured with 5 items. All variables were measured through 5 points Likert scale. Internal consistency of the variables was checked using Cronbach Alpha. The alpha scores ranged from 0.812 to 0.896 which is considered well above the acceptable level.

### *Data Analysis*

Statistical analysis was carried out in SPSS version 19. For demographic profile, frequency tables were used and independent sample t-test was run for each item scale. Correlation matrix and multiple regressions were run to check the strength of relationship among research variables and explained variance respectively.

## Research Findings

### *Demographics*

Out of the total respondents, 184(56.8%) were male and female respondents were 140(43.2%) as shown in Table 1. With regard to response rate, out of total, response rate from Public sector was 39.8% and from four Private sector banks was 60.2%. In terms of experience, 34.6% of the respondents had experience of 2-3 years and 42% had between 4-5 years.

Table 1

### *Demographic details*

Demographic Variables	Banks=5		Demographics	Banks=5	
	<i>f</i>	<i>%</i>		<i>f</i>	<i>%</i>
Respondents	324	100%			
			<b><i>Bank Type</i></b>		
<b><i>Gender</i></b>			Public	129	39.8
Male	184	56.8	Private	195	60.2
Female	140	43.2	<b><i>Experience</i></b>		
<b><i>Age Brackets</i></b>			≤ 1 year	43	13.3
Less than or equal to 25 years	82	25.3	2– 3 years	112	34.6
26-30 years	123	38.0	4-5 years	136	42.0
31-35 years	119	36.7	6-10 years	33	10.2
<b><i>Education Level</i></b>			<b><i>Income Range</i></b>		
Up to Matriculation	9	2.8	Less than Rs. 25,000	88	27.2
Intermediate Level	27	8.3	Rs. 26,001 – 50,000	144	44.4
Bachelors Level	104	32.1	Rs. 50,001 – 100,000	81	25.0
Masters or Above	184	56.8	Above Rs. 100,000	11	3.4

### *Overall Satisfaction of Young Employees*

The estimations regarding satisfaction level of younger employees are given in Table 2. According to the results, younger employees are satisfied on the dimension of learning experience (73.2%,  $t=67.622$ ,  $p=0.000$ ) and receiving support (69.8,  $t=59.324$ ,  $p=0.000$ ) respectively. Hence, H1 is statistically significant and supported.

Table 2  
*Satisfaction Level of Young Employees*

Satisfaction Level	Agreement Level (%) <sup>a</sup>					Overall (%)	M	SD	t <sup>b</sup>	p
	1	2	3	4	5					
I am satisfied for guidance and support	3.1	17.9	21.9	40.7	16.4	69.8	3.49	1.060	59.324	0.000
I am satisfied with knowledge sharing of old workers.	2.5	17.0	18.8	47.2	14.5	70.8	3.54	1.014	62.870	0.000
I am satisfied with old worker contributions	1.9	16.0	21.0	49.4	11.7	70.6	3.53	0.958	66.314	0.000
I am satisfied on receiving guidance in terms of improving performance.	2.5	17.9	16.0	48.1	15.4	71.2	3.56	1.032	62.145	0.000
I am satisfied from learning experience	3.4	11.4	15.4	55.2	14.5	73.2	3.66	0.974	67.622	0.000
I am satisfied in terms of learning tolerance	3.1	14.8	14.2	50.0	17.9	73.0	3.65	1.035	63.457	0.000
<b>Total</b>						70.7	3.53	1.038	61.538	0.000

Notes: <sup>a</sup> On 5 points Likert scale from Strongly Disagree =1 to Strongly Agree =5; <sup>b</sup> Test value of 4.0 with df=323

### *Teamwork experience*

The younger employees reported varied experiences in terms of teamwork dimensions as given in Table 3. The respondents gave higher rating regarding suggestions by older worker (73.8%, with t value =67.918 and p=0.000), and giving assistance in decision making” (73% with t value =67.988 and p=0.000). The respondents gave low rating to older employees listening ability (64.8% with t value =53.019 and p=0.000). Therefore, H2 is substantiated.



Table 3  
*Perception of Teamwork*

Teamwork	Agreement Level (%) <sup>a</sup>					Overall (%)	M	SD	t <sup>b</sup>	p
	1	2	3	4	5					
Older employees are comfortable working with people of different ages.	7.1	16.4	10.2	45.7	20.7	71.2	3.56	1.190	53.908	0.000
Older employees give priority to team objectives	5.9	20.7	25.9	32.7	14.8	66.0	3.30	1.129	52.587	0.000
Older employees share their knowledge freely	2.5	16.7	15.1	49.1	16.7	72.2	3.61	1.028	63.187	0.000
Older employees openly listen to others	5.9	21	28.7	31.8	12.7	64.8	3.24	1.101	53.019	0.000
Older employees give helpful suggestions	2.5	13.3	13.3	54.6	16.4	73.8	3.69	0.978	67.918	0.000
Older employees encourage participative decision making.	2.8	14.8	16	47.2	19.1	73.0	3.65	1.037	63.355	0.000
<b>Total</b>						69.6	3.48	1.086	57.969	0.000

Notes: <sup>a</sup> On 5 points Likert scale from 1= Strongly Disagree to 5= Strongly Agree; <sup>b</sup> Test value of 4.0, df=323

#### *Results for Participative Decision Making, Mutual Learning and Feedback*

As shown in Table 4, In general, young employees reported satisfaction while working with older employees. This relationship covered three dimensions such as feedback, learning and participative decision. The estimations confirm positive relationship on these three dimensions hence H3 is supported.

#### *Mutual learning*

With regard to mutual learning, the respondents seem to be agreed to gaining new knowledge from their older colleagues (76 %, with t value =73.749 and p=0.000) while rate low time management skills (68.40% with t value =56.833 and p=0.000) but both have significant results. Hence, H3.1 is proved.

### *Participative decision making Style*

In team work, participative decision making style is an important aspect. On this dimension, the younger employees feels that experienced colleagues encourage them to take decisions or involve them in decision making process (70.4%,  $t=57.976$ ,  $p=0.00$ ). Young employees perceive that older employees often solicit ideas in decision making (67.2 per cent,  $t=57.893$ ,  $p=0.000$ ) Thus, H3.2 is also proved.

### *Receiving Feedback*

It is evident from the results that older employees give feedback to their young colleagues or subordinates. The results indicate that they often receive suggestions (71.2%, with  $t$  value =63.192 and  $p=0.000$ ) and give sincere feedback (70.8%, with  $t$  value =58.161 and  $p=0.000$ ). Moreover, senior employee compliments (70%, with  $t$  value =58.836 and  $p=0.000$ ) and appreciate efforts of young employees (68.2%, with  $t$  value =54.863 and  $p=0.000$ ). All relationships were statistically significant, therefore, H3.3 is substantiated.

Table 4

*Collaborative Decision Making, Learning Experience and Feedback*

Working relationship with senior employees	Level of Agreement (%) <sup>a</sup>					Overall (%)	<i>M</i>	<i>SD</i>	<i>t</i> <sup>b</sup>	<i>p</i>
	1	2	3	4	5					
<i>Mutual Learning</i>										
I learn from experiences of old workers	4.0	12.7	11.4	47.8	24.1	75.0	3.75	1.079	62.593	0.000
We learn new skills from each other.	2.8	10.2	13.9	50.0	23.1	76.2	3.81	0.997	68.740	0.000
We learn new knowledge from each other.	2.2	7.1	18.8	48.5	23.5	76.8	3.84	.937	73.749	0.000
I learn time management from older employees.	4.6	17.9	22.8	40.1	14.5	68.4	3.42	1.083	56.833	0.000
<b>Total</b>						73.7	3.69	1.021	65.279	0.000
<i>Participative Style of decision making</i>										

(Table Continued...)

Older employees encourage taking decision	3.7	17.6	19.8	40.4	18.5	70.4	3.52	1.094	57.976	0.000
Older employees offer ideas	3.1	21.6	23.5	39.8	12.0	67.2	3.36	1.045	57.893	0.000
Older employees helps in selecting alternatives for decision making.	2.5	15.1	28.4	37.7	16.4	70.0	3.50	1.015	62.102	0.000
Older employees assist in prioritizing alternatives.	3.4	21.6	26.9	35.5	12.7	66.4	3.32	1.054	56.756	0.000
<b>Total</b>						68.6	3.43	1.040	59.425	0.000
<i>Feedback</i>										
I get feedback	4.0	12.7	11.4	47.8	24.1	70.8	3.54	1.097	58.161	0.000
I receive suggestions for growth and development.	2.8	10.2	13.9	50	23.1	71.2	3.56	1.014	63.192	0.000
I receive sincere remarks work improvement.	2.2	15.1	19.1	46.3	17.3	70.6	3.53	1.009	62.942	0.000
I receive appreciation for contributions in helping older workers.	2.2	7.1	18.8	48.5	23.5	68.2	3.41	1.119	54.863	0.000
I receive compliments for achievements.	4.6	17.9	22.8	40.1	14.5	70.0	3.50	1.072	58.836	0.000
<b>Total</b>						70.2	3.51	1.062	59.599	0.000

Notes:  $\alpha$  On 5 points Likert scale from 1=strongly disagree to 5=strongly agree; b Test value of 4.0,  $df=323$

#### *4.5 Relationships of young employees' satisfaction with teamwork, participative decision making feedback and learning,*

In Table 5 it is evident that explanatory power of independent variables ( $R^2=0.722$  with adjusted  $R^2$  of 0.718) explaining variance in dependent variable i.e. satisfaction. The results indicate that 71.8 per cent of the variation in satisfaction is accounted for by these predictors. Overall model was significant with  $F=206.814$  and  $p<0.001$  respectively. Similarly coefficients of feedback, participative decision making, and mutual learning were ( $\beta=0.302$ ,  $p<0.001$ ), ( $\beta=0.109$ ,  $p<0.001$ ) and ( $\beta=0.367$ ,  $p<0.001$ ). The highest  $\beta$  score was of feedback (0.367) and lowest of participative decision making ( $\beta=0.109$ ).

For public sector banks, the model was significant ( $F=102.330$ ,  $p=0.000$ ) with contribution made by different predictors having  $R^2=0.785$  and adjusted  $R^2$  of 0.777). This suggests that mutual learning, team work, feedback and participative decision making together explains 77.7 per cent of

variation in satisfaction of older employees. As per results standardized coefficients of participative decision making ( $\beta=0.178$ ,  $p<0.001$ ), team work is ( $\beta=0.301$ ,  $p<0.001$ ), feedback ( $\beta=0.176$ ,  $p<0.01$ ) and learning ( $\beta=0.380$ ,  $p<0.001$ ) are supporting our assumptions.

The results related to private sector banks show model significance with  $F=105.752$  and  $p=0.000$ . The total contribution made by different predictors with  $R^2=0.701$  and adjusted  $R^2 = 0.695$ ) suggest that mutual learning, feedback, team work and participative decision making together explains 69.5 per cent of variation in satisfaction of older employees. Standardized coefficient of predictors i.e. team work ( $\beta=0.174$ ,  $p<0.01$ ), feedback ( $\beta=0.371$ ,  $p<0.001$ ), mutual learning ( $\beta=0.329$ ,  $p<0.001$ ), and collaborative decision making ( $\beta=0.124$ ,  $p<0.05$ ) support our hypotheses.

Table 5

*Model summary of Working Relationship with senior employees*

Variables	Total Results		Public Bank		Private Bank	
	$\beta$	t	$\beta$	T	$\beta$	t
(Constant)		-0.707		-1.642		0.344
Team Work	0.237	5.756***	0.301	4.727***	0.174	3.076**
Mutual Learning	0.367	8.921***	0.380	6.026***	0.329	5.806***
Participative Style of Decision Making	0.109	2.634***	0.178	2.684***	0.124	2.173*
Giving Feedback	0.302	7.077***	0.176	2.464**	0.371	6.388***
$R^2$	0.722		0.785		0.701	
Adjusted $R^2$	0.718		0.777		0.695	
F	206.814***		102.330***		105.752***	

Dependent Variable: Overall Satisfaction

Note: \* $p<0.05$ , \*\* $p<0.01$ , \*\*\* $p<0.001$

## Discussion

Findings of this study confirm our assumptions of good working relationship between young and old workers. Furthermore, the young employees give respect to their seniors working in teams consistent with our cultural values. The findings of the study are in consistent with the Gursoy et al. (2008) who found that young employees prefer team work. In general, these results are consistent with

the cultural values of Pakistan. In terms of learning experience, results are consistent with the assumptions of greater knowledge and experience of older workers (IImakunnas & IImakunnas, 2014). The young employees who feel reluctant to integrate with older employees have lesser opportunities to learn and progress in their career. Similarly, in public sector organizations this misperception and discomfort level is high with regard to older workers. This is due to the fact that they feel a threat to their job as young employees are considered more equipped with latest tools and knowledge. In contrary, young employees learn from experiences of their older colleagues and generally feel comfortable working with them.. In this context of productive relational diversity, Pitts and Wise, (2010) also suggest policy makers to incorporate work force diversity perspective while implementing HR policies and practices.

### Conclusion

This study has certain limitations. First, it has focused on only the banking sector and that, within a specific geographical area. Second, as compared to the four private sector banks, data from only one public bank was gathered, so these results do not represent whole banking sector. For future research, it is suggested to include more banks and from different cities, both urban and rural for comprehensive analysis. Moreover, in future, researchers can approach older employees to examine their perceptions about working relationships with younger employees. Furthermore, in future research the impact of teams consisting of young and older workers can be ascertained on teams and organizational productivity.

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# PURCHASE INTENTION DRIVERS FOR PRIVATE LABEL BRANDS IN PAKISTAN

Feryal Khan <sup>1</sup> and Ansa Mehmood <sup>2</sup>

## Abstract

*In today's increasingly competitive marketplaces, development and management of an effective Private Label Brand (PLB) has turned into a main concern for various retailers across the world. This research's purpose is to study the effects of store image, store brand familiarity, service quality and perceived social value on purchase intent of Private Label Brands. It also examines the mediating role of Brand loyalty towards Purchase Intention. A multivariate data analysis techniques like structural equation modeling was used on 100 valid responses collected from food retail shoppers from Lahore, the second largest metropolitan city in Pakistan. The results of the analysis supported the direct as well as indirect effects studied through mediation of Brand Loyalty on Purchase Intention for Private label brands. All four store level factors had a significantly positive relationship with brand loyalty and thus, it is imperative for managers to focus on strategies to improve store image, quality, familiarity and perceived value which will eventually have a positive and direct impact on purchase intention of PLB's.*

**Keywords:** Private Label Brands, Service Quality, Brand Image, Purchase Intention, Brand Loyalty, Social Value

**JEL Classification:** Z 000

## Introduction

Private label brands (PLB), store brands or retailer brands are labels possessed by the retailers and distributors. State or national brands are produced by the manufacturers (Bao, Bao, & Sheng, 2011). These are a line of products which are sold by the retailer/distributor using a single marketing identity. These are placed in exclusive stores and sometimes in the departmental stores. They are usually priced lower than the national brands and provide consumers with a lot of variety to choose from. Private label brands or store brands are experiencing remarkable growth worldwide and are

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rising even more rapidly than the manufactured brands (Beneke & Carter, 2015). Store brands are a reliable and rapid means for increasing sales for retailers, because of the recent economic downturn consumer income is decreasing which encourages retailers to sell more Private label brands to increase their profits (Richardson, Jain, & Dick, 1996). Today, many retailers have a preference to sell their own store products so that they can differentiate themselves and to earn higher revenues. Thus, developing a store brand by a retailer/distributor becomes an essential strategy.

In Pakistan, the concept of private label branding is gaining popularity. Small and medium size manufacturers and retailers focus in producing specific products lines and specialize in producing store brands almost exclusively. Examples can be of Jalal sons, Gourmet, AL Fatahand, Shezan stores. All these stores are selling product lines under their own brand name. Some Pakistani exporters are now also producing commodities for private label brands locally and internationally. For certain product classifications e.g. basmati rice, a major chunk of Pakistan's exports to the EU consist of the private label manufacturing. Retailers want to optimize their shelf space by keeping premium store labels to increase their margins. Thus, this becomes an important strategy for the retailers to study and to act upon according to consumer preferences.

Historically, the difference between the private labels and manufactured brands was immense and customers perception of private label brands was that they were of low quality and price (Fitzell, 1982; Goldsmith, Flynn, Goldsmith, & Stacey, 2010), but the recent studies show that consumers now favor private label brands over national brands. Nine out of 10 American consumers believed the private label brands to be equally good as the national brands (Deloitte, 2014). Market shares of store brands are increasing rapidly in Europe (PLMA, 2014).

Research suggests that loyalty to Private Label brands increases the brand equity of the companies marketing them. Studies have shown that loyal customers show repeat purchase behaviour, willingness to disburse higher price and spread affirmative word of mouth. In sum, customer loyalty to retailers can increase total market share and business revenue (Oliver, 1997) Therefore, it is important to study the determining factors of consumer loyalty towards PLB's.

The key driver of this study is to deliver better understanding of factors affecting the purchase intention and brand loyalty so that the retailers can have useful insights to compete with National brands. This research attempts to offer retailers with valuable insights for successfully developing and marketing their PLB programs which will lead to higher sales. The retailers will be able to consider the positive impact of studied independent variables stated above in order to increase the customers purchase intention, because of rising competition locally and globally as well as lower switching costs, Customer loyalty is an important goal for retailers. This study provides insights in retail strategy and has practical implications for retailers and distributors of PLB's. Examining the relationship of store image and purchase intention will be quite helpful for the sales managers in obtaining solutions for improving the store as well as brand image of a private label brand (Faryabi,

Sadeghzadeh, & Saed, 2012). There are very few studies that consider store image and service quality together. Thus, by bringing these two variables together we will be able to study the relationship between them and consider that how store image can be improved with the help of service quality.

A lot of research in store brands is partly or fully drawn from the USA or Europe. There have been very less research done in the Asian markets (Lin, Marshall, & Dawson, 2009). Some study is being done in Asian markets but they consider few product level and consumer level factors affecting the purchase intention of consumers (Dutta & Singh, 2014; Gupta, Jain, & Parmal, 2014; Ahmad, Noor, & Che We, 2014). Thus, defining the level to which these factors impact consumers from a South Asian background is yet to be explored.

### *Study objectives*

The primary aim of this study is to evaluate the factors which are considered essential while purchasing private label brands. Thus, this research's objective is to build up a model for purchase intention of PLB's based on the perception of service quality, social value, store image and brand familiarity of the store offering PLB's. The importance of private label brands is increasing a lot in retail stores due to the increasing competition, differentiating the products from other retailers is becoming quite difficult. Here comes the role of private label brands as they are becoming a central approach for retailers (Mejri & Bhatli, 2014). Retailers can earn high margins, consumer loyalty, store traffic, and profit-ability (Semeijn, Van Riel, & Ambrosini, 2004; Braak et al., 2013).

We intend to study the effect of various store specific variables on brand loyalty and purchase intention. Studies worldwide have shown that loyalty to PLB's is effected by favourable store image (Steenkamp and Dekimpe, 1997) and higher perceived quality (Binninger, 2008).

## **Literature Review**

### *Purchase Intention*

Purchase intention, the dependent variable of this study, refers to an opportunity or likelihood of an item for consumption in the future. It is a decision making process that consumer needs to go through for demanding, purchasing, appraising and consuming of a product or service to satisfy an impending need (Schiffman & Kanuk, 2007). Thus, if the purchase intention increases the possibility of purchasing the product also increases (Dodds, Monroe, & Grewal, 1991; Schiffman & Kanuk, 2007).

On the other hand, Wang and Huang (2007) found out that customers tend to follow what they perceive to be most effective according to them. Their purchase intention would increase when consumers believe that they get more benefits out of the product than the financial cost they incur in buying that product. Consumer's favorable buying intent results in positive brand promise that forces

clients to make a definite purchase (Fishbein & Ajzen, 1975; Schiffman & Kanuk, 2007). Thus, purchase intention refers to “the possibility of buying a product by the consumers in the future” (Diallo, 2012; Kakkos, Trivellas, & Sdrolas, 2015).

### *Store Image*

Store atmosphere and image have a strong connection with purchase intention (Rehman, Ashar, Javed, Khalid, & Nawaz, 2014). Consumers evaluation of the PLB is affected by the store’s positioning of them (Kapferer, 2008). According to Martineau (1958) “store image is the way a customer pictures the store in his/her mind, influenced by functional attributes and psychological qualities”. Devlin et al. (2003) assessed store image as the “overall attitude derived from internal and external characteristics of stores.” Vahie and Paswan (2006) established that a affirmative evaluation of store image leads to a positive influence of Purchase intention of PLB’s. Store image is measured by the variety of products and store atmosphere (Collins-Dodd & Lindley, 2003). Variety of products refer to availability of different product assortments and variations. “Store atmosphere” refers to how the customers feel about the atmosphere and interior decoration of the store. Store image can also be studied from various other perspectives of customers such as high quality, service and an overall shopping experience. High quality refers to superior quality products in the store. Service refers to the salesperson in the store are helpful and knowledgeable.

Various studies have discussed store image to be an essential element of store identification (Nevin & Houston, 1980). Store image is a significant determining factor of product quality (Dawar & Parker, 1994). Moreover, when consumers are foreign to the brand they draw on store image to judge the quality of the store brand. If the store image of a brand is positive than the consumers intention to buy will also be higher (Grewal, Krishnan, Baker, & Borin, 1998).

### *Store brand familiarity*

Familiarity is considered as a key feature that impacts clients in the buying process (Bettman & Park, 1980). When clarifying the difference between private labels and national brands, product familiarity is said to be of the most important determinant (Mieres, Martin, & Gutiérrez, 2006b). Particularly, for private label brands the function and significance of familiarity plays an integral determinant in influencing buyer choice and decision making.

The concept of brand familiarity is, according to Alba and Hutchinson (1987) “numerous experiences of the brand/product by the consumers which comprise of any direct as well as indirect experiences (advertisements, word of mouth or communication with the sales personnel)”. Baker, et al. (1986) believed that familiarity is an important determinant in brand selection as it (1) increases emotional personality of a brand, (2) improves the prospect of being included in the evoked set, (3) creates affirmative impact on the PLB, and (4) encourage purchasing behaviour.

Numerous studies suggested positive association between store brand familiarity and purchase intention. Dick, Jain and Richardson (1995) stated that more familiarity with a brand/product leads to more experience and consequently better understanding of the product and its quality. Research by Richardson, Jain and Dick (1996) identified that store brand familiarity adds to the probability of purchasing a PLB while reducing external dependency, deviation in quality and potential risk of using private label brands. Therefore, customers who are familiar with a specific product category are better in recalling its information and description (Alba & Hutchinson, 1987). These conditions may lead to positive brand evaluation and quality perception (Hardesty, Carlson, & Bearden, 2002).

Thus, consumers are willing to buy store brand goods when the consumers have apposite impression of that store. A highly significant relationship has been witnessed between brand familiarity and purchase intention (Dursun, Kabadayi, Alan, & Sezen, 2011; Fen, May & Ghee, 2012).

#### *Perceived social value*

Study by DelVechhio (2001) stated that products of famous brands serve as a social value or status indicator. Their strong brand name injects higher social value to product's owner, directly or indirectly. Consumers believe their social image will improve with the usage of a particular branded product. Moliner et al. (2007) debated that social dimension reflects the significance and importance produced from the social image communicated by the usage of a particular products/service. Sweeney and Soutar (2001) concluded that social value leads the consumer towards a superficial and enriched self-concept that the end user receives from the usage of the product. Therefore, in order to improve their social value consumers tend to buy branded products.

The concept of social value is accepted to be a dominant predictor of purchase intention (Chi & Kilduff, 2011), but in researches carried out in a grocery product context, it has been not common. Many studies have emphasized that customers' intention to buy private labels is mainly determined by the perceptions of social value. In grocery products and other low value items consumers prefer to buy store brands due to its value for money. People compare the price with the benefits derived from the product. Historically private label brands were considered having low price and quality but now private labels have improved their quality and charge better price as well. Kakkos, Trivellas and Sdrolas (2015) in their study concluded that consumers who perceived higher social value and believed that their image is derived from the usage of a particular product or brand they were more prone to buy private labels.

#### *Service quality*

Perceived quality can play a dominant role in determining customers purchase intention of PLB's (Bao et al., 2011). Some studies have suggested a significant relationship of perceived quality with customer loyalty (Richardson et al., 1996, Bao et al., 2011). Quality is proposed as a key deter-

mining factors of brand purchase as suggested by Grewal, Krishnan, Baker, and and Borin, 1998 . Zeithaml (1988) defined perceived quality as ; “the consumers” global judgment of the brand or product’s overall excellence or superiority” .For an unfamiliar private label brand consumers hypothesize their image from the quality of service offered by the store. In return superior service quality may result in greater pleasure in the experience with the store (Parasuraman, Zeithaml, & Berry, 1985, Anderson, Fornell & Lehmann, 1994; Carrillat, Jaramillo & Mulki, 2009). Thus, when customers form a good evaluation of the store from their service quality offered by the store or brand, they instantaneously make a positive private label brand image. This shows that when a store delivers good service quality to their customers, they become more satisfied and contented which makes the buying process easier.

Wu, Yeh and Hasiao (2011) conducted a research which proved that if the service quality is improved than the brand image of the particular store will also improve. Lin (2005) also concluded similar outcome that good service quality results in customer contentment and reliability with the brand and also with the brand image. Various researches prove that the association between service quality and private label brand image was positive and significant (Huang, 2003; Lin, 2011)

#### *Brand Loyalty and its mediating role*

In this study, Brand loyalty of the customer is going to be used as a mediating variable of Purchase intention for PLB’s. Brand loyalty is extremely essential for a company’s effectiveness and profitability (Aaker, 1997). Brand loyalty has been defined as “ the tendency of a consumer to be loyal to a commercial chain”.(Benito et al., 2014) and as the “attachment a customer has to a brand, reflecting how likely he will be to switching to another brand”Aaker (1991). Jacoby and Chestnut (1978) explained brand loyalty as the propensity of the buyer to consume the service or product of a specific brand again and again.

Through brand loyalty consumers are able to express their gratification with the usage of a commodity (Zehir, Sahin, Kitapci, & Ozsahin, 2011). Few studies have highlighted that brand loyalty can exist with a private label brand. Usually store brands are considered to be more price conscious. Brand loyalty occurs due to better perceived quality rather than the product’s actual price (Zehir, Sahin, Kitapci, & Ozsahin, 2011). Another study claimed that store image directly influences loyalty (Chang and Tu, 2005)

#### *Theoretical Framework*

We are going to consider four dimensions of the consumers perceptions towards PLB’s of a store namely perceptions of service quality of PLB store, store image, social values and PLB store familiarity as antecedents of Purchase intention of customers for Private Label Brands. The secondary objective of this research is to scrutinize the role of Brand Loyalty and its impact on Purchase inten-

tion as a mediator.

*H1*: The perceived store image has a positive effect on PLB loyalty

*H2*: Satisfaction with PLB's store service quality level has a positive and direct effect on PLB loyalty

*H3*: Perceived Social values has a direct and positive effect on PLB loyalty

*H4*: PLB's store brand familiarity has a direct and positive effect on PLB loyalty

*H5*: PLB loyalty has a positive and direct effect on PLB purchase intention.

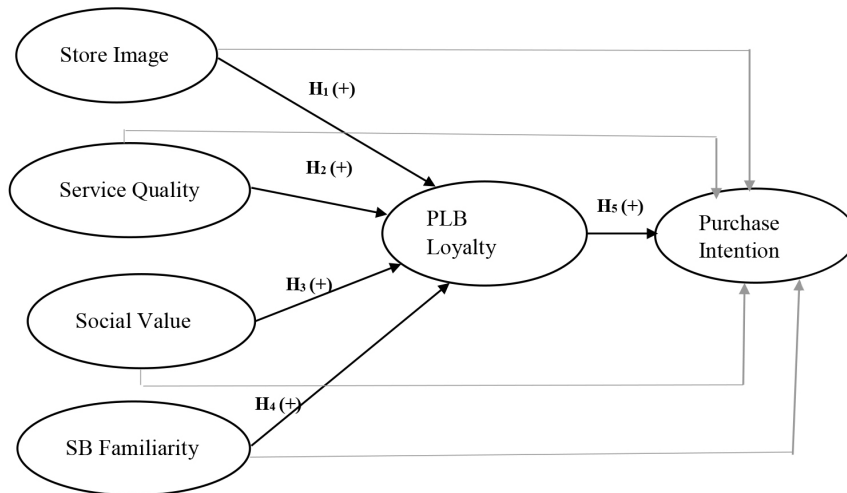


Figure 1: Theoretical framework

## Research Methodology

### Collection of Data

Data collection for the hypotheses of this research was collected in December, 2015 through a structured questionnaire from respondents residing in Lahore, Pakistan. Lahore represents a high private label market share within Pakistan thus providing access to a large and relatively developed market. A convenient sample of 120 consumers, who purchase private label brands in supermarkets, hypermarkets and departmental stores, was selected for questionnaire dissemination online and in person. Many researchers used convenience sampling as a technique when any particular member of the population is unknown (Semeijn, Van Riel & Ambrosini, 2004; Zikmund and Babin, 2010). Another study conducted by Gupta, Jain and Parmal (2014) measured the consumer responses through non probability convenience sampling by choosing 100 valid responses.

A sum of 100 consumer's responses were valid and finalized for analysis following removal of incomplete or invalid responses. 45 of the valid responses were collected from the online survey and the remaining 55 had been completed manually and returned to the researcher. All of the respondents evaluated a major retailer in Lahore along with its corresponding PLB products. The instrument had several socio-demographic questions also. Many studies use questionnaire as a research technique due to its unlimited benefits and low cost (Wu, Yeh, & Hsaio, 2011; Kakkos, Trivellas, & Sdrolas, 2015). Table 1 displays the description of the demographic factors for the study's sample.

Table 1  
*Demographic profile of Respondents*

Variables		Frequency	Valid Percentage
Age	21-25	64	64
	26-30	25	25
	31-35	11	11
	36-40	0	0
Gender	Male	29	29
	Female	71	71
Current Status	Student	12	12
	Employed	61	61
	Self-Employed	10	10
	Housewife	17	17
	Unemployed	0	0
Education	Matriculation	0	0
	Intermediate	0	0
	Bachelors	41	41
	Masters	58	58
	Any Other	1	1
Monthly Income	Rs.50,000 - 60,000	21	21
	Rs.61,000 - 70,000	17	17
	Rs.71,000 - 80,000	27	27
	Rs.81,000 and above	35	35

#### *Variable measurement scales*

All the scale items used in this study to measure our dependent variable (customer purchase intention, customer loyalty) and our independent variables (store image, store brand familiarity, social

values and service quality) were adapted from existing literature (Table 2). The seven point Likert scale was used with 1 representing the response “strongly disagree” and 7 being “strongly agree”. The questionnaire’s final part contained questions on socio demographic characteristics of the consumers as shown in Table 1.

## Results

### *Analysis of the measurement model*

Structural Equation Modelling technique is used to examine the measurement model and proposed technique. Confirmatory factor analysis was tested using Amos to access that whether a hypothesized model is suitable for multivariate data (Fox, 2010). All of the standardized factor loadings were shown to be significant and exceed the benchmark of 0.50 (Wu, Yeh, & Hasio, 2011), according to the Factorial analysis.

Table 2 below, shows the composite reliability coefficients and internal consistency. Reliability of constructs was tested by composite reliability as proposed by Hult et al. (2004) with the standardized solutions in Confirmatory Factor Analysis. Table I show that composite reliability ranges between (0.833-0.954). Reasonable reliability is found in all variables as it is higher than the cut off value 0.70 (Hair et al., 1998). As seen in table 2 Cronbach  $\alpha$  values were found to be between 0.862 and 0.945. Average Variance Extracted lied between (0.500-0.874) which is greater than minimum cut off value of 0.5 as suggested by Fornell and Larcker, 1981. Thus, the model was recognised to be acceptable (CFI = 0.936, IFI = 0.937, TLI = 0.924, RMSEA = 0.083) and proved to be an appropriate fit as suggested by Hair, Anderson, Tatham and Black, 1998. The model fits are shown in table 3.



Table 2  
*Reliability factor loadings internal consistency*

Construct	Question Item	Cronbach $\alpha$	$\lambda$ (F.L)	CR	AVE
<b>STORE IMAGE</b> (Collins-Dodd & Lindley, 2003) (Grewal, Krishnan, Baker, & Borin, 1998)	"This store provides me with variety of products."	0.909	0.72	0.915	0.686
	The interior decoration of this store let me feel pleasant and comfortable"		0.99		
	"This store carries high quality merchandise."		0.80		
	"This store has helpful and knowledgeable salespeople."		0.73		
	"This store is close to my 'ideal' store."		0.87		
<b>SERVICE QUALITY</b> (Brady & Cronin, 2001)	"I would say that the quality of my interaction with this store's employee is high."	0.902	0.95	0.920	0.701
	"I would rate this store's physical environment highly".		0.74		
	"I always have an excellent experience when I visit this store."		0.90		
	"I feel good about what this store provide to its customers."		0.90		
	"This store's staff efficiently deals with customer complaints."		0.66		
<b>PURCHASE INTENTION</b> (Grewal, Krishnan, Baker, & Borin, 1998) (Bruner, Hensel, & James, 2001) (Knight & Kim, 2007)	"The probability that I would consider buying Store brands is high. "	0.896	0.66	0.849	0.533
	"It's very likely that I will buy store branded product"		0.82		
	"I will definitely try store branded products."		0.82		
	"I plan to buy private label brand of this store more often."		0.58		
	"I would purchase Store brands next time."		0.74		
<b>SB FAMILIARITY</b> (Kent & Allen, 1994)	"I have experienced this store branded product."	0.945	0.91	0.954	0.874
	"I have knowledge about this store branded product."		1.01		
	"I am familiar with this store branded product."		0.88		
<b>PERCEIVED SOCIAL VALUE</b> (Sweeney & Soutar, 2001)	"The products of this store would help me feel acceptable."	0.862	0.86	0.863	0.617
	"The products of this store would improve the way I am perceived."		0.94		
	"The products of this store would make a good impression on other people."		0.63		
	"The products of this store would give me social approval."		0.67		
<b>BRAND LOYALTY</b> (Vogel, Evanschitzky, & Ramaseshan, 2008; Dwivedi, Merrilees, Miller, & Herington, 2012)	"I would continue to repurchase from this brand."	0.916	0.74	0.833	0.500
	"I would recommend this store to my friends and family."		0.66		
	"I would buy additional products from this brand as well."		0.71		
	"I would spend more than a year on this store brand."		0.71		
	"I will speak positively about store brands."		0.71		

Table 3  
*Model fit indices*

$\chi^2$	500.351
Df	297
P	***
GFI	0.754
RMR	0.096
RMSEA	0.083
AGFI	0.687
NFI	0.858
IFI	0.937
TLI	0.924
CFI	0.936

### *Structural model Analysis*

The hypothesized structural model was tested in Amos 18 after the results of measurement models were analyzed. Path analysis helps to state arrangements of relationships whether a variable has a direct or indirect effect on another variable. Table 4 below, reviews the outcomes of the structural model. Parameters estimates are measuring the magnitude and sign of the link among the variables. The research Hypotheses according to the results are thus accepted.

Store image was seen to have a positive ( $\beta=0.076$ ) and significant effect on PLB loyalty and hence, it supports H1. The independent variable Service quality holds a favorable and highly significant relationship with PLB loyalty with an estimate of 0.630. Following from antecedent relationships: social value and SB familiarity has a positive and highly significant relationship with PLB loyalty, Social value ( $\beta=0.239$ ) and SB familiarity ( $\beta=0.108$ ), hence supporting H3 and H4. PLB loyalty and purchase intention are positively related ( $\beta=0.841$ ) and highly significant, hence H5 is also accepted. Thus, to increase the consumers' PLB loyalty and hence purchase intention of a PLB, the store needs to improve its store image, service quality, and social value and SB familiarity.

Table 4

*The Structural Model summary findings*

Hypothesized paths	Sign	Estimate	P	Result
H1: Store Image → PLB Loyalty	+	0.076	*	Supported
H2: Service Quality → PLB Loyalty	+	0.630	***	Supported
H3: Social value → PLB Loyalty	+	0.239	***	Supported
H4: SB Familiarity → PLB Loyalty	+	0.108	***	Supported
H5: PLB Loyalty → Purchase Intension	+	0.841	***	Supported

P > 0.05 ns      P < 0.05 \*      P < 0.01 \*\*      P < 0.001 \*\*\*

*Mediation effects*

Mediating effects between variables are tested using bootstrap in Amos 18. Mediation by PLB loyalty is studied on (store image, service quality, social value and SB familiarity) and purchase intention. The results are shown in the Table 5.

Store image and purchase intension has a direct relationship and in presence of PLB loyalty their relationship is not significant which means that PLB loyalty completely mediates the relationship between store image and purchase intention. Similarly, social value and purchase intention are completely mediated by PLB loyalty. Service quality and purchase intention has a significant direct relationship but their indirect relationship is not significant which means no mediation occurs between service quality and purchase intention. Similarly, PLB loyalty doesn't act as a mediator between SB familiarity and purchase intention.

Table 5  
Results of mediation

Variables	Direct (without mediation)	Indirect (with mediation)	Direct (with mediation)	Results
H1: SI → PLB Loyalty → PI	0.653**	0.553*	0.279ns	Full Mediation
H2: SQ → PLB Loyalty → PI	0.788***	0.021ns	0.795***	No mediation
H3: SV → PLB Loyalty → PI	0.346***	0.235*	0.194ns	Full Mediation
H4: SB Fam → PLB Loyalty → PI	0.898***	0.116 ns	0.797***	No mediation

P > 0.05 ns    P < 0.05 \*    P < 0.01 \*\*    P < 0.001 \*\*\*

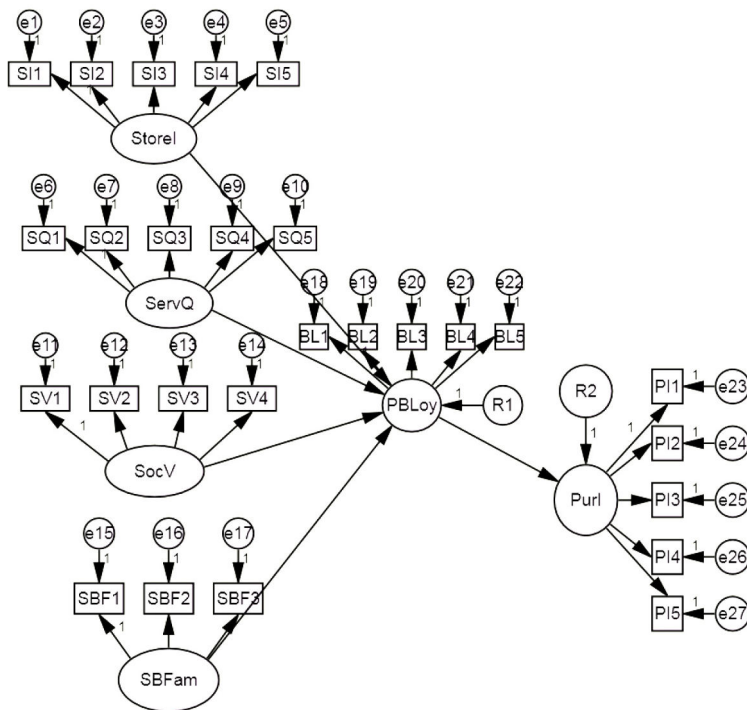


Figure 2: Path diagram in Amos

### Conclusion

The rapidly changing dynamics of the customer-organization relationship has made it crucial for retailers and managers to assess the factors that determine purchase intention of consumers. The study's main purpose was to study the impact of a set of determinant factors that may increase brand loyalty of customers for PLB's which in turn may have a positive link with consumers' Purchase intention. To explore these impacts, five hypotheses were developed and tested empirically. Results revealed that store image, brand familiarity, value consciousness and perceived quality had direct positive impact on PLB loyalty.

This research also confirms that store image has a favourable effect on the buying intent of private label brands. If the image of PLB store in the mind sets of people is positive and the chances for them to buy from this store will be higher. Moreover, when consumers have not purchased the brand before, than store image is used as one of the most important queues often, for evaluating the image of a private label brand.

The study results also confirm that Store brand familiarity affects the brand loyalty and consumers purchase intention positively as reported earlier (Dursun, Kabadayi, Alan, & Sezen, 2011; Fen, May & Ghee, 2012). This study's findings help us conclude that consumers prefer familiar brands as they are associated with a well reputed manufacturer rather than unfamiliar brands, making store brand familiarity one of the important determining factors in the process of decision to purchase. If consumers are familiar with store and they have a past experience with the store and its products then their loyalty is likely to have developed and they will purchase the store brands.

Another important finding of this study was that there is a positive association between social values and brand loyalty which then directly affects purchase intention as also suggested by past literature (Rahmawati, 2013; Kakkos, Trivellas, & Sdrolas, 2015). Consumers are not only value conscious but they also prefer to enjoy social value from the products. They believe that their social image is derived from the product or brand that they will use. Research by various authors proved that consumers who perceived higher social value and believed that their image is derived from the usage of a particular product or brand they were more prone to buy private labels.

We also tested whether service quality acts as a predictor for consumers to purchase private label brands, as also suggested by past studies (Ahmad, Noor, & Che, 2014). This research concluded that service quality provided by the store positively affects the brand image. A higher level of service can help the retailers to have a competitive edge and outperform other retailers. Service levels not only improves brand image of the store but also helps in building relationships with customers. If a good quality of service is provided to the customer than not only their brand loyalty will increase but they will also start trusting the brand and then ultimately have a higher purchase intention.

This study also proposed that service quality has a direct and indirect effect on the purchase intention of the consumers. It was found that better service quality can lead to higher brand loyalty.

Based on previous research, a strong link was expected between loyalty and purchase intention of consumers for PLB's (Zehir, Sahin, kitapci & Ozsahin, 2011). The consumers will return to buy the products if they were satisfied with their earlier purchase decision, thus becoming brand loyal and will think about purchasing it again. Brand loyalty had a partially mediating role in this study. Its mediation had a significant impact for relationship between store image and value consciousness with purchase intention. Contrary to our expectations, service quality and store brand familiarity had a direct relationship with Purchase intention with mediation links not supported for brand loyalty.

This study's findings provides useful insight for marketing managers and retailers and they should centre their marketing efforts towards improving the store service quality and image in order to have a higher purchase rate leading to higher profitability from their store brand portfolio. Customer loyalty is an important goal for managers as the switching costs have decreased and the competition has increased. Therefore there is a need for customer centred marketing efforts for example, introduction of loyalty cards and various merchandising activities to enhance PLB's image.

#### *Limitations of the Study*

This study has a few limitations, which can be accounted for future research. This study was carried out in Pakistan which can hinder the generalizability of this study's results to other countries. Other countries as well as differences amongst consumer groups should also be considered for further investigation of loyalty towards PLB's. This study undertook a limited number of possible antecedents, which represent a partial picture. More antecedents for e.g. pricing, assortment, and trust in retailer should also be studied in order to provide a more detailed explanation of Purchase intention and Customer loyalty.

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# LANGUAGE-MIXING AND ITS PROCESSES IN PAKISTANI URDU NEWSPAPERS

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## Abstract

*Multilingualism has become a significant feature of today's linguistic scenario. Languages tend to affect each other when they are in contact on account of the role given or due to the attitude of the language users. Language contact results in language-mixing. Language-mixing in formal, written, corpora in Pakistan manifests the spread of English. The present study aimed to investigate the frequency of the occurrence of language-mixing in Urdu newspapers. Thus, it investigated the extent to which language-mixing is prevalent and the processes it takes when it occurs in Pakistani Urdu newspapers. Two Urdu newspapers (published in morning) were taken (from February 1 to 15, 2014) as sample. The study took front page (page number 1) and international news page (page number 3) as they cover all the aspects of news briefly. The data from Urdu newspapers were analyzed through linguistic analysis. The findings of the study showed that language-mixing is frequently done in Urdu newspapers and it takes various processes-insertion, hybridization and synthesis.*

**Keywords:** Multilingualism, Language-mixing, Urdu Newspapers, Hybridization, Synthesis.

**JEL Classification:** Z 000

## Introduction

According to researchers more than 60 languages, out of which 6 are major and 57 are minor, are spoken in Pakistan (Fareed, Humayun, & Akhtar, 2016; Rehman, 2010). Richards and Schmidt (2010) define multilingualism as “the use of three or more languages by an individual or by a group of speakers such as the inhabitants of a particular region or a nation” (p.378-379). English and Urdu have existed together for many years and exert considerable impact on each other from multiple aspects. Language-mixing of English words in Urdu is frequent in speech as well as in writings.

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Language-mixing is often referred to as code-mixing which is defined as “mixing of two codes or languages” in a sentence (Richards & Schmidt, 2010, p.88). It appears in many forms or processes such as hybridization, insertion and synthesis. Richards and Schmidt (2010) calls hybridity a “mixture, for example cultural mixing as an effect of globalization” (p.265) so it is “something that is formed by combining two or more” (Hybrid, 2014). The process of hybridity is “hybridization” (Bakhtin, as cited in Rasul, 2006, p.10). Insertion is defined as “the act or process of putting something into something else: the act or process of inserting something” (Insertion, 2014). Rasul (2006) has used the term “synthesis” to imply one of the processes of language-mixing” which includes “abbreviations, acronyms, reduplication, tags and fillers”, etc. In the present study only the occurrence of acronyms and abbreviations has been categorized under synthesis which is a process of language-mixing.

The present study focused on the use and processes of language-mixing in written, non-fiction text-newspapers. It was limited to focus on two newspapers and used publication of 15 days. The researchers have delimited the study by focusing on front page and the third page of Urdu newspapers with the rationale that they contain news from different fields briefly. The objective of the present study was to explore the occurrence of language-mixing and the types of language-mixing processes in Pakistani Urdu newspapers therefore, it focused the following questions:

- 1) How frequent is the occurrence of language-mixing in Pakistani Urdu newspapers?
- 2) What types of language-mixing processes appear in Pakistani Urdu newspapers?

### *Statement of the problem*

There is ample research that has focused on language-mixing in spoken corpora or the speech of bilinguals while language-mixing in written discourse or corpus has been researched less, specifically in the local context there is a need to research the area. In fictional writings the mixing of other code or language is seen as a part of writer’s creativity, yet its occurrence in non-fictional corpora can lead to various reasons, such as, negligence or oversight of the editor, etc. Newspapers which are a significant source of information and provide rich data on language are read widely by the educated or less educated alike. Therefore the present study focused on language-mixing in formal, written corpora such as newspapers (print media).

### **Literature review**

Languages have considerable influence on each other from all the aspects (phonology, morphology, lexicon, etc.) when they coincide in bilingual or multilingual societies (Mohideen, 2006). The contact of languages over a period of time results in language-mixing and borrowing. Language-mixing and switching in multilingual context has been researched by many researchers (Li, 2000; Zakaria, 2011; Fong, 2011; Chantarothai, 2011; Erwin-Billones, 2012; Arumawanti, 2013; Adjei, 2014), while in countries like China where bilingualism is a new feature of language,

language-mixing and switching has been a new area of interest for researchers (Chun-xuan, 2010; Bi, 2011; Leung & Chan, 2016).

What are the types of language-mixing? What types of forms or patterns appear in the speech or writings of bilinguals when they mix two languages? What are the processes of language-mixing? What are the reasons for such mixing in speech or writings, particularly formal writings? These questions have been of interest for the researchers.

According to Poplack (1978) there are three basic types or categories of language-switching. The first one is intra-sentential switching (also called language-mixing or code-mixing) which is the insertion of word or phrase in a language. Switching at clause or sentence level is referred to inter-sentential switching. Then there is tag-switching. According to Muysken (2000) language-mixing takes three forms or processes- "insertion", "alternation" and "congruent lexicalization" (p.3). The first one involves insertion of "lexical items" or "entire constituents", while the second is "alternation between structures from languages and the third process involves congruent lexicalization of material from different lexical inventories into a shared grammatical structure" (p.3).

In classroom discourse and media discourse, language-mixing has been researched taking spoken as well as written data (Dar, Akhtar, & Khalid, 2014; Ahmed, Ahmed, & Seemab, 2015; Hossain & Bar, 2015; Fareed, Humayun & Akhtar, 2016; Akhtar, Khan, & Fareed, 2016; Chughtai, Khan, & Khan, 2016; Leung, & Chan, 2016). Chun-Xuan (2010) noted that the use of language-mixing in Chinese newspapers, particularly in sports news and reports, by the news writers is not an "accidental improvisation" but a "pre-planned and intentional" attempt "with specific goals to accomplish in the minds of sports writers and the editors" (p. 171).

Whether language-mixing is frequent in fictional corpus or occurs more frequently in non-fictional writings? Jalal (2010) has noted that in spoken or oral communication this linguistic phenomenon is common, yet in fictional writings as well language-mixing serves specific functions so is more frequent than non-fictional or formal texts. Should this imply that in newspapers, non-fiction and formal, there ought to be less use of language-mixing items because editors or news writers take heed of using minimum use of language-mixing? As language-mixing "in written work involves more thought processing and consideration" so "in official documents and non-fiction genres [language-mixing] is much less and occurs only to perform specific functions" (Jalal, 2010, p.45-46).

Erwin-Billones (2012) found out that in newspapers the use of other language is manifestation of multilingualism. On the other hand Kia, Cheng, Yee and Ling (2011) contended that the occurrence of language-mixing and other "language-deviations" serves the purpose of attracting the "attention of the readers". According to Mareva and Mapako (2012) language-switching has become an integral part of the written language of Zimbabwe.

Many Pakistani researchers have also explored the phenomenon of language-mixing in

classroom discourse, textbooks, and media discourse (Sipra, 2009; Gulzar, 2010; Qadir, 2011; Mush-taq & Zahra, 2012; Mahmood & Asim, 2012; Aslam, Rehman, Qasim & Abbas, 2012; Rafi, 2013; Ehsan & Aziz, 2014). “Language is a significant broadcasting issue in Pakistan” (Geniets, 2013, p.54). Ehsan and Aziz (2014) pointed out that there is a need to pay heed to how extensively language-mixing is done in media which later is related to multiple concerns related to language. Muhammad and Mahmood (2013) found out “variation in Urdu language due to language contact” by their “corpus-based study”. They contended that “Urdu is a flexible language” and is “absorbing” influence on its vocabulary yet its structure remains undistorted. Rafi (2013) found out that “adoption and conformity” are inevitable consequence of “Urdu and English contact in e-discourse” and the “features regarding contact languages” under debate “may not be considered true in the e-discourse” (p.84).

“Borrowing and mixing in Pakistani children’s magazines” are common because “in Pakistan children’s magazines are multilingual as are the people” (Rasul, 2013, p.47). She questions the consequence of language-mixing on Urdu “...how far this code-mixing adds to the richness of Urdu or affects its beauty; and what implications does it have with reference to the issues of globaliza-tion and Identity” (p.71).

The variation in Urdu due to mixing and borrowing of English words is becoming evident as we see more hybrid words at word and phrase level. This variation has not reached to clause and sentence level so far but the fact is irrefutable that English has asserted its power and hegemony over Urdu and other regional languages of Pakistan as we see its widespread use in newspapers, television, radio, and now in textbooks. Some researchers, educationalists and linguists support such mixing with the opinion that the only language that does not change is a dead language therefore language-mixing is positive for a language. Yet, some lament such mixing at widespread level and in formal texts.

### **Methodology**

The sample for the study was two national level Urdu newspapers, which were selected through purposive sampling. The rationale to select the newspapers was that, they are widely read across the country hence serve purpose of this study. According to Erwin-Billones (2012) “When one writes for publication or performance, they create with forethought and intentionality” (p. 41).As “media is a mirror of any society, therefore it reflects back the contemporary literary practices and rituals” and “print media also replicates the existing literary traditions and produces the literature in such a way that it becomes acceptable for its readers” (Rasul, 2013, p.70).

The names of the newspapers were not used in the study to take ethical consideration in heed and to prevent harming the reputation of the newspapers with the idea that the findings of the study will not affect the name of the newspapers. The present study took its data from the front page (page number 1) and international news page (page number 3) with the rationale that they are consisted of



different kinds of news, be they entertainment or politics, etc.

Table 3.2

*Sample for newspapers*

Sample 1	February 1 to 15,2014	Page 1 & 3
Sample 2	February 1 to 15,2014	Page 1 & 3

Linguistic analysis was done to explore how frequent is language-mixing and what processes does it take.

To understand the English influence, it is not enough to study the type of words that exist and the semantic categories they belong to. It is important to look at the actual frequency of the occurrence of words. A word has significance if used frequently (Mohideen, 2006, p.48)

Mohideen (2006) emphasized the significance of investigating frequency of mixing English words which will consequently reflect the extent to which English has acquired dominance in Malaysian linguistic repertoire. The frequency of the use of English words was identified by the researchers themselves by using framework from previous studies and no software was used for counting frequency.

The framework for the “linguistic analysis” of language-mixing processes was adapted from Rasul (2006) and Muysken (2000). The process, “congruent lexicalization”, delineated by Muysken (2000), has been used with the name “hybridization”.

### Findings

The findings showed that language-mixing of English words is frequent at word and phrase level and there are three main types of language-mixing processes, such as “insertion, hybridization and synthesis”.



Table 4.1  
*Frequency (f) of insertion*

1	Insertion of words		Sample 1	Sample 2
1.1	Nouns	Reader, allowance	327	336
1.2	Adjectives	Ideal, Liberal	13	20
1.3	Verbs	Appeal ki	30	26
1.4	Gerunds	Funding, Training	10	14
2	Insertion of Phrases			
2.1	Noun Phrases	Sui Southern gas company, Sunday magazine	377	391
2.2	Phrasal verbs	Break down, walk out	6	19
3	Insertion at clause level	Visit my Mosque, Welcome to London	3	1
Total			766	807
Total number of occurrences			2319	2194

Table 4.1 shows the cases of insertion at word, phrase and clause level in Sample 1 and Sample 2 of the study. English noun phrases are highest in their occurrence- 377 and 391 in Sample 1 and Sample 2 respectively. 327 nouns, 30 verbs, 13 adjectives, 10 gerunds, 6 phrasal verbs and 3 clauses were also found from Sample 1 and 336 nouns, 26 verbs, 20 adjectives, 14 gerunds, 19 phrasal verbs and 1 clause were found from Sample 2. Many English phrasal verbs (walk-out, break-down) found do not have equivalent words so they are borrowed directly from English.

Table 4.2

*Frequency of hybridized items (within single words) in the samples*

Hybridized items	Examples	Frequency	
Universityun (universities), Vison (visas), Seaton (seats), Leaderon (leaders), Judgon (judges)		S1	S2
		42	56
Total number of occurrences		164	144

Hybridized items found were further categorized into single words and hybridized within units. There were 42 and 56 hybridized items (within single words) in Sample 1 and 2 respectively. There are Urdu equivalents for many words such as leader (rehnuma), yet “leaderon” is used which exhibits hybridization within single word. Some might see it as distortion of Urdu lexicon or as a language deviation.

Table 4.3

*Frequency of hybridized items (within units) in the samples*

Hybridized items	Examples	Frequency	
Agency baraaepanahguzeen, Azkhud notice case, Bahria Foundation, Cracker hamla		S1	S2
		135	166
Total number of occurrences		339	287

There were 35 and 166 cases of hybridized items (within units) in Sample 1 and 2 respectively and they occur frequently.

Table 4.4

*Frequency of abbreviations and acronyms (synthesis) in the samples*

Abbreviations and acronyms	Examples		Frequency
CNG, DPO, ISPR, PIA, IDPs, IS, NADRA, NATO	95	94	
Total number of occurrences	350	252	

English abbreviations and acronyms were also very frequent in the samples. The frequency implies that the readers understand English abbreviations and acronyms; rather in some cases they are unable to recall the full names of the very acronyms and abbreviations. There were 95 and 94 abbreviations and acronyms in Sample 1 and 2 respectively.

Table 4.5

*Overall frequency of language-mixing items*

	Insertion	Hybridization	Synthesis	Frequency
Sample1	2,319 (73.1%)	164+339(15.8%)	350(11.03%)	3,172
Sample2	2,194(76.2%)	144+287(14.9%)	252(8.7%)	2,877

There were 3,172 and 2,887 words in Sample 1 and 2 respectively (as shown in Table 4.5).

## Discussion

The present study focused on the frequency of language-mixing of English words and the types of processes that appear as a result of such mixing. The findings showed frequent use of English words which are inserted, hybridized and synthesized. Thus, the study had “structural analysis” as illustrated by Muysken (2000). The findings are in line with Rasul’s (2006) study of spoken texts and she found that language-mixing takes the processes of “insertion”, “hybridization” and “synthesis”. The high number of the occurrence of hybridized items shows language variation and its assumed acceptance by the newspaper readers on the part of the editors and news writers. Such “hybridization” has been termed a result of “Englishization” by Kachru (2005). The words such as “Najkaari commission”, “jet tayyarey”, “Halal-i-ahmar society”, “mega mansuubey”, “parlimaani committee” are a result of what Kachru (2005) has called “Englishization”.

It can also be considered that frequent use of English words in Urdu texts is due to two reasons- negligence or oversight of the writers and lexical gap in Urdu. Ehsan and Aziz (2014) have also found in their study that it is sheer negligence on the part of people who do not have knowledge of Urdu equivalents therefore, they mix language. They also pointed out that lexical gap in Urdu is also a significant reason for language-mixing. The words for technology, science, etc are borrowed from English although, they are more “technical and more difficult to pronounce and understand” (Ehsan & Aziz, 2014, p.167). Rasul (2006) has also attributed “lack of awareness” and “oversight” as the main reasons for language-mixing. Kachru (2006) has reasoned this lexical gap with “deficit hypothesis” which implies the lack of equivalents in a language leading to borrowing. Another implication for language-mixing is Kachru’s (2006) “dominance hypothesis” which implies that language-mixing or borrowing is due to the dominance of English over Urdu.

Language-mixing of English in the form of hybridization and synthesis has brought variation in Urdu which is attracting acceptance by the readers, speakers as well as writers. The dominance of English over Urdu is another reason that is associated with such frequent mixing in written texts such as newspapers. There is need to see the attitude of the writers and readers of newspapers towards such mixing in written texts.

### Conclusion

The present study found out that language-mixing is a frequent phenomenon in Urdu newspapers and English words and phrases are inserted, hybridized and synthesized frequently that they seem a part of Urdu lexicon. There might be various reasons and functions for such insertion and the frequent use which ought to be researched so that they provide insight into future policies for the language use in print media.

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# THE CORPORATE GOVERNANCE PARADOX: A COMPARATIVE ANALYSIS OF MULTINATIONAL AND DOMESTIC MANUFACTURING FIRMS IN PAKISTAN

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## Abstract

*This paper examines the impact of firms' location on its corporate governance quality and profitability. There are two commonly held views on the quality of corporate governance and profitability of multinational corporations operating in the developing countries. Firstly, the quality of corporate governance practiced by multinational corporations is generally higher than that of domestic companies. The second view postulates that multinational corporations show better financial performance than domestic companies. The converse side of this coin is that domestic companies have lower profitability due to the poor quality of their corporate governance, but our research reveals an interesting departure from these pervasive inferences. Our results show a strong positive relationship between firms' location and financial performance, better quality of corporate governance for domestic firms and that the multinational corporations' superior financial performance is due to factors other than quality of their corporate governance not covered in the present research.*

**Keywords:** Corporate Governance Index, Location, Corporation, Ratio Analysis

**JEL Classification:** G34

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## Introduction

In the current corporate scenario two views are available related to the quality of corporate governance (CG) and financial performance of multinational firms (MNFs) working in developing countries. According to the first view, the quality of CG practices of MNFs is normally superior to that of domestic firms (DFs) whereas the second view assumes that MNFs are performance wise better than DFs. A fairly large number of research studies, as cited later in this paper, appear to support these two seemingly twin views. Combining these two views, it is concluded that the quality of CG is positively related to the financial performance of firms. This paper looks at the issue in a slightly different way by analyzing the location of firms' impact on its CG quality and eventually their financial performance. We have paid due regard to the size of firms being studied, taking it as a control variable.

Cadbury report on CG (1992) provides the most basic definition of CG describing CG as a system directing and controlling companies. One of the co-authors of this paper (Butt 2013) defined CG as "the mechanism used to control and direct the affairs of a corporate body in order to serve and protect the individual and collective interest of all its stakeholders".

CG practices vary with the location (ownership, control and operation) of firms as ordained by multinational enterprises (MNEs) theory (Dunning, 1988; Hymer 1960; Hennart & Park, 1994; Yu & Ito, 1988). DFs have some clear benefits over MNFs like awareness of the local market and low administrative costs whereas MNFs have the benefits of scale economies (Markusen, 1995). However, they are supposed to bear more cost to balance these benefits; as such they require extra capabilities to compete.

CG indicates the procedures, practices and arrangements that lead a company to be managed and enable a firm to run its matters to meet its objectives and achieve long-term sustainability. All the firm irrespective of size, location and legal status needs good CG practices and can benefit from these. In other words, firms whether small or large, domestic or multinational, public or private require good CG practices and good CG environment. Corporate sector of Pakistan comprise of firms having different sizes and locations. MNFs are supposed to abide by the rules and regulations of their respective host countries besides following the law of their parent country. This has a nominal bar on their objective to maximize profitability. Due to the heterogeneous expertise possessed by MNFs and their strong financial positions, these firms have a clear edge over DFs with respect to financial performance.

### *Justification for the Research*

Past literature related to CG has usually focused on investigating the association linking CG practices with firms' financial performance; scientific research investigating the effect of CG on

firms' financial performance based on location is nominal. To cover the gap in existing research, this study provides a full picture of Pakistani firms by examining the impact of firms' location and CG practices on their financial performance with size as a control variable. The suggestions of the study are useful for usage by researchers, regulators and financial planners for making more informed investment decisions.

### **Theoretical Background**

Many theories in the field of CG are initiated covering different areas. These studies include Alchian and Demsetz (1972), Hymer (1960), Jensen and Meckling (1976), Kapopoulos and Lazaretou (2007), Clarke (2004) and Rhee and Lee (2008). The theoretical base of the current study may be associated to multinational theory clarifying the perception of multinational enterprises, motivations after and ways applies by MNEs for foreign investment (Dunning, 1988; Hymer 1960; Hennart & Park, 1994; Yu & Ito, 1988). The study aims at covering the gap in existing research by analyzing CG practices prevailing in the corporate world among different classes of firms based on location and Corporate Governance index (CGI) as proxy of CG quality to find its impact on firms' performance testing the following hypotheses:

*H1: The financial performance of MNEs is stronger than that of DFs*

*H2: CG practices of MNEs are better than those of DFs*

*H3: CG practices of firms positively affect their financial performance*

While there are obvious benefits for going international, MNEs faces extra costs related to transportation, staff posting abroad, hurdles related to language, traditions, and local rules and regulations. These firms are supposed to possess extra capabilities to compete and afford these additional costs. This dominance of MNEs may be associated with the progressive skills these foreign investors possess (Dimelis & Louri, 2002) and product differentiation (Barbosa & Louri, 2005). This point of view is equally applicable to MNEs working in developing economies.

Luo and Tan (1998) suggested more research to compare the operational policies of DFs with MNEs. All these studies have a consensus that the MNEs are more resourceful and performance wise better than DFs because of better CG practices, technical expertise, professional and competent human resources and the benefits of large scale economies. The results of this study can be easily applied in other countries because it covers CG practices of DFs as well as MNEs having a prominent role in influencing world economies.

### **Methodology**

The sample size consists of 153 listed firms <sup>5</sup>. The sample does not include financial firms and

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<sup>5</sup> <http://www.psx.com.pk>

firms having no data of industrial averages. The secondary data has been obtained from “Balance Sheet Analysis” a publication of State Bank of Pakistan and firms’ published data in the shape of annual reports. The data is provided in pooled form from different sectors including sugar, textiles, chemicals, cement and many others.

### *Variables used in the Study*

Variables used in the study include Market to Book Ratio (MBR1) representing firms’ performance as dependent variable, Dummy for Domestic and Multinational (DDM), representing location and CGI representing the quality of CG as independent variables and Market Capitalization (MC) showing firms’ size and Sales Growth (SG) as controlled variables. CGI is used to determine the CG quality. For numerically valuing each CG practice, Likert scale (Likert 1932) has been used.

### *Research Model*

The study uses the following model:

$$Y_{it} = \beta_0 + \sum_{i=1}^n \beta_i X_i + \varepsilon \dots \dots \dots (1)$$

Wald (Wald 1943) and Hausman specification (Hausman 1978) tests have been used for selection of the following research model:

$$MBR_{it} = \beta_0 + \beta_1 (CGI) + \beta_2 (MC) + \beta_3 (SG) + \varepsilon \dots \dots \dots (2)$$

However, to bring conformity in the results and cover the deficiency of not accepting dummies (Deloof, 2003), the study uses the following random effect model to analyze the entire sample as a whole incorporating all the variables including dummy variable:

$$MBR_{it} = \beta_0 + \beta_1 (DDM) + \beta_2 (CGI) + \beta_3 (MC) + \beta_4 (SG) + \varepsilon \dots \dots \dots (3)$$

### **Analysis and Results**

Descriptive statistics indicates that average returns for DFs and MNFs are 1.12 and 3.1 respectively as compared to standard deviation of 2.44 for DFs and 4.91 for MNFs showing better firms’ performance for MNFs as compared to DFs. Correlation analysis shows consistent, positive and significant results for both the independent variables which is in accordance with the previous studies (Eisenhardt 1989; Tallman & Li 1996; Lavelle 2002; Harford et al., 2008; Tariq & Abbas 2013).

*Ratio Analysis*

The study compares MBRs with their respective sample/industrial averages <sup>6</sup>. Firms with MBR more than or equal to industrial average are assumed to be good performers and less than industrial average or negative (even if it is more than industrial average), as weak performers. As reported in table 1, MNFs' financial performance is superior with 46% good performing firms to DFs with 42% good performing firms. This result has a support from previous studies (Ameer 2010).

Table 1  
*Firms' Financial Performance*

Firm's category Segment	Firms with Good Performance		Firms with Weak Performance		Total firms	
	No	% age	No.	% age	No.	% age
DFs	47	42	65	58	112	100
MNFs	19	46	22	54	41	100
Small firms	10	22	36	78	46	100
Medium firms	22	36	39	64	61	100
Large firms	33	72	13	28	46	100
Overall firms	65	42	88	58	153	100

The quality of CG is assessed on the basis of ample average only because of non availability of industrial average. Firms having CGIs equal to or more than SAs are classified as following having better corporate governance system and firms with CGIs less than SAs or negative are grouped as firms having weak CG system. Table 2 reports better quality of CG for DFs (with 33% firms having good governance practices) as compared to MNFs (with 12% firms having good governance practices).

<sup>6</sup> Comparing profitability and CG variables with industrial/sample averages is in line with previous studies (Singh, 2011).

Table 2  
*CG Quality Wise Firms Distribution*

Category	Good Governance		Weak Governance		Total	
	No.	%	No.	%	No.	%
Domestic	37%	33%	75%	67%	112%	100%
Multinationals	5%	12%	36%	88%	41%	100%
Small	20%	43%	26%	57%	46%	100%
Medium	13%	21%	48%	79%	61%	100%
Large	9%	20%	37%	80%	46%	100%
All	42%	27%	111%	73%	153%	100%

### Regression Results

VIF values ranges from 1.001 to 1.09 (table 3), hence no multicollinearity problem exists.

Table 3  
*Multicollinearity*

Segment	DDM	CGI	MC	SG
DFs	--	1.033	1.034	1.001
MNFs	--	1.036	1.041	1.007
Small firms	1.012	1.013	1.003	1.003
Medium firms	1.014	1.002	1.002	1.010
Large firms	1.081	1.070	1.015	1.006
Overall firms	1.083	1.015	1.090	1.001

The models used in the study estimate the results in a better way as shown by F-Statistics and p values. For model stability check, Cumulative sum (CUSUM) recursive residuals test (Garbade 1975; Xiao & Phillips 2002) is used. These results show the stability of the models used in the study. Table 4 reports regression results.

Table 4  
*Regression Results*

Variables	Firms' category	Coefficient	Standard Error	t-Statistic	Prob.
C	Domestic	1.163	0.614	1.894	0.059
	Multinationals	-3.319	1.315	-2.524	0.012
	Small	-1.716	0.711	-2.415	0.016
	Medium	0.242	0.334	0.726	0.468
	Large	-32.358	4.118	-7.858	0.000
	Overall	-0.821	0.567	-1.449	0.148
DDM	Domestic	--	--	--	--
	Multinationals	--	--	--	--
	Small	0.164	0.413	0.396	0.692
	Medium	0.146	0.163	0.892	0.373
	Large	2.164	0.438	4.939	0.000
	Overall	1.990	0.378	5.260	0.000
CGI	Domestic	-0.060	0.262	-0.228	0.820
	Multinationals	2.245	0.545	4.118	0.000
	Small	0.789	0.305	2.590	0.010
	Medium	0.285	0.140	2.039	0.042
	Large	.873	0.464	1.880	.061
	Overall	0.7896	0.228	3.470	0.001
MC	Domestic	0.001	0.001	9.118	0.000
	Multinationals	0.001	0.001	10.840	0.000
	Small	0.001	0.001	3.640	0.0003
	Medium	0.001	0.001	5.872	0.000
	Large	1.379	0.170	8.117	0.000
	Overall	0.001	0.001	9.788	0.000
SG	Domestic	0.136	0.105	1.294	0.196
	Multinationals	0.007	0.159	0.042	0.967
	Small	0.011	0.137	0.082	0.935
	Medium	0.077	0.084	0.910	0.363
	Large	-0.303	0.389	-0.778	0.437
	Overall	0.030	0.090	0.336	0.737

Since both the models (FE and RE) do not accept dummy variable(s) when DFs or MNFs are exclusively analyzed (because of the same value '0' or '1') for the entire segment (as already mentioned), we excluded DDM from the model only for these segments. However, estimating the results of overall sample, DDM has a strong significant and positive relationship with the firms' performance. Overall, CGI has a positive and significant relationship with firms' financial performance. This finding supports our hypothesis 3 that "CG practices of firms positively affect their financial performance".

Location wise regression results show that CGI is positively and significantly related with firms' performance significant in multinational enterprises suggesting an important role of CG in these firms. The possible reasons for negative relation between CGI and DFs' performance are: firstly, local firms are not yet fully aware of the benefits of CG, secondly, attention to CG started only very recently in Pakistan and thirdly, the local CG code is inadequate and disclosure requirements for local firms are very rudimentary. MC representing firms' size and used as controlled variable is positively and significantly related with firms' performance in all categories of firms. Regression results further indicate a positive and significant relationship of CGI with firms' performance suggesting an important role of CG on the basis of size.

### **Conclusion**

The study investigated causes and effects among location, CG and financial performance of manufacturing companies operating in Pakistan. Descriptive statistics show better firms' performance and better CG practices for MNFs and larger firms as compared to DFs and smaller firms as well as better SG in MNFs than DFs. Correlation results indicate a positive and stronger relationship of CG and size with financial performance of MNFs as compared to DFs. Correlation analysis also indicates a positive and stronger relationship of location and size with performance in larger firms than smaller firms.

Clubbing the results of ratio and regression analyses, we are of the view that MNFs performance is better not because of good governance, rather it is better because of location. The quality of CG is not necessarily better in MNFs of all sizes and it does not have a positive relationship with the profitability of MNFs of all sizes operating in Pakistan. Smaller firms appear to have a better quality of CG than larger firms and considering that most DFs are smaller in size of operations than MNFs, the inference is quite clear. Our research has raised some issues that challenge the commonly held views on relationship between CG quality and financial performance. More research in this area will help us all to have a more clear and meaningful picture.

### *Limitations of the Study*

The following are a few limitations and constraints of the study:

1. Based on data availability, the sample size was restricted to 153 firms.



2. Quality of CG was determined on the basis of sample average (SA) only as data on industrial average was not available.

#### *Foundation for Future Research*

Further research may be carried out by:

1. Addition of other criteria of firms' classification.
2. Addition of other variables .
3. Extending the scope of research to cover other countries.
4. Adding primary data in addition to secondary one.

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# CO-INTEGRATION BETWEEN ISLAMIC AND CONVENTIONAL STOCK MARKET INDEX: AN INVESTIGATION OF DIVERSIFICATION (A CASE OF ASIAN PACIFIC REGION)

Salleh Nawaz Khan <sup>1</sup> and Waseem Ahmad Khan <sup>2</sup>

## Abstract

*After the financial crisis of 2007-08 the benefit of diversification had become a question mark. Academic researchers and institutional investors were looking for the remedies. In this process Islamic equity market emerge as a valuable alternative. This study investigates the co-integration between Islamic and conventional stock markets in Asia Pacific region. Dow Jones Islamic Market Asia Pacific (DJIMAP) found co-integrated with BSE Sensex India, TWSE index Taiwan, PSX Pakistan and NZ 50 New Zealand. The short term disequilibriums will not adjust in single time period and it will take 3 to 5 months to restore back to equilibrium.*

**Keywords:** Stock Markets, Co-integration, Deregulations, Diversification.

**JEL Classification:** G 190

## Introduction

Globalization and deregulation in the capital market was started when the United State took an important step by passing the US security act amendments of 1975, which deregulate the stock brokerage rate. After passing of this Act, the world stock markets experience a series of deregulation and internationalization. This deregulations open new doors for investor and led a greater flow of capital between economies. With increase in the stock market integration, the current world financial market have become closely integrated and interdependent over time. There understanding of the market correlation is very important for diversification and for risk management.

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Stock markets co-integration is an important question for financial theory and for portfolio management. Regarding financial theory, when stock market is co-integrated the principal of Efficient Market Hypothesis (EMH) is violated as two markets move together in the long run, one can predict its future price but if they are not co-integrated then EMH is held in any of its form i.e., one cannot predict stock returns using publicly available data such as index prices. Regarding portfolio management, Modern portfolio theory (Markowitz, 1952) introduced the concept of diversification, by the selection of assets that has lower overall risk as compared to any other combination of assets with the same expected return. Different types of assets change their value in opposite direction and combination of such assets make a well diversified portfolio.

The concept of cross country diversification is more effective in the era of globalization, it hedge risk also political risk; for example if one country announces the increase in interest rate this may affect the security prices in one country but not necessary that the other countries also take similar step. Similarly if one industry fails in one country but in other country it grow vigorously so investing in both countries can be a hedge risk.

During the crisis period of 2007 the benefit of portfolio diversification had become a question mark. Almost all of the markets follow the same trends during crisis period. That was a very alarming condition, financial investors and academic researchers started to search for remedies and solutions for this systematic risk of conventional markets. In this process Islamic equity market emerged as a valuable alternative and become a study of interest.

The question whether Islamic and conventional markets are integrated, is difficult to answer without investigating this problem. With the rapid growth of Islamic equity markets many investors would certainly consider to invest in both the Islamic and conventional markets rather than investing in single market. The question whether there is a relationship between the Islamic and conventional stock exchanges is the major concern raised by international investors.

Thus, this study aims at providing some insight to the question above by investigating the co-integration between Islamic and conventional stock markets. Beside this, the growing importance of Asian pacific region especially China, Malaysia, Japan and Indonesia most of the investors prefers to invest in these countries. Unfortunately there is no prior research on stock market integration that widely covers the Asian Pacific geographical region.

### *Research Significance*

This study will provide some useful information to the portfolio managers and international investors who are always looking for the opportunity of diversification. It also contributes to the existing literature in this novel area.

### Literature Review

In this section we will present the relevant studies that are pertaining to our study. There is a bulk of studies on stock market co-integration between the emerging and the developed countries. But we found very few studies on Islamic stock indices co-integration with conventional stock exchanges. Most of the existing literature on the study of inter linkage between stock markets uses the approach of co-integration. Murray(1994) and Smith and Harrison (1995) use the story of drunk and her dog as more time had passed the distance between dog and drunk will be far away from their previous location. They assume an assumption that the “dog belongs to drunk” he adjust his current position from his previous position at the rate of  $\alpha$  from his Mistress ( $Y_{t-1} - X_{t-1}$ ). The expression ( $Y_{t-1} - X_{t-1}$ ) captures the co-integration or the long run equilibrium relationship between the dog and the drunk.

In early 1950 the investment community was talking about the risk but there was no specific tool to measure the risk. Markowitz (1952) measure risk by the variance of returns and derived the formula for computing the variance of portfolio. He argued at the given level of risk investor prefer high return and vice versa. This give the idea of diversification by selection of such assets in a portfolio that are not co-integrated. Institutional investors always look for such opportunities that's why they invest in different stock markets. According to Levy and Sarnat (1970) aof the reason of international diversification is that the returns move in the same direction with in one country. However it is uncommon that returns move in the same direction along different countries. Grubel and Fadner (1971) found that there is benefit of international diversification because returns in a country may be influenced by the government policies or from some economic disturbance.

A successful Diversification strategy across international stock market implies that these markets are not heavily integrated identifying the channel through which shocks are spreading from one market to another has direct impact to active and passive investment strategies, Portfolio diversification and Rebalancing (Grubel ,1968). Moreover the cross market linkage and the potential gains from international investment have become the topic of interest for academic researchers and international investors. Narayan et al. (2004) founds that in the long run stock prices of major South Asian countries were co-integrated. And in the short run the unidirectional causality ran from Pakistan to Indian equity market, Sri Lankan to Indian market and from Pakistani to Sri Lankan stock market.

The term “Financial integration” means abolishment of the limitations which stem the capital flow in the financial market and a process of which capital mobility becomes advance. Ajeet (2005) found that Indian stock market was influenced by the developed stock markets whereas Pakistani and Sri Lankan market had no relationship with the developed markets of the world. As capital markets are liberalize the international stock prices become more integrated. Carrieri et

al. (2006) found that emerging stock markets integration depends upon the interactions between international, regional economic and political variables. Ibrahim (2009) found that North African stock markets were strongly integrated and investors cannot hedge systematic risk by investing in these markets. Kashyna (2010) found that after becoming the part of the European Union the emerging countries became more integrated with developed markets. Parvel (2011) found that South African stock market was not co-integrated with developed markets of the world such as Germany and the USA and also with the markets in Africa but it was low co-integrated with emerging economies like Brazil, Mexico and Poland.

Over the last several decades communication technology has made the world a smaller place. The efficient market hypothesis cannot hold because most of the world equity markets are co-integrated. If EMH does not hold then there will be a huge transfer of wealth from naïve investor to well informed investors (Gupta 1988). Adebol and Dahalan (2012) examined the stock market integration in African countries and found limited diversification opportunities in these countries.

The recent financial crisis, which is also called subprime crisis (2007-08) effect almost all the major equity markets in the world. The benefit of Diversification had become a question mark because all the equity markets followed the same trend. Assidenou (2010) found that during the subprime crisis all the Asian markets were co-integrated and had negative returns. Singh and Kumar (2015) studied the stock market linkage between the US, China and India during subprime crisis. They founds that there is a unidirectional spillover that run from the US equity market to the Indian market and from the Indian market to the Chinese equity market.

The Islamic stock markets emerged as a valuable alternative after subprime crisis. The institutional investors started looking towards the Islamic stock markets for hedging of risk. The companies included in the Islamic index have passed the Shariah screening criteria. Any company which is found not compatible with the Islamic line of business are exclude from the Index. Investing in Islamic equity market is considered as an ethical investment. Khan and Sulaiman (2013) found that Islamic stock markets were also affected from financial crisis but not as much as conventional stock exchanges. Khamlichi and Taylor (2014) is shown in his study that Dow Jones Islamic Index have no long run relationship with S&P conventional index and offer the opportunity of Diversification. Salina (2010) argued that investor can hedge risk by investing across economies such as in developing and developed markets. However, they cannot diversify risk by investing in the same economic groups. Sensoy (2015) found that systematic risk in conventional markets were higher than Islamic equity markets. After reviewing the previous literature, we probably did not find any research which widely investigates the co-integration between the Islamic and conventional equity markets in Asia Pacific region.

## **Research Methodology**

### *Data Description*

The study encompass the weekly stock prices for the period June 2009 to July 2017 consisted of 423 observations. The data is collected from stock exchanges websites and from yahoo finance.

### *Population and Sample*

The islamic and Conventional stock markets of Asia Pacific region are which are population of this study. Bloomberg classifies the Asian pacific region into nineteen countries as follows; Japan, China, Hong Kong, South Korea, India, New Zealand, Taiwan, Australia, Pakistan, Malaysia, Indonesia, Singapore, Thailand, Vietnam, Bangladesh, Mongolia, Laos, Philippines and Sri Lanka. Each country has many regional exchanges but we selected the most representative indices that reflect market performance in their respective countries. The sample consists of fourteen major stock indices which are considered representative of Asian Pacific region stock exchanges. Stock Exchanges of Thailand, Vietnam, Bangladesh, Laos and Mongolia are not included in our sample due to unavailability of data .

### *Variables of the Study*

#### *Independent Variable*

The independent variables are the conventional stock exchanges of Asian pacific region namely; BSE SENSEX ( India), TWSE Index (Taiwan), CSE All shares (Sri Lanka), HANG SANG Index (Hong Kong), KOSPI Index (South Korea), KLSE Index (Malaysia), JKSE Inx (Indonesia), SHANGHAI Index (China), NIKKE 225 Index (Japan), STI Index (Singapore), ASX 200 Index (Australia), NZ50 Index (New Zealand), PSX 100 Index (PAKISTAN) and PSEI (PHILIPPINES).

#### *Dependent Variable*

Dow Jones Islamic Market Asia Pacific (DJIMAP) is selected as the Dependent variable. It tracks the stock traded in Asia Pacific region that passes the shariah compliance screens. DJIMAP index includes the constituents of 14 country-level benchmark indices, each of which cover 95% of float adjusted market capitalization of the underlying countries.

Table 1

*Country Wise Allocation of DJIMAP*

COUNTRIES	ALLOCATION
JAPAN	35.75 %
CHINA	15.75%
SOUTHKOREA	11.84%
TAIWAN	8.44%
AUSTRALIA	8.03%
INDIA	8.00%
HONGKONG	5.11%
MALAYSIA	1.95%
THAILAND	1.38%
SINGAPORE	1.33%
INDONESIA	1.28%
NEWZEELAND	0.58%
PHILIPPINES	0.54%
SRILANKA	0.02%

Source: [www.djiindex.com/fact sheet](http://www.djiindex.com/fact%20sheet).

### ***Econometrics Techniques Used in Study***

#### ***Augmented Dickey-Fuller Test***

A type of stochastic process that has received a great deal of attention by the time series analysis is called stationary stochastic process. The word stochastic means a data that spread randomly around their mean. Broadly speaking a time series is said to be stationary if its mean and variance are constant to our time and the value of covariance depends upon lag between two time periods not on the time when covariance is computed. Stationary process is very important if time series is not stationary its mean, variance grow over time. The prediction based on non-stationary always underestimate the mean variance in future period. Augmented Dickey fuller test is most popular test that detect the stationarity of time series. Augmented Dickey – fuller test equation :



$$\Delta Y_t = \alpha_1 + \alpha_2 t + S Y_{t-1} + \alpha_1 \Delta Y_{t-i} + \varepsilon_t \dots \dots \dots (3.1)$$

The model (3.1) is Augmented as the following equations:-

$$\Delta Y_t = S Y_{t-1} + \varepsilon_t \quad (\text{Pure Random walk}) \dots \dots \dots (3.2)$$

$$\Delta Y_t = \alpha + S Y_{t-1} + \varepsilon_t \quad (\text{Random walk with drift}) \dots \dots \dots (3.3)$$

$$\Delta Y_t = \alpha + \alpha t + S Y_{t-1} + \varepsilon_t \quad (\text{Random walk with drift and trend}) \dots \dots \dots (3.4)$$

Equation (3.1) includes the lag values of dependent variable  $\Delta Y_t$ . The idea being to include enough lag terms so that the error term is serially uncorrelated.

### *Engle – Granger Test of Co-integration*

The Engle –Granger approach to co-integration is very popular because it is easy to estimate the regression using OLS technique and the ECM model provides the valuable information about the speed of adjustment of previous period disequilibrium. Let us suppose, we have two non-stationary time series i.e., DJIMAP and STI index Singapore both are integrated of  $I(1)$ . Suppose we regress DJIMAP on STI as follows:-

$$DJIMAP = \beta_1 + \beta_2 STI + \varepsilon_t \dots \dots \dots (3.8)$$

where

$$\varepsilon_t = DJIMAP - \beta_1 - \beta_2 STI \dots \dots \dots (3.9)$$

After estimating regression the residuals are obtained, Suppose we run the unit root test on residuals and interestingly found that residuals are stationary or they are integrated of  $I(0)$ . In that case the regression model is no more spurious. The linear combination cancel out stochastic trends in two time series. This means two variables are co-integrated i.e., they have a long run equilibrium relationship and slope parameter  $\beta_2$  is known as long run parameter. Dickey and Fuller critical values are not appropriate in Engle Granger test because error term  $\varepsilon_t$  is based on the estimated co-integrating parameter  $\beta_2$ . Therefore Engle and Granger calculated the critical values for co-integration test.

### *Error Correction Mechanism (ECM)*

The ECM model is first introduced by Sargan (1984) and after popularized by Engle and Granger corrects for disequilibrium. Let us explain, suppose DJIMAP and STI index are co-integrated i.e., there is long run equilibrium relationship between them. In short run there may be disequilibrium which adjusts over time. Therefore the error term of equation (3.9) can be treated as equilibrium error. And use this error term to estimate the short run behavior of DJIMAP. So we have to modify the equation (3.9) by incorporating one period lag of error term. ECM requires stationarity that's why we have to take first difference of DJIAMP and STI to make them stationary. Now consider the following Model :

$$\Delta DJIMAP = \beta_0 + \beta_1 \Delta STI + \beta_2 \varepsilon_{t-1} + u_t \dots \dots \dots (3.10)$$

Where  $\Delta$  as usual denotes as the first difference operator and  $u_t$  is random error term and  $\varepsilon_{t-1} = (DJIMAP_{t-1} - \beta_1 - \beta_2 STI_{t-1})$  one period lagged value of error term. The coefficient of  $\varepsilon_{t-1}$  Tells

the speed of adjustment of Previous period Disequilibrium. If the Prices of  $\Delta DJIMAP$  increases in period  $t$  then the term  $\beta_2 \epsilon_{t-1}$  will be negative in next period to adjust this Disequilibrium and vice versa. Moreover the parameter  $\beta_1$  is the short term parameter and tells the short term changes in DJIMAP.

## Results and Discussion

Table 4.1

*Augmented Dickey Fuller Test (01 JUN 2009 - 09 JUL 2017)*

Stock Market	Intercept	Intercept & Trend	Intercept	Intercept & Trend
DJIWAP	-2.39	-3.68	<b>-23.74*</b>	<b>-23.71*</b>
BSE SENSEX	-0.38	-2.22	<b>-20.52*</b>	<b>-20.51*</b>
COLOMBO	-2.79	-2.34	<b>-15.26*</b>	<b>-15.36*</b>
HANG SENG	-2.71	-3.07	<b>-20.21*</b>	<b>-20.19*</b>
JKSE	-1.83	-2.90	<b>-23.34*</b>	<b>-23.34*</b>
KLSE	-2.72	-2.39	<b>-20.78*</b>	<b>-20.90*</b>
KOSPI	-2.55	-3.42	<b>-21.58*</b>	<b>-21.56*</b>
PSX	<b>0.10</b>	<b>-2.12</b>	<b>-12.92*</b>	<b>-12.92*</b>
NIKKE225	-0.51	-2.36	<b>-20.22*</b>	<b>-20.21*</b>
SHANGAI	-1.78	-1.95	<b>-18.50*</b>	<b>-18.49*</b>
STI	-3.07	-3.02	<b>-19.34*</b>	<b>-19.34*</b>
TWSE	-2.04	-2.91	<b>-22.23*</b>	<b>-20.20*</b>
ASX200	-1.99	-3.05	<b>-22.68*</b>	<b>-22.66*</b>
NZ50	0.88	-1.83	<b>-20.21*</b>	<b>-20.27*</b>
PSEI	<b>1.40</b>	<b>-2.29</b>	<b>-21.38*</b>	<b>-21.39*</b>

*Note:* \* Indicates that null hypothesis is Rejected at 1% critical value based on Mackinnon (1991). Critical values when including only intercept: 1%: -3.44; 5%: -2.86; 10%: -2.57. Critical values when including both intercept and trend: 1%: -3.97; 5%: -3.42; 10%: -3.13 .

Table 4.1 Represents the results of Augmented Dickey Fuller. We employed both models i.e., with intercept and intercept with trend. Practically it is very difficult to recognize the true model, So in most of the time academic researchers uses both models. The result indicate that stock prices are non-stationary at level in both models. The ADF test statistic is smaller than critical

value in absolute at 1% probability level. The reason is that stock prices follow random walk i.e., their means, variance and covariance changes over time. Non stationary data as a rule are unpredictable and cannot be modeled and forecasted. Most of the time series become stationary after taking first difference. Our data had also become stationary at first difference. The ADF test statistic is greater than critical values at 1% probability level.

Table 4.2

*Engle- Granger Approach of Cointegration (01 Jun 09- 09 July 17)*

Pairs	Constant $\beta_0$	Coefficient $\beta_1$	Test Statistic ADF (on Residuals) Intercept & Trend	Results
DJIMAP – BSE SEN	909 p(0.000)	0.02 p( 0.000)	-3.55**	Co integrated
DJIMAP - COLOMBO	944 p(0.000)	0.08 p(0.000)	-2.92	No co integrated
DJIMAP- HANGSENG	217 p(0.000)	0.05 p(0.000)	-2.27	No co integrated
DJIMAP – JKSE	915 p(0.000)	0.12 p(0.000)	-2.94	No co integrated
DJIMAP –KLSE	584 p(0.000)	0.53 p(0.000)	-1.79	No co integrated
DJIMAP – KOSPI	-25 p (0.46)	0.76 p (0.000)	-3.00	No Co integrated
DJIMAP –NIKKE	1105 p (0.000)	0.02 p (0.000)	-3.33	No co integrated
DJIMAP – SHANGAI	1214 p (0.000)	0.08 p (0.000)	-2.61	No Co integrated
DJIMAP – STI	288 p (0.000)	0.38 p (0.000)	-0.88	No Co integrated
DJIMAP – TWSE	138 p (0.000)	0.15 p (0.000)	-4.32*	Co integrated
DJIMAP – PSX	1246 p (0.000)	0.008 p (0.000)	-3.90*	Co integrated
DJIMAP – ASX200	380 p (0.000)	0.21 p (0.000)	-2.94	No Co integrated
DJIMAP - NZ50	1103 p (0.000)	0.07 p (0.000)	-3.78**	Co integrated
DJIMAP - PSEI	1079 p (0.000)	0.06 p (0.000)	-2.69	No Co integrated

Note: \* and \*\* Indicates that null hypothesis is Rejected at 1% and 5% critical value based on Davidson and Mackinnon, 1993 (critical values of co integration test ). Critical values when including only intercept : 1 %: -3.90; 5%: -3.34;

Table 4.2 Represents the result of Engle - Granger test of co-integration. The ADF test statistic on residuals are -3.55 , -4.32 , -3.90 and -3.78 which in absolute are larger than critical values at 5% significance level. Which show that DJIMAP has long run equilibrium relationship with BSE SENSEX (India), TWSE (Taiwan), PSX (Pakistan), and NZ50 (New Zealand) . The result are surprising different what expected , it was thinking that Islamic equity market will not be integrated with commercial stock markets due to their unique shariah screening criteria . The implications of the findings are very useful for International investors and for portfolio managers . The results reveals that investor cannot diversify their risk by investing in those stock indices which are co-integrated with Islamic stock indices. Pakistan stock index and Taiwan stock index are found co integrated with Islamic stock indexes in Asian pacific region at 1% probability level. The EMH will not hold in these markets i.e., their returns moves in the same direction over the long run. However, the remaining indexes which are not co-integrated with DJIMAP provide an opportunity of diversification. The EMH hold in these markets and no one can earn abnormal returns. Institutional investor and portfolio managers can make portfolio by the combination of Islamic and conventional stock indexes and can achieve the benefit of diversification in this region.

Table 4.3

*Error Correction Mechanism (31 DEC 2007-29 SEP 2015)*

Variables	Coefficients	Probability	R Square	DW Statistics
D(BSE India) ECT (-1)	0.04 <b>-0.05*</b>	0.0000 0.0005	0.38	2.34
D( TWSE Taiwan) ECT(-1)	0.13 <b>-0.11*</b>	0.0000 0.0000	0.52	2.24
D(PSX Pakistan) ECT(-1)	0.006 <b>-0.06*</b>	0.0213 0.0001	0.04	2.20
D(NZ50 New Zealand) ECT(-1)	0.19 <b>-0.05*</b>	0.0000 0.0008	0.17	2.34

Note: \* Indicates significant at 5% Probability level. ECM requires that data should be in stationary form so that's why we take the first difference of log indices . The coefficient ECT should lie between

0 and 1 . where 0 suggesting no adjustment one time period later and 1 indicates full adjustment.

According to Granger and Newbold , if R square is greater than D statistic then the model is spurious but in our model R square is smaller than D statistic, so our error correction model is not spurious. If the two time series have long run relationship then in short run there may be disequilibrium which adjusts over time. The ECM model captures the short run disequilibrium and its speed of adjustment.

Let us interpret the results of table no. 4.3 the coefficient of  $D(\text{BSE Sensex})$  is short run coefficient and its value is 0.04 and found significant ( $p \leq 0.05$ ). This means in short run if BSE Sensex Index increase by 1% then DJIMAP increase by 4%. The coefficient of error term is 0.05 which is also significant meaning that system corrects the previous period disequilibrium at the rate of 5% per week. Moreover, The sign of error correction term is negative which validates the long run relationship between DJIMAP and BSE Sensex India. Similarly, in short run if Taiwan stock index increases by 1% then DJIMAP index increases by 13 percent. And in this case system corrects the previous period disequilibrium at the rate of 11% per week.

The short run coefficient of  $D(\text{PSX Pakistan})$  has very small impact on DJIMAP Index Its only 0.06% and it corrects the short run disequilibrium at the rate of 6% per week. On the other hand New Zealand stock Index has larger impact on DJIMAP than any other commercial stock markets in this region. It is found that 1% increase in NZ 50 index increases DJIMAP by 19 percent. And it adjusts the previous period disequilibrium at the rate of 5% per week.

The results of the error correction model are very useful for international investors it tells that the random shocks which the system receives will adjust in between 3 to 5 months and these random shocks will adjust at the rate of 5% per week in case of BSE Sensex, 11% in case of TWSE, 6% in case of PSX and 5% in case of NZ 50.

### Conclusion

The aim of this study is to investigate the co-integration between Islamic and conventional stock indices. Dow Jones Islamic market Asian Pacific (DJIAMAP) index has been taken as dependent variable which represents the Islamic stock markets in Asian Pacific region. The Independent variable includes 14 major conventional stock indices of Asian Pacific region. The ADF test was performed to test the stationary / non stationary property of data. It is found that all indices are not stationary at level but after taking first difference they become stationary.

For Co-integration two tests are commonly used; Johansen test and Engle Granger Approach. We employed the second one which is preferable in case of bivariate model. The results indicate that DJIMAP is co-integrated with BSE Sensex, TWSE Index Taiwan, PSX Pakistan

and NZ50 New Zealand. The ECM results reveals that the random shocks which the system receives will adjust in between 3 to 5 months. These short run dis equilibrium adjusts at the rate of 5 % per week in case of BSE Sensex, 11% in case of TWSE, 6% in case of PSX and 5 % in case of NZ 50.

### *Recommendation*

On the basis of this study the following recommendations are given to the policy makers, portfolio managers and for international investors:

1. Investor cannot diversify their risk by investing in those stock indices which are co-integrated with Islamic stock indices. Making a portfolio by the combination of these co-integrated markets investors cannot achieve the benefit of diversification.
2. The short run dis equilibriums due to random shocks will not adjust in single time period, it will take 3 to 5 months for coming back to their equilibrium position.

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# THE IMPACT OF CORPORATE GOVERNANCE ON FIRM VALUE: THE CASE OF SMALL, MEDIUM, AND LARGE CAP FIRMS

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## Abstract

*This article explores the value relevance of the firm level Corporate Governance (CG) practices. The sample of the study consists of 200 firms listed at the 'Pakistan Stock Exchange' for the period 2003-2014. The results reveal that CG plays a major role in determining market valuation of corporate firms in Pakistan. We also show that the market value of a firm varies with the level of its insiders' ownership, and the pattern of valuation differs relying jointly on CG and insiders' ownership. The firm would be rewarded with higher valuation if it has high CG but lower management ownership. However, if the firm has predominant ownership with weak CG, then its value is lower. On the other hand, in case of small Cap firms, firm value increases with predominant level of ownership only for high CG firms implying that the presence of predominant shareholder adds more value to a small firm provided the management is transparent about its CG practices.*

**Keywords:** Corporate Governance, Firm Value, Insider's Ownership, Impact

**JEL Classification:** G 300

## Introduction

The CG practice developed primarily in the last few years (Elbadry, Gounopoulos, & Skinner, 2015) and has become a major issue in the corporate practices of developed as well as developing countries (Filatotchev, Jackson, & Nakajima, 2013). A vast literature examined the relationship between CG and firms' market value for several different countries across the globe. Nevertheless, most of this literature (e.g., Fosberg, 1989; Hermalin and Weisbach, 1991; Agrawal & Knoeber, 1996; Klein, 1998; Bhagat & Black, 2002; Lehn, Patro, & Zhao, 2009; Wintoki, et al., 2010) has focused on firms from developed markets. Further, most of the studies have employed distinct methodologies to address particular elements of CG in segregation, such as board composition, shareholder activism,

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insider share ownership, executive compensation, or takeover defenses, which make it difficult to draw conclusions regarding an integrated model of good CG.

According to Connelly, Jiang, and Limpaphayom (2011), in recent times, a new approach for investigating CG has come into use. Specifically, in order to gauge governance practices, researchers are establishing composite indices, rather than relying only on one specific indicator. The majority of this literature (e.g., Gompers, Ishii, & Metric, 2003; Black et al., 2003; Klapper & Love, 2004; Black, Jang, & Kim, 2006b; Core et al., 2006; Black, Kim, Jang, & Park, 2015) has documented a positive relationship between the firm-level governance and the firms' value. However, Cheung et al. (2008), Gupta, Kennedy, and Weaver (2009), Stiglbauer (2010), and Berthelot, Francoeur, and Labelle (2012) do not find any evidence that CG has a significant impact on firm value. On the other hand, Bassen, Prigge, and Zollner (2009) and Ertugrul and Hegde (2009) argue that CG and firm value are significantly negatively correlated.

Corporate governance is the outcome of the agency conflicts and its origin can be traced back to ownership and control separation (Hasan & Butt, 2009; Ronnie Lo, 2009). Prior theoretical research has suggested that a firm's CG is related to its ownership structure (Boujenoui & Zeghal, 2006). However, empirical studies have found that neither the strength of the relationship is universal across different types of ownership structure (Morck, et al., 1988; McConnell & Servaes, 1990) nor the sign of relationships is identical for firms operating in a strong and weak legal protection environment (La Porta, Shleifer & Vishny, 2002). When ownership is more likely to be concentrated than the agency problems stemming from ownership and control separation (Jensen & Meckling, 1976) may no longer be as serious as another type of problem—the entrenched management problem (Morck et al., 1988; Stulz, 1988).

There are costs associated with ownership concentration when predominant shareholders, capable to control corporate decisions directly, increase value for themselves by implementing policies that benefit themselves and expropriate small minority shareholders of their part of residual income (Kuznetsov & Muravyev, 2001; Claessens & Fan, 2002; Su, Xu, & Phan, 2007; Young, Peng, Ahlstrom, Bruton, & Jiang, 2008; Javid & Iqbal, 2008; Chen, Li, & Shapiro, 2011). The protection of the rights of minority shareholders in the presence of predominant shareholder in a firm becomes the central point of CG issues (Ronnie Lo et al., 2010). In Pakistan, according to World Bank (2005)<sup>4</sup>, Javid and Iqbal (2010), and Arshad and Javid (2014) the main agency problem is the risk of expropriation by the controlling shareholder at the expense of minority shareholders. Additionally, the weak legal protection environment of Pakistan (as cited in Javid & Iqbal, 2008) makes a distinct market for testing how well the CG mechanism, installed at firm level, can protect the outside investors' interest and hence affects the firm valuation in the face of concentrated ownership by the insiders.

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<sup>4</sup> [www.worldbank.org/ifa/rosc\\_cg\\_pak.pdf](http://www.worldbank.org/ifa/rosc_cg_pak.pdf)

This study is the first of its kind to investigate the link between CG, insider's ownership, and market valuation. This study has several contributions. First, it contributes by separating the sample firms into large, medium, and small firms because ownership structure, analysts following the firm, information asymmetry, listing history, and management style, amongst large, medium, and small firms are often different. Second, it identifies a joint effect of ownership structure and CG on the firm's market valuation. Third, in Pakistan, most of the previous studies follow a fragmented approach. Therefore, rather focusing on just individual aspects of CG (e.g., board size, duality, audit committee), the current study employs a composite measure of CG. Fourth, most of the previous research has chosen only one or two years to analyze the effect and this has not provided a helpful explanation. Nevertheless, the panel nature of our data enables us to examine the link over twelve years, allowing time for improved governance. Further, CG measures in majority of the previous studies are not devised to rank firms on CG quality but rather to determine those firms that prefer to tailor their governance practices to minimize the agency costs.

### Data and Methods

A sample of 200 firms is selected from non-financial firms listed at 'Pakistan Stock Exchange (PSX)' based on the availability of data. We divided the sample into three groups' small, medium, and large firms on the basis of their market capitalization. The study uses three sources to obtain secondary data: 1) analysis of financial statements of PSX listed firms (2006 to 2011); 2) balance sheet analysis of joint stock companies 1999 to 2004; 3) Pakistan Stock Exchange website and firms annual reports as well as website. A self constructed index of CG is used in this study which has three sub-indices: 1) Board composition, 2) Transparency and auditing, and 3) Disclosure. The index consists of 18 CG provisions (i.e., 10 items in the board category, 4 items each in the audit and disclosure category). Three sources have been used in constructing the CG index: 1) the 2002 Pakistan code on CG, 2) The corporate governance principles of OECD, 3) previous studies on CG relevant to Pakistan. A scale of 0 to 4 is used to construct corporate governance score. Furthermore, we sum the total score achieved by each firm on each CG item and divide it by maximum possible score and then multiplied by 100. The system Generalized Method of Movement (SGMM) is employed in this study as an estimation procedure as it takes into account the dynamic endogeneity issue. Overall, the following three hypotheses are tested:

*H1*: Ceteris paribus, corporate governance positively affects a firm's value.

*H1a*: Ceteris paribus, corporate governance score as well as sub-score significantly affects a firm's value, controlling for firm specific characteristics.

*H1b*: Ceteris paribus, it is expected that firms with low CG rank will have lower market value as compared to firms with high CG rank, controlling for the level of insiders' ownership.

The following dynamic panel data model is to be estimated to test H1:

$$\ln TQ_{it} = \alpha + \beta_1 (\ln TQ)_{it-1} + \beta_2 (CG - score)_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

In order to test H1a, Model 1 is extended to include CG sub-scores and control variables.

$$\begin{aligned} \ln TQ_{it} = & \alpha + \beta_1 (\ln TQ)_{it-1} + \beta_2 (CG - \text{score})_{it} + \beta_3 (BRD - \text{score})_{it} + \beta_4 (AUD - \text{score})_{it} \\ & + \beta_5 (DSC - \text{score})_{it} + \beta_6 \left( \frac{\text{Debt}}{\text{Assets}} \right)_{it} + \beta_7 (FRAGE)_{it} + \beta_8 (GR)_{it} \\ & + \beta_9 (\ln \text{Assets})_{it} + \beta_{10} (\text{INSIDOWN})_{it} + \beta_{11} \left( \frac{\text{Net income}}{\text{Common equity}} \right)_{it} \\ & + \beta_{12} (\text{Family})_{it} + \varepsilon_{it} \dots \dots \dots (2) \end{aligned}$$

where,  $\ln TQ$  is dependent variable (Tobin's Q),  $\ln TQ_{(it-1)}$  is one period lag of dependent variable,  $\alpha$  is constant of the equation,  $\beta$  is coefficient of the variable, CG-score is corporate governance score, BRD-score is board of director's sub-score, AUD-score is audit sub-score, DSC-score is disclosure sub-score, Debt/Assets is leverage ratio, FRAGE is firms age, GR is firm growth in assets,  $\ln \text{Assets}$  measure firm size by taking natural log of assets,  $\text{INSIDOWN}$  is insider ownership,  $(\text{Net income})/(\text{Common equity})$  is return on equity, and Family is a categorical variable.

The study further tries to examine the joint impact of CG and insiders ownership on Tobin's q. Corporate Governance is divided into two categories high and low on the basis of their medium score following Ronnie Lo (2009) and Cheung et al. (2011). On the other hand, insiders' ownership is categorized into low (0-25%), medium (25%-50%), and predominant (>50%) ownership. Hence, six dummy variables of the joint CG and insiders' ownership are generated. To test hypothesis H1b, the following model is formulated:

$$\begin{aligned} \ln TQ_{it} = & \alpha + \beta_1 (\ln TQ)_{it-1} + \beta_2 (BRD - \text{score})_{it} + \beta_3 (AUD - \text{score})_{it} \\ & + \beta_4 (DSC - \text{score})_{it} + \beta_5 \left( \frac{\text{Debt}}{\text{Assets}} \right)_{it} + \beta_6 (FRAGE)_{it} + \beta_7 (GR)_{it} \\ & + \beta_8 (\ln \text{Assets})_{it} + \beta_9 \left( \frac{\text{Net income}}{\text{Common equity}} \right)_{it} + \beta_{10} (\text{Family})_{it} + \beta_{11} (D_H \times D_M)_{it} + \beta_{12} (D_H \times D_P)_{it} \\ & + \beta_{13} (D_L \times D_L)_{it} + \beta_{14} (D_L \times D_M)_{it} + \beta_{15} (D_L \times D_P)_{it} + \varepsilon_{it} \dots \dots \dots (3) \end{aligned}$$

where,

$D\_H \times D\_M$  = High CG  $\times$  Medium ownership;

$D\_H \times D\_P$  = High CG  $\times$  Predominant ownership;

$D\_L \times D\_L$  = Low CG  $\times$  Low ownership;

$D\_L \times D\_M$  = Low CG  $\times$  Medium ownership;

$D\_L \times D\_P$  = Low CG  $\times$  Predominant ownership.

## Empirical Results

### Descriptive Statistics

The descriptive statistics are presented in Tables 1 (large Cap), 2 (Medium Cap), and 3 (Small Cap), respectively. As mentioned previously, since this study tries to examine the link between

CG and firm value with respect to insider ownership, the key variables of interest are: CG-score, firm value (Tobin's Q) and insiders' ownership. The value of Q is the highest in large Cap firms with a mean of 2.40, followed by medium Cap firms 1.21. However, the mean of small Cap firms Q is 1.04. The highest mean corporate governance score is 60% for large Cap firms followed by medium Cap firms 54%. Small firms have the highest mean value of insider's ownership 35.69, whereas for medium Cap firms the mean value is 24.78. However, the mean value is the lowest in large Cap firms (8.17).

Table 1

*Summary Statistics of Large Capitalisation Firms*

Variable	Quantiles						
	Mean	S.D.	Min	.25	Mdn	.75	Max
CG-score	0.60	0.14	0.25	0.51	0.60	0.71	0.94
BRD-score	0.64	0.12	0.33	0.55	0.65	0.70	0.90
AUD-score	0.72	0.14	0.25	0.69	0.75	0.75	1.00
DSC-score	0.41	0.35	0.00	0.00	0.50	0.75	1.00
TQ	2.40	3.75	0.53	1.08	1.43	2.43	43.76
Net	-0.45	14.78	-319.09	0.10	0.20	0.32	2.97
Income/Common Equity							
GR	0.18	0.30	-0.69	0.03	0.13	0.25	2.75
LnAssets	10.06	1.18	6.11	9.35	10.08	10.75	13.11
Debt/Assets	0.52	0.26	0.09	0.32	0.51	0.69	2.16
FRAGE	30.19	13.04	6.00	19.00	31.00	44.00	55.00
INSIDOWN	8.17	16.64	0.00	0.00	6.12	7.77	88.50

Table 2

*Summary Statistics of Medium Capitalisation Firms*

Variable	Quantiles						
	Mean	S.D.	Min	.25	Mdn	.75	Max
CG-score	0.54	0.11	0.25	0.46	0.53	0.61	0.93

(Table Continued...)

BRD-score	0.61	0.11	0.30	0.53	0.63	0.68	0.98
AUD-score	0.68	0.13	0.25	0.69	0.69	0.75	1.00
DSC-score	0.23	0.30	0.00	0.00	0.00	0.50	1.00
TQ	1.21	0.85	0.36	0.83	1.00	1.33	11.12
Net Income/ Common Equity	0.06	0.68	-17.53	0.02	0.11	0.20	3.99
GR	0.17	0.39	-0.82	0.00	0.09	0.23	7.44
LnAssets	8.25	1.01	4.90	7.52	8.23	8.94	11.33
Debt/Assets	0.57	0.25	0.01	0.42	0.58	0.70	3.10
FRAGE	29.01	11.42	6.00	21.00	27.00	38.00	56.00
INSIDOWN	24.78	26.58	0.00	1.41	13.86	43.40	97.47

Table 3  
*Summary Statistics of Small Capitalisation Firms*

Quantiles							
Variable	Mean	S.D.	Min	.25	Mdn	.75	Max
CG-score	0.48	0.10	0.21	0.42	0.49	0.56	0.75
BRD-score	0.58	0.12	0.20	0.48	0.58	0.68	0.80
AUD-score	0.63	0.16	0.25	0.44	0.69	0.75	0.75
DSC-score	0.12	0.20	0.00	0.00	0.00	0.25	1.00
TQ	1.04	0.92	0.23	0.72	0.85	1.03	12.65
Net Income/ Common Equity	0.01	1.06	-10.21	-0.08	0.05	0.15	11.57
GR	0.08	0.25	-0.62	-0.05	0.03	0.17	1.44
LnAssets	7.10	1.14	3.89	6.41	7.13	7.80	11.15
Debt/Assets	0.83	0.89	0.11	0.53	0.66	0.82	12.16
FRAGE	30.98	10.95	7.00	22.00	29.00	44.00	56.00
INSIDOWN	35.69	27.53	0.00	9.05	34.48	59.08	93.11

### Correlation Results

The Pearson correlation coefficients between the dependent variables and the independent variables are presented in Tables 4, 5, and 6. Correlation analysis is used to check multicollinearity among variables in empirical models. Gujarati (2003) argues that multicollinearity may threaten the regression analysis at a threshold of 0.80 or 0.90. From the results it can be seen that multicollinearity

does not appear to be a problem between the variables in any of the three samples.

Table 4

*Correlation Matrix of Large Capitalisation Firms*

Variables	CG-Score	Debt/Assets	FRAGE	GR	LnAssets	INSIDOWN	Net Income/ Common Equity
CG-score	1.0000						
Debt/Assets	-0.0258	1.0000					
FRAGE	0.0167	0.0387	1.0000				
GR	-0.1131	-0.0033	-0.0125	1.0000			
LnAssets	0.2580	0.2504	0.0623	0.0075	1.0000		
INSIDOWN	-0.2586	-0.0923	-0.0208	0.1046	-0.1978	1.0000	
Net Income/ Common Equity	0.0317	-0.0828	-0.0423	-0.0445	-0.0628	0.0212	1.0000

Table 5

*Correlation Matrix of Medium Capitalisation Firms*

Variables	CG-Score	Debt/Assets	FRAGE	GR	LnAssets	INSIDOWN	Net Income/ Common Equity
CG-score	1.0000						
Debt/Assets	-0.1534	1.0000					
FRAGE	0.0239	-0.0136	1.0000				
GR	-0.0526	-0.0872	0.0384	1.0000			
LnAssets	-0.0137	0.2450	-0.0147	-0.0398	1.0000		
INSIDOWN	-0.2764	0.0628	0.0008	0.0571	-0.0244	1.0000	
Net Income/ Common Equity	0.0002	-0.1273	-0.0189	0.0641	-0.0824	0.0197	1.0000

Table 6:  
*Correlation Matrix of Small Capitalisation Firms*

Variables	CG-Score	Debt/Assets	FRAGE	GR	LnAssets	INSIDOWN	Net Income/ Common Equity
CG-score	1.0000						
Debt/Assets	-0.2272	1.0000					
FRAGE	0.0500	-0.1032	1.0000				
GR	0.0478	-0.2258	0.1022	1.0000			
LnAssets	0.0685	-0.2779	-0.0845	0.0674	1.0000		
INSIDOWN	-0.2518	-0.1360	-0.1982	0.0177	-0.0218	1.0000	
Net Income/ Common Equity	-0.0054	0.0042	-0.0677	0.0114	0.0347	-0.0519	

#### *GMM Estimation Results*

This section seeks to identify whether CG can influence the variations in market perceptions of company valuation. The estimation results are presented in Table 7. The coefficient of the lagged Tobin's Q is positive and highly significant at the 1% level. The estimated speed of adjustment factor that is defined as  $(1 - \beta)$  is 0.23 in pool, 0.19 in large, 0.34 in medium, and 0.29 in small sample. Hence, the results suggest a stronger positive relation between past and current valuation. The results further show that better firm-level governance results in higher market valuation. For pool sample firms, the results indicate that CG-Score and firms value are positively related at the 1% level. The magnitude of this impact is high, suggesting that a change of one unit in CG results in an increase of 0.55 in the value of Q. Similarly, for large Cap and medium Cap firms, the positive relationship between CG-Score and firms' value is documented and this relationship is statistically significant at the 1% and 5% level, respectively. For large Cap firms, the coefficient on CG-score is 0.5683 followed by medium Cap firms (0.2995). Conversely, for small Cap firms, the coefficient on CG-score is 0.1645, which is statistically insignificant at the acceptable level of significant. Hence, in Table 7, the coefficient on CG-Score is much higher for large Cap firms followed by medium Cap firms.

Table 7

*Regression Results for CG Score and Firm Valuation: Univariate Regression*

Variables	Model 1_Pool	Model 1_Large	Model 1_Medium	Model 1_Small
lnTQ (-1)	0.7688 (0.000)***	0.8127 (0.000)***	0.6598 (0.000)***	0.7124 (0.000)***
CG-score	0.5479 (0.000) ***	0.5683 (0.001) ***	0.2995 (0.039) **	0.1645 (0.153)
Cons	-0.2831	-0.2361	-0.1609	-0.1380
Obs	1668	434	835	399
Instruments	32	33	32	33
Groups	200	70	143	87
AR (1)	-4.06	-2.80	-2.37	-2.19
[P-Value]	(0.000)	(0.005)	(0.018)	(0.028)
AR (2)	-0.02	-0.32	0.26	0.68
[P-Value]	(0.981)	(0.745)	(0.796)	(0.499)
Hansen test	31.68	36.74	33.86	26.40
[P-Value]	(0.334)	(0.185)	(0.244)	(0.654)
Difference in Hansen test	31.04	32.50	33.78	25.81
[P-Value]	(0.269)	(0.214)	(0.173)	(0.529)
F-Significance	(0.000)	(0.000)	(0.000)	(0.000)

Note. \*, \*\*, \*\*\*= statistical significance at the level of 0.10, 0.05 and 0.01

In this section, the study investigates the link between CG and firm value. However, the question arises as to which governance factors are significant in determining the value of firms. Therefore, the overall CG score is decomposed into three sub-scores, namely, board score (BRD-score), audit score (AUD-score), and disclosure score (DSC-score). The results are presented in Tables 8 to 11. The evidence gives support to the hypotheses that enhancement in CG is associated with increase in firm value in pool as well as large, medium, and small samples in all four regressions. The results are statistically highly significant at the 1% level. Specifically, a one unit rise in CG-score is associated with an increase of 0.46 in Tobin's Q in pool, 0.48 in large, 0.28 in medium, and 0.23 in small sample. Moreover, the regression on CG sub-scores presents that BRD-score is positive and statistically significantly related to Tobin's Q in all samples at the 1% level except in small Cap firms where the result is significant at the level of 10%. In addition, the regression on AUD-score and DSC-score are also positive and statistically significant at the 1% level.



For pool sample, the coefficient on insider's ownership is negative in all four regressions and the result is significant. In medium Cap firms, the association between insider's ownership and company value is also negative and significant. Nevertheless, in large and small Cap firms, the result is negative but insignificant except in Model 2, large sample firms, where the result becomes significant. The findings further suggest that for all samples, the debt ratio is the significant variable, with positive sign, suggesting more leverage firms generate higher shareholder values. Overall, the relationship of variable LnAssets with the market-based measures of performance is consistent with a priori expectation. This variable is also significant for all samples in all regressions and the sign is positive, indicating that large firm can positively influence market perceptions of company performance. The coefficient on firm age is positive and significant in all samples and in all regressions except for large firms in Models 1 and 2 and medium sample Model 3.

The results further reveal that non-family firms outrun their family counterparts in pool, large, and medium Cap firms. Specifically, the association between family variable and Tobin's Q is negative and statistically significant in all samples and in all regressions except for small Cap firms. Miller, Breton-Miller, Lester, and Cannella (2007) argue that in the U.S. except for lone founder corporations, other true family corporations do not exhibit superior market valuation. In a similar vein, in the context of Norway and Sweden, Cronqvist and Nilsson (2003) and Barth, Gulbrandsen, and Schone (2005) conclude that minority shareholders wealth is adversely affected by family ownership. Nevertheless, small Cap family firms positively influence Tobin's Q in all regressions except in Model 4. A stream of research, for example (McConaughy, Walker, Henderson, & Mishra, 1998; Anderson & Reeb, 2003a; Villalonga & Amit, 2006; Maury, 2006; Barontini & Caprio, 2006; Andres, 2008) provide evidence that the positive relation between family businesses and firm value only appears in those firms where founder influence is still present and also where family is directly represented on the board, which is the case of small Cap firms in Pakistan.

For the ROE, the signs of the estimated coefficients are positive and significant in large sample and small samples. However, the study fails to find any significant evidence between ROE and Tobin's Q in pool and medium Cap firms. The result is only significant at the 10% level in Model 2 pool sample. The study also include growth rate as a control variable which is significantly positive with Tobin's Q in pool sample as well as large Cap firms in all models, hence in conformity to our earlier intuition (i.e., past and future growth opportunities is likely to be correlated) market valuation is positively affected by growth opportunities. Conversely, the coefficient on growth variable is insignificant in medium Cap firms. The inclusion of control variables suggests that governance-valuation link is not spuriously caused by omitted variables and the governance effect is robust to the inclusion of these additional control variables.

Table 8

*Regression Results for CG Score, Sub-score, Firm Specific Characteristics and Firm Valuation (Pool Sample)*

Variables	(1)	(2)	(3)	(4)
lnTQ (-1)	0.8169*** (0.000)	0.7949*** (0.000)	0.8496*** (0.000)	0.8432*** (0.000)
CG-score	0.4575*** (0.000)			
BRD-score		0.3041*** (0.000)		
AUD-score			0.8361*** (0.000)	
DSC-score				0.1739*** (0.000)
Debt/Assets	0.2590*** (0.000)	0.2740*** (0.000)	0.2058*** (0.000)	0.1529*** (0.000)
FRAGE	0.0033** * (0.005)	0.0036*** (0.001)	0.0031** (0.027)	0.0035*** (0.001)
GR	0.0622*** (0.002)	0.0420** (0.030)	0.1253*** (0.000)	0.0824*** (0.000)
LnAssets	0.0149** (0.019)	0.0334*** (0.000)	0.0137** (0.020)	0.0138*** (0.006)
INSIDOWN	-0.0019*** (0.003)	-0.0015** (0.013)	-0.0013** (0.039)	-0.0012** (0.022)
Net Income/Common Equity	0.0002 (0.107)	0.0001* (0.066)	0.0014 (0.272)	-0.000 (0.915)
Family	-0.1440*** (0.000)	-0.1869*** (0.000)	-0.0627** (0.027)	-0.0904*** (0.000)
Cons	-0.4799*** (0.000)	-0.5659*** (0.000)	-0.8322*** (0.000)	-0.2637** * (0.000)
Obs	1668	1668	1668	1668
Instruments	153	153	155	155
Groups	200	200	200	200
AR (1)	-4.09	-4.19	-3.82	-3.87
[P-Value]	(0.000)	(0.000)	(0.000)	(0.000)
AR (2)	-0.04	-0.06	0.18	0.18
[P-Value]	(0.969)	(0.952)	(0.860)	(0.861)
Hansen test	160.11	165.06	159.67	160.21
[P-Value]	(0.156)	(0.100)	(0.191)	(0.183)
Difference in Hansen test	156.07	162.92	154.53	153.41
[P-Value]	(0.153)	(0.081)	(0.174)	(0.191)
F-Significance	(0.000)	(0.000)	(0.000)	(0.000)

Note: \*, \*\*, \*\*\*= statistical significance at the level of 0.10, 0.05 and 0.01

Table 9

*Regression Results for CG Score, Sub-score, Firm Specific Characteristics and Firm Valuation (Large Sample)*

Variables	(1)	(2)	(3)	(4)
lnTQ (-1)	0.9286*** (0.000)	0.9157*** (0.000)	0.9593*** (0.000)	0.9407*** (0.000)
CG-score	0.4805*** (0.000)			
BRD-score		0.2512*** (0.000)		
AUD-score			0.4235*** (0.000)	
DSC-score				0.0628*** (0.000)
Debt/Assets	0.1068*** (0.000)	0.1057*** (0.000)	0.1370*** (0.000)	0.1122*** (0.000)
FRAGE	0.0001 (0.893)	0.0004 (0.353)	0.0007** (0.047)	0.0007*** (0.007)
GR	0.0496** (0.0332)	0.0344** (0.030)	0.0696*** (0.008)	0.0506** (0.023)
LnAssets	0.0074** (0.024)	0.0235*** (0.000)	0.0060** (0.014)	0.0193*** (0.000)
INSIDOWN	-0.0003 (0.556)	-0.0010** (0.040)	0.0006 (0.406)	-0.0005 (0.408)
Net Income/Common Equity	0.0011* (0.088)	0.0018*** (0.007)	0.0033*** (0.004)	0.0021** (0.028)
Family	-0.1149*** (0.000)	-0.1085*** (0.000)	-0.1175*** (0.000)	-0.1235*** (0.000)
Cons	-0.3312*** (0.000)	-0.3556*** (0.000)	-0.3818*** (0.000)	-0.2025** (0.013)
Obs	434	434	434	434
Instruments	91	94	92	91
Groups	70	70	70	70
AR (1)	-2.91 [P-Value] (0.004)	-2.95 (0.003)	-3.11 (0.002)	-2.95 (0.003)
AR (2)	-0.22 [P-Value] (0.825)	-0.14 (0.891)	-0.26 (0.798)	-0.07 (0.945)
Hansen test	60.36 [P-Value] (0.958)	62.86 (0.959)	60.27 (0.966)	64.25 (0.914)
Difference in Hansen test	62.92 [P-Value] (0.817)	62.16 (0.835)	61.11 (0.858)	63.46 (0.804)
F-Significance	(0.000)	(0.000)	(0.000)	(0.000)

Note. \*, \*\*, \*\*\*= statistical significance at the level of 0.10, 0.05 and 0.01

Table 10

*Regression Results for CG Score, Sub-score, Firm Specific Characteristics and Firm Valuation (Medium Sample)*

Variables	(1)	(2)	(3)	(4)
lnTQ (-1)	0.8833*** (0.000)	0.8634*** (0.000)	0.8758*** (0.000)	0.8761*** (0.000)
CG-score	0.2848*** (0.000)			
BRD-score		0.2302*** (0.000)		
AUD-score			0.2857*** (0.004)	
DSC-score				0.1529 *** (0.000)
Debt/Assets	0.1671*** (0.005)	0.1383** (0.032)	0.1014* (0.060)	0.1922 *** (0.000)
FRAGE	0.0039*** (0.011)	0.0051*** (0.003)	0.0023 (0.165)	0.0032 * (0.057)
GR	0.0008 (0.978)	-0.0123 (0.681)	-0.0258 (0.386)	-0.0026 (0.924)
LnAssets	0.0516*** (0.000)	0.0627*** (0.000)	0.0481*** (0.000)	0.0263** (0.029)
INSIDOWN	-0.0012** (0.045)	-0.0013** (0.031)	-0.0012* (0.055)	-0.0017*** (0.005)
Net Income/Common Equity	0.0112 (0.613)	0.0094 (0.673)	0.0012 (0.954)	0.0102 (0.634)
Family	-0.1339*** (0.001)	-0.1237*** (0.003)	-0.1162*** (0.003)	-0.1745*** (0.000)
Cons	-0.6730*** (0.000)	-0.7754*** (0.000)	-0.6128*** (0.000)	-0.2958** (0.019)
Obs	835	835	835	835
Instruments	87	87	87	87
Groups	143	143	143	143
AR (1)	-2.82 (0.005)	-2.83 (0.005)	-2.85 (0.004)	-2.93 (0.003)
[P-Value]				
AR (2)	0.21 (0.832)	0.20 (0.839)	0.16 (0.872)	0.16 (0.870)
[P-Value]				
Hansen test	92.83 (0.106)	92.28 (0.113)	94.51 (0.085)	92.37 (0.112)
[P-Value]				
Difference in Hansen test	82.63 (0.126)	81.46 (0.145)	83.87 (0.107)	84.52 (0.099)
[P-Value]				
F-Significance	(0.000)	(0.000)	(0.000)	(0.000)

Note. \*, \*\*, \*\*\*= statistical significance at the level of 0.10, 0.05 and 0.01

Table 11

*Regression Results for CG Score, Sub-score, Firm Specific Characteristics and Firm Valuation (Small Sample)*

Variables	(1)	(2)	(3)	(4)
lnTQ (-1)	0.5576*** (0.000)	0.5589*** (0.000)	0.5459*** (0.000)	0.5403*** (0.000)
CG-score	0.2272*** (0.001)			
BRD-score		0.1074* (0.051)		
AUD-score			0.5066*** (0.000)	
DSC-score				0.0787** (0.015)
Debt/Assets	0.1983*** (0.000)	0.1973*** (0.000)	0.2093*** (0.000)	0.2021*** (0.000)
FRAGE	0.0034*** (0.000)	0.0031*** (0.000)	0.0029*** (0.000)	0.0029*** (0.000)
GR	-0.2501*** (0.000)	-0.2913*** (0.000)	-0.2496*** (0.000)	-0.2253*** (0.000)
LnAssets	0.0229*** (0.007)	0.0298*** (0.000)	0.0188* (0.087)	0.0195*** (0.004)
INSIDOWN	-0.0005 (0.204)	-0.0004 (0.227)	0.0002 (0.659)	-0.0001 (0.849)
Net Income/Common Equity	0.0076** (0.024)	0.0085*** (0.007)	0.0056* (0.097)	0.0081*** (0.003)
Family	0.1187** (0.017)	0.0795** (0.023)	0.1454** (0.038)	0.0604 (0.158)
Cons	-0.6758*** (0.000)	-0.6288*** (0.000)	-0.8978*** (0.000)	-0.5007*** (0.000)
Obs	399	399	399	399
Instruments	63	63	63	63
Groups	87	87	87	87
AR (1)	-2.34 (0.019)	-2.37 (0.018)	-2.34 (0.019)	-2.27 (0.023)
[P-Value]				
AR (2)	0.07 (0.942)	0.04 (0.964)	-0.14 (0.887)	0.15 (0.880)
[P-Value]				
Hansen test	57.29 (0.319)	55.69 (0.374)	58.75 (0.273)	56.52 (0.345)
[P-Value]				
Difference in Hansen test	53.43 (0.210)	49.64 (0.330)	55.23 (0.165)	54.98 (0.171)
[P-Value]				
F-Significance	(0.000)	(0.000)	(0.000)	(0.000)

Note. \*, \*\*, \*\*\*= statistical significance at the level of 0.10, 0.05 and 0.01

The results obtained from the joint CG-Ownership and firm value association reveal that for pool Cap firms the interaction variables ( $D\_H \times D\_P$ ,  $D\_L \times D\_L$ ,  $D\_L \times D\_M$ ,  $D\_L \times D\_P$ ) are statistically significant at the 1% level and have negative differential coefficients, hence less than the base category ( $D\_H \times D\_L$ ). The results show that interaction variables coefficients of high CG ( $D\_H \times D\_L$ ,  $D\_H \times D\_M$ ,  $D\_H \times D\_P$ ) are higher than the low CG ( $D\_L \times D\_L$ ,  $D\_L \times D\_M$ ,  $D\_L \times D\_P$ ) categories. The results suggest that the decrease in low CG groups' market value is larger as compared to high CG group's market value when compared with the base category controlling for the level of ownership. These results reveal that pool Cap low CG rank firms have lower firms value as compare to high CG rank firms. The results further show that high CG rank firms have high market valuation when insider's ownership is at lower level. However, when insiders ownership goes beyond 50% then firm value decreases as can be seen from the interaction variable  $D\_H \times D\_P$  coefficient where the decrease is higher (-0.1107) as compared to base category and also medium category. Similarly, at medium level of ownership low CG firms have better market value as compare to low or predominant ownership. In Figure 1 the blue line represents high CG line while the red line is low CG line. It can be seen that the blue line is above the red line implying high CG firms have higher market value as compare to low CG firms.

For large Cap firms, in case of joint CG and ownership effect, similar results are reported for interaction variables  $D\_H \times D\_P$ ,  $D\_L \times D\_P$  and  $D\_L \times D\_L$  where the coefficients are statistically significant. However, interaction variables  $D\_L \times D\_M$  and  $D\_H \times D\_M$  appears to be insignificant in the case of large Cap firms. For medium Cap firms, the coefficients on interaction variables  $D\_L \times D\_L$ ,  $D\_L \times D\_M$  and  $D\_L \times D\_P$  are negative and statistically significant. In contrast, for small Cap firms in terms of interaction terms different result was found where market value of high CG small firms increases when insiders' ownership is at predominant level as compare to medium ownership level.  $D\_H \times D\_P$  group's coefficient is lower by about 0.0925 from the base category whereas  $D\_H \times D\_M$  group coefficient is lower by about 0.1589. However, for low CG small firms the market value decreases at predominant level. Hence, in large and medium Cap firms the market value is higher at low level of ownership but decreases once the ownership level reaches to predominant level. On the other hand, small Cap firms' value increases at predominant level of ownership only for high CG firms implying that the presence of predominant shareholder adds more value to a small firm provided the management is transparent about its CG practices. Further, the difference between  $D\_H \times D\_L$  and  $D\_L \times D\_L$  interaction coefficients is 0.2519. This means that small firms will experience a big increase in their market value once they improve their CG.

Table 12  
*The Interaction Effect on Firm Valuation*

Variables	Pool _ Model 3	Large _ Model 3	Medium _ Model 3	Small _ Model 3
lnTQ (-1)	0.7829*** (0.000)	0.9726*** (0.000)	0.7926*** (0.000)	0.5026*** (0.000)
BRD-score	0.2291*** (0.007)	0.1562* (0.084)	0.3155*** (0.001)	0.0821 (0.435)
AUD-score	0.8231*** (0.000)	0.1048*** (0.000)	0.2232*** (0.000)	0.4178*** (0.000)
DSC-score	0.0324 (0.374)	0.0588 (0.232)	0.2424*** (0.000)	0.6550 (0.256)
Debt/Assets	0.2329*** (0.000)	0.1341*** (0.000)	0.1248*** (0.000)	0.1997*** (0.000)
FRAGE	0.0032 ** (0.014)	-0.0006 (0.202)	0.0074*** (0.000)	0.0060*** (0.000)
GR	0.0072 (0.641)	0.0630** (0.029)	-0.0651 (0.175)	-0.1939*** (0.000)
LnAssets	0.0342*** (0.000)	0.0129** (0.017)	0.0536*** (0.000)	-0.0020 (0.900)
Net Income/Common Equity	0.0002 ** (0.012)	0.0024* (0.088)	-0.0056 (0.621)	0.0038** (0.011)
Family	-0.1863*** (0.000)	-0.1496*** (0.000)	-0.1586*** (0.000)	0.3234*** (0.001)
$D_H \times D_M$	-0.0135 (0.230)	-0.0813 (0.411)	-0.0099 (0.787)	-0.1589** (0.011)
$D_H \times D_P$	-0.1107*** (0.000)	-0.1267*** (0.000)	-0.0290 (0.344)	-0.0925*** (0.000)
$D_L \times D_L$	-0.2063*** (0.000)	-0.1638*** (0.000)	-0.0641*** (0.000)	-0.2519** (0.036)
$D_L \times D_M$	-0.1431*** (0.000)	-0.1184 (0.565)	-0.0478** (0.023)	-0.2044 (0.334)
$D_L \times D_P$	-0.4593*** (0.000)	-0.1829** (0.021)	-0.1171*** (0.000)	-0.2304*** (0.000)
Obs	1668	434	835	399
Instruments	156	94	89	56
Groups	200	70	143	87
AR (1)	-4.26 (0.000)	-2.96 (0.003)	-3.04 (0.002)	-2.22 (0.026)
[P-Value]				
AR (2)	-0.02 (0.984)	0.03 (0.973)	-0.00 (0.997)	-0.09 (0.925)
[P-Value]				
Hansen test	165.69 (0.164)	61.59 (0.947)	118.43 (0.253)	51.19 (0.388)
[P-Value]				
Difference in Hansen test	161.63	60.67	116.83	46.00
[P-Value]				
F-Significance	(0.066) (0.000)	(0.804) (0.000)	(0.166) (0.000)	(0.310) (0.000)

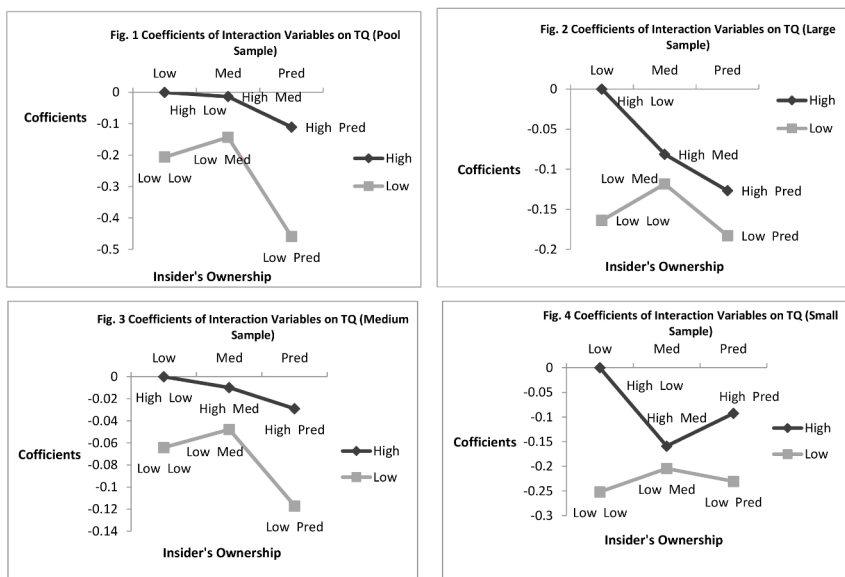


Figure 1: Coefficients of Interaction Variables on TQ

## Conclusion

This paper attempts to examine the value relevance of firm level CG in Pakistan for the period 2003-2014. The results reveal that CG is economically and statistically significant in affecting market valuation of corporate firms in Pakistan. Our results have significant implications for the corporate sector, policy makers, investors, outsider minority shareholders, and international agencies. One implication of the findings is that, under a weak legal protection regime, minority investors would make reference to firm's level of CG to assess their risks of expropriation by the controlling insider. The current study also implies that in evaluating the firm's value, the information obtained from longitudinal CG matters more than that gained from cross-sectional absolute governance rankings. Firms' investors may have greater opportunities to achieve higher portfolio returns by selecting firms that have improved governance and firms that have deteriorating governance. This study provides a broader framework through the above outcome for future research in this area. Future work could extend the research by using the financial listed companies or non-listed companies. CG instruments like CEO tenure, intangible assets, banking efficiency, sustainability of business, capital structure, executive remuneration and political regime can be employed to test the link with firm value. Another avenue for future research is to examine other channels of CG, such as company websites and regulatory announcements.



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**Appendix I:***Corporate Governance Score/Index***A. Sub Index-Board Composition**

1. Percentage of Independent Non-Executive Directors (INED's)
2. Presence of Independent Non-Executive Chairman
3. Size of board
4. Role split?
5. Number of board meetings held during the year
6. Percentage of total director's attendance at board meetings
7. Percentage of board meetings attended by INED's
8. Minority shareholders representation on board
9. Gender diversity on board
10. Does the company have a formal system to evaluate the performance of the board and individual directors?

**B. Sub Index- Transparency and Auditing**

1. Does the company have an audit committee?
2. What percentage of audit committee constitutes INED's?
3. Independence of audit committee Chairman
4. Whether a system is in place to protect whistle blowers

**C. Sub Index- Disclosure**

1. Does the company disclose board members biographies? Does it list the other boards its directors sit on?
2. Does the company have a policy for handling conflict of interest
3. Does the board of directors provide a code of ethics or statement of business conduct for all directors and employees?
4. Disclosure of the attendance record of each director at committee meetings

**Appendix II:***Companies Included in the Sample*

Shakarganj Limited	Tri-Pack Films
Wah Noble Chemicals	Bata Pakistan
Wyeth Pakistan	Sapphire Fibers
Zil Limited	Dewan Khalid Textile Mills
Southern Electric Power Company	Linde Pakistan
Siemens Pakistan Engineering Co.	Lotte Pakistan PTA
Quality Textile Mills	Unilever Pakistan
Rafhan Maize Products	Lafarge Pakistan Cement
Pakistan National Shipping Corporation	Resham Textile Industries
Pakistan Refinery	Al-Abbas Cement Industries
Bestway Cement	Fazal Textile Mills
Cherat Cement Company	Pace (Pak)
Dadex Eternit Limited	Pakistan Synthetics
Fauji Cement Company	Dreamworld
Gul Ahmed Textile Mills	Kohinoor Sugar Mills
Kohinoor Mills	Bannu Woollen Mills
Maple Leaf Cement Factory	Liberty Mills
Packages Limited	Colony Mills
Ittehad Chemical	Ghandara Nissan
Atlas Battery	Pak Datacom
Atlas Engineering	Noon Sugar Mills
Bhanero Textile Mills	Media Times
Dawood Hercules Corporation	Nestle Pakistan
I.C.I. Pakistan	Pakistan Pvc
Feroze 1888 Mills	Security Paper
National Foods	Cherat Packaging
Nishat Chunian	Colgate Palmolive Pakistan
Nishat Mills	Sazgar Engineering Works
Fauji Fertilizer Company	Netsol Technologies
Wazir Ali Industries	Ecopack Limited
Tariq Glass Industries	Indus Dyeing Manufacturing Company
Sui Northern Gas Pipeline	I.C.C. Textile
Quetta Textile Mills	Habib Sugar Mills
Pakistan International Airlines Corporation	Ashfaq Textile Mills
Al-Abbas Sugar Mills	Bilal Fibres
Artistic Denim Mills	Babri Cotton Mills

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Azgard Nine	Honda Atlas Cars Pakistan
Byco Petroleum Pakistan	Emco Industries
Japan Power Generation	Fatima Enterprizes
Mehmood Textile Mills	Faran Sugar Mills
Atlas Honda	Gillette Pakistan
Kohinoor Energy	Macpac Films
Lucky Cement	Dewan Farooque Motors
Pakistan Tobacco Company	Bawany Air Product
Fauji Fertilizer Bin Qasim	Jubilee Spinning and Weaving Mills
Oil and Gas Development Company	Pakistan Gum and Chemiclas
Salfi Textile Mills	Tata Textile Mills
Shield Corporation	Shahzad Textile Mills
Sanofi-Aventis Pakistan	Shezan International
Zephyr Textile	Century Paper and Board Mills
Worldcall Telecom	Burshane LPG Pakistan
Shabbir Tiles and Ceramics	Chenab Limited
Shell Pakistan	Al-Abid Silk Mills
Sitara Chemical Industries	Mitchells Fruit Farms
Singer Pakistan	Thatta Cement Company
Baluchistan Wheels	Millat Tractors
Glaxosmithkline Pakistan	Fecto Cement
D.G. Khan Cement Company	Idrees Textile Mills
Kohat Cement	Ghani Automobile Industries
Crescent Textile Mills	Elahi Cotton Mills
Hub Power Company	Dynea Pakistan
Gharibwal Cement	Dewan Textile Mills
Mirpurkhas Sugar Mills	Chashma Sugar Mills.
Engro Polymer and Chemicals	Berger Paints Pakistan
Biafo Industries	Buxly Paints
Crescent Steel & Allied Products	Premier Sugar Mills and Distillery Company
Pakistan Cables	Pakistan State Oil Company
Dawood Lawrancepur	Pak Elektron
Nadeem Textile Mills	Indus Motor Company
Nimir Industrial Chemicals	Janana-De-Malucho Textile Mills
National Refinery	Land Mark Spinning Industries
Saif Textile Mills	Javedan Corporation
Pakistan International Container Limited	Merit Packaging
Pioneer Cement	Reliance Weaving Mills
Pakistan Oilfields	Telecard Limited
Pakistan Petroleum	Flying Cement Company

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Bolan Casting	Ghani Glass
Ferozsons Laboratories	Mari Petroleum Company
Hinopak Motors	Philip Morris Pakistan
J.D.W. Sugar Mills	Unilever Pakistan Foods
K.S.B. Pumps Co.	Adam Sugar Mills
Kohinoor Textile Mills	Dewan Salman Fibre
Din Textile Mills	Gadoon Textile Mills
Kohat Textile Mills	Crescent Jute Proudcts
Mehran Sugar Mills	Ghazi Fabrics International
Mirza Sugar Mills	Ellicot Spinning Mills
Nagina Cotton Mills	Pakistan Telecommunication Company
Sui Southern Gas Company	Pakistan Engineering Company
Clover Pakistan	Crescent Fibres
Dandot Cement Company	Dewan Cement
Siddiqsons Tin Plate	Blessed Textile Mills
General Tyre and Rubber Co. of Pakistan	Treet Corporation
Attock Cement Pakistan	Abbot Laboatories Pakistan
Rupali Polyester	Al-Noor Sugar Mills
Reliance Cotton Spinning Mills	Allawasaya Textile & Weaving Mills
Pangrio Sugar Mills	Baluchistan Glass
Pak Suzuki Motor Company	Exide Pakistan
Huffaz Seamless Pipe Industries	Engro Polymer and Chemicals
Ibrahim Fibre	Hira Textile Mills
Haseeb Waqas Sugar Mills	Ruby Textile Mills
Regent Textile Mills Ltd.	Crescent Steel & Allied

# SYNERGIZING THE INTEGRATION PRACTICES FOR ACHIEVING INTERNAL INTEGRATION

Nadeem Talib <sup>1</sup>, Muhammad Aftab Alam <sup>2</sup> and Gulfam Khan Khalid Baghoor <sup>3</sup>

## Abstract

*This study proposes a synergized model of internal integration and argues that unless integration practices are suitably aligned, they cannot fetch desired results. We examine the antecedents of internal integration in the Petroleum industry by focusing six precursors, i.e. job rotation, inter-departmental training, intra-organizational knowledge sharing, management commitment, supportive information technologies, and strategic consensus. A stratified sample comprising 234 managers from the petroleum firms operating in Pakistan participated in the study. Results indicate that, while individually these factors have significant effects on internal integration, jointly they exhibit trivial effects if not aligned. The proposed model is validated through covariance technique, and relevant methodological and theoretical extensions are discussed.*

**Keywords:** Integration, Job Rotation, Knowledge Sharing, Strategic Consensus

**JEL Classification:** Z 000

## Introduction

With the discerning nature of customers and changing market environment, organizations are faced with new challenges that entail a great deal of integrated relationships. Firms largely draw on their core competencies and outsource the non-core activities to other members in the chain who possess superior capabilities in those areas. The success depends on how well an organization integrate its practices, procedures, and behaviors into a collaborative, synchronized and manageable

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process to meet customers' requirements (Ataseven & Nair, 2017; Kim, 2017; Chen & Paulraj, 2004; Kahn & Mentzer, 1996). According to Kahn and Mentzer (1998), the term 'Integration' is defined as, "the process of inter-departmental interaction and collaboration, which brings departments together into a cohesive organization" (p.9). Prior literature has confirmed the importance of integration not only because the whole philosophy of supply chain management (SCM) is founded on it, but also because it is a source of value creation (Yoo, 2017; Pagell, 2004). Predominantly, it comprises inner cross-functional integration, i.e. internal integration, and backward/forward integration among suppliers and customers, i.e. external integration (Ataseven & Nair, 2017; Kim, 2017; Fawcett & Magnan, 2002). Internal Integration (II) implies cross-functional/departmental integration within organization (Fawcett & Magnan, 2002). It stresses harmony among functional units aimed at providing superior customer service and refers to coordinated and collaborated activities within a particular firm (Ataseven & Nair, 2017; Chen et al., 2009; Chen & Paulraj, 2004).

While prior literature extensively proclaims the strategic value of II, limited research has been conducted so far (e.g., Basnet & Wisner, 2012; Pagell, 2004). Notwithstanding its importance for thriving organizational performance, II still lacks clear operational definition (Frohlich & Westbrook, 2001; Rosenzweig et al., 2003) and there is a dearth of research in how it can be methodically achieved (Basnet & Wisner, 2012; Pagell, 2004). This study explores the antecedents of II and links six integration practices to II in the energy sector: i) Job rotation-JR; ii) Inter-departmental training-IDT; iii) Management commitment-MC; iv) Intra-organizational knowledge sharing-IoKS; v) Supportive information technology-SIT; and vi) Strategic consensus-SC. It proposes a synergized model of integration practices, validates it through covariance technique in structural equation modeling, and discourses its relevant theoretical extensions and practical implications. The study argues that while each of these integration practices alone significantly relates to II, their collective influence cannot be realized unless they are sufficiently aligned with each other.

## Literature Review

### *Internal Integration*

The concept of integration can be linked back to 'Esprit de Corps,' a classical management perspective of Fayol (1949). Prior literature is replete with different definitions of integration but indicates a lack of consensus about the construct (Pagell, 2004). One stream of research approaches integration through the 'interaction' philosophy, emphasizing explicit and verbal activities such as exchange of information through documentation, telephone conversations, teleconferencing, regular meetings, etc. (Kim, 2017). The second stream labels integration as 'collaboration' (Kahn, 1996; Tjosvold, 1989) and emphasized intangible activities that are based on trust and willingly working together such as, mutual understanding, teamwork and an establishment of goal congruence among functional units thereby creating strategic alignment. The third stream advocates a 'composite' view, blending both interaction and collaboration (Gupta, Raj & Wilemon, 1985). Another stream (e.g.,-

Johnson & Filippini, 2009; Koufteros et al., 2005), describes internal integration as ‘concurrent engineering’. It predominantly draws on the involvement of cross-functional teams in product development process, which is helpful in reducing conflicts among functional units and improves performance (Maltz & Kohli, 2000). This study measures II through three dimensions, i.e. interaction, collaboration, and cross-functional teams.

### *Factors Affecting Internal Integration*

Previous studies (e.g., Ataseven & Nair, 2017; Basnet Wisner, 2012; Bautista et al., 2017; Dougherty, 1992; Kahn & Mentzer, 1996; Kahn, 1996; Kim, 2017; Pagell, 2004; Santos, 2017) uncovered salient factors that can help achieve II, such as job rotation, co-location, strategic consensus, open culture, communication through cross-functional teams, rotation of employees, IT, management support, goal congruence, and reward systems. Review of the literature uncovered six salient factors (discussed below) that can help achieve II.

**Job Rotation.** Job rotation (JR) is referred to as lateral transfer or movement of an employee from one position to another in the same organization (Campion, Cheraskin & Stevens, 1994; Malinski, 2002; Santos, 2017). JR is a career development tool and a strategy of making employees ‘journal-ists’ by training them for different jobs or functional units (Campion et al., 1994). It enhances employee motivation (i.e., decrease boredom), increases employers' familiarity with staff (which helps in allocating an appropriate job, etc.), employee knowledge (human capital) and interdepartmental cooperation (Bautista et al., 2017; Campion et al., 1994; Wagner et al., 2017). JR is also a useful method for achieving cross-functional harmony, employee orientation, socialization, succession planning and eliminating myopic functional behavior (Bautista et al., 2017; Dougherty, 1992; Santos, 2017).

**Inter-Departmental Training.** Interdepartmental training (IDT) refers to the formally designed training of employees about working of other functional units within organization. The purpose is to create awareness and knowledge of other functional units. The communication gap and lack of awareness of other functional units in an organization, e.g., lack of marketing people knowledge of engineering and vice versa is found to be a barrier to integration. It can be reduced by educating employees about other functional units (Gupta et al., 1986; Mollenkopf et al., 2000). Prior research has confirmed that IDT has been helpful in ensuring positive interaction, and reducing potential conflicts of interests (Daugherty et al., 1996; Basnet & Wisner, 2012).

**Management Commitment.** Management commitment (MC) is the degree to which the management is committed to providing the environment and resources that are essential for integration (Song, Xie & Dyer, 2000; Van de Ven & Ferry, 1980). Pagell (2004) argued that without this factor, integration is difficult. Similarly, Basnet and Wisner (2012) allege that management attitude towards II is vital because it diminishes the myopic mindset. Owing to an overarching influence in



functional units, top management plays a major role in achieving integration (Masood & Daugherty et al., 1996).

**Intra-organizational Knowledge Sharing.** Intra-organizational Knowledge Sharing (IoKS) is aimed at sharing beliefs embedded within organizational units through knowledge sharing among them (Zaltman, Duncan & Holbek, 1973). It includes reviewing the accumulated information, sharing experience, lessons learned from mistakes, and communicating them across different functional units in the organization (Gu, Jitpaipoon & Yang, 2017; Calantone et al., 2002; Hult & Ferrell, 1997; Yoo, 2017). Organizational capabilities can be augmented by coordination among various functional units for future planning and fulfilling the discerning customer needs (Kogut & Zander, 1992; Yoo, 2017).

**Strategic Consensus.** Strategic consensus (SC) refers to shared perception, mutual understanding of strategic objectives among different management levels within the firm, and their agreement towards an overall strategy (Bowman & Ambrosini, 1997). Prior literature predominantly advocates the significance of SC, its positive effects on organizational performance, and informs that its absence can impede system thinking and less integration among functional units (Ansoff, 1965). SC in goals and objectives leads to collective vision (Pagell, 2004) and helps in achieving II (Basnet & Wisner, 2012).

**Supportive Information Technology.** Supportive information technologies (SIT) refer to technologies (e.g., email, video conferences, intranet, ERP, etc.), that facilitate communication, collaboration, and make the required information available to all internal business functions (Alsene, 2007; Davenport, 1998). It acts as a coordination mechanism and an interface, which facilitates integration among different business areas (Gattiker, 2007; Vanpoucke, Vereecke & Muylle, 2017). Technologies such as the intranet, and video conferencing, etc. improve communication and facilitate teamwork and innovation within the enterprise (Andersen, 2001).

## Method

### *Sample*

A total of 234 managers from 60 companies of petroleum sector participated. Stratified random sampling was espoused (Burns & Bush, 2000). The sample adequacy (234 of 700 population frame) was determined using Yamane (1973) method, i.e.  $n = N / (1 + Ne^2)$  with 95% confidence level. The sample size for each stratum was proportionately stratified (Hair et al., 2006).

*Measures*

Empirical instruments comprising 33 items were employed in the form of a questionnaire and all items were scored on a 5-point Likert-type scale.

**Internal Integration.** A total of ten items measured the II. The ‘interaction’ aspect (INT) was measured through two items adapted from Van de Ven and Ferry’s (1980). The ‘collaboration’ aspect (COLL) measured through six items adapted from Khan and Mentzer (1998). The use of ‘cross-functional teams’ (CFT) was measured through two items adapted from Narasimhan and Kim (2002).

**Integration Practices.** A total of 23 items were employed to measure six determinants of integration practices—Job rotation (JR) was measured through 3 items, i.e. two items were adopted from Song, Xie and Dyer (2000) and one item was newly developed. Intra-organizational Knowledge Sharing (IoKS) was measured through 4 items adopted from Calantone et al. (2002) and Hult and Ferrell (1997). Management commitment (MC) was measured through 4 items adopted from Parry and Song (1993). Inter-departmental training (IDT) was measured through 3 items, i.e. two items adapted from Basnet and Wisner (2012) and one item was newly developed. Strategic consensus (SC) was measured through 4 items, i.e. two items adapted from Basnet and Wisner (2012), and two items adopted from Sinkula et al. (1997) and Akhtar (2009) respectively. Supportive information technology (SIT) was measured through 5 items, i.e. three items adapted from Andersen (2001), and two items adopted from the Chen and Paulraj (2004).

*Construct Validity*

For content validity, instruments were discussed with three academic professors, and three professionals from petroleum refineries and marketing companies. Accordingly, the necessary changes were made. Confirmatory factor analysis revealed significant factor loadings above 0.50, construct reliability (CR) values above 0.50, and the average variance extracted (AVE) above 0.50, thus confirmed the convergent validity (Hair et al., 2006). Moreover, all correlations among constructs were lower than 0.85, which confirmed discriminant validity of the construct (Harrington, 2009).

## Results

Descriptive statistics of all variables are provided in Table 1.

Table 1

*Descriptive Statistics, Reliability and Extracted Variance of Study Variables*

Variables	Mean	SD	Alpha	Items	1	2	3	4	5	6	7
1.JR	3.549	0.85	0.85	3	(0.18)						
2.IDT	3.66	0.72	0.78	3	0.42**	(0.76)					
3.MC	3.83	0.59	0.81	4	0.59**	0.51**	(0.76)				
4.IoKS	3.66	0.61	0.84	5	0.51**	0.60**	0.592**	(0.76)			
5.SIT	4.16	0.48	0.82	5	0.34**	0.26**	0.49**	0.27**	(0.70)		
6.SC	3.93	0.69	0.89	4	0.47**	0.514**	0.51**	0.54**	0.47**	(0.81)	
7.II	4.05	0.51	0.79	10	0.40**	0.38**	0.54**	0.44**	0.37**	0.59**	(0.81)

Note: \* $p < .05$ ; \*\* $p < .01$ , Job rotation (JR) Interdepartmental trainings (IDT), Management Commitment (MC), Intraorganizational Knowledge Sharing (IoKS), Supporting information technologies (SIT), Strategic Consensus (SC), Internal Integration (II), Bold values in parenthesis are the square roots of average variance extracted.

First, the individual effects of all exogenous constructs on II were examined. Significant results were obtained as provided in Table 2, indicating that all six antecedents were positively and significantly related to II. Significant path coefficients with  $p < 0.05$  indicated that all the factors have significant effects on II. Furthermore, the Chi-square statistics and fit indices for all constructs were found well within the range (Hair et al., 2006).

Table 2

*Independent contribution of Integration practices for Internal Integration*

Integration Practices	Beta Value	Critical Value	P value
$\beta_1$ (II $\leftarrow$ JR)	0.44	6.35	0.00
$\beta_2$ (II $\leftarrow$ IDT)	0.43	6.32	0.00
$\beta_3$ (II $\leftarrow$ MC)	0.58	8.86	0.00
$\beta_4$ (II $\leftarrow$ IoKS)	0.50	7.29	0.00
$\beta_5$ (II $\leftarrow$ SIT)	0.39	5.51	0.00
$\beta_6$ (II $\leftarrow$ SC)	0.64	9.95	0.00

Note: JR=Job rotation IDT=Interdepartmental Trainings, MC=Management Commitment, IoKS=Intraorganizational Knowledge Sharing, SIT=Supporting information technologies, SC=Strategic Consensus, II=Internal Integration.

Second, the combined effects of exogenous constructs on II are presented in Figure 1. The analysis of results indicated that only two factors, i.e. SC with path coefficient 0.51,  $p < 0.05$ , and MC with path coefficient 0.34,  $p < 0.05$  were significant. All other factors were insignificantly related to II. Moreover, the results of model fit indices and the Chi-square statistics (Figure 1) exhibits a poor fit with the data, and none of the values attained the standards.

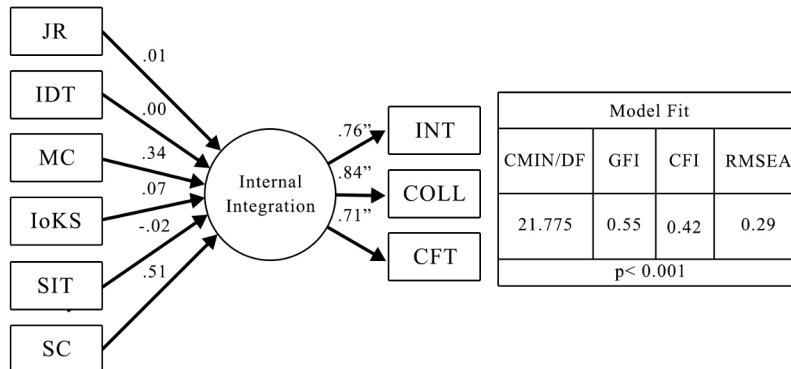


Figure 1: Path Model showing the Combined Effect

#### *Synergized Model*

Given the insignificant results of our combined model, we proposed a synergized model by aligning the exogenous factors (Chatzoglou et al., 2011). Prior researchers increasingly embrace synergy among business practices (e.g., Nielsen, 2005; Urde et al., 2013). It articulates the relationship among different paradigms into a cohesive and dynamic view, and paves the way for aligning the strategies that complement each other (Urde et al., 2013). In the secondorder model (Figure 2), all the six exogenous constructs (antecedents of II) were allowed to covary, that help identify the underlying relationships among these practices and achieving a synergy. All the factors load significantly on the synergized construct. Path coefficient between the synergized practices and II is 0.72 ( $R^2 = 0.56$ ), which significantly explain 56% variance in II, and all the model fit indices are in the accepted range (Figure 2). These results indicate that integration practices need to be sufficiently aligned if they are to achieve II.

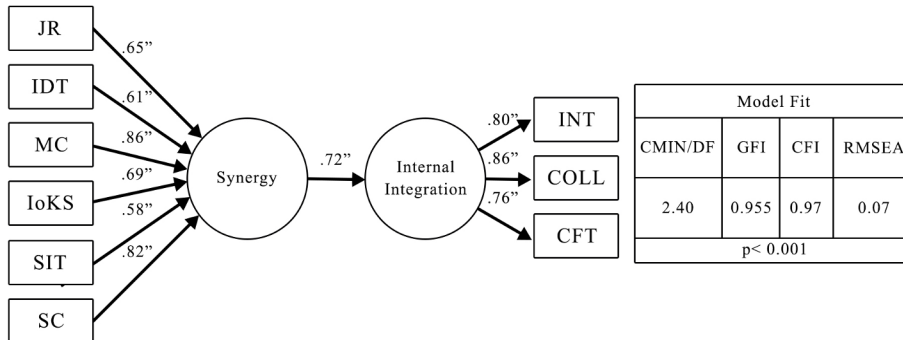


Figure 2: Path Model Showing the Integrated Effect

### Validating the Synergized Model

According to Rigdon (1999), contribution to the theory development can be optimized through comparisons with alternate models that can be theoretically validated under similar circumstances. Prior literature provides several ways for model comparison to best represent the data with improved fit indices. These methods include Chi-square ( $\chi^2$ ) difference test (CDT), Information criteria methodology/indices and significance of the parameters, i.e. original and new (Steiger et al., 1985). First, the fit indices of synergized model (Table 3) are better than the combined model. Second, the  $\chi^2$  difference test indicates that with the alignment of integration practices, the synergized model assumes a better fit. Last, the AIC (Akaike Information Criterion), supports the synergized model.

Table 3  
Model Comparison Statistics

Model Fit	Criteria	Collective Model	Synergized Model
Chi-Square ( $\chi^2$ )	-	587.93	50.41
$\Delta\chi^2$	-	-	537.52
Df	-	27	21
$\chi^2/Df$	$\leq 3$	21.78	2.4
Sig.	<.05	0.00	0.00
CFI	>0.90	0.43	0.97
GFI	$\geq 0.90$	0.55	0.955
RMSEA	$\leq 0.10$	0.29	0.07
CAIC	Minimal	701.13	205.337
AIC		623.93	98.40

## Discussion

First, the positive and significant relationship of JR practices with internal integration is consistent with previous findings (Basnet & Wisner, 2012; Pagell, 2004; Parry & Song, 1993; Santos, 2017; Song, Xie & Dyer, 2000; Wagner et al., 2017). The significant path ( $\beta=0.44$ ,  $p<0.05$ ) between the two constructs signifies that the more job rotation practices, the higher will be the integration within a company. Employee rotation among different functional areas enhances employee motivation, goal congruency, interdepartmental cooperation, and creates socialization which is useful in breaking the silos and enhancing cross-functional harmony (Kusunoki & Numagami, 1998).

Second, the positive and significant relationship between IDT and II support the assertion of Mollenkopf et al. (2000) that to foster connectivity among employees of marketing and logistics units, management should emphasize on cross-functional education and training. These results also corroborate with the previous studies (Basnet & Wisner, 2012; Bautista et al., 2017; Daugherty et al., 1996; Gupta et al., 1986; Mollenkopf et al., 2000). It indicates that employee training of other functional areas enhances harmony among functional areas and helps understand the problems, limitations, and requirements of other departments.

Third, the positive and significant relationship between MC and II strongly supports the assertion of previous researchers (Basnet & Wisner, 2012; Dougherty et al., 1996; Mollenkopf et al., 2000; Song, Xie & Dyer, 2000) that commitment and support of top management enhance integration among functional areas. These results also maintain the notion that management support, positive attitude, and integration help improve communication, collaboration among functional areas, and reduce combative interactions among departments (Pagell, 2004; Masood & Javed, 2016). The leadership role is vital for fostering integration for bringing together people, and curtailing the silos.

Fourth, the positive and significant relation between IoKS and II highlights the need for sharing experiences, and lessons learned from mistakes across different functional units in an organization (Calantone, Cavusgil & Zhao, 2002; Hult & Ferrell, 1997). Organizational capabilities can be amplified by coordination among functional units by sharing experiences and information gathered from the diverse sources that are useful for future planning and fulfilling the discerning customer's needs (Kogut & Zander, 1992; Lukas, Hult & Ferrell, 1996). It not only enhances coordination and collaboration within the functional areas, but also makes use of the experiences, views, and lessons learned in a system thinking approach (Eng, 2006).

Fifth, the positive and significant relation between SIT and II imply the need for information technologies (e.g., ERP, Intranet video conferencing, e-mail, etc.), visibility of information and communicating information within and outside the organization. It supports the notion that information technology leads to better knowledge management, decision-making, and provides information integration and makes information accessible to all functional units of the organizations (inventory,

manufacturing, marketing, etc.) and is a source of firm's integration (Alsene, 2007; Davenport, 1998; Daugherty et al., 1996; Gupta, 2000). Similarly, the use of other technologies e.g. intranet, video conferencing, etc. facilitate information consistency, internal communication, teamwork, and innovation within the enterprise (Andersen, 2001; Teece et al., 1997).

Last, the positive and significant relation between SC and II elucidates that employees working closely with each other on similar goals and objectives will lead to a collective vision, unity of effort, and integration among all organizational functions. Supporting prior researchers (e.g., Basnet & Wisner, 2012; Pagell, 2004), results indicate a better strategic consensus, i.e. consensus among the employees of the organization, will lead to more effective internal integration.

### **Conclusions**

With these results in hand, several theories seem to complement the strategic, economic, and sociological outlook of adopting integrated relationships in the organization. For example, the resource-based view (RBV) of competitive advantage implies the importance of exploiting all resources (inside or outside the organization) through establishing integration or collaborative relationships among all the stakeholders. Given the fast-paced technological advancement, knowledge-based view (an offspring of RBV), has emerged as the only enduring resource for staying competitive in the market (Acedo et al., 2006). It advocates organizational learning through coordination and knowledge sharing among internal functional units that enhance integration (Lane & Lubatkin, 19986). It would entail cohesiveness or integration among all functional units inside the organization. According to the system theory perspective, organizations are 'open' systems and are influenced by the internal and external environment (Bertalanffy, 1968; Miller, 1978). Mentzer et al. (2001) advocated the system approach, i.e. holistic view contrast to the 'reductionism' view for long-term performance and competitive edge. Our theoretical perspective elucidates the importance of integrated and collaborative relationships for acquisition and utilization of resources (RBV), organizational learning (Knowledge-based view) and specify the significance of these relationships based on trust, goal congruency, and alignment.

This study explains how each of these six elements is important in itself for II and how such collective interventions for II can be thwarted if they are not suitably aligned with each other. The findings of the current study suggest ways to develop better internal integration. Firstly, the management should give due importance to integration practices (discussed in this study) that enhance internal integration. Secondly, again from the management's point of view, the practices as mentioned above independently contribute to internal integration, however, the contribution of these practices is multiplied when they are aligned. The findings also suggest that managers should emphasize on the company's strategy along with supportive management commitment for integration and harmony within an organization. Thirdly, the II is a precondition for establishing integration with external partners. Therefore, before going for external integration, an organization should first achieve integra-

tion within internal functions.

This study has certain limitations, which open new avenues for future studies. First, the data were collected from a single industry (petroleum companies), that limits the generalizability of our study results. Future studies may be extended in other sectors to substantiate the findings further. Second, the empirical analyses in this study are founded on the cross-sectional data, which limits this study to infer causal relationships. For instance, social desirability is open to inverse causality with alternate explanations. Hence, unequivocal elucidation of these results must be treated carefully. Further studies may employ longitudinal design to validate the results. Last, though the proposed synergized model seems to apply across all organizational settings, the robustness and external validity of this technique may be established in future studies.

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# HUMAN RESOURCE MANAGEMENT PRACTICES AND THEIR IMPACTS ON THE PERCEIVED PERFORMANCE OF SME'S OPERATING IN KARACHI

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## Abstract

*SMEs provide a base to Pakistan's economy. Besides, they are the largest job creator in the country. However, SMEs are facing challenges in its operations and development with reference to human resource effectiveness. Therefore, the present research explores the HR practices impact on SMEs Perceived Performance in Karachi, as SMEs too require HR practices to stay alive and uphold a competitive edge in order to get better firm performance. The sample size of this quantitative study is 443 SMEs' owners and senior managers from manufacturing and service registered firms at four industrial associations. The data analysis was done by using SPSS for Multiple Linear Regression analysis. The findings of this study show the HR practices impact over SMEs perceived performance. This research work identifies key implications for owners or managers of SME's, in the enhancement of their firms' performance.*

**Keywords:** Perceived Performance, Challenges, HR Practices, Human Resource Management

**JEL Classification:** M 590

## Introduction

In last few years, SMEs (Small and Medium enterprises) have been accepted by the policy makers as well as researchers and recognized as single growth engine for accomplishing economic development by creating jobs as well as speeding up the economic activity in numerous countries by providing 90% employment on average. Some of the countries, for example, 99% in Europe, (Rauch, Frese, & Sonnentag, 2000), 99% in China, (Cunningham & Rowley, 2008), 99.7 % in America, (Henneman, Tansky, & Camp, 2000) and 99% in Pakistan (Bhatti, Syed, Shah & Shaikh, 2012) of all business are SMEs.

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Even in developed countries, SMEs are considered as the largest firms giving employment to workforce (Lai, Saridkis & Johnstone, 2016).

The global setting of industry is diverging with the demands of liberalization from financial catastrophes. On the bright side, these catastrophes straighten out new prospects and opportunities for Pakistani SMEs. 90% workforce is working in SMEs in Pakistan which provide them with authority to act upon a significant responsibility in developing economy of Pakistan, under the flag of NEM (new economic model). In this regard, the government initiatives through SMEDA help innovation and development in varied areas of production and services by the SMEs. SMEs are considered as well proficient, organized as well as productive originators of employment (Rahman, 2010; Lai, Saridkis & Johnstone, 2016). HRM practices play an important role that impacts enterprise performance (Pfeffer, 2005). The theory of RBV (resource based view) which carries thought to facilitate resources that cannot be easily imitable (Liu, 2016).

Discussed in the above backdrop, the research explores the HR practices and its impact on perceived performance of SMEs operating in Karachi, in order to support and assist systems that are present for formally running the existing and establishing new SMEs in Karachi, Pakistan.

The article consists of six parts. Part one begins with the introduction to study whereas part two describes the problem statement, research questions and study objectives. The third part explains literature review on the subject followed by the fourth section which explains the methodology of the research applied. The fifth section explains the analysis of data with outcome as results and findings and lastly the sixth section encompasses critical discussion and conclusion.

#### *Problem Statement, Research Question and Objectives*

The economic unsteadiness of recent decades among nearly all areas compel the enterprises to move around reformation of human resource in the enterprise. It's a general faith together in industry and in academic circles, that human resource in an enterprise is the basis for competitive edge and given that HR practices are guidance incorporated with strategic plan and enterprise culture and customs (Drost, Frayne, Lowe & Geringer, 2002). Apart from proving itself as an advantage for small and medium sized organizations, the HRM role currently is to distinguish an enterprise from its opponents (Zakaria, Zainal & Nasuridin, 2011). Moncarz, Zhao and Kay (2009) found that practices of HRM were not found in small sized enterprises while investigation delves into large SMEs.

If researched knowledge is not generated on the issues related to the HR applicable to SMEs, there is a possibility that SME's management would not be informed of the affects of the knowledge gaps in the field. Consequently, small and medium sized organizations would not be practicing relevant HR policies and systems which will have insignificant impact on employees' performance leading to organizational performances. This state of affairs will ultimately affect not only the SMEs'

performance but will also have detrimental reflection on Pakistan's economy. Therefore, in order to fill up the gap in existing area of HR practices in SMEs. Though SMEs are important to Pakistan economy, it is vital to find the answers to the question: What is the impact of HR practices on SMEs perceived performance operating in Karachi? The answer to this question sought with an objective to find impacts of HR practices on SMEs perceived performance and at the same time learn and understand the relationship between HRM practices (hiring, training, performance appraisal and compensation) and the perceived SMEs performance.

### **Literature Review**

The accomplishment of SMEs' purpose depends upon the organizational performance (Katou, 2012). The firm performance can be evaluated in different ways. For example, the firm performance can be evaluated by the satisfaction of workers as well as by firm's productivity. It can also be evaluated through non-financial variables like share of market, image of the firm and the products quality (Revenio, 2016).

The HRM is crucial for the success of a firm as the workers have some definite qualities which make them valuable. When we talk in terms of company strategy, a firm is able to succeed only if it is able to maintain and uphold the competition through competitive edge. Therefore, it can be said that firms need not just some kind of workforce, rather the type of force which can provide competitive edge and business advantage. The workforce or employees are, therefore, considered important for organization's success and growth (Nongmaithem & Kassa, 2016). According to Boselie, Paauwe and Jansen (2001), firms with good and superior human resource management practices are likely to have dedicated, committed and loyal staffs or human resources. They further added that these people are motivated and are willing to provide extra time and effort in order to attain and achieve the firm's goals.

Khan and Khan (2012) study revealed that an enterprises environment is dynamic, however attaining superior as well as better performance can only be done through applying effective HR practices. Whereas, human resource are considered as the source that provides competitive edge (Ibrahim & Zulkafli, 2016). This means for organization to stay alive in today's global environment, one should manage HR properly.

However, the accomplishment of SME's purposes depend upon the degree of the enterprise performance. (Katou 2012). Pfeffer (1994) is of the opinion that an enterprise with good quality as well as effective HRM develops faithful, dedicated employees, for attaining enterprise aims. According to Zakaria et al. (2011), HR practices; training and compensation, particularly, affect SME's performance considerably. Under this study resource based theory is discussed to see the association of HRM with organization's performance. According to resource-base-theory, workforce also known as human resource is spotted as strategic firms' resource due to which they result in far above the

ground performance of the firm. Human resource is strategic asset which is difficult to imitate and it is a one of its kind among the factors of production. This provides a firm with competitive edge (Pingping, 2016).

The model was adapted from Paul and Anantharaman (2003) study conducted on Indian software companies. The authors found association of operationas with non-monetary and monetary performance of the organization. The undertaken study modified the mentioned conceptual model (mention which model give citation and references) as per the research objectives and has taken hiring, training, performance appraisal and compensation as HR practices. Further the model was modified as per the need of the SMEs' performance.

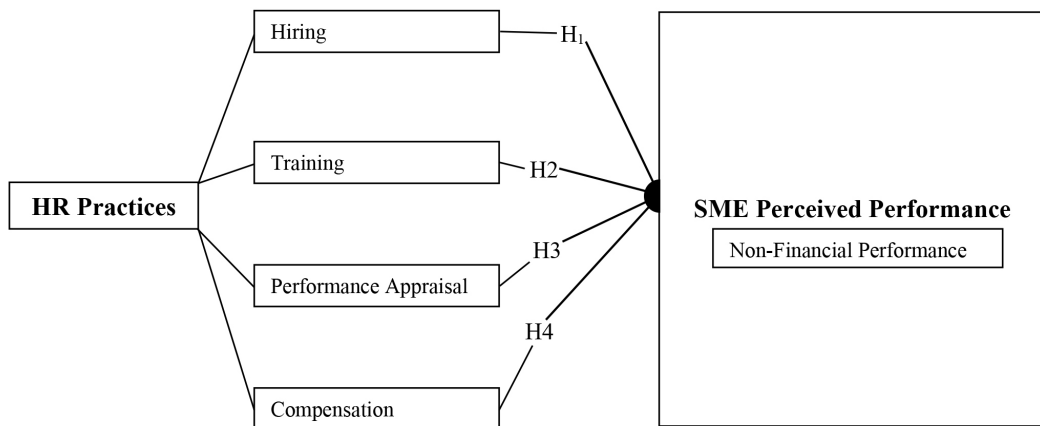


Figure 1: Conceptual Framework

### Hypotheses

In the given background, four hypotheses were formulated using four variables to find the responses and answers of the research questions.

Now a days the competition in modern era is at its peak, as a good number of SMEs develop their practices of HRM in a way that their employees productivity and organizational performance enhances. As effective hiring leads to job satisfaction (Jamsari, Nik, & Santhi, 2017). Gamage (2014) and Caliskan (2010) were of the opinion that those organizations which are involved in HR practices, are having a competitive advantage and edge over their competitors. With regards to the above discussion, the first hypothesis was formulated as:

*H1: Hiring impacts SMEs nonfinancial performance significantly and positively.*



Learning or training and development is a very important and vital element for developing workers knowledge or skills and intellectual capabilities for improving the performance of the firm (Jauhar, Abdul Ghani, Joarder, Subhan, & Islam, 2015). A research on satisfaction was carried out by Saks (1995). The study result revealed that employees who were involved in this program have increased level of satisfaction, which had a positive effect on organizational performance. Employees' training is another very important requirement for the performance of the organizations to have a competitive edge (Sajjad, 2016). With regards to the above discussion, the second hypothesis was formulated as:

*H2: Training impacts SMEs nonfinancial performance significantly and positively.*

Therefore, a fair appraisal helps in extracting the best from the workers. An unfair appraisal system can result in unrest and dissatisfaction amongst employees (Sajjad, 2016). In a study conducted by Halachmi (2005), revealed that performance evaluation is essential practice for evaluating from appraiser's or appraises point of view. It is given in a specified time slot and results are with the organization, which in turn satisfy the employees. Another research work carried out by Teclemichael and Soeter (2006), revealed that performance evaluation has a positive and significant relationship with perceived employee performance. With regards to the above literature discussed, the third hypothesis was formulated as:

*H3: Performance appraisal impacts SMEs nonfinancial performance significantly and positively.*

The compensation is a kind of a method for providing financial benefits to workers in return of their job or work which they had performed. It can also be used for hiring skilled workers or employees, for giving them rewards for their performance, as well as support and push the firm's loyalty through reduction in turnover (Hassan, 2016). A study was conducted by Singh (2004) on Indian firms performance with respect to compensation and its processes and how they are influencing. He found that the performance of organizations got improved. While in another study conducted by Teclemichael and Soeters (2006), it was found that firms got profitable when they paid attention to pay, than those which didn't pay attention to pay. They found a positive relationship. With regards to the above discussion, the fourth hypothesis was formulated as:

*H4: Compensation impacts SMEs nonfinancial performance significantly and positively.*

### **Methodology**

This is an empirical research which is deductive in nature and the data and information has been gathered by applying survey method via five point Likert scale. The targeted population of SME's was 1328 that have been known from the total population of 2016 registered firms from the four associations from Karachi's five industrial zones. "The study sample size was 443 and was considered appropriate as per 20:1 subjects-to-variable (STV) ratio (Anderson, Tatham and Black (1995) in Hogarty, Hines, Kromrey, Ferron & Mumford, 2005)".



The sampling type is random as the sampling frame was provided by the four industrial associations. The data gathered via a questionnaire was done and it was derived from studying the literature. The Questionnaire has been adapted from the earlier studies and researches. The questionnaire contains three parts: demographics, HRM practices and SME's performance. It consists of four independent variables, hiring having 6 constructs, while training having 4 constructs, performance evaluation having 5 constructs and compensation having 4 constructs, where as dependent variable SME's perceived performance have 5 constructs.

### *Results and Findings*

Preceding towards testing of four formulated hypotheses, the reliability of the variables were determined and the derived hypotheses were tested through multiple linear regression.

#### *The Constructs Reliability*

For this study, the reliability was measured for overall constructs and for each construct as well. According to Nunnally (1978) and Nunnally and Bernstein (1994), they advise reliabilities of 0.70. The reliability measured in this study was 0.768 as shown in Table 1, for all constructs and for each construct i.e. for hiring its 0.762, for training its 0.744, for performance appraisal its 0.811, for compensation its 0.721 and for non-financial performance its 0.799, as shown in Table 2, which was an excellent confirmation of dependable tool.

Table 1  
*Individual Variables Reliability Statistics*

<b>Variables Reliability Statistics</b>	<b>No. of Items</b>	<b>Cronbach's Alpha</b>
Hiring	6	0.762
Training	4	0.744
Performance	5	0.811
Compensation	4	0.721
Non Financial Performance	5	0.799

#### *Confirmatory Factor Analysis (CFA) Results*

Confirmatory factor analysis (CFA) is used for the purposes of measuring items and constructs. CFA is considered to be a legitimate schema associated with hypothesis testing approach to the conceptual validation of data (Brown, 2014). To simply put it, a model is created and then tested for its validity with the help of data sample. The factorial structure validity testing entails analyzing validity of the extent of items designed to measure a particular variable or a latent factor. Factors are

considered and represented in terms of their subscales in a measuring instrument and all items of a subscale are loaded to factor related to them (Byrne, 2016). The measuring instrument undertaken for CFA analysis contains 19 items in total. The subscale of hiring has 6 items, subscale training contains 4 items, subscale performance appraisal has 5 items and compensation subscale is composed of 4 items.

The hypothesized model is depicted in Figure 1. The model is hypothesized a priori that Best HR Practices contain four factor factors viz. Hiring, Training, Performance Appraisal and Compensation and each of their respective items has a non-zero loading on the factor and simultaneously these items have zero loadings on other factors of the construct under discussion. Moreover, the four factors are correlated and the error terms associated with these 19 items are uncorrelated.

BEST HR PRACTICES Measurement Model for Factorial Validity

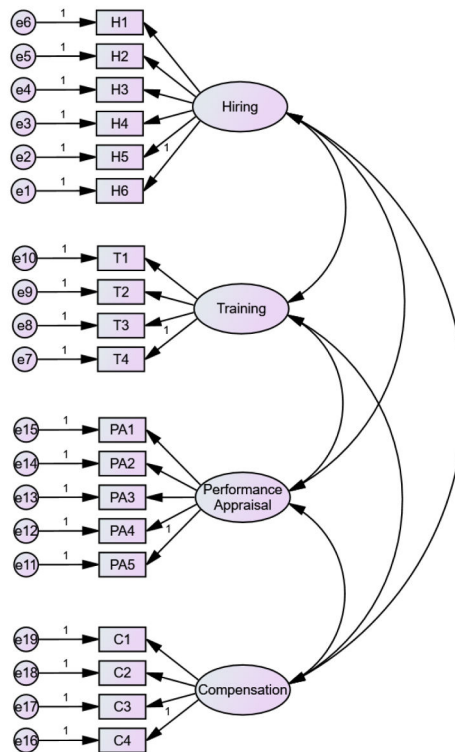


Figure 1: Hypothesized model for CFA factorial validity analysis

With the above a priori hypothesized model CFA analysis was run in AMOS version 23 with a plugin “Master Validity Tool” developed for construct validity testing by Gaskin and Lim (2016).

The plugin adopted the seminal study's threshold values (Hu & Bentler, 1999) for testing the construct validity, viz. convergent validity and Discriminant validity. The plugin produced the following table highlighting the result as no validity concerns were found in the model. However, the respective values for CR, AVE, MSV and MaxR(H) are presented in the table. MaxR(H) is another term for CR with inherent calculations for improved CR (McDonald, 1981). All of values CR is greater than AVE and MSV is less than AVE. The square-root of AVE is presented in the diagonal and in bold letters. The inter-construct correlation is also presented in the table below. There were no construct validity departures from the standardized threshold values were found.

Table-2  
*CFA Results*

	CR	AVE	MSV	MaxR(H)	Hiring	Training	Performance Appraisal	Compensation
Hiring	0.763	.582	0.129	0.772	<b>0.762</b>			
Training	0.749	.561	0.497	0.753	0.446	<b>.748</b>		
Performance Appraisal	0.823	.677	0.483	0.834	0.426	0.557	<b>.822</b>	
Compensation	0.761	.579	0.115	0.769	0.364	0.485	0.508	<b>0.760</b>

### *Hypothesis Testing*

According to Saunders et al. (2011) arithmetical manners take part in an essential function in data collection. Multiple Linear Regression were used for testing the four hypotheses.

### *Hypothesis Testing For SME's Non-Financial Performance*

The hypotheses one, three, five and seven were analyzed using Multiple linear regression to find the impact of hiring, training, performance appraisal and compensation with SMEs nonfinancial performance significantly and positively.

To discover the most excellent linear combination of HRM practices (i.e., hiring, training, performance appraisal and compensation) for predicting non-financial performance of SME's test scores, Multiple regression was applied. The means, standard deviations and Intercorrelations can be established in Table 1. This combination of variables broadly predicted non-financial performance of SME's,  $F(4,412) = 64.893, p < .005$ , with all four variables significantly adding to the prediction. The beta weights, presented in Table 1.1, propose that superior HRM practices provide a matchless numerical toward predicting non-financial performance of SME's. The adjusted R squared value was 0.387. This explains that 38.7% of the variation in non-financial performance of SME's was explained through the model. As stated by Cohen (1988 pp. 21-23), it is a huge effect. In other words, the

findings of regression showed positive association, moreover hiring, training, performance appraisal and compensation does impact non-financial performance of SMEs.

Table 3.0.

*Means, Standard Deviations and Intercorrelations Non-Financial Performance of SME's and Predictor Variables*

Variables	M	SD	1	2	3	4
Non-financial performance of SME	3.8412	.53370	.423**	.413**	.467**	.287**
Predictor variable						
1. Hiring	3.89	0.816	-	.446	.426	.364
2. Training	3.82	0.790	.446	-	.557	.485
3. Performance Appraisal	3.80	0.815	.426	.557	-	.508
4. Compensation	3.69	0.928	.364	.485	.508	-

\*p<.05, \*\*p<0.01

Table 3.1.

*Simultaneous Multiple Regression Analysis Summary*

Variables	B	SEB	Beta
Hiring	0.211	0.042	0.225
Training	0.178	0.043	0.207
Performance Appraisal	0.206	0.044	0.236
Compensation	0.093	0.034	0.130
Constant	1.263	0.167	

*Multiple Regression Equation for Non-Monetary/Non-Financial Performance of SME's*

$$Y = C + \beta X_1 + \beta X_2 + \beta X_3 + \dots + \beta X_n$$

Y= Dependent Variable: Non-Monetary/Non-Financial Performance.

C= Constant value.

$\beta$ = Unstandardized coefficient.

X= Measurement of predictor variable (hiring =X1, training=X2, performance assessment= X3 and recompense= X4).

The above chart/table, derived following equation:

$$Y = C + \beta X_1 + \beta X_2 + \beta X_3 + \dots + \beta X_n$$

$$Y = 1.263 + (0.211X_1) + 0.178X_2 + 0.206X_3 + 0.093X_4$$

The over equation model can be inferred as increase of single units of hiring (X1= 0.211) will add 0.211 units of non-monetary performance (Y), for training (X2 = 0.178), for performance appraisal (X3 = 0.206) and for compensation (X4 = 0.093), increase of every one unit will raise (0.211, 0.178,

0.206, 0.093) units of dependent variable i.e. non-monetary/non-financial performance.

### **Conclusion**

The study's significance is that it is the first type of research taking place on SME's with respect to size, sector and type in Karachi. The present research considerably tested the influence of HR practices on SME's perceived performance with respect to listed SME's working within Karachi. Still, the study starts on as of fundamental perceptions applicable to the research for instance kinds and importance of SME's and HRM. The present study checked the practices of HRM namely training, hiring, compensation plus performance evaluation and its influence over SME's perceived performance.

A positive and strong relationship is found among the HR practices and SME's perceived performance. The result also reveals that training and performance appraisal got positive plus most noteworthy association among performance of SMEs.

The outcomes are aligned through earlier studies findings and supports the studies conducted by many researchers like (e.g., Jamsari et al., 2017; Nongmaithé et al., 2016; Ugheoke, Isa, & Noor, 2015; Amin et al. 2014; Zhai, Liu & Fellows, 2013; Zakaria et al. 2011; Khan & Khan, 2012; Paul & Anantharam, 2003; Delaney & Huselid, 1996). They were of the opinion that when employees get a fair performance feedback and organizations invest in training, both result in better and increased organizational performance. The drawbacks ought to be kept in mind that only registered SMEs were aimed for this study.

### *Recommendations*

1. HRM in SME's should offer some incentive such as training, compensation, recognition, freedom, appreciations, promotion and job security in order to motivate and satisfy the employees for improving organizational performance.
2. The HR managers or owners should meet quarterly with each departmental heads to praise, recognize and appreciate workers for their good performance or target achievement. This will keep them motivated. While specific achievements by workers should be discussed and their names should be displayed on the departmental walls.
3. SMEDA and policy makers as well as stakeholders should ensure that SME's HR should build up a successful enterprise by regularly planning along with evaluating their recompense as well as system of assessment performance.

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# VOLATILE DISCRETIONARY PUBLIC SPENDING AND ECONOMIC GROWTH: A COMPARATIVE EVIDENCE OF DEVELOPED AND DEVELOPING COUNTRIES

Muhsin Ali <sup>1</sup>, Karim Khan <sup>2</sup> and Nasir Iqbal <sup>3</sup>

## Abstract

*Discretionary public spending has diverse implications for overall economic performance of the economies. In this study, we examine the impact of volatile discretionary public spending on economic growth for a panel of selected countries. The panel comprises 55 countries while covering a period from 1985 to 2014. By employing the Generalized Method of Moment (GMM), we find that the volatility in discretionary public spending inversely affects the economic growth in the aggregate list of our sample countries. Onwards, we decompose our sample into developing and developed countries. In case of developing countries, the results remain intact, i.e. discretionary spending volatility has severe implications for the economic growth. However, the impact appears insignificant in developed countries. This suggests that countries which are following the smooth public spending policy or operating under certain fiscal rule are immune to the adverse consequences of volatility in public spending.*

**Keywords:** Volatility, Public Spending, Economic Growth, The Generalize Method of Moment (GMM)

**JEL Classification:** H 890

## Introduction

The effectiveness of fiscal policy has been a highly debatable issue since the times of the Great Depression. So far, there is no general consensus with regard to the implications of instruments like taxes or public spending. It has been a challenge to both the theory and empirics to find the

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channels through which these instruments could possibly influence economic performance. Accordingly, numerous attempts have been made to find the links between fiscal instruments, particularly public spending and economic growth <sup>4</sup>. Most of these studies focus on the level effects of fiscal instruments on economic performance. Recently, it has been observed that the behavior of government spending is volatile in nature. For instance, this behavior has been obvious in case of discretionary public spending. Such volatility cannot be ignored due to its wide macroeconomic implications. The volatile behavior of public spending could adversely affect the decisions of economic agents, which could have ultimate negative effects on economic growth. Especially, economic agents and investors react inversely to the uncertainties with respect to the future behavior of fiscal instruments (Ali, 2011). Hence, the predictability of economic policies and transparent rules of the game are of high importance (Pindyck, 1988). However, in certain situations, some discretionary spending volatility may be desirable. For instance, in order to smooth out fluctuations in business cycle, discretion might have positive effects on economic activities (De Castro, 2006).

There is a group of studies which find that the volatile nature of government spending harms economic performance (Afonso and Furceri 2010; Furceri 2007; Afonso and Jalls 2012; Eller et al. 2013; Fatas and Mihov, 2003; 2006). For instance, De Castro (2006) and Fatas and Mihov (2003) find that a rise in each percentage point of discretionary spending volatility decreases economic growth by a higher percentage point. As pioneers in this area, Fatas and Mihov (2003) explore the economic cost associated with the volatile nature of discretionary public spending in a big panel of advanced and emerging economies. While estimating their own developed fiscal rule model; they find that volatile discretionary spending induces output volatility, which, in turn, hampers economic expansion. In another study, Fatas and Mihov (2006) <sup>5</sup>, while employing a slightly different econometric technique, reached to the same conclusion. In sharp contrast, Tenhofen et al. (2010) observes that government expenditure shocks have positive effects on output and private consumption; while it has an insignificant impact on private investment <sup>6</sup>. Likewise, Edelberg et al. (1999) find that government spending shock enhances non-residential investment, employment and output while shrinks residential investment, real wage and consumption expenditure. Ismail and Husain (2012) proclaim that discretionary measures have no effects on economic outcomes.

Given these diverse opinions, in this paper, we analyze the macroeconomic consequences of volatile non-systematic discretionary public spending. We contribute on several fronts. First, we introduce the volatile behavior of those public expenditures which are not associated with business

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<sup>4</sup> See for instance Ram (1986); Dash and Sharma (2008); Woo (2011); and Tagkalakis (2014).

<sup>5</sup> These results are also supported by Ali (2011) for a larger sample. Eller et al. (2013) also confirmed these results.

<sup>6</sup> Jemec et al. (2011) also note that a government spending has a positive effect on the components of GDP (although these positive effects are in the following periods). See also Eller et al. (2013) for the negative implications of discretionary measures.

cycle fluctuations. Alternatively, we decompose the overall effect of public spending. Second, in order to extract the true non-systematic discretionary spending component, we modify the fiscal rule model of Fatas and Mihov (2003) by introducing population as an additional control variable. The sizes of population and public sector are interconnected; therefore, it is essential to control for population<sup>7</sup>. Third, we do both the aggregate analysis for a panel of countries and a disaggregate analysis for panels of developed and developing countries. In this way, we are able to control for the bias that might have caused by the diversified nature of the two types of countries. Finally, we do robustness check by employing alternative panel data models; however, we rely on the results of Generalized Method of Moment (GMM) in order to avoid the problem of endogeneity in growth regression.

Our analysis shows that economic growth is deteriorated by the volatility in discretionary public spending. In the decomposed analysis, we find that developing countries are more affected as compared to the developed economies. Alternatively, volatility in discretionary public spending is higher in developing countries as compared to the developed economies. Our findings suggest that, in order to be immune from the adverse consequences of volatility in public spending, policy makers should pursue smooth fiscal rules. The rest of the paper is organized in three sections. In section 2, we provide the methodology, the estimation procedure and the information about the data. Section 3 discusses the empirical findings of the study. Section 4 concludes the paper.

### Theoretical Framework, Methodology and Data

Here, we provide the theoretical framework of our analysis. Besides, we discuss here the estimation methodology and data.

#### *Framework of the Study*

In order to extract the discretionary part of fiscal policy, i.e. a part of government expenditures which is not associated with cyclical fluctuations of the economy, we rely on the literature of fiscal rule. We augment Fatas and Mihov (2003) proposed fiscal rule equation by including population as an additional explanatory variable<sup>8</sup>.

$$g_{it} = \beta_0 + \beta_1 g_{it-1} + \beta_2 y_{it} + \theta^* \sum w_{it} + \varepsilon_{it} \dots \dots \dots (1)$$

Equation 1 is the general government expenditure equation where ‘i’ and ‘t’ denote the indexes of country and time period, respectively.  $g_{it}$  stands for the general government expenditure of country

<sup>7</sup> Fatas and Mihov (2003), actually, neglected population. See also Zhang and Zhou (1998) for the discussion on population with regard to public spending.

<sup>8</sup> It is generally perceived that besides traditional determinants, population and area are important determinants of public spending. However, we prefer population to area as both are scale variables.

i, in period t, with  $g_{it-1}$  as its lagged value. Likewise,  $y_{it}$  denotes GDP per capita.  $w_{it}$  includes the two control variables, consumer price index ( $cpi_{it}$ ) and population ( $n_{it}$ ). The residual term,  $\varepsilon_{it}$ , of equation 1 is interpreted as discretionary changes in fiscal policy. Alternatively, discretionary changes are those changes which are not related to cyclical fluctuations of the economy. In order to calculate the volatility of the discretionary part ( $\delta_{it}$ ) of the fiscal policy, we follow the approach of moving average standard deviation<sup>9</sup>. To examine the effect of the volatile discretionary spending on growth, we incorporate the volatility component,  $\delta_{it}$  in the growth model<sup>10</sup>.

$$\tilde{y}_{it} = \gamma_1 \tilde{y}_{it-1} + \gamma_2 k_{it} + \gamma_3 h_{it} + \gamma_4 \delta_{it} + \varphi^T \sum Z_{it} + e_{it} \dots \dots \dots (2)$$

As is stated earlier,  $y_{it}$  is GDP per capita with  $y_{it-1}$  as its lagged value. In the same way,  $k_{it}$  is gross fixed capital formation;  $h_{it}$  is human capital;  $\delta_{it}$  is the aggressive discretionary component; and  $Z_{it}$  is the set of control variables, which include variables like trade openness ( $to_{it}$ ), population ( $n_{it}$ ) and government expenditure ( $g_{it}$ ).  $e_{it}$  is the corresponding error term.

### *Sample Size and Data*

We use a panel which comprise 55 countries, including both the under-developed and the developed countries of the world. Selection of the countries is simply based on accessibility of the data. The time period covered is from 1985 to 2014. Panel data has many advantages as compared to the traditional cross-section and time-series data. For instance, panel data provides a large number of data points; thereby providing adequate number of the degree of freedom; and, also, it reduces the likelihood of multicollinearity among the explanatory variables. Thereby, it enhances the efficiency of the estimates. Besides, we can control for the effect of unobservable and immeasurable factors. Alternatively, individual heterogeneity and the problem of omitted variable could be easily tackled in case of panel data. As is stated earlier, the data used in this study comprises data on government expenditure, total population, GDP per capita, trade openness, gross fixed capital formation, human capital, consumer price index and discretionary fiscal policy. The data of the gross fixed capital formation, government expenditure, consumer price index, GDP per capita, total population and trade openness are taken from the World Development Indicators (WDI) while the data of Human capital is used from the Penn World Table (PWT).

### *Estimation Methodology*

Both of our models, i.e. the fiscal rule model as well as the growth model, given in equations 1 and 2 respectively, have the problem of reverse causality which is regarded as one of the potential

<sup>9</sup> This approach is common in the literature as is employed by other studies like Fatas and Mihov (2003; 2006), Ismail and Husain (2012) and Ali (2011).

<sup>10</sup> The results of fiscal rule model is available from the authors on demand

sources of endogeneity<sup>11</sup>. In the presence of simultaneity bias, it becomes difficult to draw conclusions about the causal relationships and inferences. Consequently, the conventional econometric methods like the pooled OLS, fixed effect or random effect produces biased estimates<sup>12</sup>. Thus, we resort to the Generalized Method of Moment (GMM) which is one of the prominent econometric techniques to avoid the problems of potential endogeneity and reverse causality. In addition, GMM, which is the extension of Instrumental Variable (IV) approach is immune to the problems of heteroskedasticity and serial dependence (Arellano and Bond, 1991; Arellano and Bover, 1996; Blundell and Bond, 1999).<sup>13</sup> In particular, we employ the system GMM. The basic prerequisite for using the system GMM is that the number of time series (T) points should be smaller than the number of cross section (N) units. In our case, the number of cross section units is 55 while the number of time series points is 28; so, this condition is satisfied<sup>14</sup>.

### **Empirical Results**

Here, we provide the empirical results of our analysis. First, we discuss the aggregate level results. Onwards, we discuss the results of the decomposed sample.

#### *Aggregated Analysis*

In order to examine the effect of volatile discretionary spending on growth, firstly, we check the adequacy of the model. In this regard, we employ Arellano-Bond AR test and Hansen test in order to check for over-identifying restrictions. The null hypothesis of both tests are accepted which implies that instruments employed in the growth regression are valid and exogenous. Onwards, we employ

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<sup>11</sup> As suggested by the Wagner's law, higher level of GDP leads to higher level of government spending while, in reverse, higher level of government spending leads to higher GDP as predicted by the Keynesian approach. So in fiscal rule regression government expenditure is caused by GDP per capita while at the same time government expenditure causes GDP per capita. Thus the problem of simultaneity bias exists. Similar is the case with the growth regression.

<sup>12</sup> This study employ different methods like pooled OLS, random effect, fixed effect and instrumental variable fixed effect but results discussion is based on GMM approach due to the problem of reverse causality and endogeneity.

<sup>13</sup> For instance, according to Perera and Lee (2013), GMM produces efficient and consistent estimates even in the presence of heteroskedasticity.

<sup>14</sup> System GMM estimates a set of two equations, one in difference form that utilizes lagged first difference as an instrument and the other one in level form which uses suitable lag level as an instrument. System GMM combines both sets of moment conditions as a linear GMM estimator that cover both the difference and level equations.

five different methodologies in order to estimate the growth equations<sup>15</sup>. The corresponding results are shown in table 1. We can observe from the table that volatile discretionary public spending inversely affects economic growth in all of the cases. Alternatively, the negative implications of volatile discretionary public spending for economic growth are robust to alternative methodologies.

Table 1

*Influence of Volatile Discretionary Public Spending and Other Factors on Economic growth (Full Sample): Dependent Variable is GDP per Capita*

<i>VARIABLES</i>	<i>(1)</i> <i>OLS</i>	<i>(2)</i> <i>FE</i>	<i>(3)</i> <i>RE</i>	<i>(4)</i> <i>IVFE</i>	<i>(5)</i> <i>GMM</i>
$\tilde{y}_{it-1}$					0.944*** (0.0261)
$k_{it}$	0.0553*** (0.00177)	0.164*** (0.0498)	0.0694*** (0.0235)	0.197*** (0.0177)	0.0635* (0.0366)
$h_{it}$	0.183*** (0.0507)	0.869*** (0.2990)	0.739*** (0.2141)	0.845*** (0.0978)	0.0442** (0.0187)
$g_{it}$	0.832*** (0.00599)	0.600*** (0.0780)	0.664*** (0.0590)	0.617*** (0.0196)	0.0407* (0.0228)
$\delta_{it}$	-0.0983* (0.0555)	-0.0661** (0.0324)	-0.0698* (0.0405)	-0.0536* (0.0293)	-0.0627** (0.0302)
$n_{it}$	-0.825*** (0.00692)	-0.645*** (0.188)	-0.666*** (0.0677)	-0.613*** (0.0912)	-0.0435* (0.0218)
$to_{it}$	0.0348* (0.0203)	0.148*** (0.0445)	0.140*** (0.0420)	0.0942*** (0.0186)	0.0421*** (0.00836)
Constant	2.587*** (0.151)	3.459 (2.662)	2.751*** (0.972)	2.603*** (0.735)	-0.0714 (0.0735)
Observations	1,539	1,539	1,539	1,063	1,016
R-squared	0.972	0.804			
Number of cross-sections	55	55	55	55	55
Arellano-Bond test for AR(2) P-Value					0.330
Hansen test of overid: restrictions					1.000

Robust standard errors in parentheses; \*\*\*, \*\* and \* represent 1%, 5% and 10% significance levels, respectively.

<sup>15</sup> For instance, we employ Pooled Ordinary Least Squares (OLS) in the first column, Fixed Effect (FE) in the second column, Random Effect (RE) in the third column, Instrumental Variable Fixed Effect (IVFE) in the fourth column and the Generalize Method of Moment (GMM) in the fifth column.

The results of columns 1-4 might be suspected due to the problems of reverse causality and endogeneity. However, controlling for these problems in column 5 through the approach of GMM, the results remain intact and significant. As we can see that one percent increase in discretionary spending's volatility decline economic growth by more than 6 percent. In other words, the countries that don't exercise the use of aggressive discretionary policy would have 6% higher growth rate. This result and the results of Fatas and Mihov (2003) are in line with each other. The justification for this negative impact is that discretionary spending volatility creates uncertainty among investors and economic agents which adversely affects their future investment decisions <sup>16</sup>. Despite this negative impact of discretionary part, the coefficient associated with overall government spending is positive and significant. It implies that the positive effect of overall government spending is offsetting the negative effect associated with the volatile discretionary spending <sup>17</sup>. This fact is further justified by the relatively smaller value of the coefficient of overall spending as one percent increase in government spending stimulate economic growth by 4 percent. So, if the public authority is not involved in politically motivated public spending, then public spending could stimulate growth by a higher magnitude.

### *Disaggregated Analysis*

It is generally believed that the diversified nature of under-developed and developed economies in a panel set may create bias in the results <sup>18</sup>. For instance, different governments face different restrictions in making decisions regarding public spending. Alternatively, fiscal rule or the level of discretion might be significantly different for different countries which, in turn, may create bias in the aggregate level results. Figure 1 displays country-wise discretionary fiscal volatility. As is evident from the figure, we have quite diversity in our data, in particular with regard to the discretion in fiscal policy. For instance, countries like Botswana, Bangladesh, China, Cameroon, Gabon, Dominican, El Salvador, Pakistan, Peru, Zambia and Panama etc., which are developing countries are using more volatile discretionary policy as compared to the advanced economies like Austria, Japan, Australia, Norway, France, Belgium, the United Kingdom and the United State etc. Alternatively, developed economies follow certain fixed fiscal rules, so they are not be able to use aggressive fiscal policy. On the other hand, governments in developing countries face minimum constraints and, thereby; they use the discretionary part of fiscal policy more aggressively <sup>19</sup>. Given this diversity, it is essential to examin

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<sup>16</sup> The coefficient of the remaining all variables are in accordance with economic theory and earlier studies.

<sup>17</sup> As the discretionary public spending is one of the components of overall government expenditure.

<sup>18</sup> The diversity may be either caused by exogenous factors like geography, culture or natural resources etc. or may be caused by different policies or policy restrictions on governments.

<sup>19</sup> For detailed discussion see Fatas and Mihov (2003, 2006).

the effects of discretionary fiscal volatility separately for the two set of countries. We conjecture that the negative implications of volatility in the discretionary spending for economic growth could be higher in developing countries as compared to developed economies.

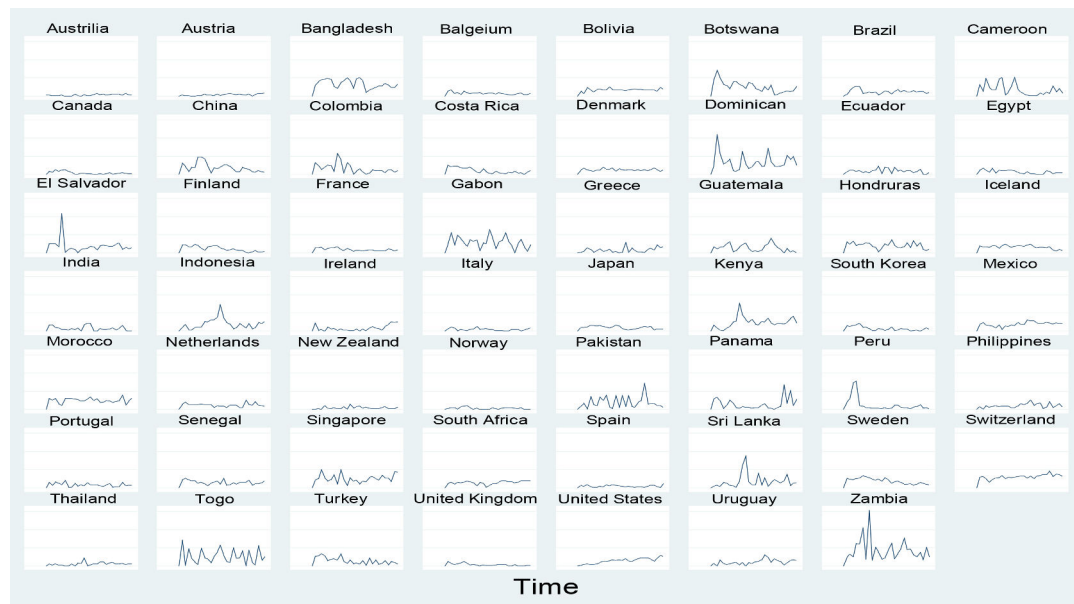


Figure 1: Country Wise Discretionary Fiscal Volatility

Note: Author's own calculation based on the standard deviation of discretionary expenditure.

### *Developing Countries*

In order to see the implications of volatility in discretionary spending in developing countries, we use the same set of control variables. Again, the validity and exogeneity of instruments have been verified by the tests of Arellano-Bond AR and Hansen for over-identifying restrictions. The corresponding results for the developing countries are shown in table 2. As can be seen, the coefficient of discretionary spending volatility is negative in case of all methodologies employed. However, from column 1 to column 4, the results are insignificant which the indication of potential endogeneity or reverse causality. In column 5, the coefficient of discretionary public spending volatility becomes significant when the problem of endogeneity is controlled for through employing GMM. Moreover, the results obtained from GMM show that the volatile nature of discretionary public spending harms economic growth by a higher magnitude in case of developing economies. For instance, one percent

<sup>20</sup> See figure 1.



increase in the discretionary public spending volatility reduces economic growth by almost 9% as compared to 6% in the overall sample. The reason for this higher impact is that, in developing countries, there have been abrupt changes in discretionary part of government spending which creates larger uncertainty among economic agents. This uncertainty reverses the investment decisions of agents and, thereby, obstructs economic growth. This finding supports the view of those which suggest numerical limits (Fiscal Rules) on public expenditure to restrain discretionary spending. Here, like the full sample, the overall government spending has positive and significant effect; yet, its coefficient is small in magnitude. As is evident, a one percent increase in government spending stimulates economic growth by three percent. Therefore, if an efficient fiscal rule could restrict the behavior of political structure from the use of aggressive discretionary spending; then, public spending could stimulate growth by a higher magnitude.

Table 2

*Influence of the Volatile Discretionary Public Spending and Other Factors on Economic growth (Developing Economies): Dependent Variable is GDP per Capita.*

VARIABLES	(1) OLS	(2) FE	(3) RE	(4) IVFE	(5) GMM
$\tilde{y}_{it-1}$					0.943*** (0.0264)
$k_{it}$	0.0730 (0.0453)	0.146*** (0.0532)	0.138*** (0.0497)	0.149*** (0.0267)	0.0252* (0.0138)
$h_{it}$	0.0518 (0.0640)	1.173*** (0.346)	0.916*** (0.189)	1.150*** (0.160)	0.0768** (0.0370)
$g_{it}$	0.843*** (0.0117)	0.576*** (0.0841)	0.605*** (0.0796)	0.660*** (0.0320)	0.0313** (0.0132)
$\delta_{it}$	-0.00672 (0.00739)	-0.00303 (0.00458)	-0.00307 (0.00466)	-0.0008** (0.00491)	-0.0948*** (0.00436)
$n_{it}$	-0.842*** (0.0124)	-0.781*** (0.224)	-0.676*** (0.0979)	-0.826*** (0.0622)	-0.0366* (0.0214)
$to_{it}$	0.0949** * (0.0266)	0.107** (0.0521)	0.0992** (0.0489)	0.0339 (0.0261)	0.0243 (0.0150)
Constant	2.313*** (0.193)	6.1991* (3.168)	3.933*** (1.069)	5.263*** (1.117)	-0.229 (0.0793)
Observations	951	951	951	655	627
R-squared	0.916	0.795			
Number of cross-sections	34	34	34	34	34
Arellano-Bond test for AR(2) P-Value					0.584
Hansen test of overid: restrictions					1.000

Robust standard errors in parentheses, \*\*\*, \*\* and \* represent 1%, 5% and 10% significance level respectively.

*Developed Countries*

Likewise, we separately examine the effect of discretionary spending volatility on economic growth for advanced economies. Again, after checking the validity or exogeneity of instruments, we employ the same set of control variables. The corresponding results are shown in table 3. As is evident, in case of all methodologies, the impact of discretionary spending volatility appears to be negative; however, in all of the cases, it is insignificant. This means that, in advanced economies, the discretionary spending volatility has no harmful effect on growth. It is justified by the fact that advanced economies operate under certain fiscal rule, so they could not make aggressive use of discretionary spending<sup>20</sup>. Alternatively, economic agents can predict the future behavior of the fiscal instruments; hence their economic decisions are not affected.

Table 3

*Influence of the Volatile Discretionary Public Spending and Other Factors on Economic growth (Developed Economies): Dependent Variable is GDP per Capita.*

VARIABLES	(1) OLS	(2) FE	(3) RE	(4) IVFE	(5) GMM
$\tilde{y}_{it-1}$					0.993*** (0.00671)
$k_{it}$	0.00391* (0.00222)	0.00128 (0.00554)	0.00262 (0.00516)	-0.0155*** (0.00416)	0.00101** (0.000427)
$h_{it}$	0.457*** (0.0506)	0.818** (0.305)	0.689*** (0.218)	1.844*** (0.218)	0.0532*** (0.0167)
$g_{it}$	0.748*** (0.0169)	0.685*** (0.0852)	0.711*** (0.0664)	0.204** (0.0864)	0.0412** (0.0205)
$\delta_{it}$	-0.763 (0.486)	-0.137 (0.422)	-0.234 (0.460)	-0.150 (0.210)	-0.0146 (0.0264)
$to_{it}$	-0.00575 (0.0151)	0.0346 (0.0780)	0.0189*** (0.0628)	0.0209 (0.0420)	0.0199** (0.00795)
$n_{it}$	0.29169 (0.05879)	0.05541 (0.0466)	0.0869** (0.0441)	0.06128 (0.0493)	0.0111*** (0.00223)
Constant	-3.311*** (0.702)	-0.354 (1.153)	-1.261 (1.339)	5.826*** (1.245)	-0.101 (0.122)
Observations	588	588	588	505	454
R-squared	0.808	0.796			
Number of cross-sections	22	22	22	22	22
Arellano-Bond test for AR(2) P-Value					0.126
Hansen test of overid: restrictions					1.000

Robust standard errors in parentheses, \*\*\*, \*\* and \* represent 1%, 5% and 10% significance level respectively.

### Conclusion and Policy Implications

The paper is motivated by the previous literature that has emphasized the importance of volatility in fiscal policy. In this study, we examine the economic cost associated with volatility in discretionary spending. We do this analysis for the overall sample of the world as well as for the samples of developed and developing economies. Our results show that volatile discretionary public spending has a negative impact on economic growth. However, in the disaggregated sample, this negative impact is larger in developing countries as compared to advanced countries. The theoretical justification for these results is that developed countries, usually, operate under certain fiscal rules; so it is not possible for the policy makers to use aggressive discretionary policy. Second, the developed economies have efficient domestic stabilizer system, which is capable of being absorbing the volatility of discretionary public spending. In contrast, in developing economics, the governments face fewer constraints; and, thereby, they can use discretion in fiscal policy. Such discretion creates volatility and uncertainty which have severe implications for private investment and economic growth in those countries. As a policy recommendation, it is suggested that prudent policies should be devised in order to constraint the governments from the use of volatile discretionary fiscal policy. For instance, one such restriction could be the introduction of effective government spending rules as the introduction of such rules would reduce the ability of governments to use aggressive discretionary policy. Also, political constraints can bar governments from the use of aggressive discretionary policy. However, future research in this regard is certainly needed in order to provide clear guidelines with regard to the application of fiscal policy.

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### Annexure

Table A1

*List of Countries included in the Sample*

1	Australia	29	Japan
2	Austria	30	Kenya
3	Bangladesh	31	Korea
4	Belgium	32	Mexico
5	Bolivia	33	Morocco
6	Botswana	34	Netherland
7	Brazil	35	New Zealand
8	Cameroon	36	Norway
9	Canada	37	Pakistan
10	China	38	Panama
11	Colombia	39	Peru
12	Costa Rica	40	Philippines
13	Denmark	41	Portugal
14	Dominican Republic	42	Senegal
15	Ecuador	43	Singapore
16	Egypt	44	South Africa
17	El Salvador	45	Spain
18	Finland	46	Sri Lanka
19	France	47	Sweden
20	Gabon	48	Switzerland
21	Greece	49	Thailand
22	Guatemala	50	Togo
23	Honduras	51	Turkey
24	Iceland	52	United Kingdom
25	India	53	United States
26	Indonesia	54	Uruguay
27	Ireland	55	Zambia
28	Italy		

Table A2  
*Definition of Variables*

<i>Variable</i>	<i>Definition</i>
General government final consumption expenditure	General government final consumption expenditure (formerly general government consumption) includes all government current expenditures for purchases of goods and services (including compensation of employees). It also includes most expenditures on national defense and security, but excludes government military expenditures that are part of government capital formation. Data are in constant 2005 U.S. dollars.
GDP per capita	GDP per capita is gross domestic product divided by midyear population. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in constant 2005 U.S. dollars.
Consumer price index	Consumer price index reflects changes in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly.
Trade openness	Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product.
Gross fixed capital	Gross fixed capital formation (formerly gross domestic fixed investment) includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. Net acquisitions of valuables are also considered capital formation. Data are in constant 2005 U.S. dollars.
Population, total	Total population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship-except for refugees not permanently settled in the country of asylum, who are generally considered part of the population of their country of origin. The values shown are midyear estimates.
Human capital	Index of human capital per person, based on years of schooling and returns to education
Discretionary fiscal policy	Part of the fiscal policy which is not associated with the business cycle fluctuations. It is calculated through standard deviation after estimating fiscal rule equation.

# ENTREPRENEURIAL INCLINATION OF STUDENTS AT IOBM

Abdul Qadir Molvi <sup>1</sup>, Afshan Rauf <sup>2</sup> and Saba Gulzar <sup>3</sup>

## Abstract

*This research is focusing on the key areas of students intentions towards Entrepreneurship, the family influence and the role of parent's profession in influencing career choices. Elements such as family size, family income and parents acting as role model for their children are the key highlights. It also incorporates the intentions of Entrepreneurship students during their study and trying to analyze to what extent the decision is stimulated into behavior. A triangulation approach has been used for research. A survey has been conducted from 98 students on parent's occupation, family size and family income generating activities and residential area as part of survey questionnaire. Results showed highly positive relationship which had been analyzed through cross tabulation.*

**Keywords:** Entrepreneurial Intention, Career Choice, Occupation, Family Size, Family Income

**JEL Classification:** M 000

## Introduction

Education is very significant to raise and develop nations. Pakistan being a developing country is still lagging behind in this area. However with the influx of several public and private universities this area is gaining significant attention. Students are more and more becoming aware of their skills and are focusing on their career. Unlike the past where parents were the only force to decide for the living choices of their children, the norms have changed drastically. With so much awareness and widely available choices of courses, students have a diversified set of professions to explore. Consequently with the unemployment of 5.90 in 2015 as stated by PBS (Pakistan Bureau of Statistics), job markets are still not able to accommodate the current strength of prospective workforce coming out as university graduates. This has instigated the universities to encourage entrepreneurship and be a

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source of job provider rather job seeker. Universities like IBA have established entrepreneurial centers strategically focusing on such potentials. More and more students are being stimulated to gain entrepreneurial education and start up their own ventures and involve in income and employment generated activities. This not only give a very positive side to an individual being useful for the society at large but also contributing towards the overall economic development (Arokiasamy, 2010). Keeping this in mind this research is trying to explore the career choice intentions of such students who study business/entrepreneurial courses and to what extent it impacts their decision in making it a career. With parents, society and demographics being the key factors that influence such choices, this research will explore all these interlinked factors and provide its research findings.

### **Literature Review**

Literature on Entrepreneurship has taken significance over the years. Richard Cantillon in 1725 articulates that an Entrepreneur is someone willing to bear the risk to buy at a known price and sell at an unknown price and is self-employed. Drucker (1985) enriched this definition by defining entrepreneurs as people who bring change and exploit it as a prospect. Chen, Weng and Hsu (2010) broadened the scope of definition by further adding factors of production. This was supported by earlier studies of Turgot and Say (cited in (Shah, Shaikh, Bhatti &, Kazi, 2015)) confirming the arrangement and management of factors of production. It can be said that an entrepreneur starts with a new business set up and ends up in being an intrapreneur by taking initiatives within an established set up. However, Timmons (1989) articulates entrepreneurship in a different way. According to him, it is the capability to initiate something from completely nothing. It is an art of judgment to anticipate the opportunity in between the disarray and perplexity. Entrepreneurs do this by commencing, attaining and building an organization instead of simply stating or watching (Nabi, Holden, & Walmsley, 2006). Thus, scholars have taken various perspective in defining entrepreneurship and entrepreneurial behavior. Apparently such behaviors do not arise in a void. Individual's choices are certainly not made in a vacuum. Since career has been elaborated as a sequence of work related tasks performed over the span of work life, it is interesting to find out what influences such career choices.

#### *Entrepreneurial Intention and the Influencing Factors*

Initial career development focused on not just individual but also social variables. Individual has been quoted as 'moving target' that keeps revolving in a composite milieu. Krueger, Reilly and Carsrud (2000) debates that career decisions are based on the cognitive process and progress as experiences and knowledge are practiced. This acts as a guide towards entrepreneurial careers suggested through research (Nabi, Holden & Walmsley, 2006). There exists exhaustive literature on Career selection and the factors influencing it. This correlates with the entrepreneurial intentions and converse the role of parents and socio-cultural factors. Here the student's motivation is reflected through their entrepreneurial intention (Gerba, 2012). Entrepreneurial intention referred by (Peng, Lu, & Kang, 2012) is the inclination and anticipation of mind shaping the choice of career as entrepre-



neurs. The Theory of planned Behavior by Azjen (1991) supports the study of entrepreneurial intentions. Experimental studies on the Theory of Planned Behavior do confer that intentions do lead to planned behavior. Since intentions are taken to be the best analyst in judging individual behaviors, one needs to identify the nascent or the established entrepreneurs. Over the period a number of research studies (as depicted in Table 1 below) have been narrowed down and divided into influencing factors on intentional behaviors towards being entrepreneur. These categories mainly include individual, societal and family background related. A number of studies have been conducted to identify these intentions of students studying entrepreneurship in universities. The key determinants of intentions are behavior, availability of resources, individual perception and social pressures. The social development approach on entrepreneurship favors this stance and states that external influences do impact the decision of the career (Henderson & Robertson, 1999). The socio economic level of an individual may be defined by income of his family, the size of family, the occupational status of his parents and the educational background of parents (Clutter, 2010). The societal aspect of research provides the macro analysis of economy status and its link with developing opportunities within industry. Here environmental facet is also highlighted with the available political and infrastructural support.

This leads to another set of deliberation on the subject matter that is related to entrepreneurship types and its typologies. There is distinction between opportunity versus necessity entrepreneurship by (Reynold, Camp, Bygrave, Autio, & Hay, 2002). Here literature introduces push and pull factors in elaborating the above. A 'pull' instigates when an opportunity has been observed and awaited to be exploited. The 'push' on the other hand arises due to lack of alternatives available. This framework is valuable as they come up with a question about the degree to which one person can be placed in one particular category (Nabi, Holden & Walmsley, 2006). The structure opportunity model supplements here the push factor by adding employer's need and the general job climate and economic factor which does influence career choice. Career choices have shifted due environmental influences where downsizing and restructuring is becoming a norm. The psychological contract is borne with job insecurity that diverts and so make individual recognize themselves as entrepreneurs and provide different connotation to their experiences as entrepreneurs (Hytti, 2010). In addition, social learning theory has also been highlighted in research to determine situational behavior and significance of environment. Leppel, Williams and Waldauer (2001) elucidate students having low socioeconomic status are more prone to join career with better opportunity.

#### *Entrepreneurial Intention Associated with Demographics and Family Size*

Research discusses how personality traits enhance motivation and the psychological aspects enforce self-efficacy. Literature has it, the need for achievement and the drive and willingness formulates entrepreneurs. Entrepreneurs have also been attributed with self-efficacy that leads to contribution in professional growth (Bandura, Barbaranelli, Caprara, & Pastorelli, 2001). Studies also validate that family characteristics and demographics are associated with Entrepreneurial Attitude Orientation. The size of the family and income impacts the achievements in academia in developing nations. Due

to financial constraints parents need to sacrifice the education for all in a large family size. Students due to this start income generating activities during their studies to support themselves. A very limited literature is available in this context (Abosede, 2015). Entrepreneurial behavior is directed by educational effort developing enterprising skills and self-reliance. Since behavior is directly linked with attitude, former study in 1996 by Kolveried continue that demographics indirectly affect the perceived behavioral control, subjective norms and attitude whereas in 1999, the study emphasize on major influence of these factors on career choice intentions (Guerrero, Rialp, & Urbano, 2008). Research by (Liñán, 2008) corroborates similar results that Entrepreneurial skill perceptions are significant in relation to the constructs of perceived behavioral control, subjective norms and attitude. Being financially strong is also a lucrative for being an entrepreneur thus another force to make students start income generating activities during student life.

In the end, social economic status affects an individual's identity development which then, subsequently, affects his or her perception of the world (and vice versa) and the choices he or she eventually makes, regarding their career (Heppner & Scott, 2004).

Further on it becomes pertinent to examine the influence that parents can have to the extent that it even overrides the influence from a career counselor. Family systems theory holds an important area in research.

#### *Parents Influence on Career Choice/Entrepreneurial Intentions*

Empirical studies maintain that parents do play as a role model when it comes to career choice. Bandura (1986) affirms this position about parents as primary source of socialization. Jodl, Michael, Malanchuk, Eccles and Sameroff (2001) focus on the socioeconomic factors and parents profession. Financial expectations may directly or indirectly influence as well. Leppel, Williams and Waldauer (2001) are in agreement that parent's occupation affects the choices as well. With several dimensions towards the role model debate, one key dimension is where parent's values, beliefs and aspirations influence occupational choice whereas there is another sphere that discusses family business as a drive to be into entrepreneurship. The expectancy value model by (Jodl, Michael, Malanchuk, Eccles, & Sameroff, 2001) accentuates that parents being role model become the source of reinforcement. Furthermore parent's socialization, occupation and education have proven to urge children. Parent's involvement is able to translate their interests and behaviors into action leading eventually to inspire children's choices in career. Otto (2000) affirms in his study similar viewpoint that parents act as counselors in facilitation of occupational choices. Not only this but also that parents with senior positions also influence their children to be interested into certain field of occupation as a career.

### *Income Generation and Entrepreneurial Intention*

As in earlier discussion on literature, confirms us that socio economic factor persuade students to take up part time working or start small scale income generating activities to support themselves and raise their family income. As the theory of Entrepreneurial Event by Sapero's model states that the inertia that guides human behavior through which individuals continues to perform certain activity till he is disrupted by a force. According to this theory, it is not the outside forces that impact decision makers. It states that start-up inclination comes from either perceived feasibility dimension or perceived desirability intention where feasibility is the confidence to start and desire is the desire for entrepreneurship (Guerrero, Rialp & Urbano, 2008).

Somehow, students within the universities are groomed within the entrepreneurial culture that can have a positive result on the society as a whole. Below are few of the several studies focusing on similar areas reviewed in the above literature:

Table 1  
*Summary of Literature Review*

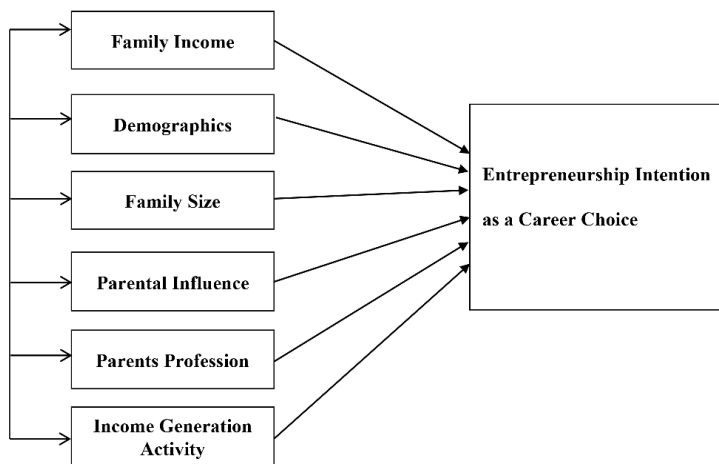
S.No	Title	Authors	Key Variables
<b>Entrepreneurial Intention</b>			
1	Influences of parental occupation on occupational choices and professional values	Pablo-Lerchundi, Morales-Alonso, González-Tirados (2015)	Role Models, Individual Perceptions, Parental Occupation
2	Self-employment as a career choice: Attitudes, Entrepreneurial intentions, and Utility Maximization	Douglas, Shepherd (2002)	Economic Model, Attitudes, Utility maximization model of career choice
3	Factors And Influences On High School Students' Career Choices	Dick And Rallis (1991)	Career Choice model, Social and Cultural Factors, Perception
<b>Entrepreneurship and Family influence</b>			
4	Parental Influence on College Students' Career Aspirations	Tillman (2015)	Motivations and Aspirations, Parents Involvement
5	The role of parental influences on young adolescent's career development	Keller and Whiston (2008)	Family systems theory
6	Prior Family business exposure as intergenerational influence and entrepreneurial intent	Carr and Sequeira (2007)	The Theory of Planned Behavior
<b>Entrepreneurship and Education</b>			
7	Investigating the Motivation for Understanding Enterprise Education:	Jones, Beynon and Packham (2009)	Entrepreneurial Education, Student Motivation, Student Employment Aspiration

Numerous researches have been conducted on entrepreneurial intentions. Most researches link it with the individual personality and desirability. Some other researches have only taken parental influence and entrepreneurial intention. This research however is trying to bring in the few other key

variables which have not been taken simultaneously such as family size, family/household income, parental influence and its correlation with career intention and income generating activities.

### *Conceptual Framework*

The conceptual framework has taken Entrepreneurial activity as a career choice being dependent factor whereas, micro factors such as residential area, monthly income, family size, parents occupation and income generating activities as independent variables. This research aims to focus what motivates students to become a business man and the factors affecting his choice during and after student life.



*Figure 1: Conceptual Framework*

*H1:* There is a significant relationship among family income and its influence on entrepreneurial intention.

*H2:* There is a significant relationship between demographics and entrepreneurial intention.

*H3:* There is a significant relationship among family size and its influence on entrepreneurial intention.

*H4a:* There is a significant relationship that working parents influence entrepreneurial intention.

*H4b:* There is a significant relationship between parent's profession and entrepreneurial intention.

*H5a:* There is a significant relationship between income generating activities (during student life) and family income.

*H5b:* There is a significant relationship between income generating activities (during student life) and demographics.

*H5c:* There is a significant relationship between income generating activities (during student life) and

family size.

*H5d:* There is a significant relationship between income generating activities (during student life) and working parents.

*H5e:* There is a significant relationship between income generating activities (during student life) and parent's profession.

## Methods

### *Sampling and design*

A survey research was conducted during the semester of fall 2015. This research utilized the convenience sampling (a non- probability technique) due to the availability of a good population size. Students of the course Entrepreneurship and Small Business had been chosen to analyze their career interests and the influencing variables. The population has been taken from three sections out of which we received 98 surveys completely filled. The questionnaire was based on different scales. The students included both male and female population.

## Results

Table 2

*Career Intention and Monthly Income*

Car_inten * Month_Family Inc Cross tabulation								
			Month_Family Inc					Total
			5 lacs	3-5 lacs	1- 3 lacs	50,000 - 1 lac	less than 50,000	
Car_inten	Join Arm Forces	Count	0	0	1	0	0	1
		% within Car_inten	.0%	.0%	100.0%	.0%	.0%	100.0%
		% within Month_Inc	.0%	.0%	2.6%	.0%	.0%	1.0%
		% of Total	.0%	.0%	1.0%	.0%	.0%	1.0%
	Find a good job	Count	1	6	11	5	0	23
		% within Car_inten	4.3%	26.1%	47.8%	21.7%	.0%	100.0%
		% within Month_Inc	8.3%	28.6%	28.9%	22.7%	.0%	23.7%
		% of Total	1.0%	6.2%	11.3%	5.2%	.0%	23.7%
	Start own business	Count	4	3	7	2	0	16
		% within Car_inten	25.0%	18.8%	43.8%	12.5%	.0%	100.0%
		% within Month_Inc	33.3%	14.3%	18.4%	9.1%	.0%	16.5%
		% of Total	4.1%	3.1%	7.2%	2.1%	.0%	16.5%
	Go abroad for further education	Count	1	3	10	5	1	20
		% within Car_inten	5.0%	15.0%	50.0%	25.0%	5.0%	100.0%
		% within Month_Inc	8.3%	14.3%	26.3%	22.7%	25.0%	20.6%
		% of Total	1.0%	3.1%	10.3%	5.2%	1.0%	20.6%

(Table Continued...)

	Join Family Business	Count	1	1	0	0	0	2
		% within Car_inten	50.0%	50.0%	0%	0%	0%	100.0%
		% within Month_Inc	8.3%	4.8%	0%	0%	0%	2.1%
		% of Total	1.0%	1.0%	0%	0%	0%	2.1%
	Start business after gaining experience	Count	5	8	9	10	3	35
		% within Car_inten	14.3%	22.9%	25.7%	28.6%	8.6%	100.0%
		% within Month_Inc	41.7%	38.1%	23.7%	45.5%	75.0%	36.1%
		% of Total	5.2%	8.2%	9.3%	10.3%	3.1%	36.1%
	Total	Count	12	21	38	22	4	97
		% within Car_inten	12.4%	21.6%	39.2%	22.7%	4.1%	100.0%
		% within Month_Inc	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	12.4%	21.6%	39.2%	22.7%	4.1%	100.0%

Monthly income can definitely form an important factor on career intentions of students. Where the earning is minimal students will be more prone to pursue income generating activities. The results show a mix of both that is 50% for joining a job/going broad and earning by setting up business are somewhere on the high level between the household income of 1-3 lacs. Students falling under major element of starting their own business are the one's generating lower monthly income between 50-1 lac with 28.6%.

Table 3  
*Career Intention and Residence*

Car_inten * Residence Cross tabulation											
		Residence									Total
		DHA/Clifton	PECHS	Nazimabad/ North	Gulshan/ Gulshan e Jubar	F.B Area	Korangi/ Landhi- e- Faisal	Majir/Saidabad/ Model Colony	Saddar/ Old City	Others	
Car_inten	Join Arm Forces	Count	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1
		% within Car_inten	100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
		% within Residence	3.70%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%
		% of Total	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.00%
	Find a good job	Count	10 <sub>a</sub>	1 <sub>a</sub>	1 <sub>a</sub>	4 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	2 <sub>a</sub>	1 <sub>a</sub>	24
		% within Car_inten	41.70%	4.20%	4.20%	16.70%	8.30%	0.00%	8.30%	4.20%	100.00%
		% within Residence	37.00%	8.30%	7.10%	20.00%	33.30%	0.00%	66.70%	33.30%	24.50%
		% of Total	10.20%	1.00%	1.00%	4.10%	2.00%	0.00%	2.00%	1.00%	24.50%

(Table Continued...)

	Start own business	Count	3 <sub>a</sub>	2 <sub>a</sub>	2 <sub>a</sub>	3 <sub>a</sub>	3 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	16
		% within Car_inten	18.80%	12.50%	12.50%	18.80%	18.80%	12.50%	0.00%	0.00%	6.30%	100.00%
		% within Residence	11.10%	16.70%	14.30%	15.00%	50.00%	66.70%	0.00%	0.00%	10.00%	16.30%
		% of Total	3.10%	2.00%	2.00%	3.10%	3.10%	2.00%	0.00%	0.00%	1.00%	16.30%
	Go abroad for further education	Count	5 <sub>a</sub>	5 <sub>a</sub>	4 <sub>a</sub>	3 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	1 <sub>a</sub>	1 <sub>a</sub>	20
		% within Car_inten	25.00%	25.00%	20.00%	15.00%	0.00%	0.00%	5.00%	5.00%	5.00%	100.00%
		% within Residence	18.50%	41.70%	28.60%	15.00%	0.00%	0.00%	33.30%	33.30%	10.00%	20.40%
		% of Total	5.10%	5.10%	4.10%	3.10%	0.00%	0.00%	1.00%	1.00%	1.00%	20.40%
	Join Family Business	Count	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	2
		% within Car_inten	50.00%	0.00%	0.00%	50.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
		% within Residence	3.70%	0.00%	0.00%	5.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%
		% of Total	1.00%	0.00%	0.00%	1.00%	0.00%	0.00%	0.00%	0.00%	0.00%	2.00%
	Start business after gaining experience	Count	7 <sub>a</sub>	4 <sub>a</sub>	7 <sub>a</sub>	9 <sub>a</sub>	1 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	5 <sub>a</sub>	35
		% within Car_inten	20.00%	11.40%	20.00%	25.70%	2.90%	2.90%	0.00%	2.90%	14.30%	100.00%
		% within Residence	25.90%	33.30%	50.00%	45.00%	16.70%	33.30%	0.00%	33.30%	50.00%	35.70%
		% of Total	7.10%	4.10%	7.10%	9.20%	1.00%	1.00%	0.00%	1.00%	5.10%	35.70%
	Total	Count	27	12	14	20	6	3	3	3	10	98
		% within Car_inten	27.60%	12.20%	14.30%	20.40%	6.10%	3.10%	3.10%	3.10%	10.20%	100.00%
		% within Residence	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
		% of Total	27.60%	12.20%	14.30%	20.40%	6.10%	3.10%	3.10%	3.10%	10.20%	100.00%

More than 18% of individuals fall into areas of DHA/Clifton, Gulshan/Gulistan-e-Jauhar and F.B. Area with more than 50% of students have inclination of joining family business or starting their own business with and without experience. We can easily gauge that students residing in areas of DHA, Gulshan and F.B Area have entrepreneurial intentions. This is the predictor of residence impact on entrepreneurial intention.

Table 4  
*Career Intention and Family Status*

Car_inten * Family_Size Cross tabulation								
			Family_Size				Total	
			4 or less	5-7	7-10	More than 10		
Car_inten	Join Arm Forces	Count	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1	
		% within Car_inten	0.00%	100.00%	0.00%	0.00%	100.00%	
		% within Family_Size	0.00%	1.40%	0.00%	0.00%	1.00%	
		% of Total	0.00%	1.00%	0.00%	0.00%	1.00%	
	Find a good job	Count	8 <sub>a</sub>	15 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	24	
		% within Car_inten	33.30%	62.50%	4.20%	0.00%	100.00%	
		% within Family_Size	33.30%	21.70%	25.00%	0.00%	24.50%	
		% of Total	8.20%	15.30%	1.00%	0.00%	24.50%	
	Start own business	Count	3 <sub>a</sub>	13 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	16	
		% within Car_inten	18.80%	81.30%	0.00%	0.00%	100.00%	
			% within Family_Size	12.50%	18.80%	0.00%	0.00%	16.30%
			% of Total	3.10%	13.30%	0.00%	0.00%	16.30%
Go abroad for further education		Count	3 <sub>a</sub>	17 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	20	
		% within Car_inten	15.00%	85.00%	0.00%	0.00%	100.00%	
		% within Family_Size	12.50%	24.60%	0.00%	0.00%	20.40%	
		% of Total	3.10%	17.30%	0.00%	0.00%	20.40%	
Join Family Business		Count	0 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	2	
		% within Car_inten	0.00%	100.00%	0.00%	0.00%	100.00%	
		% within Family_Size	0.00%	2.90%	0.00%	0.00%	2.00%	
		% of Total	0.00%	2.00%	0.00%	0.00%	2.00%	
Start business after gaining experience		Count	10 <sub>a</sub>	21 <sub>a</sub>	3 <sub>a</sub>	1 <sub>a</sub>	35	
		% within Car_inten	28.60%	60.00%	8.60%	2.90%	100.00%	
		% within Family_Size	41.70%	30.40%	75.00%	100.00%	35.70%	
	% of Total	10.20%	21.40%	3.10%	1.00%	35.70%		
Total		Count	24	69	4	1	98	
		% within Car_inten	24.50%	70.40%	4.10%	1.00%	100.00%	
		% within Family_Size	100.00%	100.00%	100.00%	100.00%	100.00%	
		% of Total	24.50%	70.40%	4.10%	1.00%	100.00%	



81% of individuals fall into a family size of 5-7 who are into starting their own business. The percentage of individuals with the intention of joining family business or starting business with experience is 100% and 60% with the family size of 5-7 respectively. Small family size of 4-7 with 28.6% has also intention to start business after gaining some exposure. Studies therefore show significant correlation.

Table 5  
*Career Intention and Working Parents*

Car_inten * Working Parents Cross tabulation							
			Parents			Total	
			Yes	Only father	Only Guardian		
Car_inten	Join Arm Forces	Count	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	1	
		% within Car_inten	0.00%	100.00%	0.00%	100.00%	
		% within Parents	0.00%	1.40%	0.00%	1.00%	
		% of Total	0.00%	1.00%	0.00%	1.00%	
	Find a good job	Count	5 <sub>a</sub>	17 <sub>a</sub>	2 <sub>a</sub>	24	
		% within Car_inten	20.80%	70.80%	8.30%	100.00%	
		% within Parents	21.70%	24.30%	60.00%	24.60%	
		% of Total	5.10%	17.30%	2.00%	24.60%	
	Start own business	Count	6 <sub>a</sub>	10 <sub>a</sub>	0 <sub>a</sub>	16	
		% within Car_inten	37.50%	62.50%	0.00%	100.00%	
			% within Parents	28.10%	14.30%	0.00%	18.30%
			% of Total	6.10%	10.20%	0.00%	18.30%
Go abroad for further education		Count	5 <sub>a</sub>	15 <sub>a</sub>	0 <sub>a</sub>	20	
		% within Car_inten	25.00%	75.00%	0.00%	100.00%	
		% within Parents	21.70%	21.40%	0.00%	20.40%	
		% of Total	5.10%	15.30%	0.00%	20.40%	
Join Family Business		Count	0 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	2	
		% within Car_inten	0.00%	100.00%	0.00%	100.00%	
		% within Parents	0.00%	2.90%	0.00%	2.00%	
		% of Total	0.00%	2.00%	0.00%	2.00%	
Start business after gaining experience		Count	7 <sub>a</sub>	25 <sub>a</sub>	2 <sub>a</sub>	35	
		% within Car_inten	20.00%	71.40%	5.70%	100.00%	
	% within Parents	30.40%	35.70%	50.00%	35.70%		
	% of Total	7.10%	25.50%	2.00%	35.70%		
Total			Count	23	70	4	98
			% within Car_inten	23.50%	71.40%	4.10%	100.00%
			% within Parents	100.00%	100.00%	100.00%	100.00%
			% of Total	23.50%	71.40%	4.10%	100.00%

70% of students with working parents/father (in particular) are inclined to develop entrepreneurial start up. Not only this but working parents also influence students to join family business and also 71.40% of students start new business after gaining some experience.

Table 6  
*Career Intention and Parents Profession*

Car_inten * Parents_Profession Cross tabulation							
			Parents_Profession				Total
			Professional	Businessman	Service	Social Worker	
Car_inten	Join Arm Forces	Count	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1
		% within Car_inten	0.00%	100.00%	0.00%	0.00%	100.00%
		% within Parents_F	0.00%	2.60%	0.00%	0.00%	1.10%
		% of Total	0.00%	1.10%	0.00%	0.00%	1.10%
	Find a good job	Count	9 <sub>a</sub>	9 <sub>a</sub>	6 <sub>a</sub>	0 <sub>a</sub>	24
		% within Car_inten	37.50%	37.50%	25.00%	0.00%	100.00%
		% within Parents_F	31.00%	23.10%	25.00%	0.00%	25.80%
		% of Total	9.70%	9.70%	6.50%	0.00%	25.80%
	Start own	Count	7 <sub>a</sub>	8 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	15
		% within Car_inten	46.70%	53.30%	0.00%	0.00%	100.00%
		% within Parents_F	24.10%	20.50%	0.00%	0.00%	16.10%
		% of Total	7.50%	8.60%	0.00%	0.00%	16.10%
	business	Count	3 <sub>a</sub>	6 <sub>a</sub>	9 <sub>a</sub>	1 <sub>a</sub>	19
		% within Car_inten	15.80%	31.60%	47.40%	5.30%	100.00%
		% within Parents_F	10.30%	15.40%	37.50%	100.00%	20.40%
	Go abroad for further education	Count	3 <sub>a</sub>	6 <sub>a</sub>	9 <sub>a</sub>	1 <sub>a</sub>	19
		% within Car_inten	15.80%	31.60%	47.40%	5.30%	100.00%
		% within Parents_F	10.30%	15.40%	37.50%	100.00%	20.40%
	Join Family Business	Count	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1
		% within Car_inten	0.00%	100.00%	0.00%	0.00%	100.00%
		% within Parents_F	0.00%	2.60%	0.00%	0.00%	1.10%
		Count	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1
		% within Car_inten	0.00%	100.00%	0.00%	0.00%	100.00%
		% within Parents_F	0.00%	2.60%	0.00%	0.00%	1.10%

(Table Continued...)

	Start business after gaining experience	Count	10 <sub>a</sub>	14 <sub>a</sub>	9 <sub>a</sub>	0 <sub>a</sub>	33
		% within Car_inten	30.30%	42.40%	27.30%	0.00%	100.00%
		% within Parents_F	34.50%	35.90%	37.50%	0.00%	35.50%
		% of Total	10.80%	15.10%	9.70%	0.00%	35.50%
Total		Count	29	39	24	1	93
		% within Car_inten	31.20%	41.90%	25.80%	1.10%	100.00%
		% within Parents_F	100.00%	100.00%	100.00%	100.00%	100.00%
		% of Total	31.20%	41.90%	25.80%	1.10%	100.00%

Parents' (father in particular) profession does influence students in their career choice. Mostly student's will family business will become part of business. With the majority of 53.5% interested in doing business and the other 42.4% interested in entrepreneurial activity having fathers as a businessmen. Not only this even with father working as a professional or in service students are inclined to their own startups 77% and 23% respectively with or without experience.

Table 7  
*Career Intention and Monthly Family Income*

Cross tab							
			Month_Family Inc				
			5 lac	3-5 lac	1- 3 lac	50,000 - 1 lac	less than 50,000
Curr_Career	Job	Count	3	5	13	5	0
		% within Curr_Career	11.5%	19.2%	50.0%	19.2%	0%
		% within Month_Inc	25.0%	23.8%	34.2%	22.7%	0%
		% of Total	3.1%	5.2%	13.4%	5.2%	0%
	Own Business	Count	5	9	10	5	3
		% within Curr_Career	15.6%	28.1%	31.3%	15.6%	9.4%
		% within Month_Inc	41.7%	42.9%	26.3%	22.7%	75.0%
		% of Total	5.2%	9.3%	10.3%	5.2%	3.1%
	Partnership	Count	4	1	8	4	0
		% within Curr_Career	23.5%	5.9%	47.1%	23.5%	0%
		% within Month_Inc	33.3%	4.8%	21.1%	16.2%	0%
		% of Total	4.1%	1.0%	8.2%	4.1%	0%
	Part Time Job	Count	0	6	7	8	1
		% within Curr_Career	0%	27.3%	31.8%	36.4%	4.5%
		% within Month_Inc	0%	28.6%	18.4%	36.4%	25.0%
		% of Total	0%	6.2%	7.2%	8.2%	1.0%
Total			Count	12	21	38	22
			% within Curr_Career	12.4%	21.6%	39.2%	22.7%
			% within Month_Inc	100.0%	100.0%	100.0%	100.0%
			% of Total	12.4%	21.6%	39.2%	22.7%

We can easily compare that students with income below 3 lacs have high intention towards income persuading income generating activities and setting up business as their prior choice with 46.9%. Partnership is following next with 70.6% in income range of 3 lacs or less which again is a business activity.

Table 8  
*Current Career and Residence*

Curr_Career * Residence Cross tabulation											
			Residence								Total
			DHA/Clifton	PECHS	Nazimabad/North	Gulshan/Gulistan e Johar	F.B Area	Korangili and hi/Sharah e Faisal	Malir/Sau dabad/M odel Colony	Saddar/O ld City	
Curr_Career	Job	Count	7 <sub>a</sub>	4 <sub>a</sub>	6 <sub>a</sub>	3 <sub>a</sub>	1 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	27
		% within Curr_Career	25.90%	14.80%	22.20%	11.10%	3.70%	7.40%	0.00%	3.70%	100.00%
		% within Residence	25.90%	33.30%	42.90%	15.00%	16.70%	66.70%	0.00%	33.30%	27.80%
		% of Total	7.10%	4.10%	6.10%	3.10%	1.00%	2.00%	0.00%	1.00%	27.80%
	Own Business	Count	8 <sub>a</sub>	3 <sub>a</sub>	4 <sub>a</sub>	7 <sub>a</sub>	3 <sub>a</sub>	0 <sub>a</sub>	3 <sub>a</sub>	1 <sub>a</sub>	32
		% within Curr_Career	25.00%	9.40%	12.50%	21.90%	9.40%	0.00%	9.40%	3.10%	100.00%
		% within Residence	29.60%	25.00%	28.60%	35.00%	50.00%	0.00%	100.00%	33.30%	32.70%
	Partnership	Count	6 <sub>a</sub>	4 <sub>a</sub>	1 <sub>a</sub>	5 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	17
		% within Curr_Career	35.30%	23.50%	5.90%	29.40%	0.00%	5.90%	0.00%	0.00%	100.00%
		% within Residence	22.20%	33.30%	7.10%	25.00%	0.00%	33.30%	0.00%	0.00%	17.30%
		% of Total	6.10%	4.10%	1.00%	5.10%	0.00%	1.00%	0.00%	0.00%	17.30%
Total	Part Time Job	Count	6 <sub>a</sub>	1 <sub>a</sub>	3 <sub>a</sub>	5 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	1 <sub>a</sub>	22
		% within Curr_Career	27.30%	4.50%	13.60%	22.70%	9.10%	0.00%	0.00%	4.50%	100.00%
		% within Residence	22.20%	8.30%	21.40%	25.00%	33.30%	0.00%	0.00%	33.30%	22.40%
		% of Total	6.10%	1.00%	3.10%	5.10%	2.00%	0.00%	0.00%	1.00%	22.40%
	Total	Count	27	12	14	20	6	3	3	10	98
		% within Curr_Career	27.60%	12.20%	14.30%	20.40%	6.10%	3.10%	3.10%	10.20%	100.00%
		% within Residence	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
		% of Total	27.60%	12.20%	14.30%	20.40%	6.10%	3.10%	3.10%	10.20%	100.00%

Students residing in areas of Gulshan/Gulistan-e-Jauhar are 51.3% who are in one of the two income generating activity of either owning a business or partnership. 60.3% students residing in DHA/Clifton have also similar interests. Areas like North Nazimanad/Nazimabad are inclined towards partnerships with 23.5%.

Table 9  
*Current Career and Family Size*

Curr_Career * Family_Size Crosstabulation							
			Family_Size				Total
			4 or less	5-7	7-10	More than 10	
Curr_Career	Job	Count	7 <sub>a</sub>	18 <sub>a</sub>	1 <sub>a</sub>	1 <sub>a</sub>	27
		% within Curr_Career	25.90%	66.70%	3.70%	3.70%	100.00%
		% within Family_Size	29.20%	26.10%	25.00%	100.00%	27.60%
		% of Total	7.10%	18.40%	1.00%	1.00%	27.60%
	Own Business	Count	7 <sub>a</sub>	24 <sub>a</sub>	1 <sub>a</sub>	0 <sub>a</sub>	32
		% within Curr_Career	21.90%	75.00%	3.10%	0.00%	100.00%
		% within Family_Size	29.20%	34.80%	25.00%	0.00%	32.70%
		% of Total	7.10%	24.50%	1.00%	0.00%	32.70%
	Partnership	Count	3 <sub>a</sub>	12 <sub>a</sub>	2 <sub>a</sub>	0 <sub>a</sub>	17
		% within Curr_Career	17.60%	70.60%	11.80%	0.00%	100.00%
		% within Family_Size	12.50%	17.40%	50.00%	0.00%	17.30%
		% of Total	3.10%	12.20%	2.00%	0.00%	17.30%
	Part Time Job	Count	7 <sub>a</sub>	15 <sub>a</sub>	0 <sub>a</sub>	0 <sub>a</sub>	22
		% within Curr_Career	31.80%	68.20%	0.00%	0.00%	100.00%
		% within Family_Size	29.20%	21.70%	0.00%	0.00%	22.40%
		% of Total	7.10%	15.30%	0.00%	0.00%	22.40%
	Total	Count	24	69	4	1	98
		% within Curr_Career	24.50%	70.40%	4.10%	1.00%	100.00%
		% within Family_Size	100.00%	100.00%	100.00%	100.00%	100.00%
		% of Total	24.50%	70.40%	4.10%	1.00%	100.00%

Students with family size of 5-7 are more into income generating activity during student life have a existing career with 75% into business activity or 70% into partnerships. Students with small family size are also into income generating activities related to entrepreneurship. This trend is not much prevalent in bigger families and is more into jobs as income generation.

Table 10

*Current Career and Working Parents*

Curr_Career * Working Parents Cross tabulation						
			Parents			Total
			Yes	Only father	Only Guardian	
Curr_Career	Job	Count	5 <sub>a</sub>	21 <sub>a</sub>	1 <sub>a</sub>	27
		% within Curr_Career	18.50%	77.80%	3.70%	100.00%
		% within Parents	21.70%	30.00%	25.00%	27.60%
		% of Total	5.10%	21.40%	1.00%	27.60%
	Own Business	Count	8 <sub>a</sub>	23 <sub>a</sub>	1 <sub>a</sub>	32
		% within Curr_Career	25.00%	71.90%	3.10%	100.00%
		% within Parents	34.80%	32.90%	25.00%	32.70%
		% of Total	8.20%	23.50%	1.00%	32.70%
	Partnership	Count	2 <sub>a</sub>	14 <sub>a</sub>	1 <sub>a</sub>	17
		% within Curr_Career	11.80%	82.40%	5.90%	100.00%
		% within Parents	8.70%	20.00%	25.00%	17.30%
			% of Total	2.00%	14.30%	1.00%
Part Time Job		Count	8 <sub>a</sub>	12 <sub>a</sub>	1 <sub>a</sub>	22
		% within Curr_Career	36.40%	54.50%	4.50%	100.00%
		% within Parents	34.80%	17.10%	25.00%	22.40%
		% of Total	8.20%	12.20%	1.00%	22.40%
Total		Count	23	70	4	98
		% within Curr_Career	23.50%	71.40%	4.10%	100.00%
		% within Parents	100.00%	100.00%	100.00%	100.00%
		% of Total	23.50%	71.40%	4.10%	100.00%

71.9% students are into some income generating activity during study life especially business. 36.4% into partnership and this is with relation to working parents.

Table 11  
*Current Career and Parents Profession*

Curr_Career * Parents_Profession Cross tabulation							
			Parents_Profession				Total
			Professional	Businessman	Service	Social Worker	
Curr_Career	Job	Count	4 <sub>a</sub>	16 <sub>a</sub>	6 <sub>a</sub>	1 <sub>a</sub>	27
		% within Curr_Career	14.80%	59.30%	22.20%	3.70%	100.00%
		% within Parents_F	13.80%	41.00%	25.00%	100.00%	29.00%
		% of Total	4.30%	17.20%	6.50%	1.10%	29.00%
	Own Business	Count	8 <sub>a</sub>	14 <sub>a</sub>	8 <sub>a</sub>	0 <sub>a</sub>	30
		% within Curr_Career	26.70%	46.70%	26.70%	0.00%	100.00%
		% within Parents_F	27.60%	35.90%	33.30%	0.00%	32.30%
		% of Total	8.60%	15.10%	8.60%	0.00%	32.30%
	Partnership	Count	5 <sub>a</sub>	6 <sub>a</sub>	5 <sub>a</sub>	0 <sub>a</sub>	16
		% within Curr_Career	31.30%	37.50%	31.30%	0.00%	100.00%
		% within Parents_F	17.20%	15.40%	20.80%	0.00%	17.20%
		% of Total	5.40%	6.50%	5.40%	0.00%	17.20%
	Part Time Job	Count	12 <sub>a</sub>	3 <sub>b</sub>	5 <sub>a, b</sub>	0 <sub>a, b</sub>	20
		% within Curr_Career	60.00%	15.00%	25.00%	0.00%	100.00%
		% within Parents_F	41.40%	7.70%	20.80%	0.00%	21.50%
		% of Total	12.90%	3.20%	5.40%	0.00%	21.50%
	Total	Count	29	39	24	1	93
		% within Curr_Career	31.20%	41.90%	25.80%	1.10%	100.00%
		% within Parents_F	100.00%	100.00%	100.00%	100.00%	100.00%
		% of Total	31.20%	41.90%	25.80%	1.10%	100.00%

Students with both working parents and into business are highly like those students are getting into entrepreneurship. 46.7% and 37.5% having business background are likely to take the same as income generating activity during studies. Also the parents with jobs (professionals) also influence working choice while studying with 26.7% into business and 60% into partnerships.

### Discussion

The results of this research show a very strong relationship between dependent and independent variables. We can easily see that the career intention of students are gaining significant rise into entrepreneurship. The total household income is an area that influences the career choices. Where the earning is minimal students will be more prone to pursue income generating activities. The results show a mix of both joining a job, going abroad and earning by setting up business are somewhere on the high level between the household income of 1-3 lacs with 50% correlation. Students falling under major element of starting their own business are the one's generating lower monthly income between 50-1 lac having approximated 30% inclination. The reason for this can be taken as the socio – economic factors that influence the choices of students.

Not only this, the results depicted that more than 50% students in different localities are likely to start their businesses. So residence does have an impact on their career intentions. Working on the demographics we can easily analyze the career intention of students in reference to their locality. The highest correlation is between locality of DHA/Clifton and doing a job. Whereas, students in locality of Gulshan/Gulistan-e-Johar have entrepreneurial intention, once they gain some experience. We can clearly see that other localities are spread through between finding a job, starting own business, going abroad and starting business after experience. Very few selected to join family business or army in areas of Defence and Gulshan. It is evident that entrepreneurial intentions are rising with and without experience in key students residing in DHA, PECHS, Gulshan, Nazimabad and F.B Area.

A very mixed set of responses we get here with highest percentage still supported to business inclination of mid -size family. The larger the family size the more dispersed is the interest of individual across various career choices. We can see that family size between 5-7 is more inclined into jobs as well as entrepreneurship. However the similar size has also other intentions of doing a job and going abroad as well but to a limited level. Family size of 4 or less are more inclined to extremes of either doing a good job or starting business with experience where few want to do business without experience as well and going abroad.

Career intentions are very high having working parents. As literature supports those students whose parents are working and have a certain profession plays a critical persuading factor. Our research finds show positive results too. Students with business background are likely to be businessmen. This supports the earlier question about working parents with father having his own business;



students will follow the path of entrepreneurship. Furthermore, even with father being a professional or in any service, students are positively interested in their start-ups.

### *Income Generating Activity During Student Life and Its Impact on Variables*

Students with various household incomes are currently involved into some income generating activities including job with the highest preferred activity and next being entrepreneurship. You can see partnership is also an option preferred more than part time job. Job and business is more opted by students with family income range between 1-3 lac. At the same time as the highest income of 5 lacs are also towards entrepreneurial activity.

Residence has very important impact on students to have some income generating activity. The highest rank is for the students of more than 50% DHA/Clifton followed by residents of Gulshan/Gulistan-e-Jauhar. They are more involved into income generation through owning business or partnership even part time jobs. The reason for this can be to gain as much exposure into the industry as possible during their student life.

This comparison between family size and current income generating activity reflects that the mid size family range from 5-7 lacs are more prone to doing their own business. This category is highly active into partnership and job as well. As there are quite a number of individuals with a family, getting to business is linked with the career intentions of mid size family to be a financial pillar.

This is correlated with the career intention of students along with income generating activities with having working parents. Major set of students will initially prefer income generating activities whether owning a business or partnership while having working father and then followed by job as an option.

It is interesting to find that students having family business have first preference to job as their income generating activity. This is followed by owning business and getting into partnership.

### **Conclusion**

We can easily come up to our conclusions of students having a variation in career choices due to several influencing factor. Factors range from students has different household income, demographics, family size and parental influence therefore a different outlook towards a more sustained career choice of opting for business. With the current influx of so many students graduating, it is difficult to accommodate everyone through jobs. With developing economies like Pakistan, we have strived to bring in investments and this investment can serve twofold. Leading economy to prosper through investments and also creating job opportunities by these young minds. Engendering students have more income and exposure in comparison to being in a job with limited set of income. Universi-

ties are focusing more and more students to become entrepreneurs and giving them the right set of knowledge and atmosphere to develop their skills. Students start working during their study life not just to be a financial support but to create experiential learning experiences for them by venturing out into small scale entrepreneurial activities. This research is able to show a positive relation between such variables and further research can be conducted on set up of incubators within universities in Pakistan/ and other incubators available to support students and its persuasion effect on the career choices of graduates.

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# THE LOSS IN MEANING: INFLUENCE OF STRATEGY LANGUAGE AND MODERN FINANCIAL DISCOURSE ON THE WORKING CONCEPTS IN ISLAMIC BANKING AND FINANCE

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## Abstract

*This paper employs Wittgenstein language-games to analyze the strategy language used by leaders of Islamic finance industry to envision its future. The analysis infers that the explicit market orientation of strategy language and modern knowledge of finance has redefined various concepts related to Islamic finance at the cost of its original spirit. This may also have adverse effects on developing ethical and spiritual orientation of Islamic banks. The concerned academia and scholarship therefore need to review such trends and work to prevent the subsequent degradation in the public image of IFIs to avoid disappointment of religiously inspired customers.*

**Keywords:** Islamic Finance, Strategy Discourse, Language Games, Productive Misunderstanding

**JEL Classification:** G 210

## Introduction

The growth patterns of Islamic finance industry (IFI) give an impression that its future outlook seems inspired by the trends in global financial market. We can see a tendency in IFI to create alternatives for each and every product designed by mainstream financial system to fulfill the need of market-economy (Kearney, 2012). The asset size of IFI is now well beyond \$1.5 trillion and is expected to grow much further (MIFC, 2014). The exuberant growth of an industry cannot happen with a half hearted commitment to the strategic goals. This implies that the growth oriented goals of IFI are

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somehow in compliance with its ideological orientation in view of Industry drivers. It is perhaps also axiomatically believed by industry leaders that the growth in financial sense will also enable IF toward facilitating “participatory economic growth”, “equitable development” (Rethel, 2011), increase financial inclusion (EY, 2013), increase in ethical, moral and spiritual orientation in market place (Fang, 2014; Rethel, 2011) and the use of equity based contracts (Rethel, 2011). It is assumed that these non-financial objectives correlated with growth and profitability, hence compatible with Islamic shari’ah and its ethos (Shirivastava, 1986).

The above state assumption prevails despite the fact that the discourse of Islamic shari’ah and modern economic ideology are rooted in two completely opposite philosophical foundations, aspiring for a contradicting set of ideals (Javaid & Mehboob, 2013). The antagonism between the two, it is argued here, cannot survive without the ‘redefinition’ of the ideals, values and concepts related to IFs originally rooted in the Islamic shari’ah. The redefinition influenced by the dominant discourse, subsequently allows the two to go together.

This paper, therefore, attempts to explore; (a) the validity of the argument stated above (b) the instrumentalizing nature of the dominant discourse from the vintage point of their ideologically inspired perspective; (c) critical review the language of the reports on IFs strategic outlook using the work of Wittgenstein particularly; (d) explain how different stakeholders are interpreting strategy language within their own contextual particularities while changing the meaning of concepts related to Islamic finance. The second section will explain the Wittgenstein language games and epistemic relativism. The third section will review the language used in the reports on the strategic outlook of IFs. The fourth section will analyze how the strategy language has changed the meaning of related concepts. The fifth section will conclude.

### **Language Games and Interplay of Discourses**

A discourse is a set of statements “related to each other to form discursive formulations”... [which] are sets of rules about what can be said and what should not be said in a particular social space.” (Vass, 2010, p. 145). Wittgenstein referred these discursive formulations as ‘language games’ which are linguistic contexts through which we interpret the world around us while experiencing it (Wittgenstein, 1985). Different language games comprise of different set of rules, interpreting the world in a different manner. Our understanding of the world is a function of the ‘language games’ we are a part of, which knowingly or unknowingly influence and reinforce our social reality or ‘life forms’ (ibid). Therefore these discursive formations (genres) or ‘islands of language’ are dominant within their respective social reality and does not allow inter-discursive transfer to happen from one social reality to another (Seidl, 2007). These social realities are also influenced by there respective discourse structures (Mills, quoted in Hardy & Thomas, 2014, p. 346), and subsequently add to the possibility of a misunderstanding. Discourse of modern finance and Islamic shari’ah, therefore would hold unique meanings of terms, rather impermeable set of discursive formulations, where the transfer

of original meaning of a term to another discourse is not possible without a distortion.

Hollingsworth's construct of institutional formation gives an idea that these misunderstandings happen because various social realities exist at various levels - such as state, communities, markets; education, research and business systems (Hollingsworth, 2000) - within a particular society with their own unique discursive formation (Seidl, 2007). Each social reality, despite a unique language game, has the interplay of the meta-institutions. This interplay has 'family resemblance' (Wittgenstein, 1985), i.e. just like family members have the same genetic parents; each having unique personality traits and set of skills but having influence over each other. Similarly, a dominant language in a certain society provides a set of rules for each discourse to follow; forming a complex system where discourses remain apart yet influence each other (Hardy & Thomas, 2014, p. 324). Wittgenstein perspective of family resemblance offers an analogy to understand this relationship. Certain discourses therefore might become an instrument and medium to transmit power, just like in a family where is it transmitted from the senior most to the junior most. In the case of free market society, it's the market which dominates, in which the flow of power is therefore from the market to other institutions (Polyani, 1957; Toffler, 1980; Walzer, 1983; Keat, 1997). Within a market society various discourses exists interdependently due to certain meta-rules, which emerged from the enlightenment thought in Europe (Polyani, 1957; Schumacher, 1973). These meta-rules acts as the bonding force between the interplay of the discourses.

### *Epistemic Relativism*

The discourses, over the period of time keeps on evolving, adjusting, parallelizing. This evolution is perceived as good from a secular perspective; however any change in meaning is relatively fixed in traditional Islamic discourse as they are hinged to the epistemological origin of terms i.e. The Holy Qur'an and Sunnah of Prophet Muhammad ﷺ. Epistemic relativism which exists in modern secular discourse is opposite to the epistemic absolutism of traditional Islamic discourse. The concept of epistemic relativism in fact stands in denial to the possibility that there can ever be "one correct epistemic standard" (Luper, 2004, p. 272). The emergence of numerous evolving discourses and subsequent emerging possibilities of new meaning of terms and phrases can be appreciated under the premise of epistemic relativism, as it helps in developing bodies of knowledge. Each body of knowledge further evolves to have a competitive relationship with other bodies of knowledge in the market. The differentiation facilitate in the process of capital accumulation better for the subject experts of a certain body of knowledge (Hayek, 1945).

The idea of such a market competition between different bodies of knowledge is alien in the world of traditional Islam, because the objective of knowledge is not capital accumulation, rather salvation from punishment on the Day of Judgment. The social reality within a traditional Muslim community isn't compartmentalized as compared to a modern western society, rather obvious overlaps can be observed in the spheres of marketplace, family, tribe, education system, court of law

and mosque (Javaid, 2015). Therefore the idea of epistemic relativism and absolutism belong to two different worlds standing on two opposite metaphysical positions, without any possibility of reconciliation.

### **Modern Strategic Discourse of IFIs**

Fang (2014) believes that Islamic finance has been broadly redefined during the attempt to introduce it to the global audience. This redefinition was inevitable due to practical incompatibility of shari'ah-based governance with the norms of mainstream conventional financial system. It happened due to two key important epistemic authorities in the world of global finance which are "indices" and "ratings". These sources establish viability for financial products under conventional financial discourse (ibid, p.89). Epistemic authorities (Rethel, 2011) determine the discursive formulations and hence influence the outcome of discursive practices. Respective authorities are not Islamic bodies rather indices like Dow Jones Islamic Market (DJIM) Indexes and rating agencies like EY, MIFC and Moody who evaluate Islamic Financial institutions on the basis of "financial creditworthiness" ... "rather than economic, social and Islamic-worthiness of the project" (Rethel, 2011, p. 91). For example, meaning of term 'credit' is now taken as 'debt', despite the fact, Islamic finance discourse could have redefined it as 'investment', due to its asset backed nature and use of shirkat based contracts, however the epistemic dominance of indices and rating agencies gave it a meaning of 'debt' while undermining the influence of "ethical-religious legitimacy" of Islamic finance discourse (ibid).

Rethel (2011) argues Islamic finance can become an alternate for the mainstream knowledge and power structures by the reproduction of conventional finance with a few cosmetic changes, Islamic in name only. This is not an imposition from the mainstream discourse on the discourse of Islamic finance, rather the agents of the Islamic finance industry are themselves willingly accepting and using the same language. The Islamic finance executives have mostly been "schooled in conventional financial thinking" (Khan & Bhatti, 2008; Rethel, 2011; Farooq, 2013) and have experience of working in the conventional financial system as well. This is one of the reasons there is no sign of resistance within the Islamic finance industry, while on the other hand the concerned scholars and academics of Islamic finance and economics have repeatedly expressed their dissatisfaction on the contemporary orientation of Islamic finance industry (Pollard & Samers, 2007).

#### *Review of Strategy Language used by Industry Leaders*

This section presents the summary of the strategy language used in the reports on the future outlook of Islamic finance industry to analyze the meaning they give to Islamic finance while setting its future course. During review, it was found that the primary focus of all these reports was around the concept of profitability and growth. Similarly under the context of higher profitability and growth, certain barriers and challenges in the reports have been addressed in the following ways:

- IFI being smaller in size as compared to conventional finance (EY, 2013; Standard and

- Poor, 2014)
- Competition is getting stronger and being merely shari'ah compliant is not a major differentiator (ibid)
  - Standardization and regulatory issues like products being “rejected by one shari'ah board and approved by another” (Kearney, 2012) due to “non-standardized regulated environments” (Standard and Poor, 2014)
  - Costly and complex Islamic products due to developing and manufacturing costs. (A.T. Kearney, 2012).
  - High growth targets also require bigger organizational structures incurring bureaucratic costs and inefficiencies (EY, 2013; Standard and Poor, 2014, p. 44).
  - Technology not being used to gain business advantage (ibid)
  - Lack of relevant educational institutions to produce trained human resource (SBP, 2014; EY, 2013).
  - Efficiency is quickly becoming the buzzword of Islamic banks (EY, 2013, p. 22)
  - Repositioning need to be done upon “Muslim-specific client needs” with products designed around “Islamic core values”, which are unfortunately under-developed, so in this case introducing “new products can be a minefield and safest option” since “greatest prize lies with new product innovation” (EY, 2013, p. 54).
  - One of the ways of repositioning can be by attracting religiously inclined customers to which Islamic financial institutions may present themselves as a socially responsible corporation by helping “local Muslim communities and creating new Islamic charities” can be effective (Kearney, 2012, p. 6), this way a modern customer who emphasizes on ethical and social values will also become a potential customer of the products of IFI (ibid, p. 8).
  - High demand and limited supply (Standard and Poor, 2014) justifies the price increase as long as it remains attractive to the religious customer; for profitability's sake (Kearney, 2012, p. 6).
  - It would be also appropriate to use religious or spiritual appeal as an instrument in all mediums of direct or indirect market communication to attract right audience for the product designed and positioned exclusively for the religiously inclined segments (ibid, p. 6)

There is significance emphasis on the form (outer appearance) but very limited yet ambiguous discussion on substance in the reports cited above. There is hardly any reference on how to make Islamic financial institutions capable to ensure distributive justice, help eradicate poverty, facilitating financial and social inclusion etc. EY report discusses this matter but doesn't explain how IFIs would “build an inclusive financial system” and how “replacing the shadow economy” is consistent with the goals of Islamic economic ideals. Neither this report explains what is meant by “responsible innovation” or what kind of “impact” IFIs should have on the economic development.

Haniffa and Hudaib (2007) has shown that the annual reports of these banks never claimed doing anything significant for the society, nor their vision and mission expressed such aspirations,



while contribution and management of zakat, charity and benevolent loans has also been marginal.

Table 1

*Summary of Strategic Outlook of Islamic Finance Industry*

	<b>Strategic Concern / Action</b>	<b>Theme</b>	<b>Reports</b>	<b>Keywords</b>	<b>Approximate Mentions</b>
1	Profit maximization and Growth prospects	ROI	(MIFC, 2014; Standard and Poor, 2014; EY, 2013; Kearney, 2012; SBP, 2014)	Profit, Growth, Return, Yield	512
2	Religious appeal of products and branding to attract customers	Branding	(Kearney, 2012; EY, 2013)	Brand, Segment, appeal, attract	61
3	High demand justifies charging higher price	Pricing	(Kearney, 2012; Standard and Poor, 2014; EY, 2013)	Price, Demand	88
4	Instrumentalize being-socially-conscious for the sake of being competitive	Differentiation	(Kearney, 2012; EY, 2013)	Social, Ethical, religious	21
5	Instrumentalize macro socioeconomic and political conditions for higher profit and growth	External Environment	(Kearney, 2012; MIFC, 2014; EY, 2013; Standard and Poor, 2014)	Crisis, political, unrest, upheaval	78
6	Measuring success in terms of social impact, ethical conduct, distributive justice etc	Spiritual and Ethical responsibility	(EY, 2013)	Justice, Inclusion, ethics, social	1

### The New Meaning

The reports reviewed clearly suggest that IFI's growth is essentially demand driven due to rise in the buying power within the Muslim world. IFI exists exclusively for the purpose of profitability, market share and growth. Whenever the term 'Islamic' is attached to anything related to the term modern finance, the modern strategic discourse of IFI implies instrumentalizing shari'ah principles (cosmetic changes), for certain materialist objectives. This gives an impression that 'Islamic' is just a category of a cosmetic product or service available for sale in a global free market today. Therefore, one may assume that the purpose of looking Islamic in appearance is to attract the right target market so that higher profits can be reaped from a segment of customers who cannot avail services of conventional financial system due to religious reasons. On the contrary the meaning of 'Islamic' in context of traditional Islamic discourse is entirely different (Nyazee, 2002; Nadvi, 2005). As an example, to understand the difference, let's comparatively put some of the terms used in the modern strategy

language referred in the previous section in the context of the term ‘Islamic’.

Table 2

*Examples explaining the difference in meaning between Islamic and Modern Discourse give to certain terms.*

	<b>Meaning if Islamic traditional Discourse</b>	<b>Meaning as Implied in the strategy language</b>
Risk	Risk of failing on the Day of Judgment by disobeying the teachings of Quran and Prophet ﷺ (Javaid, 2014)	Chances of failing in the market, lagging behind your competitors, losing your investment
Competition	Surah Takasur of Quran strongly condemns the idea of competing for worldly gains. A traditional bazaar in Muslim history is found to be like a giant family, a tribe working together in a way that no one is left behind (Javaid, 2015).	How to beat other businesses or firms in the market, how to take away their market share, and raise the value of share more than anyone else.
Efficiency	Elimination of wastage <sup>1</sup> of any anything while utilizing every bit of every resource to advance toward the ideals of Islam. Every available resource should be spent to seek pleasure of Allah ﷻ by utilizing it as per the teachings of Prophet ﷺ	However modern strategy discourse would define it in context of cost and profitability. More cost and less profitable means less efficient whereas less cost and more profit means more efficient.
Bright future	Future is known only to Allah (SWT), The quantity of rizq is also predetermined as per Quran (Surah Saba, verse 39). Obeying the teachings of Islam will eventually bring us promising results on the Day of Judgment (Surah Al-Haj, verse 23).	Keeping in view contemporary trends of growth one can forecast or predict continued growth and profitability’, keeping in view conducive socio-political conditions
Prize	Reward from Allah ﷻ in this world or hereafter (ibid)	High profit and growth, bonus for the employee etc.
Performance	Code of conduct of an individual or the firm, compliance to shari’ah standards’.	Individual or firm’s actions or attitudes leading to increased ROI’.

### *Using Murabaha, Tawarruq and Bai al-inahas an Alternate to Interest?*

Standard and Poor's (2014) glossary defines Interest as “the intrinsic value of the money”. On the other hand, Interest or Riba or Usury according to Islamic teachings is a declaration of war against Prophet ﷺ and the Creator ﷻ (Surah Baqarah 278 & 279), another saying of Prophet ﷺ equates it with

<sup>1</sup> “And give the relative his right and [also] the poor and the traveler and do not spend wastefully. Indeed, the wasteful are brothers of the devils and ever has Satan been to his Lord ungrateful.” (The Holy Qur’an, Surah 17, verse 26 – 27)

the sin of committing fornication with one's mother (Ibn-e-Maja, Vol. 3, Hadith no. 2274). Therefore traditional Islamic discourse associates 'value' in avoiding interest or usury rather than using it.

Despite such rejection, IFI stepped away from Interest more in a cosmetic sense while bringing in contracts like murabaha. In murabaha product is presumed to be purchased by the bank before selling to the customer who returns the amount in installments in future. Islamic law requires risk of ownership to be assumed by the seller before the asset can be sold. Therefore Islamic banks own the asset on paper and immediately sell it to their clients while charging a profit equal to mark-up rate set by the central bank or interbank exchange rate (Ayub, 2007). This brings the risk profile of such contracts closer to that of interest based contracts. It's not surprising that murabaha is a popular contract in the Islamic industry, yet despised by various orthodox Islamic jurists (Pollard & Samers, 2007).

Likewise a more curious case is with contract of tawarruq and Bai' al-'Inah as the object of transaction is not an asset but cash. In both cases exchange of assets only happens ceremonially, while obtaining cash being the actual intent of the contract. In tawarruqa person "buy on credit and sell at spot value" to a third party "with the objective of getting cash" (Ayub, 2007, p. 349) while in bai' al-'Inah the bank "sells a commodity" for a certain amount "payable on a future date and then buys the same commodity" for lesser amount "on cash payment" (ibid, p. 148). These two types of contracts are frequently used in so called Islamic credit card industry (ibid). In these examples we can see a clash of two epistemic communities or discourse circles, each of which enjoy a certain degree of power (Fang, 2014).

#### *Musharakah: void ab-initio?*

Original sociocultural context of practicing various types of contracts like murabaha, musharakah, istisna and ijara has been very different than the institutional context of a market society. Such contracts were used by two or more individuals who knew each other in multi-layered ways, for example, they belonged to the same tribe or extended family, they worshiped in the same mosque and they followed the same sufi order. On the basis of such multi-layered relationship, a contract was signed as per each partner's involvement and agreement on profit/loss haring, according to the rules of shirkat-ul-aqd. Such multi-layered relation's visibility is unlikely to occur between two modern institutions build upon impersonal foundations (Weber, 1994) who interact with each other on 'cash nexus' (Ferguson, 2012) while remaining 'money fetish' (Wennerlind, 2011) in their overall conduct in the modern free-market.

In context of contemporary strategy language a better or preferred Islamic contract maybe defined as the one which is more profitable, less complex and less emotional, with lower cost and risk profile such as murabaha or ijarah. On the other hand musharakah is excluded from the modern strategy discourse altogether for obvious reasons, as it is a preferred contract to ensure distributive justice

(Hardy & Thomas, 2014). This explains why musharakah is never mentioned as a medium to achieve any of IFI's objectives, neither identified as a challenge in the strategy literature reviewed above.

### *Curious case of Running Musharakah*

One might argue against the claim of negligible usage of Musharakah in Islamic finance industry by referring to the rise of Running Musharakah, which as of 2015 comprise of around 25% of the total financing by Islamic banks as compare to only 2% in 2012. Murahaba which used to dominate the Islamic banking investment portfolio is now at 10%. Looking closely at its usage suggests that it is anything but Musharakah. Ayub (2016) argues that, because of practical constraints, it is being used in place of "OB based borrowing" (p. 10) because "neither any identified objects or assets are required nor the financier has to face commodity and market risk. It gives the clients freedom to use the Limit as they wish without any requirement of proof regarding the use. In the market, it is being taken as debt." (p. 16). It is argued that even for Murabaha the assets needs to be identified and the financier has to face the risk by owning the asset before selling it to the client. This makes Running Musharakah even closer to debt as compare to Murabaha even. This is a preposterous development.

Ayub explains:

"The suggested formulas may seem to be good apparently and hence approved by some Sharī'ah boards, but their arbitrary application in various types of businesses / industries creates many unresolved issues with regard to specification of mushārah assets and separation of operational activities from overall expenses for running a business or a Plant / factory. Further, due to becoming a norm and a formal agreement that profit over and above the target rate shall go to the client, RM based financing becomes a debt disbursed on fixed charge" (Ayub, 2016, p. 18).

Referring to a debt driven instrument as Running Musharakah, is another example of how a product is shape, not just in its meaning, but also in its internal structure, to achieve the normatively significant goals articulated by the dominant ideological context in the industry where the product is used.

### **Conclusion**

Under the context of the theory of 'language games' and 'power discourse' we can say that; (a) modern language of the modern knowledge of finance and strategy discourse has significant capacity to alter the meaning and concepts of Islamic finance, departing it from its original spirit of service and advancing toward an atmosphere of general economic wellbeing for the whole society; (b) IFIs may have the propensity to reshape the ontological and teleological significance of various concepts in Islamic finance originally grounded in shari'ah, while instrumentalizing them for the strategy objectives of the global-conventional financial industry. Under influence of modern strategy discourse the reshaping of the meaning of 'Islamic' as a whole may give rise to resistance against a

morphed image of IFIs leading to possible rejection of not just IFI but may also give rise to sectarian strife caused by “productive misunderstanding” (Seidl, 2007) about the intent of the scholars and relevant stakeholders involved.

It was discussed that Islamic discourse is more inclined towards epistemic absolutism at its core while reinterpretations or ijithad occurring at the outer peripheries (exhibiting epistemic relativism), its interplay under the dominion of modern market discourse may yield unexpected results rather disappointments among both the Muslim and Non-Muslim customers. The possibility of such disappointments, which are already in the air, would raise questions regarding the survival of IFIs and possibility of maintaining their originality in near future.

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# MEASURING THE IMPACT OF VENTURE FINANCING ON ENTREPRENEURSHIP AND JOB CREATION: A CASE STUDY OF SINDH

Nawaz Ahmad <sup>1</sup> and Imamuddin Khoso <sup>2</sup>

## Abstract

*This study analysis the total jobs created as the result of entrepreneurial activity as well as total entrepreneurs established each year. The significance of entrepreneurship in the job market is well recognized by researchers, policymakers, analyst and different authors. Different methods are used to collect data related to these variables such as for total university pass-out students, secondary data from the Bureau of statistics; entrepreneurial intention data from the questionnaire and for the exit of entrepreneur's data from expert opinion. Data analysis techniques also differed since for university pass-outs growth model; entrepreneurial intention one sample t-test and for the exit of entrepreneurs, content analysis is conducted. Variables were then added to the final mathematical model to extract the total entrepreneurs and jobs created by them each year. The result obtained is very encouraging as for the first year i.e., 2009, 339,814 jobs are recorded, which keeps on increasing and reaches a respectable figure of 3,044,078 by 2018.*

**Keywords:** Entrepreneurship, Entrepreneurial Intention, Job Creation, Unemployment, Pass Out Students

**JEL Classification:** C 630, E 270, J 640, L 260

## Introduction

Young people in Pakistan, out of the total population, are estimated to be 48 per cent. They are aged between 15 and 49 years. On the other hand, 56 per cent of the population consists of people who are in between the age bracket of 15-64 years. The overall competitiveness of Pakistan is low, ranked from 83 to 126 from the year 2007 until 2016. The report of global competitiveness for the year 2016 identified 12 factors contributing towards competitiveness and productivity of an economy. Four of them are associated with the education of primary, secondary, business and training that leads to innovation and sophistication to the business. The pillar that indirectly impacts the business is the readiness of technology that adds efficiency to the labour market. The cause for the poor performance

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of businesses in Pakistan is the performance on the basis that was evaluated by the weight of 60 per cent. When taking the capacity for innovation in technology, Pakistan ranked low because of the overall poor performance. Surprisingly, the fares of Pakistan in the latest technology are far better than India and thus Pakistan absorbs huge Foreign Direct Investment (FDI) by the transfer of technology. This is the surprising shock that Pakistan attains lower rank in the performance of its basic requirements but leads in FDI, followed by Turkey and Malaysia (Ekpe, Razak, Ismail, & Abdullah, 2015).

The last Census data of Pakistan indicates that most people who are educated but unemployed are below the age of thirty. These statistics showed that the crucial problem of Pakistan is that educated people are facing the problem of a job waiting or unemployment in the labour market. These people are the reason for the success of the job market and they cannot be ignored. It is the unrealistic problem that fewer jobs are not motivating people for higher education. Furthermore, the performance of unemployed people loses their control and motivation in obtaining training of science-based subjects. Specialization in education and performance are the factors that are important statistically to define job waiting. The good performance leads individuals for less wait in obtaining their jobs (Khan & Ali, 2011).

Moreover, unemployment in the economy forces the individuals to commit crimes in order to gain monetary benefits. Unemployment effects crime rate that impacts the market condition of a country. For instance, if the unemployment rate among individuals increases, the preferences of legal earnings decrease and the rate of crime boost up as unemployed people have to earn a monetary gain. Many studies showed that a decrease in employment rate increases the crime rate of the population. In a country, where unemployment is at its height, criminal activities are done by its young generation as sporting activity. It is defined in the Economic theory of crime that there is a cost of unemployment that increases the crime rate. Moreover, unemployment is costly because it keeps the unemployed away from production and decreases the skills of individuals (Gillani, Khan, & Gill, 2011).

As unemployment is the pervading issue of Pakistan, it is perceived by many scholars and researchers that entrepreneurship is a panacea for unemployment both in public and academic institutions. However, entrepreneurship is the important domain for the prosperity and growth of the nation. It is a fact that Nation needs job opportunities to regulate their spheres of life. The Nation needs to build their doctors, pilots, engineers, factory workers and entrepreneurs to develop their country. Keeping all such consideration in the ultimate frame of reference, this research tries to incorporate the whole process of job creation as addressed by entrepreneurship.

### **Literature Review**

First, we would analyze the entire literature pertaining to entrepreneurial job creation process then we will further proceed with our analysis.



*Entrepreneurship and Job Creation*

The significance of entrepreneurship in the job market is well recognized by researchers, policymakers, analyst and different authors (Birch, 1979; Birch, 1987; Davis, Haltiwanger, & Schuh, 1996a; Davis, Haltiwanger, & Schuh, 1996b; Newmark, Wall, & Zhang, 2008). The findings of these research studies have consistently reported the fact that smaller firms despite lacking in advantages availed of large-sized firms contribute significantly to the job market or employment creation in an economy.

Birch (1987) highlighted that small enterprise with as less as 20 employees are responsible for aggregate growth in the job market within the USA. Later an argument by (Davis et al., 1996 a, b) came forward related to Birch's finding that these findings are enclosing upward bias with respect to benefactions from a small firm. In order to correct this error, these authors come up with alternative methods. The results that were disclosed by these methods were in favour of the findings that organization employing as few as 100 employees are responsible for one-third of the US employment creation from 1973-1988 with respect to the manufacturing sector.

Extending the application of Davis et al. (1996 a, b) method, again an analysis of the USA economy was conducted by Neumark et al. (2008). He highlighted the job creation between the period from 1992-2002 and proved the job creation for about 70% are by organizations employing an average of 100 employees. With this, the contribution of small-scale enterprises having based on 20 working employees is found to be 50%. Building an understanding on these findings it can be concluded that the paramount importance of small-scale firms is well documented and empirically proved with respect to the creation of employment or extension of the job market and is often taken as a justification for entrepreneurship.

Other investigations on the linkage between startups and job creation have depicted different conclusions; it may be due to different methodologies and tools that have been applied. Johnson and Parker (1996) on Great Britain conduct one such research. It verified the fact that an increase in a number of new firms and a decrease in the existing rate of already existing firm lowers the unemployment within the economy. Ashcroft and Love (1996) studies on Great Britain's firm found that the creation of new startups would greatly and favourably be linked with net changes in the unemployment level. Aghion, Blundell, Griffith, Howitt and Susanne (2004), empirical research emphasized the startup impact on increasing productivity of factors. It is concluded that startup and fresh firms do contribute to the increase in productivity in the manufacturing sector of Britain within the duration in between 1980-1993.

While considering these results at the regional level, a similarity is being observed that as the fresh firm enters in the region the unemployment rate drops (Reynolds, 1994; Acs & Armington, 2004). Anyhow, the extent of such connection shows variation over time. Brixey and Grotz,( 2004)

study in Germany report consistency in findings.

### *Entrepreneurial Intention*

Intention defines as “the willingness of people to try hard, by putting their efforts to achieve the desired performed behaviour.” Generally, the stronger the intention will be, there will be more chance to perform the particular behaviour among students. It is more important to study the intentions of entrepreneurs because measuring actual behaviour is difficult for researchers. Entrepreneurial intention reflects the entrepreneurial behaviour of a person. We can say that intention is a predictor of behaviour. According to (Krueger, Reilly, & Carsrud, 2000) the behaviour of entrepreneurs is planned and intentional. Moreover, many researchers agreed that the behaviour of an entrepreneur can be judged or predicted by their intentions (Sankar & Sutha, 2016). Similarly, according to (Postigo, Lacubucci, & Tamborini, 2006) education plays an important role in entrepreneurial activity because it is crucial to motivate students towards knowledge-based environments. However, the knowledge of business and education of entrepreneurship affects its intentions and change the behaviours and attitudes of students such as the desire for self-efficacy and self-employment (Ismail, 2015).

Willingness or intention is proposed by Ajzen (1991) as the ultimate predecessor of behaviour. According to him, the behaviour is not accidental rather it comes in to play deliberately and is a consequence of pertinent information processing. Extending this, he also proposed that behaviour can be supported by events that are rewarding and can be enfeebled by pushing events. People prefer entrepreneurship since they consider self-employment as an appropriate career option for them (Davidsson, 1995). They found it on the path from where they could achieve their self-goals, work on their self-made plans and ideas and gain financial incentives by implementing these (Barringer & Ireland, 2010).

McStay, (2008) and Dohse and Walter (2010) explained intention to start entrepreneurial activity as one's desire to engage in behaviour and actions related to entrepreneurship, having been self-employed or by new venture creation. It is mostly related to becoming self-dependent or to feel, ambitions or guts for taking independent steps and courage to stand on one's own feet (Zain, Akram, & Ghani, 2010). Entrepreneurial behaviour needs to be guided by intentions since potential within an individual requires some sort of willingness in order to translate them into actions (Ismail, et al., 2009).

Bird (1988) referred willingness to start entrepreneurial activities as a person's cognitive state aiming for new venture creation, incorporating fresh concepts of business or creation of value addition within existing setups. Research studies have consistently found it as an important element that supports the creation of new establishment and having paramount significance when prosperity, growth and survival of establishment are concerned. According to him, an entrepreneur's habits, wants, beliefs, values and personal needs are working at the back of the intentional process hence

giving it an engine to stimulate.

Scholars have observed and empirically tested that actions are categorized to be part of intentional behaviours making intention as a foremost regressor for behaviour to be constituted. Analysis of intention or willingness to start entrepreneurial activity provides researchers with invaluable comprehension for understanding the phenomenon or actions of entrepreneurs in much satisfaction by incorporating the antecedents of willingness to start entrepreneurial venture Peterman and Kennedy, 2003; Liñán, 2004; Kolvereid and Isaksen, 2006; Krueger, 2007. Kolvereid and Isaksen (2006) study taking longitudinal data of 297 founders of businesses disclosed that later entry within self-employment can actually be determined by the willingness to be self-employed.

Creation of a business cannot be regarded as involuntary action rather it's a more deliberate effort and requires serious intentions behind it (Krueger et al., 2000; Krueger, 2007). Research studies of Kruger (2007) have established an intervening effect of entrepreneurial intention in between potential regressors (financial support, cultural, social, skills, traits and demographics). They demonstrated that willingness as related to entrepreneurship tries to simplify the reasons that why some people initiate a venture creation before carefully scanning the opportunities or considering the nature of business in which they would be engaging themselves. According to the entrepreneurs, they should capitalize on the opportunity to get the advantage of understanding their goals, intention facilitates them in doing so. It explains the element that forces them to make decisions for opting entrepreneurship as a career or how practically the dream of venture creation would become a reality.

### *Entrepreneurial Exit*

Since there are several reasons assumed and tested related to people having to start their entrepreneurial venture there can also be several reasons for people saying goodbye to such ventures (Parker, Storey, & Witteloostuijn, 2005), hence making exit a phenomenon that has its roots in multiple dimensions. The process of entrepreneurship should not be regarded only as a series of actions that leads to the formation of a new venture, but it should also include the exit from the venture that can occur at any instance during the development (DeTienne, 2010). A high extent of early business visionaries do not make it to an operational wander and the high extent of new pursuits survive for only a couple of years and are not effective in the long term. The process of entry and exit of businesses is a major driver of the evolution of industries and economies. It is an important determinant of market performance in terms of productivity and structure. Much is known about the interplay between entry and exit (Hessels, 2011).

It is found that an entrepreneur repeatedly enters and exits the entrepreneurial activities throughout his or her career. It helps them to acquire the required business skills and also to polish these skills. They are called "serial entrepreneurs" and they have a high share of new business in the market (Westhead, Ucbasaran, Wright, & Binks, 2005). Along with the understanding of the entrepre-

neurial process, it is necessary to understand the theory and factors which influences the discontinuation of the initiative or business idea (Davidsson & Gordon, 2012).

Although there have been contributions towards the topic in previous studies the answer remains unsatisfactory that why entrepreneurs opt for discontinuation of their new businesses especially if the study is focused in one-dimensional context because it is a multi-dimensional phenomenon (Khelil, Smida, & Zouaoui, 2012). So whatever literature is available on the entrepreneurial discontinuance, not much has been explored in it related to the duration between start-up and discontinuance phase of the entrepreneurs (Yusuf, 2012, Khan, Tang & Joshi, 2014) . And according to DeTienne (2010), Entrepreneurship is a complete process with a start and an end and we cannot understand the entrepreneurial process without understanding the end.

Starting a new business is always a risk. The chances of failure in the early stages are high and this risk is higher than the risk of unemployment when doing a salaried job. Many people do not start a personal business in spite of having high resources because they fear that the new business venture will fail (Hessels, Grilo, Thurik, & Zwan, 2009). it has been observed and evident that high proportion of young entrepreneurs does not make it to operational venture, even if they do then their venture survives few years' time and dies off in the short-term (Parker & Belghitar, 2006, Brüderl, Preisendörfer & Ziegler, 1992). However, exiting the venture is an evident act once in the entrepreneurial process by every entrepreneur (DeTienne, 2010).

Gimeno, Folta, Cooper and Woo (1997) were the first to discuss that the factors of influence for the success and failure may differ among the varying businesses and they also discussed the factors which may impact the survival of the organizations. entrepreneurs exit/discontinues their new start-ups for better opportunities which are explained as positive reasons (Wennberg, Wiklund, DeTienne, & Cardon, 2010) but one of the other reasons for entrepreneurial failure is the difficulties found in the environmental context (Cardon, Stevens, & Potter, 2011). The rate of entrepreneurial exit decisions is higher than one may presume, with an average of 150,000 people abandoning and discontinuing businesses in 2013 in the Czech Republic alone (Lukes et al., 2013b). Martin and Jan discuss the early entrepreneurial discontinuance at the Czech Republic in comparison with the Western countries. (Lukes & Zouhar, 2016). This article was based on "Hubris theory of entrepreneurship and theory of performance" and discuss the subjective decision on entrepreneur entry and exit. Peoples having higher industrial experience and those who are solo entrepreneurs making higher expectations are more found to discontinue their business in comparison with the team and new ventures with low ambitions.

## **Methodology**

### *Research Design*

The data collected for identifying the total job created by entrepreneurial activities involves various methods such as close-ended questionnaires, expert opinion and the Bureau of statistics reports, therefore, a multiple-method approach is incorporated and an especial emphasis on mixed method approach is made.

### *Sources of Information*

Information is gathered from the Bureau of statistics regarding pass-out students for the past 33 years irrespective of the discipline they are enrolled in. The dropout ratio and Entrepreneurial intention is obtained through primary source by incorporating expert opinion and survey respectively.

### *Sampling Technique and Sample Size*

Since a mixed method approach is used, therefore the sample size is different for each method. The sampling technique used for the survey is convenience sampling with a sample size of 106 individuals, studying at different universities of Sindh calculated at ten per cent margin of error. For expert opinion, purposive sampling is used and opinion of Abdul Qadir Molvi ( an expert in the field of entrepreneurship and a associate professor in Institute of Business Management (IoBM)) is incorporated. For secondary data incorporated on the growth of yearly pass out rate, data is taken for the period between 1981-2013. In addition to this further four year of pass out observations are forecasted for the period between 2013-2017. The an aggregate number of observations in 37.

### *Variables of the Final Models*

#### *Yearly University Student's Pass out Ratio*

Professional college/universities average yearly pass out students, irrespective of the discipline they are enrolled in, for the province of Sindh.

#### *The Entrepreneurial Intention of Students*

The total number of university students willing to enter entrepreneurship as a possible career option.

### *Drop Out Ratio Of Entrepreneurs*

The total percentages of entrepreneurs facing the business failure and thus discontinuing the business activity are considered in drop-out ratio. As per the interview conducted, it is found, in order to sustain a newly formed business an aggregate number of days required is 1000 days or almost 3 years. In the early year of business, the chances of failure are greater. Therefore, in consideration of this interview we have taken the drop out ratio of first two years of business as 50%, for the next two years as 25% and for the rest of the years, it remained constant for 15%.

### *Marginal Propensity of Employment*

An entrepreneur while entering the business requires one person to carry with him the business activity. With each successful year of business, the number of people requires increases with an average increase of one person per year. These people are the major contributors to the number of jobs created via entrepreneurial activity. In this research, a term of the marginal propensity of employment is used to gauge these jobs.

### *Statistical Instrument to be Used & Procedure of Analysis*

Various inputs of the final model are analyzed by different research techniques. entrepreneurial intention data is analyzed via one sample t-test and from its results, a percentage of intended students is derived. An Analysis of data gained from expert opinion and literature survey provide us with exit ratios. The data on a pass out students are processed via an exponential growth model. These quantities are then added to the entrepreneurial model for the generation of total entrepreneurs. when total entrepreneurs (for each successive year of business one job is created) multiply marginal propensity of employment for each year the resultant is the yearly job created by entrepreneurial activity.

The following mathematical equation is applied using MS Excel. To gauge Accumulated no. of entrepreneurs by the end of the year.

$$S_n = a_1 + a_2 + a_3 + a_4 + \dots + a_n \dots \dots \dots (1)$$

$$S_n = (x - r_1x)(1 - r_1)^{n-2} + (x + r_2x)(1 - r_1)^{n-2}(1 + r_2)^0 + (x + r_2x)(1 + r_2)(1 - r_1)^{n-3} + (x + r_2x)(1 + r_2)^2(1 - r_1)^{n-4} + \dots + (x + r_2x)(1 + r_2)^{n-2}(1 - r_1)^0 \dots \dots \dots (2)$$

Where

$S_n$  = Accumulated no. of entrepreneurs by the end of year 'n'

$X$  = no. of entrepreneurs at first year

$r_1$  = yearly drop out the ratio of entrepreneurs

$r_2$  = yearly growth of pass out students

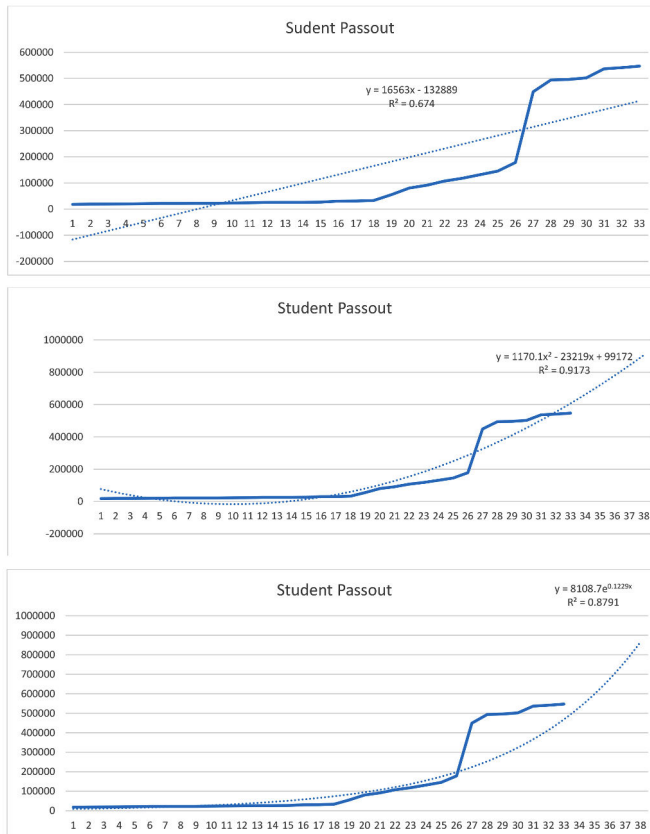
The above equation may also be written in general form as follows:

$$S_n = (x - r_1 x)(1 - r)^{n-2} + \sum_{\mu=0, \lambda=n}^{n,0} (x + r_2 x)(1 - r_2)^{\lambda-2} (1 - r_1)^\mu \dots \dots \dots (3)$$

### Analysis, Interpretation & Findings

#### *Professional Colleges and Universities, pass outs Growth Rate*

##### *Graphical Analysis*



The graphical representation of all three models can help us analyze; which growth models (linear, Quadratic and Exponential) fits the data well. The line of best fit seems to be most closely related to the observed values in the second and third graph representing Quadratic and exponential function respectively. Which method is most suitable can now be determined by inferential statistics.

Table 1

*Professional Colleges and Universities, Pass Outs Growth Rate*

Dependent Variable:	Student	Passout							
		Model Summary					Parameter Estimates		
Equation	R Square	F	df1	df2	Sig.	Constant	b1	b2	
Linear	.674	64.082	1	31	.000	-132888.583	16562.737		
Quadratic	.917	166.280	2	30	.000	99172.706	-23219.199	1170.057	
Exponential	.879	225.326	1	31	.000	8108.801	.123		

The above table gives statistics related to all three-growth models; linear, quadratic and exponential. Although all three models are statistically significant as linear  $f(1, 31) = 64.082$ ,  $R^2 = 67.4\%$ ,  $p < 0.01$ ; Quadratic  $f(2, 30) = 166.280$ ,  $R^2 = 91.7\%$ ,  $p < 0.01$  and exponential  $f(1, 31) = 225.326$ ,  $R^2 = 87.9\%$ ,  $p < 0.01$  but we have chosen exponential function for our analysis since its F statistics is most significant among comparative model considered.

Table 2

*Reliability Analysis for the Questionnaire of Entrepreneurial Intention*

Variables	Number of Items	Cronbach's Alpha
Family Background	3	0.753
Education	4	0.733
Individual Desire	13	0.917

The questionnaire employed to gauge entrepreneurial intention was found to be internally consistent; all construct meeting the criteria of 0.7 or above the value of Cronbach Alpha (DeVillis, 2003; Kline, 2005). The first construct of family background consisted of 3 items and had acceptable internal consistency with Cronbach al; the phase of 0.753. The second and third construct consisted of 4 and 13 items respectively, again reporting an Acceptable value of Cronbach alpha.



Table 3  
*Descriptive Statistics For Entrepreneurial Intention Questionnaire*

<b>One-Sample Statistics</b>				
	N	Mean	Std. Deviation	Std. Error Mean
Family Background	106	2.7736	0.99946	0.09708
Education	106	3.7094	0.80776	0.07846
Individual Desire	106	3.8075	0.75652	0.07348

Since the dimension of the questionnaire was kept such that; 1 points towards lowest level of agreement and 5 pointing towards the highest level of agreement, therefore, it can be well observed from above table that agreement of respondents towards the importance of family background for shaping entrepreneurial intention is quite low ( $2.7736 \pm 0.99946$ ). Education ( $3.7094 \pm 0.80776$ ) and individual desire ( $3.8075 \pm 0.75652$ ) are showing the considerable agreement of respondents in shaping their entrepreneurial intention.

Table 4  
*Inferential Results of One Sample T Test For Entrepreneurial Intention First Questionnaire*

<b>One-Sample Test</b>						
Test Value = 3						
					95% Confidence Interval of the Difference	
	T	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Family Background	-2.332	105	0.022	-0.22642	-0.4189	-0.0339
Education	9.042	105	0	0.70943	0.5539	0.865
Individual Desire	10.99	105	0	0.80755	0.6619	0.9532

Results of one sample t test highlights that construct of Family Background is not statistically significant with Mean Difference -0.22642, (95% CI 0.03 to 0.41) ,t(105)= -2.332,  $p > 0.05$ . Education with Mean Difference 0.70943, (95% CI 0.86 to 0.55) ,t(105)= 9.042,  $p < 0.05$  & Individual Desire with Mean Difference 0.80755, (95% CI 0.95 to 0.66) ,t(105)= 10.99,  $p < 0.05$  are statistically significant.

Table 5

*Entrepreneurial Intention Data That Need To Be Fitted To the Model*

Percentage of Intended Pass out Graduates:				
	N	Mean	{(EX/n)*100}	Answer /5
Family Background	106	2.7736	$\frac{10.2907}{3} =$	343.02/5
Education	106	3.7094		
Individual Desire	106	3.8075	3.4302*100=343.02	=68.6%

The summated mean score of all three constructs of entrepreneurial intention is then divided by 5 (scale incorporated consist of five-point measurement) to gain an overall percentage of students intended to become entrepreneurs.

Table 6

*Total Number of jobs created by entrepreneurial activity each year*

Passout Stusents	493,917	495,893	501,893	536,549	541,085	546,728	529290.6	598506.6	676774.1	765276.8	
Number of Jobs (Incorporated with growth and drop out)											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
<b>J</b>	<b>2009</b>	339814.90									339814.90
<b>O</b>	<b>2010</b>	339814.90	341174.38								680989.28
<b>B</b>	<b>2011</b>	254861.17	341174.38	345302.38							941337.94
<b>S</b>	<b>2012</b>	254861.17	255880.79	345302.38	369145.71						1225190.06
<b>Created</b>	<b>2013</b>	238932.35	255880.79	258976.79	369145.71	372266.48					1495202.12
	<b>2014</b>	243711.00	239888.24	258976.79	276859.28	372266.48	376148.86				1767850.65
	<b>2015</b>	241680.07	244686.00	242790.74	276859.28	279199.86	376148.86	364151.91			2025516.73
	<b>2016</b>	234774.93	242646.95	247646.55	259555.58	279199.86	282111.65	364151.91	411772.54		2321859.97
	<b>2017</b>	224503.52	235714.18	245582.83	264746.69	261749.87	282111.65	273113.93	411772.54	465620.59	2664915.81
	<b>2018</b>	212031.10	225401.69	238566.18	262540.47	266984.87	264479.67	273113.93	308829.41	465620.59	526510.42
											3044078.33
Year Wise Percentage Job Contribution											
	<b>2009</b>	100.00									
	<b>2010</b>	49.90	50.10								
	<b>2011</b>	27.07	36.24	36.68							
	<b>2012</b>	20.80	20.88	28.18	30.13						
	<b>2013</b>	15.98	17.11	17.32	24.69	24.90					
	<b>2014</b>	13.79	13.57	14.65	15.66	21.06	21.28				
	<b>2015</b>	11.93	12.08	11.99	13.67	13.78	18.57	17.98			
	<b>2016</b>	10.11	10.45	10.67	11.18	12.02	12.15	15.68	17.73		
	<b>2017</b>	8.42	8.85	9.22	9.93	9.82	10.59	10.25	15.45	17.47	
	<b>2018</b>	6.97	7.40	7.84	8.62	8.77	8.69	8.97	10.15	15.30	17.30

The above table gauges the total yearly employment generated by entrepreneurial Activity within a period from 2009 until 2018. The inputs of the model are, yearly university pass out students

irrespective of their discipline; intention of students to become entrepreneurs (68.8%); the drop out ratio of entrepreneurs (50% for first two, 25% for another two and 15% for the rest of the years) and marginal propensity of employment ( 1 person per year). The university pass-out students for first six years are taken and the rest of the four years are extracted with exponential growth formula. These pass outs formed a base so that the individuals intended to choose entrepreneurship could be extracted from them. The drop out ratio is indicated higher for the initial years as spotlighted by many studies that, when the fresh entrepreneurs enter the industry; the hurdles present in the way to development makes many of them to cease their survival and take exist. Whereas, the entrepreneurs learning by experience and getting mature with time in the same industrial setup record low failure and manages their survival. Another major input is a marginal propensity to employment; whenever an entrepreneur starts his venture, the struggle starts on his own but as a year passes and business starts to grow an additional person is required at each year with the progression in the business. The total job created in the year 2009 are 339814.90; in 2010 680989.28; in 2011 941337.98; in 2012, 1225190; in 2013, 1495202.12; in 2014, 1767850.65; in 2015, 2025518.63; in 2016, 2321859.97, in 2017, 2664915.81 whereas in 2018, 3044078.

While looking at 2008 data it can be observed that 68.8% of intended pass outs of 2008 start their entrepreneurial setup in 2009 hence these 339815 are considered as 100%. Struggling in the first year 50% of them cease their existence and the rest remain dedicated to their business and employees one more person to carry out their business activity. The employed person thus entering the market by these entrepreneurs of 2009 setup constitutes 49.90% of total employment generated in 2010. When these entrepreneurs enter into 2 years of business, 50% more of them closes entrepreneurial venture. Remaining need two persons now to carry out the growing business expansion in 2010 .with the entrance in 2011 & 2012 the dropout ratio of these entrepreneurs' drops down to 25% and these survivors need 3 persons in 2011 and 4 persons in 2012 respectively. This makes the total employment generated these entrepreneurs in 2011 as 27.7% and 20.08% in 2012.now in the fifth year, With the further progression of time and enhanced understanding of market dynamics, the dropout rate further declines up to 15%, the remaining entrepreneurs create jobs with an addition of one more labor each year. This makes the aggregate creation of job by 2008 pass out in 2015 as 241680 (11.93%); in 2016 234775 (10.11%); in 2017 224504 (8.42%) and in 2018 212031 which is 6.97% of total employment generated in 2018.

### Discussion

The contributions made by entrepreneurs within an economy are noteworthy, this significance is not only highlighted in our study but previous studies (Birch, 1979; Birch, 1987; Davis, Haltiwanger & Schuh, 1996a; Davis, Haltiwanger & Schuh, 1996b; Newmark, Wall & Zhang, 2008) also consistently report the same facts. Our study has shed light on the dynamics operating within Pakistani environment taking data from the province of Sindh as the target population. However, understanding the job creation process is not easy since it involves considerable noise. The process

involves continuous entry and exit by different participant involved therein. The study has paid paramount importance to gauge the entire process and produce the total number of job created by these entrepreneurs in their continuous years of self-employment. Our model gives an approximate numerical figure about total yearly job creation from the period between 2008 and 2011. Each step of the model is designed carefully so that the approximation of reality could be possible, giving important findings with empirical evidence. The results produced and claims established are backed up by real-life data, which are lacking in various studies conducted before.

### Conclusion

The economy of Pakistan with deteriorating progress rate requires accelerators or catalyst that could boost its overall performance. Entrepreneurship with such a large share in the job creation process could perform that role and can provide such boast. An improvement in current or due diligence while formulating future policies is direly needed by the concerned authorities so an individual while framing career decision criteria could place entrepreneurship at priority.

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# THE IMPACT OF FISCAL POLICY ON ECONOMIC GROWTH: PANEL DATA ANALYSIS

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## Abstract

*The economic transition after 1990's from socialism toward free market economy has changed the role of state in connection of spending decisions and tax policy. The dynamics of fiscal policy has received less attention among researchers in the past. The present study is a comprehensive analysis of the effectiveness of fiscal policy for economic growth. The study examines the effects of fiscal policy on the economic growth during the period of 2002 to 2014, based on International Financial Statistics (IFS) database and World Development Indicator (WDI) database. The study analyzes the impact of a fiscal shock on economic growth for 10 countries, with the use of panel ARDL econometric technique. The results of the study summarize the fact that fiscal policy is a key instrument in the process of economic growth in the sample economies.*

**Keywords:** Panel Data, Fiscal Policy, Government Expenditures, Economic Growth.

**JEL Classification:** H 610

## Introduction

Despite the gigantic literature on the effects of monetary policy on macroeconomic activities, the role of fiscal policy in economic research has received less attention. The financial crises of 2008 have turned out the interest of researchers to revive and analyze the important role of fiscal policy. The government policy is playing an important role in economic research. Various schools of thoughts in economics have diverse approach toward fiscal policy and originate different conclusions about its effect on the economy. Most often fiscal policy is evaluated by its impact on growth and investment; hence investment is a direct factor for economic growth. The effect of fiscal policy on output and investment is still not well understood as out of different views one view is that government has no control over investment-consumption decisions Hsiao (1995), while Phelps (1965) exam-

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ined that, “in the present market economies with the given monetary and fiscal controls, government has significant authority over the investment decisions.” This study will provide a brief review of the literature of the impact of fiscal policy on economic growth, inflation, private consumption, private investment and the composition of output.

The important issue that fiscal policies will address is that how fiscal tightening or fiscal expansion affects macroeconomic activities. Fiscal tightening decrease the budget deficit, while, fiscal expansion increases it. The expansion is caused by tax reductions or increases in government spending or both at the same time. Similarly, fiscal contraction involves increase of taxes or cuts in spending or both at the same time. Both policies have a contingent impact on the key important macroeconomic variables. In fiscal discipline there is a fascinated relation between economic growth and fiscal policy. Different studies examined effects of budgetary policy on inflation, investment, consumption, external debt and economic growth. According to Hoppner (2001), GDP growth rate responds positively to shocks in government spending and negatively to shocks in taxes. While in the long run, it has a negative response to deficit budget. The new classical growth model is the common tool to predict macroeconomic growth. This model assumes that both capital and labour is a function of output and is exogenous. Unlike the classical growth model, the endogenous growth models predicated differences among various countries in capital affecting growth pattern in the long term. According to Tomljanovich (2004) the fiscal policy effects cannot predict the long run effect of spending and revenue of the state following the classical growth model. However, Barro (1990) takes into account government’s taxation and spending in the endogenous growth models and find their significant contribution. Tanzi and Zee (1997) argued that taxes, public expenditure and budget deficit attained less attention in traditional studies because of lack of data. The growth equations in these studies do not include the variables of fiscal policy as a major determinant while measuring the economic growth.

Some authors like Barro (1990), Baxter and King (1993) have suggested that fiscal deficit is affecting both money growth and inflation; but researcher like Hoelscher (1986) was not in favor of such views, he was of the opinion that there is no such causality between deficit and inflation. Brix, Ghanem and Islam (1998) showed empirical results that inflation will lead to increase budget deficits. Saleh et al. (1996), Vamvoukas (1999), Wolff (2006) and Megarbane (2002), Ali (2010) concluded that a rise in current account deficit of balance of payments is a result of unfavorable deficit budget and considered it a major hindrance in growth pattern. Easterly (1993) concluded that much of the existing literature on economic growth and fiscal policy explain differences in growth activities depending on country characteristics such as: levels of education, saving rates and different types of policy implications.

The endogenous growth model analyzing the impact of government expenditure is divided into productive and unproductive categories (Barro, 1990; Turnovsky & Fisher, 1995). The productive government expenditures are raising the marginal productivity of private factors of production



and stimulating economic growth. While the unproductive expenditures do not affect production directly. The aim of this bifurcation is to divert the government expenditures from unproductive to productive expenditures. In recent analysis the government expenditures are differentiated on the basis of economic sectors. Traditional models of endogenous growth abridging the economy to productive sector which does not compose of reallocation of resources, especially to public investment. Moreover, the multi-sector growth models are differentiating public investment through elasticity's of output (Glomm and Ravikumar, 1997). The influence of productive government expenditure on growth, specifically the investment in technology and investment in final output, are enhanced. Moreover, the expenditures on human capital, physical capital, health and education are considered very prominent in enhancing growth. Agénor and Moreno-Dodson (2006) studied the government expenditure on infrastructure, health and education, taking under consideration the complementarities among these sectors. They found the degree of parameters characterizing education and health technology play an important role in human development process. Rajaram (2007) also used productive models around these three sectors. He concluded that for lower and middle income countries public infrastructure directed by health and education spending can improve the public investment. According to Moreira (2007), public spending can be split around education, health, investment in security and infrastructure. Her study found that different policy experiments have various impacts on the growth of economy. Monteiro and Turnovsky (2008) analyzed how shift in education expenditure from infrastructure can affect long term growth. They concluded that such diversion will enhance growth in the long-run. All these studies examined only the government spending without its source of financing. Though, theoretical studies recommend the net effect of productive public spending will change on how it is financed. Simpson (2004) and Cashin (1995) examined that when spending is financed through taxes on capital and labor income, it will have non-monotonic effect on the long-run growth.

In short run, there are numerous macroeconomic effects of fiscal policies. Different instruments leads to different results (Skinner, 1992). Thus, a decrease in tax rate will increase the permanent income and any change in the fiscal expense determines a raise of the public economic sector. It will increase consumption expenditure of the private economic sector. The social benefits expected from the larger consumption of public sector may be measured. The clients' choice to raise saving or consumption expenditures after increase due to fiscal system reduction is playing a vital role while determining its impact on the economy. If it is used as an instrumental variable, the immediate effect over production is little noticeable in short-run, while in long run it will show a considerable effect on production. Any permanent change in fiscal balance rate leads to a much effective impact in case of temporary change while it will be compensated by fluctuations of the economy. It needs modifications in fiscal spending because it has stronger impact on the temporary character.

Abdullah et al. (2008) examined the long run relationship between public expenditure and economic growth using Pedroni Cointegration method. They found a significant and positive impact of public spending, education and health spending on economic growth. Moreover, distortionary

taxation, defense spending had a significant negative impact on economic growth. Chen and Gupta (2010) examined the public spending in education and health and other structural factors who are affecting economic growth. They implied, the GMM technique for the estimation of endogenous growth model and considered key explanatory variables included in growth equation and considered an important determinants of economic growth. The results demonstrated that public spending in education and health was significant negatively.

The studies of the effect of public expenditure on the economy has shown a positive effects. Ranjan and Sharma (2008); Cooray (2009); Wu, Tang and Lin (2010); and Nworji, Okwu, Obiwuru and Nworji (2012) studied the impact of public spending on economic growth and found a positive significant impact. However, Abu-Qarn (2003) and Laudau (2012) resulted a negative significant relationship. Furthermore, Kormendi and Meguire (2011) and Adefeso and Mobalaji (2012) found no correlation between the concerned quarters.

### Research Methodology and Panel Data Techniques

#### *Theoretical Framework*

The standard exogenous growth model assumes that productive government expenditures positively affect public capital, which ultimately leads to long run economic growth. The role of government spending is trace back to the studies of Arrow and Kurz (1970) who presented exogenous growth models. In the study of Barrow (1990) the role of government spending was more emphasized. The main ideas was productive public spending has positive impact on the marginal product of private capital and makes the long run growth rate an endogenous variable.

The standard form of the equation is given as:

$$Y_{it} = \beta_0 + \beta_1 k_{it} + \beta_2 l_{it} + \beta_3 GE_{it} + \beta_4 h_{it} + \mu_{it} \text{-----}(1)$$

Following Barro (1990), Feder (1982), Ram (1986) and Grossman (1988), government spending (GE) can be incorporated as an independent variable.

Following equation (1) this study uses the following equation in order to estimate the impact of government expenditures on economic growth in the presence of control variables:

$$Y_{it} = \beta_0 + \beta_1 GE_{it} + \beta_2 X_{it} + \mu_{it} \text{-----}(2)$$

Where Y represents economic growth, GE represents government expenditures and X represents set of control variables (Inflation, Private Investment, Cost of Borrowing, Trade and Household Final Consumption).

### *Model Specification*

In neoclassical growth models fiscal policy is not effecting the economic growth (Bleaney, 2001). Conversely, fiscal policy can change the growth and output predicted by endogenous growth model. Barro (1990) assumes the Cobb-Douglas form of production function,

$$y = f(k, g) = A K^{\alpha} g^{1-\alpha} \text{-----} (3)$$

here,  $0 < \alpha < 1$ . In above equation  $k$  = the unit of capital in aggregate term and  $g$  = the unit of public purchase of goods and services

Endogenous growth models explain the channel through which the fiscal policy is influencing the long-run economic growth (Barro, 1991).

To capture the fiscal policy effects, the study will use the following functional form to gauge the relation of fiscal policy and macroeconomic activities.

$$\text{While } Y = f(\text{FP}, X) \text{-----} (4)$$

Here,  $Y$  shows macroeconomic activities; such as economic growth, private investment, consumption and inflation. Vector  $X$  represents the growth regressors and control variables such as exchange rate, interest rate etc. Fiscal policy variables represented by  $\text{FP}$ . The variables of fiscal policy are budget deficit, public expenditures and tax revenues. A change in fiscal policy variable will affect  $Y$ . The present study uses a dynamic model of economic growth equation across countries over time using the extended version of Solow model (Barro, 1996). The econometric model for describing the determinants of economic growth including fiscal policy variables and control variables is given by the following equation.

To judge the effectiveness of fiscal policy in the presence of control variables the empirical equation is being modeled as below:

$$Y_{it} = \lambda_0 + \lambda_1 \text{FP}_{it} + \lambda_2 Z_{it} + \mu \text{-----} (5)$$

The aim of this model is to find out whether fiscal policy has a significant impact on economic growth in the presence of other control variables in the model. The variables consumption, investment and inflation are taken from Barro's (1995) growth equation, trade balance as control variable is taken from Hsiao (1995). Fiscal deficits, government expenditures, tax revenues, current government expenditures and development expenditures as fiscal policy variables are used in the study.

### *Objectives of the Study*

The study is designed in order to analyze the impact of fiscal policy on economic growth for

ten economies including leading economies (Germany, Japan, Switzerland, USA and UK) and lagging economies (Bangladesh, China, India, Pakistan and Sri Lanka) during the period of 2002 to 2014. The list of selected developing countries incorporates five emerging Asian economies. China shares patterns of economic growth owing to geographic location, cultural similarities and parallel strategies for economic development among selected lagging countries. While, the list of developed countries with more than 5 million population and these countries are believed to have much common characteristics and fiscal consolidation with China. By taking these countries in to similar group, we are expecting to alleviate the problem of parameter heterogeneity and control for the difference in institutions and technology.

### *Data*

The present study will use panel data for all macro variables included in estimation of dynamics of fiscal policy for a sample of ten economies namely USA, UK, France, Germany, Switzerland, Pakistan, India, China, Bangladesh and Sri Lanka. The study entails annual data for the period of 2002 to 2014. Data for the variables of Government Expenditure (GE), Inflation (INF), Private Investment (PINV), Cost of Borrowing (CAB), Trade (TRADE) and Household Final Consumption (HFC) is collected from International Financial Statistics (IFS) database and World Development Indicator (WDI) database.

### *Methodology*

To test the long run relationship, the method utilized by Pesaran and Smith (1998) and Pesaran et al. (2001) will be used. ARDL has several advantages relative to other techniques of co integration. The Panel ARDL method can make a distinction between regressors and regressand. ARDL has another important advantage that it can be even applied when the explanatory variables are endogenous (Pesaran & Shin 1999). Another peculiar characteristic of ARDL is that it can be applied to I (0), I (1) or fractionally co integrated variables (Pesaran & Pesaran 1997). This study utilizes ARDL system for co integration analysis.

The error correction version of ARDL model is given in equation 6:

$$\Delta Y_{it} = \nu_0 + \sum_{i=1}^p \beta_1 \Delta Y_{i,t-i} + \sum_{i=1}^p \beta_2 \Delta GE_{i,t-i} + \sum_{i=1}^p \beta_3 \Delta X_{i,t-i} + \delta_1 Y_{it-1} + \delta_2 GE_{it-1} + \delta_3 X_{it-1} + \omega_{it} \dots \dots \dots 6$$

Where Y represent macroeconomic activities such as economic growth, consumption, private investment, debt and inflation. GE represents government expenditures, X represents set of control variables and w represents white noise error term. i and t represent cross section and time simultaneously.

Since the numbers of years are 12, however this data set is for 10 countries. Hence, for 120 observations ARDL is the most favorable technique to be used. Because of the following reasons: ARDL is considered comparatively a better technique even though the explanatory variables are endogenous (Pesaran & Shin 1999; Pesaran et al., 2001). Samudram and Vaithilingam (2009) used ARDL to analyze the effects of fiscal policy dynamics in Malaysia and Mohammadi et al. (2008) used the same technique, to analyze the effects of public expenditure on economic growth in case of Turkey.

### Results and Discussion

This study has applied Panel ARDL techniques, in order to analyze the effects of fiscal policy on economic growth for the period of 2002-14 for selected sample economies which includes Pakistan, China, India, Bangladesh, Sri Lanka, UK, USA, Japan, Germany and Switzerland. The results of growth equation (5) are given in table 1.

Table 1

*Results of Growth Equation using Panel ARDL*

*Dependent Variable: EG*

Variable	Coefficient
GE	0.75 (0.08)
INF	0.07 (0.09)
PINV	0.08 (0.00)
CAB	0.06 (0.00)
HFC	0.19 (0.00)
C	0.85 (0.07)
R <sup>2</sup> = 0.88	
Adjusted R <sup>2</sup> = 0.87	
F-statistics = 37.29	
Durbin Watson=2.13	

The Government Expenditures (GE) is significant in the growth equation. It means that GE has a positive relation with economic growth, when government raises its expenditures it will automatically increase aggregate demand of the economy and will increase the tempo of growth. Similarly Inflation (INF) is also significant and showing that a rise in inflation will encourage growth in the selected sample economies. Moreover, INF is relatively stable in the developed as well developing economies during the mention period. When there is rise in INF it will enhance and boost economic activities. The results further show that Private Investment (PINV) significantly affects economic growth and confirms the economic theory postulate that any increase in PINV will encourage aggregate demand and economic growth. Cost of Borrowing (CAB) is significant in the present case and it means that a rise in CAB will enhance output and productivity and will lead the economy towards growth. The Household Final Consumption (HFC) is also significant and shows a rise in HFC will

push aggregate demand in the economy and will further boost up the economic activities, such as: production and employment. The R2 value suggests that the overall model is significant and explained the change in economic growth with respect to explanatory variables. The F-statistic suggests that the overall model is significant. Moreover, the Durbin Watson value shows that there is no perfect multicollinearity. The overall model results are satisfactory and considered a good fit to the data.

Table 2

*Results of Country Wise Analysis of Growth Equation*

	USA	UK	SWT	SL	PAK	JAP	IND	GER	CHI	BAN
COINTEQ01	0.14	-0.64	-1.60	-0.17	-0.82	-0.40	-1.21	-0.27	-0.01	-0.25
D(PINV)	1.11	0.00	-0.05	0.07	-0.05	-0.07	0.00	0.14	1.00	0.11
D(TR)	-0.01	0.46	0.85	2.34	1.32	0.99	0.78	-0.43	0.00	-0.55
D(HFC)	0.04	0.41	0.10	-0.06	-0.24	-0.28	-0.02	-0.45	-0.01	0.14
D(CAB)	0.04	0.18	-0.36	-0.21	0.06	0.43	0.39	0.26	0.00	-0.12
C	-0.16	0.61	-0.70	-0.34	2.33	1.38	1.81	0.10	-0.01	0.50

### Conclusion and Suggestions

The present study analyzed the dynamics of fiscal policy in ten sample economies which include the list of both leading (US, UK, Germany, France and Switzerland) and lagging economies (Pakistan, India, Sri Lanka, Bangladesh and China). The major findings from the analysis are summarized as follows:

The variety of empirical and theoretical reasons presented above support the fiscal policy matters for the macro economy in both the short and the long run. The distinction between temporary changes and permanent changes, considerations of unanticipated and anticipated changes, liquidity constraints, considerations of tax liabilities for forecasting purposes and a number of other issues are rooted in econometric and analytical research. The empirical results coupled with a number of theoretical stipulations to the preposition of neutrality suggested by Barro (1974) is hardly holding true. One of the objectives of the present work was to explore the growth patterns of different leading and lagging economies regarding the recent debate in particular about clarification whether growth in the sample economies was driven by improvements in efficiency or factor accumulation.

The present study also presents a comprehensive assessment of the impacts of fiscal policy on economic growth. The results suggest that government expenditures have in particular a positive but small contingent impact on GDP. Moreover, it has a varied impact on private investment and household consumption. It has also a positive impact on the cost of borrowing and on price level. Furthermore, the results also suggest that public debt has a strong positive impact on the economic growth and its impact become more persistent when interest rate was included in the analysis. Lastly, the results support the stabilizing role of public debt on the fiscal deficit which can facilitate the

revenue and expenditure gap in sample economies. It suggests that government be inclined to adjust the revenue-expenditure gap through debt developments and can further hamper the development process in sample economies. It is a confirmation to the studies of (Ardagna, 2007), (Faini 2006), (Gale and Orszag, 2003) and (Laubach, 2009).

The core target of the present section is to recommend some policy suggestion to combat the existence complexities of fiscal framework. The present study suggests that fiscal policy is playing a multi-dimensional and comprehensive role in the development of capitalistic and socialistic economies. It suggests that fiscal policy must be used with proper care and attention must be given to the most important needs and requirements of the economy.

The impact of fiscal policy in sample leading and lagging economies on key macroeconomic variables shows the importance of various methods and techniques used in the present study. The volume of government sector is a key determinant in economy stabilization and sustainability and the macroeconomic policies can lead to long-run economic growth and development in these countries.

The study suggests that budget deficit should be in a proper control and must be narrow and keep below 4 percent of GDP. Otherwise, if budget deficit remained unsustainable it will have negative impact on macroeconomic objectives of the government and will have undesirable macroeconomic costs. Furthermore, if deficits are above the threshold, it will rise inflation and hamper the tempo of economic growth. The vicious circle of public debt may be managed more efficiently, fiscal deficit may be controlled well in this manner, because the debt to GDP ratio will increase if budget deficit as a percentage of GDP is greater than real growth rate of GDP. Conversely, reduction in government expenditure will lead to reduction in fiscal deficit rather than rise in mobilization of resources. The government must give its due attention to long term development plans, in order to see the ultimate aim of government expenditure in the long-run.

The fiscal framework is different in these countries and the reason for such difference is the divergences in the nature of policies coupled with various sectors which can lead to complementary in economic activities. It will open the way to bilateral policies among countries without focusing on specific country and for this purpose fiscal policy can be a better tool to hand the government to stimulate economic growth at different levels.

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# DETERMINANTS OF EDUCATION ACHIEVEMENTS IN PAKISTAN

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## Abstract

*The study estimates the determinants of education achievement by employing Censored Ordered Probit model using the PSLM data 2010/11. The results depict that mother education has more prominent effects on children's education achievement than father education. The gender wise results indicate that the father education has more effects on boys' education achievement while the mother education has more effects on girls' education achievement. The relationship between age of children and education achievement is of inverted 'U' shaped. The results show that land ownership and income have significant positive effects on education achievement. School distance and household size are major problems for children education achievements especially for girls. The study also finds that boys have more chances of education achievements than girls in rural, urban and overall Pakistan. Regional level results show that children have more chances of education achievements in urban areas as compared to rural areas of Pakistan. The study suggests that there should be more emphasize on school education achievement especially for girls who are going to become mother tomorrow especially in rural areas. The government should enhance awareness to control family size and provide schools nearest to the homes of children. The land reforms should be reconsidered and economic growth enhancing policies should be adopted.*

**Keywords:** Education, Income, Land Ownership, Age , Family Size, Pakistan.

**JEL Classification:** Z 000

## Introduction

Revelation of Holy Quran starts with verses of emphasizing on education. Allah Almighty order His believers to seek knowledge and cognizance on exploring whatever exists in the universe. In Holy Quran (Sura al Alaq; verses 4 and 5) Allah Almighty says “read by the name of Allah who has

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educated by pencil? Man learned by Allah that he knew not". Holy Prophet Muhammad (SAW) stresses on knowledge in Ibne Maaja (Hadith No. 224) and said that it is the duty of every Muslim men and women to get knowledge. Dakar (2000) at world forum explained that it is the basic right of every individual to achieve education. The goal of education for all (EFA) should be attained urgently without any delay. Many studies at international and national level have been conducted to find the determinants of education. At the former level the important studies are the following; Cambel and Barry (1967), Eamon (2005) showed that demand for higher education was positively associated with income, Eshiwani (1993), Otunga (1994), Knight and Shi (1996), Binder (1998), Colclough et al. (2000), Bernard (2002), Jayachandran (2002), Maitra (2003), Chapman (2004), Abdulahi (2005), Smyth et al. (2010), Aghili and Kashani (2012), Quang (2012), Basant and Sen (2013) and David (2014) showed that male had more chances of education achievement than female. Kodde and Jozef (1988) and Bernard (2002) showed that the demand for higher education was believed to be effected by educational policies, income level, access to educational institutions and the educational background of the parents. Kuo (1998) and Bauer and Gang (1999) showed children education achievement in a family is not affected by number of lower age children and their male female sex ratio in countries like Germany and the USA. Glewwe and Jacoby (1992) found that household expenditure is a major determinant of education achievement. Maitra (2001), Banerjee and Duflo (2011) and Aghili and Kashani (2012) showed that mother's education had more prominent effect on education achievement of children than father's education. Study also showed that mother's education had more effect on female education while father's education had more effect on male children's education achievement. Appleton (1996), Maitra (2001), Jayachandran (2002), Okoijie (2002), Yucel's (2007), Ming (2010), Aghili and Kashani (2012), Quang (2012) and Basant and Sen (2013) showed that boys had more chances of educational achievement than girls. Family income, age of child, land ownership positively while household size, age square of child and school distance had negative relationship with achievement of education. David (2014) showed that there was a positive but not a significant relationship among parent's education and children's education achievement in Nigeria. The study also found that there was no difference in boys and girls education achievement.

At the national level also many studies have been conducted. Sathar and Lloyd (1994), Khan et al. (2002) and Hijazi and Naqvi (2006) showed that income and parental education had positive significant effect on children education achievement. The study also found that children in the Punjab had more chances of education achievement. Holmes (1991), Anjum and Uzma (2007), Maitra and Sharma (2009), Saifi and Mehmood (2011) and Hamid et al. (2013) showed that girls had lower chances of education achievement in rural areas. Education achievement of boys' and girls' had positive significant relationship with parental education. While mother's education focused more on daughter's education and father's education influencing more son's education achievement. Coleman (1966), Holmes (1999), Anjum and Uzma (2007), Hashmi (2008) and Lodhi and Gerber (2011) showed that male children had more chances of education attainment than female children. Children education achievement especially for female children was mainly determined by household income (Anjum & Uzma, 2007; Ahmed et al., 2009; Asghar et al., 2012; Lodhi et al., 2011; Akhtar, 2012). Age

square, family size and school distance had negative significant effect on children education achievement (Anjum & Uzma, 2007; Ahmed et al., 2009; Akhtar, 2012) while Baluch and Shahid (2008) found that school distance and family size were positively related with education achievement.

It is well recognized that education achievement is very important factor of economic growth and development. Many researchers estimated determinants of education achievement nationally and internationally. Land ownership is also very important factor for education achievement in international studies (Miller, 2007; Sanchez & Sbrana, 2009) but it has been ignored in Pakistan yet. Thus, this study aims at estimating the determinants of education achievement in Pakistan by using Pakistan Social and Living Standard Measurement Survey data 2010-11 which has never been used for this purpose.

The structure of the article is as follows: Following the introduction section two discusses the data and methodologies employed. The results and discussions are presented in section three, whereas section four draws some conclusions and policy implications.

### **Data and Methodology**

Education achievement is indispensable for developing labor force skills and productive efficiencies. In developing countries, low education achievement causes a decline in human capital, that ultimately reduces economic growth and development. Therefore, it is necessary to measure the determinants of education achievements. For measuring the determinants of education achievement the study uses PSLM data 2010/11 that is presenting in section 3.1. The study is employing Censored Ordered Probit model for estimating the determinants of education achievements that is presenting in section 3.2.

#### *Data*

This study uses PSLM data 2010/11. For finding the determinants of education achievements, study selects currently school going children of age group 12-24 years. Here also assuming that in this age group children can achieve some levels of education. Many studies selected this age of children for estimating the determinants of education achievement such as (Ali et al., 2000; Dereze & Kingdon, 2001; Maitra, 2001; Tansel, 2002; Anjum & Uzma, 2007; Aghion, 2009; Hanushek & Wobman, 2014). The sample of the study consists of 12,313 children. There are 0.5% children they have achieved zero years of education, 27% children passed primary education level and 35% children achieved middle level education. As well as matric and intermediate to the highest level of education achieved by 26% and 11.5% children consequently. The detail of data description about education achievement is presented in appendix.

### Methodology

Education achievement is an inevitable factor of economic growth and development. Education achievement encouraged societies to develop creative and well knowledge persons, it also provides more chances of development to underdeveloped parts of community. Education is crucial for learning, expertise development, for fitness and for the developing abilities of human beings that can improve their output and effectiveness. The education achievement is the most important factor which played a leading role in human development. Only as educated workforce equipped with modern skills can compete and benefit from exploiting the opportunities created by globalization. Education achievement is a critical component of human capital which is unanimously accepted as an essential part of financial improvement of a nation.

### Determinants of Education Achievement

Previously, many studies have used Censored Ordered Probit model to find the determinants of education achievement such as (King & Lillard, 1987; Tansel, 1997; Holmes, 1999; Ali et al. 2000; Dereze & kingdon, 2001; Maitra, 2001; Anjum & Uzma, 2007; Aghion, 2009; Hanushek & Gabril, 2014). This study has also used Censored Ordered Probit model, the econometric model is presenting below.

$$E = \beta_0 + \beta_1 PCE + \beta_2 Age + \beta_3 LO + \beta_4 AGSQ + \beta_5 SD + \beta_6 HS + \beta_7 FE + \beta_8 ME + \varepsilon_0 \quad (2.1)$$

The study selects five equally exclusive education levels like zero, primary, middle, matric and intermediate to higher. The categories of education achievement can be defined as.

$$E = \left\{ \begin{array}{l} 0 \text{ if } E = \mu_0 \\ 1 \text{ if } \mu_0 < E \leq \mu_1 \\ 2 \text{ if } \mu_1 < E \leq \mu_2 \\ \vdots \\ j \text{ if } \mu_{j-1} \leq E \end{array} \right\}$$

‘E’ is desire level of education achievement;  $\mu$ ’s are threshold parameters that denote transition from one schooling category to another. There are following five categories of dependent variable.

E= 0 if education achievement is 0

E= 1 if education achievement is 1- 5 years

E= 2 if education achievement is 6 - 8 years

E= 3 if education achievement is 9-11 years

E= 4 if education achievement is 12+

The dependent variable is education achievement that consists of five categories. If a child is

completing zero year of schooling it assumes the value of zero, if a child is completing or continues in primary education it takes value of 1. For children completing or continues in middle, matric and inter to higher take values of 2, 3 and 4 subsequently. For estimating the determinants of education achievement this study selected sample of currently school going children of age group 12-24 years. The Censored Ordered Probit regression technique has been employed for estimating the determinants of education achievement.

This study considers number of independent variables that affects the children education achievement. In order to analyze the determinants of education achievement, the study takes into account various factors. Hence, education achievement depends on following most important factors e.g. father education, mother education, household size, age of student, per capita expenditures, land ownership and school distance. The detail of independent variables is as presenting in Table 3.1.

Table 3.1

*Measurement of Variables for Education Achievement*

<b>Variables</b>	<b>Measurement</b>
<b>Father Education (FE)</b>	Number of year of education
<b>Mother Education (ME)</b>	Number of year of education
<b>Age</b>	Age of children
<b>Age Square (AGSQ)</b>	Square of children age
<b>Household size (HS)</b>	Number of total members in Household
<b>Land ownership (LO)</b>	If individual own land=1, otherwise=0
<b>Per capita expenditures (PCE)</b>	Total expenditures/ household size
<b>School distance (SD)</b>	High school distance.

Source: Author's own calculations

## Hypothesis Testing

### *Null Hypothesis*

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = \beta_8 = 0$$

### *Alternative Hypothesis*

$$H_1: \beta_1 \neq 0, \beta_2 \neq 0, \beta_3 \neq 0, \beta_4 \neq 0, \beta_5 \neq 0, \beta_6 \neq 0, \beta_7 \neq 0, \beta_8 \neq 0$$

Under the assumption that ' $\epsilon$ ' is normally distributed:

$$\Pr(E=0) = \Phi(\mu_0 - \beta_1 X_i) \quad (2.2)$$

$$\Pr(E=1) = \Phi(\mu_1 - \beta_1 X_i) - \Phi(\mu_0 - \beta_1 X_i) \quad (2.3)$$

$$\Pr(E=2) = \Phi(\mu_2 - \beta_1 X_i) - \Phi(\mu_1 - \beta_1 X_i) \quad (2.4)$$

$$\Pr(E=3) = \Phi(\mu_3 - \beta_1 X_i) - \Phi(\mu_2 - \beta_1 X_i) \quad (2.5)$$

$$\Pr(E=4) = 1 - \Phi(\mu_3 - \beta_1 X_i) \quad (2.5)$$

Where 'Pr' is probability of each category; ' $\Phi$ ' is normal cumulative frequency distribution. These equations represent the probability of outcome of each category. If the dependent variable has more than two ordinal categories then Ordered Probit regression is best measure for estimating the model.

### *Marginal Effects in Probit Regression*

In linear regression, the effect of explanatory variable is directly measured by one unit change in independent variable then what will be change in dependent variable, But in Probit model exactly does not it mean the coefficients only show positive or negative trends. The actual magnitude of coefficient is measured by marginal effects. The value of marginal effects coefficients exactly tells about 1% change in independent variable causes how much change in dependent variable. This mathematically is written below.

$$E_i = \Phi(\beta_1 X_i) \quad (2.6)$$

$$\frac{\partial E_i}{\partial X_i} = \beta_1 \Phi(\beta_1 X_i) \quad (2.7)$$

This expression depends on not just  $\beta_i$  but on the value of  $X_i$ .

## **Results and Discussion**

Education achievement is crucial for learning, expertise development, fitness and for developing abilities of human beings that can improve their output and effectiveness. Education achievement has encouraged to the people who are creative and knowledgeable, it also provides more chances of development to underdeveloped parts of community. Education achievement is one of the most important factors which plays a leading role in human development. Through globalization and advance technologies the competition among individuals have increased. At this time only educated and well skilled person can compete with worldly created challenges. Keeping in view so much importance of education achievement this study estimates determinants of education achievement in Pakistan. Urban and rural areas of Pakistan have different economic and demographic characteristics



therefore, their chances of achieving education are also different. This study estimates the determinants of education achievement due to different urban and rural characteristics. The outcomes of analysis are presented in the Table 3.1.

Table 3.1

*Determinants of Education Achievement by Region in Pakistan*

Variable	Pakistan		Urban		Rural	
	Boys	Girls	Boys	Girls	Boys	Girls
<b>Father</b>	0.09	0.04	0.08	0.029	0.09	0.05
<b>Education</b>	(9.17)*	(3.77)*	(5.95)*	(2.85)*	(6.74)*	(3.06)*
<b>Mother</b>	0.08	0.13	0.09	0.15	0.06	0.11
<b>Education</b>	(5.68)*	(9.09)*	(5.44)*	(8.29)*	(2.29)*	(3.52)*
<b>Age of Child</b>	1.14	1.08	1.22	1.21	1.09	1.02
	(22.29)*	(16.63)*	(16.45)*	(13.83)*	(15.33)*	(10.21)*
<b>Age Square of Child</b>	-0.02	-0.01	-0.02	-0.02	-0.02	-0.02
	(-13.75)*	(-9.11)*	(-10.50)*	(-8.43)*	(-9.33)*	(-6.31)*
<b>Per capita Expenditure</b>	4.84	4.50	3.80	3.62	8.48	8.40
	(6.83)*	(5.85)*	(4.63)*	(4.10)*	(5.38)*	(4.41)*
<b>Land Ownership</b>	0.14	0.12	0.26	0.16	0.08	0.15
	(4.38)*	(3.04)*	(4.15)*	(2.16)*	(2.19)*	(2.92)*
<b>Household Size</b>	-0.003	-0.01	-0.06	-0.01	0.01	-0.02
	(-0.91)*	(-2.61)*	(-0.87)*	(-1.01)*	(0.13)*	(-2.55)*
<b>School Distance</b>	-0.11	-0.19	-0.15	-0.22	-0.09	-0.17
	(-7.81)*	(-9.07)*	(-4.31)*	(-4.93)*	(-5.77)*	(-7.94)*
	N = 7426	N = 4883	N = 3409	N = 2811	N = 4017	N = 2072
	<b>LR chi2</b>	<b>LR chi2</b>	<b>LR chi2</b>	<b>LR chi2</b>	<b>LR chi2</b>	<b>LR chi2</b>
	=7043.41	=4750.45	=3543.90	=3000.54	=3332.34	=1581.36
	<b>Prob&gt; chi2</b>	<b>Prob&gt; chi2</b>	<b>Prob&gt; chi2</b>	<b>Prob&gt; chi2</b>	<b>Prob&gt; chi2</b>	<b>Prob&gt; chi2</b>
	=0.00	=0.00	=0.00	=0.00	=0.00	=0.00
	<b>Pseudo R2</b>	<b>Pseudo R2</b>	<b>Pseudo R2</b>	<b>Pseudo R2</b>	<b>Pseudo R2</b>	<b>Pseudo R2</b>
	=0.35	=0.36	=0.39	=0.40	=0.32	=0.29

Source: Author's own calculations, \* Shows within brackets are z-value, N = number of observations

Source: Author's own calculations, N = number of observations

The results show that mother's education positively significantly affects more children education achievement than father's education in Pakistan. Mothers spend more time with their children than father because they are mostly housewives in Pakistan. If mother is educated it influences children education achievement more than father. The results are consistent with those of Holmes (1999) in Pakistan, Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005) in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico, Lodhi et al. (2011) in Pakistan and Juma and Simatwa, (2014) in Kenya similar results find at regional level. Results show that the relationship between age and education achievement of children is inverted 'U' shaped. As age of children increases, there are more chances of education achievement. If age of children is high and still he/she is in lower class then he/she has low chance to continue education. The most probable reasons for late enrolment might be financial problem, disease or lack of awareness of their parents. The results are equally valid in urban and rural areas. The results are similar with those of Holmes (1999) in Pakistan, Dreze and

Kingdon (2001) in India, Maitra (2001) in Bangladesh, Khan and Ali (2005) in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico, Lodhi et al. (2011) in Pakistan and Juma and Simatwa, (2014) in Kenya. Per capita expenditure is being used as a proxy to income. Further results show that per capita expenditures and land ownership positively statistical significantly affect children education achievement. The results are equally valid in urban and rural areas. The results are similar with those of Holmes (1999) in Pakistan, Dreze and Kingdon & Dreze (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005) in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico and Juma and Simatwa, (2014) in Kenya. The results show that household size and school distance are major causes of low education achievement in Pakistan. The breakup of analysis at regional level shows that household size and school distance are more problematic in rural than urban region. The results are consistent with those of Singh (1992) in Brazil, Holmes (1999) in Pakistan, Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005) in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico, Lodhi et al. (2011) in Pakistan and Juma and Simatwa, (2014) in Kenya. Are there equally treated male and female children in education achievement decisions in Pakistan? The study estimates the determinants of education achievement for boys and girls at overall and regional level in Pakistan. The outcomes are presented in Table 3.2.

Table 3.2

*Determinants of Education Achievement by Gender in Overall, Urban and Rural Pakistan*

Variable	Pakistan		Urban		Rural	
	Boys	Girls	Boys	Girls	Boys	Girls
<b>Father Education</b>	0.09 (9.17)*	0.04 (3.77)*	0.08 (5.95)*	0.029 (2.85)*	0.09 (6.74)*	0.05 (3.06)*
<b>Mother Education</b>	0.08 (5.68)*	0.13 (9.09)*	0.09 (5.44)*	0.15 (8.29)*	0.06 (2.29)*	0.11 (3.52)*
<b>Age of Child</b>	1.14 (22.29)*	1.08 (16.63)*	1.22 (16.45)*	1.21 (13.83)*	1.09 (15.33)*	1.02 (10.21)*
<b>Age Square of Child</b>	-0.02 (-13.75)*	-0.01 (-9.90)*	-0.02 (-10.50)*	-0.02 (-8.43)*	-0.02 (-9.33)*	-0.02 (-6.31)*
<b>Per capita Expenditure</b>	4.84 (6.83)*	4.50 (5.85)*	3.80 (4.63)*	3.62 (4.10)*	8.48 (5.38)*	8.40 (4.41)*
<b>Land Ownership</b>	0.14 (4.38)*	0.12 (3.04)*	0.26 (4.15)*	0.16 (2.16)*	0.08 (2.19)*	0.15 (2.92)*
<b>Household Size</b>	-0.003 (-0.91)*	-0.01 (-2.61)*	-0.06 (-0.87)*	-0.01 (-1.01)*	0.01 (0.13)*	-0.02 (-2.55)*
<b>School Distance</b>	-0.11 (-7.81)*	-0.19 (-9.07)*	-0.15 (-4.31)*	-0.22 (-4.93)*	-0.09 (-5.77)*	-0.17 (-7.94)*
	N = 7426	N = 4883	N = 3409	N = 2811	N = 4017	N = 2072
	LR chi2 = 7043.41	LR chi2 = 4750.45	LR chi2 = 3543.90	LR chi2 = 3000.54	LR chi2 = 3332.34	LR chi2 = 1581.36
	Prob> chi2 = 0.00	Prob> chi2 = 0.00	Prob> chi2 = 0.00	Prob> chi2 = 0.00	Prob> chi2 = 0.00	Prob> chi2 = 0.00
	Pseudo R2 = 0.35	Pseudo R2 = 0.36	Pseudo R2 = 0.39	Pseudo R2 = 0.40	Pseudo R2 = 0.32	Pseudo R2 = 0.29

Source: Author's own calculations, \* Shows within brackets are z-value, N = number of observations

The results show that father's and mother's education has positive statistical prominent cause to children's education achievement. At gender level results show that father's education affect more on boys' education achievement while mother's education effects more on girls' education achievement. The results are equally valid in urban and rural areas. The results are consistent with those of Holmes (1999) in Pakistan, Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005 in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico, Lodhi et al. (2011) in Pakistan and Juma and Simatwa (2014) in Kenya. The results show that the relationship between age and education achievement of children is inverted 'U' shaped. As age of children increases, there are more chances of education achievement. The results are equally valid in urban and rural areas. The results are consistent with those of Holmes (1999) in Pakistan, Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005 in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Lodhi et al. (2011) in Pakistan and Juma and Simatwa (2014) in Kenya. The results show that per capita expenditure and land ownership have positive effect on education achievement. The results are equally valid in urban and rural areas. The results are consistent with those of Holmes (1999) in Pakistan, Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005 in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico and Juma and Simatwa, (2014) in Kenya. Results also show that household size and school distance are major determinants of low education achievement. At gender level results show that household size and school distance have negative significant effect more on girls' education achievement than boys in Pakistan. Similar results found by these studies Singh (1992) in Brazil, Holmes (1999) in Pakistan, Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh, Jayachandran (2002) in Chicago, Khan and Ali (2005 in Pakistan, Anjum and Uzma (2007) in Pakistan, Cheng (2009) in China, Angel et al. (2010) in Mexico, Lodhi et al. (2011) in Pakistan and Juma and Simatwa (2014) in Kenya.

It is very important to estimate which is the highest level of education a child can achieve. The study estimates the determinants of the highest education achievement in Pakistan. The outcomes are given in Table 3.3.

Table 3.3  
*Marginal Effects of Highest Education Achievement*

Variables	Zero	Primary	Secondary	Higher Secondary	Inter to Higher
<b>Father Education</b>	-0.001	-0.01	0.0005	0.006	0.007
<b>Mother Education</b>	-0.001	-0.02	0.001	0.01	0.01
<b>Age of Child</b>	-0.01	-0.21	0.01	0.10	0.12
<b>Age Square of Child</b>	0.0002	0.004	-0.0001	-0.002	-0.002
<b>Land Ownership</b>	-0.001	-0.02	0.001	0.01	0.01
<b>Per capita Expenditure</b>	-0.01	-0.01	0.03	0.04	0.05
<b>Household Size</b>	0.0001	0.001	-0.00005	-0.0007	-0.001
<b>School Distance</b>	0.002	0.02	-0.001	-0.01	-0.01

Source: Author's own calculations

The results show that if father and mother are educated there are more chances of their children to get inter and higher level of education. Especially mother education affects more children achievement of higher level of education. The results show that the relationship between age and higher level of education achievement of children is inverted 'U' shaped. As age of children increases, there are more chances of higher education achievement. If age of children is high and still he/she is in lower class then he/she have fewer chances to get inter and higher level of education. The results show that per capita expenditure and land ownership increases chances of children to achieve inter and higher level of education. The results are equally valid in urban and rural areas. The results of marginal effects show that by increasing household size, school distance cause less chances of highest education achievement. The results are similar with those of Dreze and Kingdon (2001) in India, Maitra (2001) in Bangladesh and Jayachandran (2002) in Chicago. Similar results found in urban and rural areas of Pakistan. The results are given in Table 3.4 and 3.5.

Table 3.4

*Marginal Effects of Education Achievement in Urban Pakistan*

Variables	Zero	Primary	Secondary	Higher secondary	Inter to Higher
<b>Father Education</b>	-0.0003	-0.01	-0.001	0.004	0.01
<b>Mother Education</b>	-0.001	-0.02	-0.003	0.01	0.02
<b>Age of Child</b>	-0.006	-0.20	-0.02	0.07	0.15
<b>Age Square of child</b>	0.0001	0.004	0.0004	-0.001	-0.003
<b>Per capita Expenditure</b>	-0.02	-0.06	-0.07	0.02	0.05
<b>Household Size</b>	0.00003	0.001	0.0001	-0.0004	-0.001
<b>School Distance</b>	0.001	0.03	0.004	-0.01	-0.02
<b>Land Ownership</b>	-0.001	-0.03	-0.004	0.01	0.03

Source: Author's own calculations

Table 3.5

*Marginal Effects of Education Achievement in Rural Pakistan*

Variables	Zero	Primary	Secondary	Higher Secondary	Inter to Higher
<b>Father Education</b>	-0.001	-0.02	0.003	0.008	0.006
<b>Mother Education</b>	-0.002	-0.02	0.003	0.009	0.007
<b>Age of Child</b>	-0.02	-0.22	0.04	0.01	0.09
<b>Age Square of Child</b>	0.0004	0.004	-0.0007	-0.002	-0.002
<b>Per capita Expenditure</b>	-0.02	-0.02	0.03	0.09	0.07
<b>Household Size</b>	0.0001	0.001	-0.0002	-0.0007	-0.0005
<b>School Distance</b>	0.002	0.02	-0.004	-0.01	-0.008
<b>Land Ownership</b>	-0.002	-0.02	0.004	0.01	0.009

Source: Author's own calculations

### Conclusion and Policy Implications

This study estimates the determinants of children's education achievement by employing Censored Ordered Probit model. For this purpose the study selects the children of age group with 12-24 years. The results showed gender discrepancy in the probability of children's education achievement in rural, urban and overall Pakistan. The gender wise results show that boys have more chances of education achievement than girls in rural, urban and overall Pakistan. The regional level results show that children in urban areas have more chances of education achievement than rural areas. The study estimates show that mother's education has prominent effects on education achievement than father's education in rural, urban and overall Pakistan. The gender wise results show that mother's education affects more girls' education achievement while father's education affects boys' education achievement in Pakistan. The results also depict that land ownership and income have positive significant effect on children's education achievement. The results also indicate that school distance and household size are main obstacles in children education achievement. The results also show that the household size and school distance have prominent negative effects on girl's education achievement than boys, especially in rural areas. The government should put more emphasis on children education achievement especially female education achievement in rural areas. Government should provide schooling facilities nearest to the homes of children; especially girls in rural areas. Family planning should be encouraged to control family size. Land reforms should be implemented in letter and spirit. Growth enhancing policies should be adopted.

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# A RESOURCE BASED PERSPECTIVE ON THE LINK BETWEEN CORPORATE SOCIAL RESPONSIBILITY , REPUTATIONAL CAPITAL AND ORGANIZATIONAL PERFORMANCE

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## Abstract

*Corporate social responsibility is a widely discussed and very current research arena in the business world. The present study examines the effect of CSR on organizational performance from a resource based perspective. It elaborates how socially responsible organizations can achieve financial gains for the company by generating intangible resources. The data was collected from 524 middle management employees of manufacturing sector organizations through questionnaires. The data was analyzed through Structure Equation Modeling. The results demonstrate that CSR is positively related to Organizational performance and reputational capital. The major contribution of the study was to determine the mediating role of reputational capital which was also found significant for the dependent variable. Implications of research shows how CSR practices can be beneficial for the organizations and how by actively pursuing the CSR strategy can enhance corporate reputations among all stakeholders which can lead to enhanced corporate performance.*

**Keywords:** Corporate Social Responsibility, Organizational Performance, Reputational Capital, Corporate Performance

**JEL Classification:** Z 000

## Introduction

The rationale of profit maximization and economic motives have always been the priority for business enterprise. The question of legitimacy of a business enterprise has recently been challenged by the literature where it does not restrict itself to economic outcomes of organizations but also the social and environmental impact of business on society (Elanor, 2013).

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Lately, there had been paradoxical viewpoints on the issue of business responsibility. The neo-economists have claimed that over investing in CSR will ultimately reduce the ability of a company to exploit resources for future growth and will clash with profit maximization by increasing the cost and also by generating conflict of interest among the stakeholders (Freidman, 1970). While the upcoming research in CSR, based upon the resource based view and stakeholders perspective, many researchers present that such investment in CSR can trigger a better relationship between stakeholders and company that can boost the economics of a business by mobilization of resources (Russo & Perini, 2010).

In the wake of global concerns of industrial pollution, environmental damages and business power, the concern of sustainability has taken a significant place in academia and industry which has led the organizations to a multi stakeholder perspective (Baken, 2006). Further, the dynamism of business as an open system requires a balance of resource in and out of the firm to maintain its operations.

There have been continuous researches and developments on the topic since its emergence where majority of the research has focused upon creating profit justification of involving into CSR. Two main schools of thought emerged into the field; one the proponents of this theory who establish reasons to involve into CSR activities, the other who counter argues to state the profit maximization as the only rationale of business. The recent shift in paradigm of CSR have shown other benefits of CSR activities. The CSR related literature is linked to different operations of the organizations such as Marketing, (Vaaland et.al., 2008; Sanelemente, 2017) Human Resource Management (Jamali et.al., 2014) and Strategic Management (Mc Williams, 2006; Baumgartner et.al., 2014).

CSR has been widely practiced in many countries across the globe. Dominantly the research, development, techniques and practices have emerged from west particularly in USA, Australia and Europe (Belal, 2000). However, in developing nations, businesses are reluctantly taking this practice into account but the focus of CSR initiatives is more efficiency centered and market focused (Patrick et al., 2014). In Pakistan, CSR is just in its infancy and the activities focus more upon compliance or philanthropic contributions. In the context of a developing nation, characterized by high uncertainty and environmental turbulence, investing in CSR can bring potential intangible benefits to the organizations. The social context of CSR in Pakistan provides a fertile ground for organizations to adopt CSR as regular business practices due to the collectivist culture as well as the religious orientation. The religious and social context of Pakistan provides a catalytic basis for the notion of CSR. As stated by Williams & Zinkin, (2010), development in Islam refers to fulfillment of the material needs of both individuals and society as well as individual and social behavior of people to maintain self-fulfillment and social justice. Similarly, Islamic values promote the concept of CSR by the idea of brotherhood and justice to balance employee rights and better coherence between self-interest and altruism (Durrani, 2016).

Although CSR is a discretionary business practice, but as the need of the time, it seems to become more obligatory for larger businesses operating in the country. This can have a good impact on the resource development in terms of both human and physical resources in Pakistan.

The definitional realm of CSR is manifold. Some of the aspects are related to quality control and regulations while other talk about stabilizing the community welfare, climate and ecosystems. Nevertheless, both of these dominant notions have to consider economic growth and profit maximization as fundamental. However a broad but reasonable perspective was presented at World business council for sustainable development which defines “corporate social responsibility is the continuous commitment of business to behave ethically and to contribute to economic development while improving the quality of life of the workforce and their families and as of local communities at their large” (WBCSD, 2007).

By far, the most recognized definition of CSR is perhaps presented by Carroll (1990), which defines CSR in four dimensions. According to Carroll a corporation does not merely require meeting its economic concerns but also should behave legally, ethically and contribute to the society voluntarily.

By and large, the External CSR had been more into focus of Social Responsibility research that includes two major themes; one the environment and second community service. Nevertheless, the literature lack its focus upon the internal dimension of CSR as well as how the two dimensions can be related. Here a comprehensive notion of CSR is taken into account to build a reproduction of CSR practices for generating strategically usable organizational resources.

Nowadays, there is a shift in how companies and academicians understand corporate social responsibility. While initial construct has sheer emphasis on ecological and community welfare, the recent developments find that responsibility towards worker's well being in the organization encompassing his career, health and safety is equally considerable (Faisal, 2010). Thus, current literature in CSR relates to employees as primary stakeholders as beneficiary of CSR activities (Nasruddin & Ali, 2010) in four main facets. This includes; organizations principles for treating the employees on equitable basis by showing equal opportunity to the talented and promoting diversity, the organizations agenda for employees training needs for identifying and developing the talent, organization's intent to deal employees on humanitarian grounds and taking care of their health and safety at the work and to optimally utilize the resources by minimizing environmental damage.

Many recent researches should multiple ideas for CSR policies and practices that organizations can adopt under various circumstances (Porter and Kramer, 2006; Googins. Mirvis & Rochlin, 2007). According to Lantos (2001), Other than the fundamental rationale of altruism, there are ethical and strategic reasons to adopt CSR practices to enhance one's competitive position.

*Stakeholder Perspective*

Stakeholder theory has gained significant attention after the publication of Edward Freeman's 'Strategic Management: A Stakeholder Approach' (1984). He argues that business relationships should include all those people who affect or are affected by the business activity. Few researchers have integrated stakeholder theory with corporate governance perspective and agency perspective (Hill & Jones, 1992).

Stakeholder theory is the most widely used foundation for developing a business case of corporate social responsibility (Branco & Rodrigues, 2007). It conceptually defines stakeholder relationships in ethical and organizational management terms. Stakeholder theory suggests that the purpose of a business is to create value for stakeholders. In order to succeed and be sustainable over time, executives must keep the interests of customers, suppliers, employees, communities and shareholders aligned and going in the same direction. According to Carroll, 1991, there is a natural fit between the idea of corporate social responsibility and an organization's stakeholders. The concept of stakeholder personalizes social or societal responsibilities by delineating the specific groups or persons business should consider in its CSR orientation."

Wood (1991) suggests that CSR maybe differently perceived by the business and its stakeholders and similarly they assess corporate social performance in a different way. This is challenging for managers to balance the ideological positions of stakeholders. With the changing external environment of organizations, the paradigm of stakeholder relationships is also shifting from transactional to a more relational approach which certainly has an impact on value creation and profit maximization. (Post, Preston & Satche, 2002). Stakeholder theory presents a moral orientation of business and describes stakeholders as allies to the corporation. So CSR has a reciprocal relationship towards its stakeholders (Solomon, 1994). Lizarzburi (2014), suggested that stakeholders' perceptions can be a determinant of companies' reputation which can be maintained through CSR policies. Thus, by managing the stakeholder relationships and by creating a strong identification between stakeholders and corporation, companies can manage their reputations (Arikan, Guner, 2013).

*Resource Based Perspective*

Resource based view was first developed by Wernerfelt (1984) and extended by Barney (1991). According to Barney corporation is a bundle of heterogeneous resources that a firm specifically holds. Such resources are immobile and this immobility of resources is a competitive advantage for the firm. Resources that are valuable, inimitable, rare and un-substitutable can provide organizations an edge over the competing business in the industry. Generally, the resources which fulfill these criteria are intangible resources such as good will, reputation, distribution channels, technical knowledge (Wernerfelt, 1984). When competing businesses can't deploy equivalent resources a sustainable advantage is created for the firm with better resources. These resources can be acquired historically

such as organizational culture. Complexity is also a feature which can bring uniqueness to the organizational resources. Such complex resources can be created by a dynamic and coordinated action of a large number of people and such resources exhibit as stakeholder relationships within the organizations.

Many researchers identify CSR activities as a valuable strategic resource such as corporate differentiation (Hillman & Keim, 2001), corporate reputation (Barney, 1991), environmental responsibility programs (Hart, 1995). According to Bartlett (2009) all CSR activities should generate a resource for the firm that is a source of competitive advantage.

Relating the Resource Based View and stakeholder perspective, we can say that companies depend upon their stakeholders to obtain necessary resources for their survival and development.

#### *Perceived Organizational Performance*

Perceived organizational performance is an important and very common measure determined by many researchers. It refers to the effectiveness and performance of an organization as appraised by the members of that organizations that increases the coherence and bonding of employees with company. Such measure of performance can impact the business through different means such as development of a strong relationship network with stakeholders and other organizations. The study of Yet & Anson (1993) presents important findings about working relationship of employees and organizational performance.

Perceived Organizational performance had been of profound interest to researchers in Human Resource Management. The literature reveals organizational performance as an outcome of employee relations, people's attitudes and behaviors, work family arrangements, ethical and moral concerns of employees and the value systems (Terry & Jill, 2001).

#### *CSR and Perceived Organizational Performance*

In the historical context of CSR research, financial performance is the most common and significant focus of the research encompassing both the perceived and firm's financial performance. A little literature support is also available on the relationship of CSR and perceived financial performance.

According to our rationalization and the precedent research on CSR, it creates an image of the organization in stakeholder's mind that ultimately fabricate the perceptions of organizational performance. Considering the case of such reputations perceived organizational performance is a mirror reflection of corporate reputations created in stakeholder's mind about corporate social performance.

The ideology of CSR persuade organizations to investigate the environmental and social interactions of a business along with its economic interaction to the community (Stephen & Alfred, 2011).

*H1:* There exist a positive relationship between Internal CSR and perceived organizational performance

### *Reputational Capital*

Many scholars define corporate reputation as an intangible and very fragile resource to the organization (Goldberg et al., 2003). According to Elsbach and Glynn (1996) firms cultivate three types of reputations: toughness, high quality and distinction. Fombrun (1993) defines corporate reputation in terms of four inter related characteristics including, trustworthiness, credibility, reliability & responsibility. He further states it as an economic asset to the organization which has long term investment value and relates to firm's financial soundness (Fombrun 2001). Strategy scholars define it as a resource of the firm which is an outcome of the competitive process (Mahon, 2002).

Fundamentally, reputations are developed by stakeholder expectations from companies. Organizations characterized with higher employee retention rates and High performance work systems demonstrate positive reputations and vice versa. Thus, organizations' good reputations can increase the talent pool of an organization (Hamori 2003). Similarly, reputable companies can attract the investors more easily. Hence it can be considered a determinant of human capital because reputable organizations have very selective hiring procedures and demand high performing workforce.

According to Petrick et al. (1993), reputations are gained by trusting employees through good management practices and responsible behaviors, thus organizations gain credibility among many of its stakeholders which uplifts the social and moral status of an organization by position and organization as a responsible corporate citizen.

### *CSR and Reputational Capital*

Many scholars have recognized corporate social responsibility as a matter that influence corporate reputations (Brammer & Pavelin, 2004); (Lodgson & Wood, 2002), (Mahon & Watrick, 2003). Siltaoja (2006), presents the same link through the value theory. An alignment between individual's value priority and value placed in company's CSR action can build favorable reputation in the minds of stakeholders. Value priorities form the basis of CSR actions and are a criterion to evaluate the appropriateness of these action for similarly affecting the reputations of the company. The CSR-reputation relationship is also significant from morality perspective. If the ethical behavior is the CSR bottom line, this will define the term responsibility dominantly.



Existing research reveal that social responsiveness can play a significant role in promoting good relationships with primary stakeholder groups upon whom the survival of organization primarily depends (Clarkson, 1995). Further to this Hillman & Keim (2001) propose that effective stakeholder management can create intangible and socially complex resources that may enhance firm's ability to increase long term value creation. Brammer & Millington (2007), suggests that philanthropic expenditures may play a significant role in stakeholder management and leads positive impressions.

Dowling (2002) gives a model of corporate reputation building which considers the importance of employees in developing the corporate image into a corporate asset. Reputations, seeing from a multi stakeholder perspective are the collective observation of many stakeholders of the company. Such as a good value repute by customers, opportunities of collaboration from business partners and legitimacy from community perspective (Fombrun & Riel, 1999). According to them companies can build a safety net from a corporate citizenship perspective encompassing all the stakeholders.

*H2: There is a positive relationship between Internal CSR and Reputational capital.*

#### *Reputational capital and Firm Performance*

According to Fombrun & Riel (2004), the accumulation of perceptual and social assets which is developed by the stakeholder relationships and corporate positioning of a company establishes the reputational capital. Shapiro (1983), argues that favorable reputation based upon quality can provide a flow of profits which compensate the cost incurred in building that reputation. Similarly, it marks a cost of entry to maintain its customers and serves as an immunity to any unintended damages. According to Carmeli & Tishler (2005), Organizational performance is an outcome of perceived good will created by corporate actions.

According to Barney, firm resources can be any, such as competencies, capabilities, skills, reputations assets or any other object. The integration of these resources can formulate a unique pattern of a resource such as reputations which can be very industry or firm specific and can prove to be an exceptional advantage for the firms.

Coff (1999), argues that the essence of RBV lies in how it connects a firm's profitability to its unique pool of resources. The firm can choose to build these resources either internally or acquire through external environment, whereas the later can be more costly and imitable. In short, reputations are a key resource for organizations that add value in business in tough competition. The current research is structured to find out how socially responsible companies develop their reputations which can benefit by serving as a competitive resource which qualifies the criteria of uniqueness and inimitability as suggested by RBV.

*H3a: There is a positive relationship between reputational capital and organizational performance*

*H3b: Reputational capital mediates the relationship between Internal CSR practices and perceived organizational performance.*

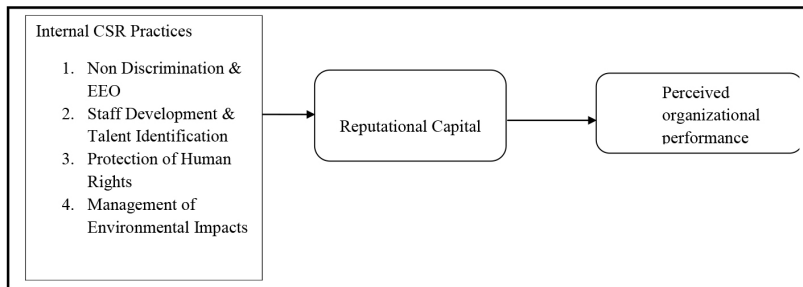


Figure 1: Theoretical Framework

## Methodology

### Sampling

The study uses multistage probability sampling whereby industries are chosen through purposive sampling. Patton (2001) describes these as samples within samples and suggests that purposeful samples can be stratified by selecting particular units or cases that vary according to a key dimension. Since industry size is not the same, firms in each industry were selected by using stratified random sampling technique. Finally respondents from each of the selected companies were chosen through convenience sampling method. Overall 750 questionnaires were distributed to middle managers, out of which 524 were received yielding 69.03% response rate.

Table 1  
*Summary of Instrument & Reliability*

Sr. no.	Variables	Codes	Instrument authors	No. of Items	Previous Reliability	Measurement Scale	Cronbach's Alpha
1	Internal CSR	ICSR	Duygu Toker 2006	8	0.90	1 = SA, 5=SD	0.84
2	Reputational Capital	RCAP	Shwaiger 2004	19	0.84	1 = SA, 5=SD	0.87
3	Perceived Organizational Performance	POP	Delany & Heuslied 2001	6	0.85	1 = SA, 5=SD	0.84

### *Data Analysis*

Structured equation modeling (SEM) is used to analyze the data. A three step approach is used for data modeling, i.e. Common Factor Analysis to establish latent variable numbers, Confirmatory Factor Analysis for confirmation of measurement model & Structural model. This is followed by an overall estimation fit of measurement and structural model by using indices such as Goodness of Fit Index (GFI), Adjusted goodness of fit (AGFI), Comparative Fit Index(CFI) and Root Mean Square Error of Estimation (RMSEA).

### *Correlations*

Significant correlations are found between all variables. The correlation between ICSR and RCAP shows a value of 0.60 where  $p > 0.01$ . This shows ICSR to be more considerably related to RCAP.

In case of correlation between RCAP and POP the coefficient value of 0.61 is shown. The relationship between RCAP and POP shows the most significant values that shows that a strong positive relationship exist between RCAP & POP. Therefore, we can interpret that the more positive perceptions about CSR held by employees will lead to better reputations and Perceived organizational performance subsequently.

Table 2

### *Correlations*

		MICSR	MRCAP	MPOP
MICSR	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	524		
MRCAP	Pearson Correlation	.601(**)	1	
	Sig. (2-tailed)	.000		
	N	524	524	
MPOP	Pearson Correlation	.581(**)	.616(**)	1
	Sig. (2-tailed)	.000	.000	
	N	524	524	524

$p < 0.01$

### CFA: Measurement Model

#### Structural Model

The model fit for these variable was found to be satisfactory. The structural model was estimated that depicts reasonable values of fitness on the five indices such as CMIN/DF = 3.20; GFI = 0.90; AGFI = 0.80; CFI = 0.91; RMSEA = .065. Therefore, no critical misfit issues are found in the structural model. The AGFI and RMSEA values provide a good fit of variables.

The results suggest that employee's perceptions of corporate social responsibility reflect into organization's profitability through creation of reputational capital and thus lead to competitive advantage. The following table presents a summary of findings.

Table 3  
*Model Summary*

Model	CMIN/DF	RMR	GFI	AGFI	CFI	RMSEA
ICSR	4.51	.04	.94	.89	.93	.09
RCAP	3.70	.04	.88	.84	.85	.08
POP	4.42	.03	.97	.93	.97	.09

Table 4  
*Summary of Findings for Mediation*

Path	Total Effect	Direct Effect	Indirect Effect	Confidence Interval	
				LL	UL
ICSR----RCAP----POP	0.66(0.040)	0.25(.046)	0.40(0.041)	0.32	0.49
(Standard Error in Parentheses)					

As estimated in the research model corporate social responsibility is found to have a significant and direct effect on the perceived organizational performance. This correspond to several of the previous researches in CSR such as (Stephen & Alfred, 2000; Freeman 2002). Internal CSR practices were found to be both directly and indirectly related to perceived organizational performance. Krasuz (1996), also found that social CSR and performance are positively linked using the market based measures, which is also emphasized by Orlitzky et al. (2003).

Many researchers from various countries also verify a positive and significant relationship between CSR and FP to firm's advantage. Earlier research on the effects of CSR on financial performance mostly focused on the manufactured industry (Kang et al., 2010) and found a positive result as in the current study.

There exist a significant positive relationship between ICSR and RCAP. ICSR takes into account company's responsible practices towards employees who are one of the primary and directly affected stakeholders of a firm and can create good/bad word of mouth for the organization. As a stakeholder the employee's relationship with company is manifold as they are part of the company in which they work and part of the community in which company is working. They act as general, consumer and employee stakeholders. According to the social identity perspective, employees identify themselves with the company and their individual experiences can shape the reputations of a company. The underlying reason for the significance of internal CSR practices could be that people form their judgments as part of the direct experience the gain from the company. It is deduced that company cannot create value through CSR outside the organization until it creates such value first inside the organization. Karagiorgos (2011) also suggested that a positive relation of CSR towards firm financial performance indicates that companies could increase their external reputation. It is inferred that stakeholders build up multiple expectations from the company and if met by the company by keeping up their commitments and providing a sound experience with the company can enhance corporate reputations.

### **Conclusion**

Overall our results provide some important insights into the dynamics and implications of Corporate Social Responsibility. While most extant literature emphasizes the link between profitability and CSR, the results of this study emphasize the need to determine the content of this linkage and also adds a perspective to create resources such as reputational capital from CSR practices that can enhance the competitive stature of the organization.

The results and discussion confirms the relationship between CSR and reputational capital and the firm performance through the stakeholder and resource based perspective. From the results it can be seen that creation of reputational capital is important to determine the firm's profitability. The study brings about the significance of the strategic use of CSR. The relationship presented between variables in this study manifest that the interpersonal relationships between different stakeholder groups and management, firm's can create a complex and dynamic social exchange process that can become an underpinning resource for organization's sustainability and long term profits. This confirms the earlier propositions of CSR and its linkage to firm profitability (Kathleen, Schuler, 2013).

Although the study provides evidence for the hypothesis proposed yet it can be enriched in future. Reputations are built over a period of time and can be broken easily. The current study is cross sectional and has taken reputations at one point of time. Further, longitudinal studies may determine some useful insight into the mediation suggested. The study took data from employees of middle management, a wider scope of the same is possible if data is gathered from multiple stakeholders. Future studies should be conducted to find out how CSR can become an imperative part of organizational structure and processes.

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# PROSPECTING THE PROCESS OF RESILIENCE AT WORK: AN INVESTIGATION WITH THE MARKETING AGENCY PROFESSIONALS OF KARACHI

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## Abstract

*Resilience at work defines the attributes of employees who deal proficiently with stresses in the modern workplace. Limited research is present to show how people can develop resilience at work and how managers can develop this capacity in others. This is necessary for the growth of marketing communication agency to develop professional work place with resilience from its employees because the concept of propagating business through marketing communication agencies have been revolutionized in a matter of few years. Qualitative approach has been selected for this study, while methodology is grounded theory. The data for this research has been gathered from marketing agency professionals within Karachi. Semi-structured interviews were used to collect data. Simultaneously, analysis was carried out by coding and grouping the data. The process of resilience has been explored in this study with 24 professionals who have encountered setbacks in the job of marketing communication profession. Analysis of the data revealed in-depth knowledge of the situations outcomes that serve as trigger events or springboard for individual resilience and the recuperation strategies by which resilience at work could be build and help professionals for capacity development of resilience at work.*

**Keywords:** Resilience, Marketing, Karachi, Professionals, Recuperation Strategies

**JEL Classification:** M 000, M 300, M 390

## Introduction

Marketing agency professionals have to produce creative work and always face negative feedback, criticism and rejections from their managers, respective clients and peers. In order to

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continue their jobs and getting salaries smoothly, marketing agency professionals face hesitation in returning the criticism. It cause several tensions in their practical lives when such criticism combine with the tight deadline, late working hours ,more demanding creative working (Career Cast, 2010;Crenshaw, 2013).

According to research, due to negative feedback from the managers, respective clients and peers, the turnover rate of marketing communication business is 30 percent approximately (Stratz,2012; Ad Age,2013 ).It does not mean that there is no productive role of negative feedback. In fact, it is fully accepted by human resource professionals who are keenly interested in professional development of worker (Ilgen & Davis, 2000).In some places, negative feedback could create a hostile behavior towards the source which can cause further conflict and relation break which can continue for several years in future (Cannon & Witherspoon, 2005; Chory & Kingsley Westerman, 2009). However, client service professionals do not find option of expressing the criticism in reply due to the nature of their job while they form resilience conditions, which help them to carry their professional work. It has been elaborated in research that a person's level of resilience is worth more than the education, training and experience of him/her. It determines who will fail and who will succeed (Coutu, 2002).

Research tells us that about half million people are toiled in marketing communication agencies in the US who are proficient in digital advertising , direct marketing, purchasing media planning or public relations (U.S. Bureau of Labor Statistics, 2014a). Agencies mostly organized by departments and encompasses the following: Account manager, account planning and creative media buying with some subsidiary section of organizations for instance, digital & mutual, production and graphic arts (Advertising Education Foundation, 2014). Account Management/Client Service departments have centered experts' attention in recent days .These departments typically entitled in arena of advertising and public relationship businesses where marketing professionals like assistant account executive, account coordinator and account manager work. Furthermore administration supervisor, account director, account supervisor and account group director encompasses in administration positions evaluated by web sites of public relations and advertising agencies across the United States. Despite of the specific title of Account Manager referring to the individuals who work in accounting branch, here, it is used for the disquisition to mention professionals who toil in advertising communication organizations and client services (Blasdel, 2015).

Blasdel (2015) provided evidences from the US and concluded about the worth of resilience at work with marketing agency professionals of US in the form of their experiences. The concept of propagating business through marketing communication agencies is also spreading in Pakistan. This study is subject to examine the process of resilience at work for the Marketing Agency Professionals within Karachi, as they are the key resource for the marketing communication agencies. The aim of this research is critically analyze how marketing agency professionals of Karachi trip resilience at work when there are negative performance remarks from customers, colleagues and management.

### Literature Review

In literature, resilience exhibits the concepts and a factual finding in psychology (Buzzanell, 2010). The communicative aspect represents an alternate that creates resilience (Torres & Fyke, 2013). Buzzanell (2010) described “a notably enduring an array of identity due to which individuals and their community individuals, collegial, and/or familial explained who they are in relation to others and for themselves”. One method for creating resilience is by communicating individuals and companies for constructing social capital and money during challenging times (Buzzanell, 2010; Youssef & Luthans, 2005). In addition, the essential position of resilience is unique from hope and optimism. Whereas, the existing research about resilience argues with the aid of assessment that overall performance of negative feedback may additionally be activated and engendered. Feedback conceptualized as “information furnished through parents, teachers, peers, experiences and self involves factors of one’s performance” (Hattie & Timperley, 2007).

Research suggests that intellectual and physical health evolution is associated with physical and mental health and it contributes to protection against post-traumatic stress disorder in combat veterans (King et al., 1998; Vaishnavi et al., 2007; Waysman, Schwarzwald, & Solomon, 2001). However, the notion “Resilience” has been taken to be a mental health index (Ramaniah, Sharpe, & Byravan, 1999; Maddi & Khoshaba, 1994), particularly it can correlate with mental and physical health evolution (Vaishnavi et al., 2007). Coutu (2002) concluded that resilience may be linked up to neuropsychiatric disorder prevention so it plays an essential role in mental fitness.

Previously, resilience mostly focused on children while further researches elevated to probe with aged people (Luthans, Vogelgesang, & Lester, 2006; Moekenmeyer, Hoegel, & Weiss, 2012). A critique in views of men and women being resilient produces a wrong split between ‘non-resilient’ and ‘resilient’ individuals” (Wilson & Arvanitakis, 2013).

Evidence is increasing about resilience that it has some validity in biological manner and better understanding for the insight of resilience concept could be important and vital for the treatment of assortment of disorders relevant with neuropsychiatric disorders (Vaishnavi et al., 2007).

Optimism and hope are applicable where a situation can be accessed with a plan (Youssef & Luthans, 2005); whereas resilience identify the flexibility needs, adaptation, proactive and reactive measures in the face of adversity (Youssef & Luthans, 2005). Moore, Grunberg, and Greenberg (2004) illustrated that individuals who are in connection with layoffs (either by witnessing colleagues being laid off or being laid off self personally) reported high level of intentions to quit, low level of job security, depression role ambiguity and other problems. They further argued that connection with layoffs tend to reduce resilience once setbacks have settled.

The present research argues that feedback on negative performance is a situation where resilience may engendered in performance feedback. Another person provided communication-containing information is usually intend to assist candidates in their future performance and to inform about their past job performance (Chory & Kingsley Westerman, 2009). If feedback gives passes negative emotions then it will influence the feedback quality in a negative way. For example, a manager can overbear his/her emotions and could hit his/her subordinates and this feedback cannot be counted in the type of constructive responses (Cannon & Witherspoon, 2005). Understanding the process of resilience at work is the requirement of management for low employee turnover and mitigation in psychological damage to professional staff (Blasdel, 2015).

### **Research Methodology**

#### *Research Approach*

One of the objectives of a research format is to find out compliance that records what we collect sufficient to tackle the research argument logically (Dannels, 2018). Badke (2017) advised that research strategies should be based upon the precise task at hand. A qualitative approach bounds to answer queries appropriately associated as to how resilience is activated after negative feedback from purchasers and colleagues from advertising and marketing communications experts. The qualitative research entails emerging quests from a massive data and examining inductively from particulars to standard issues, which adopts positive aspects to locate troubles that frequently missed such as nuance and complexities (Creswell, 2014; Hughes, 2006). A qualitative research is a collective process through that the people studied about their lives (Lindlof & Taylor, 2011). Babbie (2010) depicts qualitative approach through establishing a guidance to pursue additional subjects raised by means of the interviews.

According to Crabtree and Miller (1992), the investigation is supposed to apprehended revealing material that cannot be delivered through quantitative data about values and feelings that underlie actions. In previous studies, quantitative methods have been used to explore Ego-Resilience (Block & Kremen, 1996) as flexibility in the workplace. The scale used has 14 items survey such as “I shortly get better after being alarmed” and “I like to take distinctive trails to intimate places”. Youssef and Luthans (2005) used survey statistics for recognition that how resilience relates to man or woman consequences on behalf of performance and commitments with satisfaction of job and enjoyable working environment. However, these ventures do not have a motive to determine if advertising and marketing exchange authorities are most resilient as compared to others. Therefore, qualitative inquiry used is a first-class method to acquire this knowledge.

The research approach suited for this study is the inductive approach that has been specified as the dominant research approach in the natural sciences and Creswell and Creswell (2017) clarify theoretical or conceptual position prior to the collection of data. The intention of this research is

prospecting the process of resilience at work for the marketing agency professionals of Karachi. We have used the research methodology Grounded Theory here.

Grounded Theory (GT) in social sciences is a systematic methodology concerned the concept through the analysis of data that operates inductively. Usage of grounded concept is likely to start with a quest of series of qualitative data. Further researchers evaluate the collected statistics, repeat ideas and concepts as well as tag with codes and these codes are grouped into concepts, and then into categories with composed and reviewed data based on new theory. Hence, grounded principle is quite different from the regular model where an existing theoretical framework can be chosen by researcher to show how the theory does or does not observe the study (Charmaz, 2014).

Several researchers have tried different number of elements for linking with the grounded idea such as given by Dick (1990) in the following figure 1.

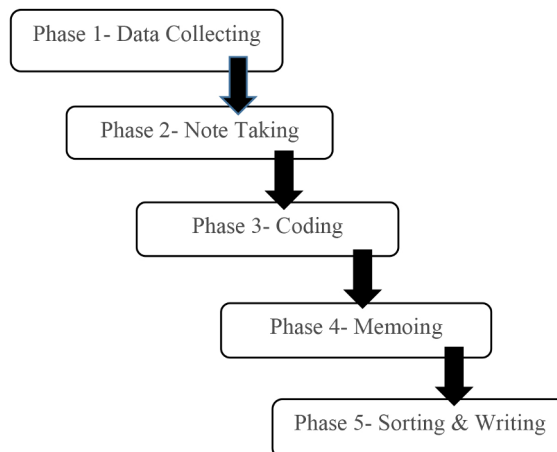


Figure 1: Phases of Grounded Theory (Dick,1990)

This research is strong in the sense that it has iteration process. It contains in-depth semi structured interviews. Data collection has been done through strong referral network so high level of abstraction has been obtained. It has implications for senior managers and top management

#### *Population and sample size*

In research, population refers to individuals or objects that have similar characteristics or traits. Since a population is a large group of people or individuals therefore it is difficult, time consum-

ing and costly to reach all of them. In Pakistan, marketing communication business has boosted in past recent years. The whole concept of propagating business through marketing communication agencies have revolutionized in a matter of few years and the marketing agency professionals of Karachi are the population for our research. We selected those employees who had at least two years of job experience. All those employees with less than 2 years of experience are usually considered as fresh employees, as they are usually in the phase of job-hunting and may not have spend enough time in the agency environment to be able to relate the job shifting behavior in the context of marketing professional and this is the reason behind their non-selection.

A sample is a subgroup of the population (Khalid, Abdullah, & Kumar, 2012). With 24 advertising and marketing communication experts, semi-structured interviews have been performed. This population has been chosen because they acquire numerous critical remarks due to the nature of their work. Participants were working in eight different advertising organizations. Participants included marketing managers, supervisors, executives and coordinators. The foremost requirement is the nature of their job that should demand controlling a range of relationships with purchasers within their respective agencies.

#### *Data Collection and Data Analyses*

We used semi-structured interviews to collect data. Data collected through open-ended questions that have been adapted from Blasdel (2015) in the local context, and had been handled through notes taking process. At the time of coding, scattered data had been categorized to facilitate analysis. Coding means transformation of data into an understandable form. Memos made and linked to the codes and then reviewing, sorting and reports generation had been performed. Answers to the following queries have been sought:

RQ1: While dealing with springboard or set off situation at work, what are the internal communicative factors calling for prompt resilience?

RQ2: After following springboard or set off events, how do people recuperate record when they execute resilience in subsequent set off events?

Data collection and analysis took seven months for completion. Through professional network, using snowball sampling method, the participants were identified and selected. The selected individuals were interviewed individually. Interviews were conducted based on which memos were developed which were analyzed. This whole process was carried out simultaneously and through iteration. Two-step process (wide or open) fundamental coding has been performed throughout analysis. During this stage, “chunks of data” have been categorized (Lindlof & Taylor, 2011). The records were categorized into significant classes where an appropriate suit was revealed. To indicate analytical linkages, the class codes or labels were developed between the data. The developed codes for the theme “*Working in this company support my family in terms of health benefits*” were “Company supports parents”, “Spouse needs support”, “Medical benefits include financial reimbursement”, “My

family needs medical” and “Company gives medical”. Similarly, the developed codes for the theme “*Problems teach how to survive*” were “learning through problems”, “Without problems no life”, “Survival through problems” and “Problems give lesson to life”,

To collect and analyze the data, the similarities and frequent factors from the interviews were specified into categories and themes. The process of inspecting the facts means that we are able to generate classes and reorganizing facts (Miles & Huberman, 1994). The purpose of writing memos was to have written documentation of the evaluation, which would help open up the inquiry. Memoing aided to seize gush thoughts and imposed standards. While the process of memoing ties to the researcher and caters the spark, to probe the normative nature between consumer and agency due to lack of civility (Creswell & Creswell, 2017).

With Owen’s approach (1984), reoccurrence, repetition, and forcefulness have been considered to interpret the interview transcripts. Recurrence is different wording where two contributors use similar ideas and the same key words. In order to develop a key concept or theme, a confined evaluation has been carried out persistent to indicate noting times of recurrence, repetition, or forcefulness during reading and rereading the transcripts.

## Results

This research resulted in apprehending that how resilience will be retrieved from the overall poor performance outcomes through clients and colleagues. This research inquired participants to describe sort of circumstances for activating their own resilience tends to admit bounce back from negative feedback. A successful recalling was not easy and due to the fact, the comments may additionally charge emotions. Participants cited the emotional experiences and conveyed innovative thoughts to consumers who later alternated their minds or eventually had not the price range to execute the ideas.

Research Question (RQ1) in this research with particular communicative methods contributed in finding the process of resilience. The results arose from neglecting the facts and feeling pride at work. Some members confronted with hard conditions by means of preserving a perspective of job nature at workplace but in past, if they would had a pleasure of alternate working condition then that can save them from struggling with a tough consumer or colleague. Some emerged themes from the acquired responses were “Company gives me good bonuses”, “This company gives good career growth”, “All is well”, “Job is easy to me”, “My job is my passion” and “This job is tough but at least secured” (For details, please refer to appendix 1). Later following eight categories have been arises from the data accordingly and have been mentioned in figure 2.



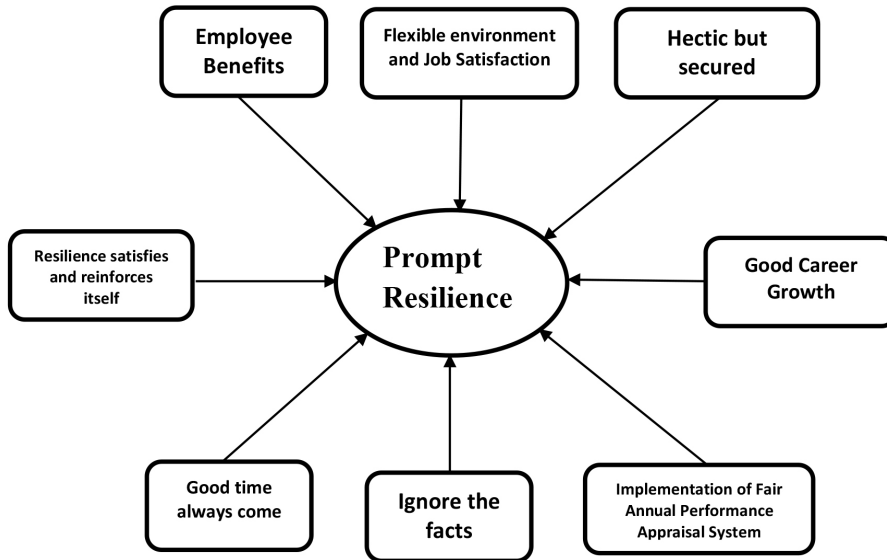


Figure 2: Building categories for calling factors of getting prompt resilience

*Good time always come:* Nobody can predict the future. Employees just need to give their best for taking care of their work. The most important things in working are remembering the other done tasks through good times and bad. Once it is clear that they have done well things in past, then it boost their motivational level.

*Resilience satisfies and reinforces itself:* Participants pleased with a mark of respect to be positive from negative feedback and stay calm throughout in times of tough criticism.

*Employee benefits:* As a result of analyzing the responses, it is determined that if employees are very disappointed with the benefits and incentives being offered to them in advertising agency then resiliency at work will be difficult. The employees remain less loyal towards their assignment and organization's goals when they are less paid. This is a growing industry and chances of switching are easy with the passage of time so employees feel that once they work hard, they will get benefit in the future.

*Flexible environment and job satisfaction:* Increasing trends of promotions, outside parties and flexible timings are in marketing industry are the key causes for influencing employees to be resilient at work. When employees are in stress and environment is not conducive, this will make them dejected, which are not in this case.

*Hectic but secured:* Most of the participants think that job is creative but tedious with time taking. It is very hectic but most often secure. Employees have not been fired usually without any substantial event or severe disciplinary action. Most of the employees are quite happy of this job security but at the same time, they are also dejected of being stressful.

*Good career growth:* Employees believe that they have very good career growth in marketing profession especially in Karachi that makes them satisfied. Besides, they have flexible working timings for which they can give adequate time to their other activities.

*Implementation of fair performance appraisal system:* Annual performance appraisal system is a tool that appraises employees at the end of each year by looking his/her achievements and overall performance during a year for maintaining the performance even having dejection of several types of working throughout the year. Participants recorded their responses that if, annual performance appraisal system is justified and they get promotions and salary raise based on their performance and hard work then they can strive to achieve organization's goals with resiliency at work.

*Ignore the facts:* Participants often convey the venture of taking disagreeable conversation personally. In our opinion, they are careful in taking criticism with great harder time rebounding. Several participants interpreted that it could be much simple with experiences in journey once we are addicted to omit bad things.

Research Question 2 (RQ2) investigates how profitable recuperation trigger incident that change human beings and how they enact resilience when face with the consequent triggers events. Analysis concedes about the benefits for working employer and working conditions that helps to trigger them to work resilient. Some emerged themes from the acquired responses were "Family supports me always", "I do philanthropy for good causes", "Mistakes are the key to success", "I convey positive messages", "Our thoughts make things beautiful or bad" and "If I be positive then I will see positive" (For details, please refer to appendix 2). Figure 3 illustrates categories that were established from the data accordingly.

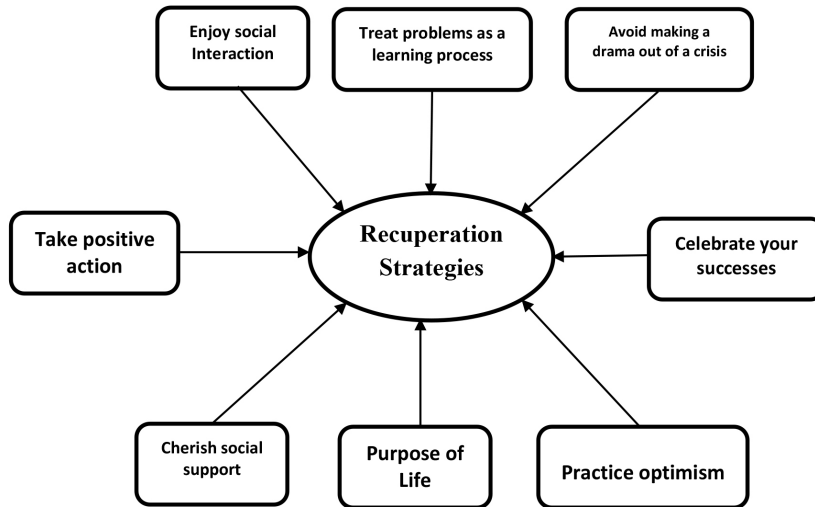


Figure 3: Building Categories for factors of getting recuperation

*Enjoy social interaction.* Good relationships with family, friends, and relatives are essential for a happy and enjoyable life.

*Treat problems as a learning process.* We need to develop the habit of using challenges as opportunities to acquire achievement.

*Avoid making a drama out of a crisis.* Although stress and changes are part of life, however we respond such events with huge stressful impacts that need to be neglect.

*Celebrate your successes.* We need to trains the mind to congratulate us at the end of the day for achieving success rather than dwelling on negativity and 'failure'.

*Purpose of Life.* We require development of realistic life goals for guidance and a sense of purpose. A beautiful and one small step amid the chaos and help in a busy day so there is need of moving towards the life. Keeping a realistic perspective is essential but, with the placement of challenging events in the broader context of lifelong personal development.

*Take positive action.* Bringing a sense of control, even if it does not remove the difficulty but aids us to face adversity. We need to nurture always a positive view of ourselves. We need to develop ability with confidence to solve problems and trusting to build resiliency.

*Practice optimism.* Nothing is either good or bad totally but only if we allow our thoughts to dictate benefits rather than letting by seeing only the bad side or with doubts.

*Cherish social support.* Helping others pacifies the soul and we need to make it a habit for us.

Overall, 16 categories have been identified through the responses of RQ1 and RQ2. Further, these categories merged into two different clusters that are prompt resilience and recuperation strategies. It suggested that the process of resilience is an ongoing process that based upon factors for getting prompt resilience at work in set off situation and recuperation strategies for facing next set off situation. Prompt resilience is bringing back the capacity of a person for responding pressure and demands of life during the trigger event or set off situation while recuperation strategies help professionals in regaining their previous state of working with calm condition and make them ready for the next trigger event or set off situation. Referring figure 4, we are proposing a model for the process of resilience at work.

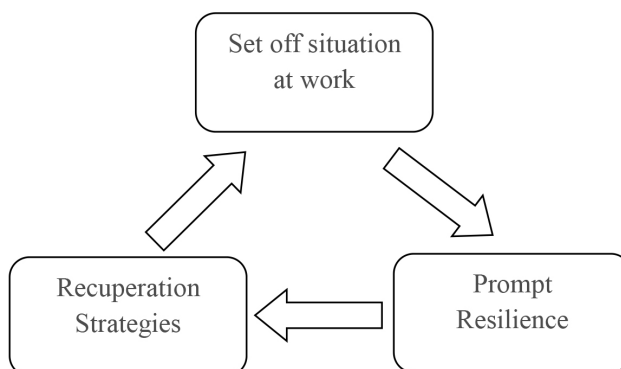


Figure 4: The Process of Resilience at Work

### Discussion

Resiliency affects our potential to ‘bounce back’. Resilience at work defines the attributes of employees who deal proficiently with the stresses and strains of the modern workplace. Also a person’s capability, encompass like flexibility suppleness, durability, strength, agile of healing and buoyancy to response strain in routine life. At work, resilient human beings are highly capable to deal with the needs placed upon them, especially dealing with continuously altering priorities and a heavy workload. The pivot is that the resilience is now not a passive quality, rather an active process and has a huge effect on our experiences. Resilience makes people to do extra things that assist responsiveness and make them capable to perform under pressure and to live in circumstances that strives with

competence to endure affectively with pressure, adversity and uncertainty that depends on creating behaviors, thoughts and actions.

Individuals can analyze techniques to assist massive resilience and determination. While resiliency experts suggested a distinct mold of characteristics and capabilities that aids them to live on and boom under stress. Indeed, due to the fact of the current realization, resilience is turning into a hot topic in enterprise that it may be simply essential for the success of professionals having capabilities such as training and experience (Coutu, 2002).

Blasdel (2015) concludes that resilience can be developed and understanding of recovery from previous trigger event affects resilience in future. However, significance of negative impact is that it will prepare the professionals for future while confronting trigger events.

The findings of this research support previous researches. If employees stay happy at work then it counts (e.g., Achor, 2015; Aaker, Leslie, & Schiffrin, 2012; McKee, 2014). Mostly researches do not create a connection between happiness at work and resilience at work while some researches have connection of resilience with other positive states like optimism and hope (Luthans & Youssef, 2005). Managers need to be mindful about the bottom-line benefits of happy employees, such as increased productivity, innovation and lesser sick days (Aaker et al., 2012).

### **Conclusion**

The conclusion of this research is enormous. The outcomes reveal some generic techniques to setbacks and prompt resilience at work used by professionals. This research frame the concept of resilience by exploring the communicative factors while proved that resilience has a capacity to develop. Notably, this research affords specific strategies of recuperation that can execute individuals or managers to enhance the capability of resilience. However, these approaches sometimes did not affect resilience at work. For example, some people with a religious conviction aided in prayer and practicing with concentration or meditation. Therefore, the key is to become aware of methods probably to work properly and for promoting resilience at work.

The potential to build resilience is a proficiency that will serve professionals properly in an increasingly stressful work place and later agencies get benefit from a greater resilient workforce. Building an organizational culture that encourages and helps resilience coaching makes commercial enterprise sense. Manager and client can work together for solving how feedback should be delivered and conflict can be managed with the agency partners. Informal and formal sessions with clients should be carried out. Agencies need to invest time and money for that, as it is likely to count as pales in comparison to the money and time lost due to turnover.

### *Limitations and Future Implications*

Due to the referral factor for gathering all agency professionals, this research is limited to a small sample size. Convenient sampling has been used to referral system and due to limited network, this research is restricted to single city only. It is time consuming and has financial constraints for pursuing research in future.

Although this study is time and money consuming, it can be expanded to other cities of Pakistan because marketing agency profession is progressing throughout Pakistan and resilience at work is the need of the day. Marketing Communication practitioners need to use this research for the development of resilience among their team members and within themselves. They can learn how psychological and emotional damage could be mitigated to professionals. It would help in reducing the turnover of marketing agency professionals. This study is not limited to the marketing profession and it can apply to other professions as well where set off situations occur.

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### Appendices

#### Appendix 1: Emerged categories from the responses of RQ1

S.No.	Interviewees	Themes	Categories
1	Interviewee No.1	Company gives me good bonuses	Financial Benefits
2	Interviewee No.2	This company gives medical reimbursement	
3	Interviewee No.3	I will get new vehicle soon on the basis of performance	
4	Interviewee No.4	Experience of working in this company is reputable for switching to next level job in any other company	Good Career Growth
5	Interviewee No.5	This company gives good career growth	
6	Interviewee No.6	I am getting promotion next year	
7	Interviewee No.7	I feel proud in doing job here due to my salary package	Ignore the facts
8	Interviewee No.8	That was unnecessary	
9	Interviewee No.9	All is well	
10	Interviewee No.10	Things will always change	Good time always come
11	Interviewee No.11	Good time will come after bad time	
12	Interviewee No.12	Happiness is more than grief	
13	Interviewee No.13	Working timings are flexible	Flexible environment and Job Satisfaction
14	Interviewee No.14	Working environment is good	
15	Interviewee No.15	I am not a morning bird so feel happy in coming late	
16	Interviewee No.16	I can go early once after completion of work	
17	Interviewee No.17	I can work from home	
18	Interviewee No.18	Job is easy to me	
19	Interviewee No.19	My job is my passion	
20	Interviewee No.20	I love this job	
21	Interviewee No.21	This job is tough but at least secured	Hectic but secured
22	Interviewee No.22	Management is fair in terms of appraisal	Fair Annual Performance Appraisal System
23	Interviewee No.23	Performance appraisal system is good	
24	Interviewee No.24	My shy nature makes me calm	Resilience satisfies and reinforces itself

**Appendix 2: Emerged categories from the responses of RQ2**

S.No.	Interviewees	Themes	Categories
1	Interviewee No.1	I do social service	Enjoy social interaction
2	Interviewee No.2	Family supports me always	
3	Interviewee No.3	My friends help me in my need	
4	Interviewee No.4	My family is my life	
5	Interviewee No.5	I call friends at the time of problems	
6	Interviewee No.6	I learn from my mistakes	Treat problems as a learning process
7	Interviewee No.7	First time problem will never become problem again	
8	Interviewee No.8	Mistakes are the key to success	
9	Interviewee No.9	Problems teaches how to survive	
10	Interviewee No.10	Once an issue is resolved then there is no need to make it live again	Avoid making a drama out of a crisis
11	Interviewee No.11	Conflicts needs to be resolved at the earliest level	
12	Interviewee No.12	Always nurture a positive view of yourself	Take positive action
13	Interviewee No.13	Good feedback giver sense responsible	
14	Interviewee No.14	I convey positive messages	
15	Interviewee No.15	I enjoy the success	Celebrate your successes
16	Interviewee No.16	I am happily manage the good time	
17	Interviewee No.17	I find events of celebration	
18	Interviewee No.18	Our thoughts make things beautiful or bad	Practice optimism
19	Interviewee No.19	Beauty is in our eyes	
20	Interviewee No.20	Either I can see half glass filled or half glass empty, it is up to me	
21	Interviewee No.21	If I be positive then I will see positive	
22	Interviewee No.22	I keep a realistic perspective	Purpose of Life
23	Interviewee No.23	Realistic life goals play role for guidance	
24	Interviewee No.24	I do philanthropy for good causes	Cherish social support

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4. Manuscripts should be typewritten on one side of the page only, double spaced with wide margins. All pages should be numbered consecutively, titles and subtitles should be short. References, tables and legends for figures should be typed on separate pages. The legends and titles on tables and figures must be sufficiently descriptive such that they are understandable without reference to the text. The dimension of figure axis and the body of tables must be clearly labelled in English.
5. The first page of the manuscript should contain the following information; (i) the title; (ii) the name(s) and institutional affiliation(s); (iii) an abstract of not more than 250 words. A footnote on the same sheet should give the name and present address of the author to whom reprints will be sent.
6. Acknowledgements and information on grants received can be given before the references or in a first footnote, which should not be included in the consecutive numbering of footnotes.
7. Important formulae (displayed) should be numbered consecutively throughout the manuscript as (1), (2), etc., on the right hand side of the page where the derivation of formula has been abbreviated, it is of great help to referees if the full derivation can be presented on a separate sheet (not to be published).
8. Footnotes should be kept to a minimum and be numbered consecutively throughout the text with superscript arabic numerals.
9. The references should include only the most relevant papers. In the text, references to publications should appear as follows: "Khan (1978) reported that...." Or "This problem has been a subject in literature before [e.g., Khan (1978) p. 102]." The author should make sure that there is a strict "one-to-one correspondence" between the names (years) in the text and those on the list. At the end of the manuscript (after any appendices) the complete references should be listed as:  
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  - b. Newbery, Daved M.G., 1975,. The use of rental contract in peasant agriculture, in: Reynods, ed., Agriculture in development theory, New Haven: Yale University Press p.3-40.*For periodicals*
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  - d. Note that journal titles should not be abbreviated.
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11. All unessential tables should be eliminated from the manuscript. Tables should be numbered consecutively in the text in arabic numerals and typed on separate sheets. Any manuscript which does not conform to the instructions may be returned for necessary revision before publication.
12. PBR will prefer 4500 words in a research paper.

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13. The paper should belong to core business subjects. Papers on sports, literature, fiction, biography, fashion, philosophy etc. fall outside the scope of the PBR.
  14. Papers and references should conform to the APA format.

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1. If authors are interested to submit more than one paper in the PBR, then Rs. 10,000/= will be charged per submission.
2. The cheque for the above amount may be sent to The Managing Editor, Institute of Business Management.
3. If the paper gets rejected during the review process, the remaining balance will be returned back to the author.
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#### **INSTRUCTIONS RELEVANT TO JOURNAL MANAGEMENT SYSTEM**

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#### **Submission Preparation Checklist**

As part of the submission process, authors are required to check off their submission's compliance with all of the following items, and submissions may be returned to authors that do not adhere to these guidelines.

1. The submission has not been previously published, nor is it before another journal for consideration (or an explanation has been provided in Comments to the Editor).
2. Manuscripts should be submitted in Microsoft Word .DOCX format, double spaced with wide margins. All pages should be numbered consecutively, titles and subtitles should be short. References, tables and legends for figures should be typed on separate pages. The legends and titles on tables and figures must be sufficiently descriptive such that they are understandable without reference to the text. The dimension of figure axes and the body of tables must be clearly labeled in English.
3. Title page and manuscript should be submitted separately.
4. Information contained in the Title page should be submitted in the Metadata section of the online submission process and must contain with completeness (i) article title; (ii) abstract of not more than 150 words (iii) keywords; (iv) name(s) and institutional affiliation(s) of author(s); (v) name and email address of corresponding author should clearly be mentioned; (vi) A footnote on the same sheet should give the name and present address of the author to whom reprints will be sent.
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6. The submission file containing the article must be clear of any information revealing the identity of the author(s).
7. Abstract should contain (i) Purpose (Problem Statement); (ii) Methodology/Design; (iii) Originality/Value; (iv) Findings; (v) Implications under separate headings.
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9. Acknowledgements and information on grants received can be given before the references or in a first footnote, which should not be included in the consecutive numbering of footnotes.
10. Important formulae (displayed) should be numbered consecutively throughout the manuscript as (1), (2), etc., on the right hand side of the page where the derivation of formula has been abbreviated, it is of great help to referees if the full derivation can be presented on a separate sheet (not to be published).
11. Footnotes should be kept to a minimum and be numbered consecutively throughout the text with superscript Arabic numerals.
12. The references should include only the most relevant papers. In the text, references to publications should appear as

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follows: “Khan (1978) reported that...” Or “This problem has been a subject in literature before [e.g., Khan (1978) p. 102].” The author should make sure that there is a strict “one-to-one correspondence” between the names (years) in the text and those on the list. At the end of the manuscript (after any appendices) the complete references should be listed as: for monographs and books. Ahmad, Jaleel, 1978, Import substitution, trade and development, Amsterdam: North-Holland, For contributions to collective works Newbery, Daved M.G., 1975,. The use of rental contract in peasant agriculture, in: Reynods, ed., Agriculture in development theory, New Haven: Yale University Press p. 3-40.

13. All unessential tables should be eliminated from the manuscript. Tables should be numbered consecutively in the text in Arabic numerals and typed on separate sheets. Any manuscript which does not conform to the instructions may be returned for necessary revision before publication.
14. The submitted abstract should not be more than 250 words in a paper abstract.
15. The submitted article file should not be more than 6500 words in a research paper including references and annexures.
16. Papers and references should conform to the APA format.
17. No single source of reference should exceed 5% of citation within the paper.
18. Plagiarism as measured by the Similarity Index of Turn it in is acceptable under 19%.
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