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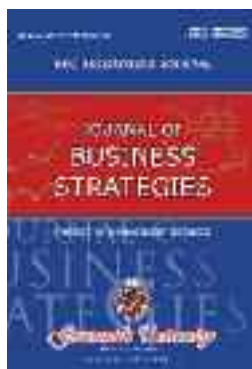


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## **Editorial Note**

Innovation and technology are closely connected and part of the same process. In the current century the presence of technological tools has reduced the barriers to learning in the third world countries, providing communities with the means of web-based learning which not only reduces costs but also has raised awareness and improved the standards of living. The digital transformation in education is vividly approaching and is apparently reshaping the learning backdrop. A high-tech makeover in academic research can be discerned, which is not only changing the ways research is being carried out but is also modifying the world's research views on various subjects, opening new paradigms and perspectives. These developments in academic research impose large imprints on scientific knowledge, societies, human behaviour, and economies as a whole.

Research scholars today use various technological tools such as SPSS, SmartPLS, NVivo, and others, which are designed to process the intricate data and complex computations rather than jotting them down through manual calculations. The blend of technology with human intellect has accelerated the research process and diminished the possibilities of human error. Technology not only helps in computational estimates but has enhanced the whole research process from generating research instruments to ascertaining the sample sizes and data collection, technology is simply a panacea to all research matters.

I am pleased to report the excellent work of our contributors in this research journal which reflects the use of latest research techniques and exhibit recent research discoveries related to issues pertaining to business

in Pakistan. This issue of Journal of Business Strategies consists of nine articles on various aspects of business studies research. *JBS* encourages highest level of intellectual excellence and understands the importance of business studies research for the advancement of business infrastructure which manifests the economic development.

In the end, I whole heartedly thank the contributors, peer reviewers and *JBS* editorial team, to help this journal sustain its quality and standards.

Sincerely,

**Sadia Khurram**

*Editor*

*Journal of Business Strategies*



## Table of Contents

	Page No.
<b>Impact of Head Teacher’s Leadership Style on Teacher’s Job Satisfaction and Work Motivation</b> <i>Sara Sehar, and Dr. S. Khurram Khan Alwi</i>	01–18
<b>Individual Level Generational Differences in The Development of Psychological Contract: The Case of Pakistan</b> <i>Shoaib Hyder, Sumaya Syed and Dr. Salman Bashir Memon</i>	19–44
<b>The Impact of Corporate Reputation on Building Brand Equity: A Perspective of Multinationals FMCGS</b> <i>Akram Khan Shahani, Dr. Imamuddin Khoso, and Dr. Muhammad Sharif Abbasi</i>	45–58
<b>Impact of Political Stability and Managerial Ownership on Firm’s Profitability</b> <i>Zeshan Anwar, Dr. Kausar Abbass, and Sadia Shaikh</i>	59–70
<b>Role of Leadership in Organizational Development: A Study of Bank Alfalah Limited, Pakistan</b> <i>Irfan Zeb</i>	71–88
<b>The Mediating Role of Organizational Cynicism in Causing Work Alienation in Higher Educational Institutions</b> <i>Tahira Yawer, Dr. Riaz Hussain Soomro, and Shahid Rashid</i>	89–108
<b>The Nexus between Capital Structure and Firms’ Profitability: Evidence from Oil &amp; Gas Sector of Pakistan</b> <i>Dr. Sobia Shafaq Shah, Shafeeqe Ahmed Pitafi, and Dr. Arjumand Soomro</i>	109–124

<b>Implementation of Free Early Childhood Education and Economic Development: A Case Study of Government Schools in Pakistan</b>	<b>125–142</b>
<i>Abdul Jalil Qureshi, Dr. Arabella Bhutto, and Paras Rani Mahar</i>	
<b>Factors Affecting Growth of Logistics Outsourcing: A Perspective of Third-Party Logistics Providers in Pakistan</b>	<b>143–160</b>
<i>Dr. Mohammad Shaiq, and Masood Hassan</i>	
<b>Business Angels and Investment Rejection Reasons: A Qualitative Study by Using Exploratory Sequential Mixed Method</b>	<b>161–182</b>
<i>Naveed Iqbal, Dr. Tania Mushtaque, and Iram Shahzadi</i>	
<i>About the Authors</i>	<b>183–185</b>
<i>About the Journal – Guidelines to the Authors</i>	<b>186–189</b>

# IMPACT OF HEAD TEACHER'S LEADERSHIP STYLE ON TEACHER'S JOB SATISFACTION AND WORK MOTIVATION

Sara Sehar, and Dr. S. Khurram Khan Alwi

## ABSTRACT

*The purpose of this study is to explore whether there is an impact of Head teachers' leadership styles on the job satisfaction and work motivation of teachers working under their command. Random sampling was initiated for this research including 122 teachers and 13 head teachers making it a total of one hundred and thirty-five, which were collected from different schools of Karachi. The questionnaire was developed for the data collection which consisted of different sections comprised of demographic variables, leadership styles of head teachers, and job satisfaction and work motivation of teachers. The data was collected from different schools of Karachi by visiting in person and with the permission of head teachers and teachers. One sample t-test was administered to the collected data, according to the results after data examination, it was indicated that positive leadership style influences the teacher's job satisfaction and work motivation. Democratic leadership was also revealed as a preferred style by the majority of head teachers as they value taking recommendations and ideas from teachers to make decisions and to maintain a positive relationship among the group. The study concluded that, encouragement and motivation of the staff to participate in the decisions making eventually leads to better performance for themselves and for the institutions.*

**Keywords:** Leadership Style; Job Satisfaction; Work Motivation; Head Teacher; Pakistan.

## INTRODUCTION

Educational institutions have become important places for the younger generations where they are polished. The leaders in the schools endure significant responsibility for their grooming, growth, and satisfaction,

thus, their role is similar to other company's leaders as they also have to cope with the challenges of sustaining the objectives of institutions. Leadership in school is a procedure of motivating and supervising teachers to work with a passion for the achievement of educational goals. Leadership styles and job satisfaction appear to be connected once the head teachers perform their roles and responsibilities to get the work done through their staff, head teachers apply different types of leadership styles or they may demonstrate different attitude patterns (Hinić, Grubor, & Brulić, 2017). Leadership plays an important role in the growth and endurance of any organization or institution, similarly it is important in educational management due to its larger impact on the achievement of educational objectives. Leadership is about the improvement in organization and developing agreed upon and valuable guidelines for the organization and taking the desired step to motivate the individuals to move in the right direction (Louis et al. 2010).

Leithwood, Seashore, Anderson, and Wahlstrong (2004), argued that the significance of leadership styles of schools' heads should not be undervalued as studies have discovered that leadership styles in schools also put a profound impact on students' education specifically in complicated circumstances. Adeyemi (2010), explored that success mainly relies on styles of leadership practiced in schools and these are autocratic, democratic, and laissez-faire. Dickson, Hartog, and Mitchelson (2003), commented that in US, democratic leadership style developed a positive relationship with performance, whereas other style being observed was laissez-faire which allows free participation of thoughts or ideas without being interfered by the leader.

Leadership styles places either a positive or negative impact on job satisfaction which leads to the reaction of an individual toward the job experience, since different elements are involved in job satisfaction. These factors are vital due to the fact that they all affect the way an individual feel for the job. These factors comprise salary, promotion, advantages, colleagues, environment, job security, performance, and job itself. Each factor influences the job satisfaction of a person in different ways and many believe that circumstances are more important than any other factor in job satisfaction and workers are more conscious about the environment in which they are working (Liao, Hu, Chung & Chen, 2017).

According to Judge, Weiss, Kammeyer-Mueller, and Hulin (2017), job

satisfaction is considered as a pleasurable and optimistic feeling which results from the evaluation of a person's job experience and that develops from the perception of employees that how they do their jobs which are given to them. It is also expressed as the level to which a person feels optimistic about different components of the given tasks and makes an individual eager to work attentively. Such as, Alonderiene and Majauskaite (2016), assessed the relationship impact on the job satisfaction of teachers and found that most teachers prefer the transformational style of leadership which involves them in decision making as compared to forced or traditional leadership styles exercised by their principals. On the other hand, obvious challenges arise when the teacher speaks greatly of leaders as having a democratic style of leadership. Tahseen (2010), found that the democratic leadership style being more dominant as compared to the autocratic style while assessing teacher's job satisfaction in Pakistan, and it was also found that a total of 18% of principals in school fall in autocratic style and while 82% were fallen in the democratic style of leadership. It was evident from the study findings that teachers were more satisfied working under the democratic leader in contrast to autocratic leader.

Adeyemi and Bolarinwa (2013), explored that the democratic style of leadership is the major style deployed by principals of Nigerian schools. The results were comparable with the results of Adeyemi (2014), who found that democratic style improves job satisfaction in primary teachers in School. Oriha (2018) found in the research on Tetu District that laissez-faire and democratic leadership styles were frequently used by the head principals, the study discovered that when heads engaged in a democratic style of leadership then teachers seem to be satisfied with their specific jobs. Nthuni (2012), found that teachers in pre-school are de-motivated by head teachers who follow laissez-faire and authoritarian leadership styles and also that teachers get motivated and inspired whenever head principal follows democratic and transformational leadership styles.

Motivation is a force which induces a person to act in order to attain specific goals and the level of motivation of a person varies from one person to another, such as everyone has different perceptions and behaviors (Schunk, Pintrich, & Meece, 2008).

Adelabu (2005), established that the motivation of Nigerian teachers

was poor as they and were dissatisfied with the working conditions and pay. The study found that the reason for the dissatisfaction of the teachers was their less salary as compared to other professionals; lack of involvement in decision making; and absence of career growth opportunities.

Leadership in educational institutions is a vigorous procedure where a person is responsible for the teamwork and dynamically seeks the group effort, moreover channelize the dedication of all team members to achieve specific purposes in particular situation (Pazey & Cole, 2013). Leadership in this context pursues better performance in educational institutions due to the fact that it not only identifies the goals to be achieved and the person responsible to implement them but it seeks to incorporate better characteristics of reinforcement such as identification, service atmosphere, confidence building, compulsion and payment (Balunywa, 2000).

In the current competitive environment, firms are developing internationally and coping with several challenges to attain their goals. Hence, leadership plays a significant role in the attainment of these objectives and motivate worker's performance by pleasing them with their occupation. Similarly, in Pakistan, educational institutions experience similar complicatedness in teaching, curriculum, resources, recruitment of teachers, schools, fast technological advancement, the involvement of parents and the pressure of politicians deriving from increasing need for superiority, dispersion of knowledge, competition, varying nature of supporting instruments and internationalization. Exactly, poor management and governance is the vital cause of weak education system of Pakistan. In this unstable environment to guarantee the accomplishment of the educational institute, it is critical to implement the proper leadership style that can make sure the implementation of needed procedures in teaching (Torlak & Kuzey, 2019). However, McInerney, Korpershoek, Wang, and Morin (2018) examined the components of wellbeing, job satisfaction of teachers and analyzed the reasons for job quitting. The findings indicate a progressive relationship between job attributes (personal and professional), their wellbeing, and job satisfaction while an insignificant relationship was found with intentions to quit.

### **PROBLEM STATEMENT**

Leadership has distinct meanings for different individuals even in a

similar organization. The styles of leadership of head teachers observed by the subordinates as asset or liability for the institution, it is an asset as it can help the institution to enhance the performance leading to overall productivity of school and it can be a liability when it puts a negative impact on the performance of teachers in classroom and affects the type of association which exists among the staff and head teacher. It is therefore necessary to explore the type of leadership style being used by the school head teachers to assess its impact on the job satisfaction and work motivation of teachers.

Several researches have indicated teachers have job dissatisfaction (Nthuni, 2012; Ngumi, 2003). A big reason was the less salary as indicated by (Adeyemi, 2011; Kinyua, 2014). Iqbal (2012), found the relationship between the and performance of KCSE, whereas, Muchina (2009), examined the influence of head teachers leadership style on the teacher's motivation in secondary schools of Kirinyaga District and to find the leadership styles followed by head teachers in their schools. Thus, in light of the above discussion, the core objective of this research is to discover the relationship between the head teachers' leadership style and work motivation of teachers. Also the study attempts to assess its impact on the job satisfaction of teachers in schools of Karachi, Pakistan. From the literature review, following hypotheses of the study have been formulated:

*H<sub>1</sub>: There is a significant impact of the Head teacher's leadership style on teachers' job satisfaction.*

*H<sub>2</sub>: There is a significant impact of the Head teacher's leadership style on teachers' work motivation.*

## **RESEARCH OBJECTIVES**

Following objectives guided the study:

- To discover the teachers' perception about the leadership style of their head teachers.
- To investigate the effect of different leadership styles on staff motivation and teachers' job satisfaction.

## **LITERATURE REVIEW**

### **Leadership Styles, Teacher Job Satisfaction and Work Motivation**

Leadership styles certainly influence job satisfaction. Bass, Avolio, and Goodheim (1987), found that autocratic leadership style and laissez-

faire leads to low level of job satisfaction, whereas, the democratic leadership results in comparatively higher job satisfaction. Managers perform a key role in employees' motivation to achieve excellence. Manager's approach makes a lot of difference in which they communicate with others mainly with the subordinates and influence for the betterment of the organization. A leader must produce an open mission and a clear vision of the company and have the same articulated to each staff member. This can work as a mirror to which the performance of each employee is based and this calls for the participation of employees to form the strategy of organization eventually leads to employee's job satisfaction (Asghar & Oino, 2017).

Job satisfaction refers to the optimistic or pessimistic evaluative judgment that people make related to their job (Weiss, 2002). Skaalvik and Skaalvik (2010) explained the definition of teacher's job satisfaction as their emotional response toward teaching role and their job. A teacher can be satisfied with few elements of the job, for example, a higher level of independence, similarly dissatisfaction can be caused with other determinants like a heavy load of work, time pressure, and extended working hours.

Earlier studies have shown that overall satisfaction was significantly associated with the autonomy of teacher, teacher self- efficiency and insignificantly related to teacher exhaustion. Similarly, Chen (2007) found that job satisfaction is related to enthusiasm. Inayatullah and Jehangir (2012), examined the effect of teacher's performance and found that motivation improves the performance level of teachers which also influences the performance of students and their attainment of goals. The study also argued that the motivated teachers are able to develop a strong bond with their students which motivates her students and aspire them to learn more. As a result, it is vital to investigate the elements that hinder the teacher's motivation. In this regard, one of the elements could be leadership style of their head teacher who is leading them and taking work from them.

Guay et al. (2010), define motivation as a purpose causing' different behavior and which forms actions and simultaneously attempt to get the desired results, motivation, is thus the situation which triggers the account for beginning, create determination and sets the path of behavior to achieve particular results.



## **Job Satisfaction and Work Motivation under Autocratic Leadership Style**

Autocratic leadership style was described by Bhatti, Maitlo, Shaikh and Hashmi (2012), as when the manager has the most power for himself/herself and have authority in decision making with the perception of making sure that the subordinates follow it. This type of manager is not concerned regarding the work behavior of staff rather he or she is only worried about the job being done. It is more likely to be a robotic kind of environment. The manager asks the subordinates how and what do to and confirms the subordinates to work accordingly.

Iqbal, Anwar, and Haider (2015), argued that the autocratic leaders meet their desired goal and complete the task in the given time by keeping a close follow-up and monitoring their subordinates. Nsubuga (2008) assessed the performance of secondary school teachers, examining the impact of the leadership style, it was found that autocratic leaders normally focus on the authority to get the job done and the head teachers normally focus on this, since it gives rewards in quick time as subordinates are in a lot of pressure to achieve goals in time.

## **Job Satisfaction and Work Motivation under Democratic Leadership Style**

Democratic leaders believe in sharing of power, participation, and mutual interactions. They practice delegation, sharing of power and encourage individual input. Although, manager encourages participation from subordinates before taking any decision, still, the manager has the final authority for taking decisions. In the school's setup, the manager/head teacher can seek agreement by a discussion with teachers for any kind of problem before reaching to the decisive point, this allows the staff to participate in decision making. Moreover, contrasting to the laissez-faire style, the democratic leaders sustain the final power in decision making. These leaders respect the workers and seek mutual advantage for both the parties by allowing the employees to take decisions and be a part of the group.

Antonio and Gamage (2007), elaborated in their research that effective democratic, as well as participatory leadership, influences an elevated level of trust of stakeholders. Herzberg and Mausner (1959) argued that salary is a vital factor to satisfy the employee. Herzberg (2017), also felt that several organizations did not satisfy this factor which resulted in a dissatisfied working environment.

## **Job Satisfaction and Work Motivation under Laissez-Faire Leadership Style**

A passive type of leadership in which all the power is handed over to the subordinates is said to be laissez-faire leadership style. The leader has an indirect leading and no control of the power in the company, neither he sets any goals or objectives nor takes any decision. Manager admires other's decisions and allows the work to be done anyhow. Therefore, this kind of leadership style can be successful with good motivated and experienced staff but sometimes it can lead to failure when employees are not dependable, deceiving, and dishonest. It indicates a non-transactional type of leadership style in which the required decisions are not being taken and actions are postponed, the responsibility of leadership is avoided and power being unused. A leader presenting this kind of non- leadership is observed as not caring about other issues (Wellman & LePine, 2017).

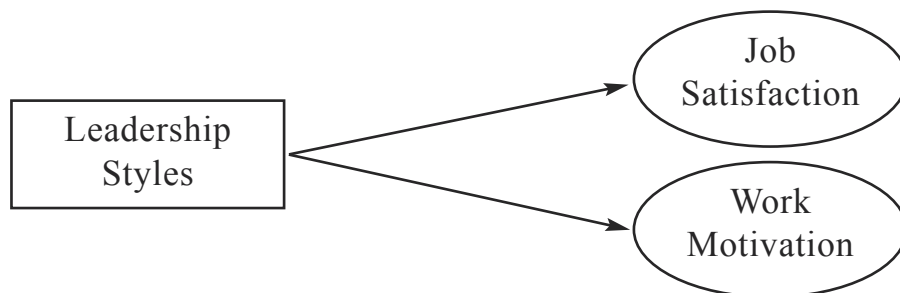
### **THEORETICAL FRAMEWORK**

#### **Herzberg's Two Factor Theory**

Herzberg's two factor theory supported the current study, which states that job satisfaction and dissatisfaction are caused by various factors; hygiene and motivators. Herzberg (2017), found differences between factors causing job satisfaction and dissatisfaction. Herzberg developed this theory to highlight these outcomes and named satisfiers as motivators and dis-satisfiers as hygiene factors in a way that hygiene factors are important to ignore dissatisfaction. Herzberg examined and categorized the job-related factors or satisfiers as achievement, identification, the job itself, development, and responsibility. Herzberg stated these factors are powerful elements of job satisfaction with the job itself, responsibility along with advancement are the most significant factors related to long-lasting change in the attitude (Alfayad & Arif, 2017). Achievement is more important than the identification and was usually related to the long-range determinants as responsibility and nature of the job itself. The theory is associated with the current study, job satisfaction of teachers can be assessed by different variables including the leadership style of head teachers. There are distinctive styles of leadership used by head teaches, which can be among the reason of job satisfaction of teachers.

## CONCEPTUAL FRAMEWORK

The conceptual framework for this study is presented in figure 1.



*Figure 1. Conceptual Framework*

## RESEARCH METHODOLOGY

### Demographic

The demographic profile of the respondents of this study is illustrated in the table 1.

Table 1. Respondents' Demographic Profile

Demographic items	Frequency	Percentage
<b>Age</b>		
Below 30	57	42%
31-40	52	39%
over 40	26	19%
<b>Qualification</b>		
Diploma	16	12%
Graduate	72	53%
Masters	33	24%
Other	14	10%
<b>Experience</b>		
1-5 years	74	55%
5-10 years	26	19%
More than 10 years	35	26%
<b>Percentage</b>		
Teacher	122	90%
Head Teacher	13	10%

## **Population, Sample and Sampling Technique**

In this study head teachers and teachers participated from different schools of Karachi city of Pakistan. Data was collected through a primary source that had been taken on a survey questionnaire designed for this research. Total of 135 respondents were the sample size and 13 head teachers and 122 teachers have been surveyed through questionnaires. For this study the researcher used purposive sampling as this study targeted head teachers and teachers of schools in Karachi.

## **Research Design**

This research is a descriptive survey research design. This design was chosen because through it, the researcher was able to collect and analyze data as it exists in the field without manipulating any variables. The researcher was able to collect data in order to answer questions concerning the current status of the subjects of the study and assess attitudes and opinion about events, individuals, or procedures.

## **Description of Instruments**

The research instrument was a structured questionnaire which is a tool to collect the data for a large sample size. The questionnaire was deployed to collect the data as well as information of respondents from different schools as the questionnaire is the idea for any type of survey study. Questionnaires are used in a broad way in education to collect the data regarding the existing circumstances and practices to ask questions of behaviors and attitude rapidly and inaccurate form. A questionnaire was used for the head teachers as well as teachers.

Each questionnaire had two parts. Part one of the questionnaire included responses related to the demographic details whereas part two covered the items on leadership styles, job satisfaction and work motivation. It was a close ended questionnaire and the responses were measured within a five-point scale rating including Strongly Agree (SA), Agree (A), Disagree (D), Strongly Disagree (SD), and Undecided (UD).

## **Reliability Test**

Table 2. Reliability Statistics

Cronbach's Alpha	N of Items
.717	40

SPSS analysis was used to check the reliability of the survey. The Cronbach's Alpha value .717 indicates that the data of 135 respondents was reliable (Table.2)

## DATA ANALYSIS

### Testing of Hypotheses

Table 3. Hypotheses Summary

Hypotheses	Mean Value	P-value	t-Value	Mean Difference	Empirical conclusion
<b>H<sub>1</sub></b> : There is a significant influence of the Head teacher's leadership style on teachers' job satisfaction.	4.20	.000	4.733	.197	Accepted
<b>H<sub>2</sub></b> : There is a significant influence of the Head teacher's leadership style on teachers' work motivation.	4.02	.000	4.327	.024	Accepted

One sample t-test was applied to the collected data and the test value was set to 4. A mean value of 4 or higher is a clear indication of approval of the hypotheses. The mean values of Hypothesis-1 and Hypothesis-2 in Table 3 are above 4 and based on these values all hypotheses have been accepted. The mean value shows that all of the respondents have agreed on the questions mentioned in the questionnaire. The significant value less than 0.05 indicates the positive outcome, hence based on the significant mean values, significant p-values, positive t-values, positive mean differences both hypotheses have been accepted, indicating the significance of leadership styles of head teachers on teachers' job satisfaction and work motivation.

The result for the impact on job satisfaction showing mean of 4.20 and standard deviation of 0.484 signified that teachers believed and agreed that head teachers perceived their teachers or subordinates as a human being and their leadership style influenced, satisfied and motivated the teachers to work more for themselves and for the organization. The mean value of 4.02 for the influence of head teacher's leadership style on teachers' work motivation revealed that teachers experienced their head teacher's leadership styles as motivating, and they observed their head teachers holding high leadership qualities. The results indicate that teachers were found motivated and satisfied with democratic leaders, other factors like working environment, salary and workload also

contributed to the level of satisfaction that inspired them to work and achieve success.

## **DISCUSSION**

How does teacher's job satisfaction and work motivation are being effected by the leadership styles of their head teachers in the schools? The results indicate and answer the research questions that teachers were positive about their head teachers and appreciated them for promoting ownership within the school, teachers too participated in the planning procedure, and they were allowed to make decisions in the classroom without any power and permissions of their head teachers. Teachers also agreed that they feel that approaching their head teachers is very easy in the school and management is always ready to follow the required changes in the school. The results also indicated that teachers did participate in the decision-making process and their talent and abilities were valued by their head teachers. Furthermore, they are allowed to make their own judgment in problem-solving .same is evident from the result that there is a positive relationship of head teachers with the teachers, moreover the head teachers were open to constructive criticism and teachers were also motivated to attend training sessions and workshops.

The study results also indicated that head teachers do allow the teachers to take decisions, as they certainly value the self-initiation and creativity and involve them in planning. Head teachers were more concerned with the well-being and interest of teachers when taking a decision and always allow freedom of opinion and choices if there is a need. Head teachers also agreed that they allow the staff to make their judgment and are flexible in making a cordial relationship with staff and motivates their staff to form a pleasant relationship and to attend different training session and workshops, as they believed in professional grooming and collaboration.

## **CONCLUSION**

With the result analysis it is concluded that the head teacher's leadership styles actually influence the work motivation and job satisfaction of teachers in schools. The results imply that head teachers with a democratic style of leadership are generally considered appropriate and are more appreciated. The results also concluded that most teachers were motivated and satisfied with head teacher's leadership styles however

some of the teachers experienced autocratic leadership styles which negatively affect their performance, and they were afraid of being blamed in case of a mistake or unforeseen incidents. It is believed that head teachers who have autocratic leadership style create a closed climate and these types of head teachers are considered to be unfriendly and uncongenial who just focus on the requirement of effort but fail to work themselves.

However, the overall result indicates that there was a positive impact of head teacher's leadership styles on teachers' job satisfaction which is a good sign for the individual stability and for the institutional growth. Mostly head teachers had a democratic leadership style as compared to autocratic and Laissez-faire leadership. Schools comprise intelligent individuals with some brilliant ideas which are vital in daily operations of school such as teachers who have the ability to effectively manage educational matters.

Democratic leaders build the environment of faith, respect as well as dedication. Head teachers believe that democracy is the appropriate strategy in schools to make a better environment since different departments are related to each other in the schools. Thus, the success of school lies in the mutual cooperation of all the departments. Few head teachers concluded that the democratic leadership style was not applied by them at all, as due to the lack of major capabilities and competencies in the staff. They felt that teachers could not work as per requirement unless they are strictly supervised. Furthermore, this research concluded that Laissez-faire leadership style is not at all appropriate in schools as schools are the places where next generations are groomed, for this purpose teachers need to be motivated to teach from their heart rather being made to work under strict authority. Furthermore, delegation without any follow-up results in the problematic issues and weak performance that eventually affects the reputation of schools.

### **FINDINGS & RECOMMENDATIONS**

Leadership style of the school head has an impact on the job satisfaction and work motivation of the staff working under their command. In schools' setting, democratic leadership styles have a positive impact on teachers' job satisfaction and work motivation which is a good sign for the individual growth and for the school performance at large.

The study suggests that element of promotional perspective, more opportunities such as in-service training to develop the teachers, must be enhanced. The study also suggests school management to produce modality to enhance the job performance of teachers and keeping them satisfied. Moreover, head teachers must enhance their support to motivate the teachers and enhance their job satisfaction. The study proposes some elements of the reward system for example fringe benefits, acknowledgement by the school management, and job security should be improved in schools.



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# INDIVIDUAL LEVEL GENERATIONAL DIFFERENCES IN THE DEVELOPMENT OF PSYCHOLOGICAL CONTRACT: THE CASE OF PAKISTAN

Shoaib Hyder, Sumaya Syed and Dr. Salman Bashir Memon

## ABSTRACT

*Individuals in changing generations are different; aiding in explanation of the same, citations of 18-interviews of white-collar personnel working in discrete organizations in Pakistan helped the researchers explore and endorse individual level generational differences for encoded factors of Psychological Contract (PC). The study entails extensive discussion in PC development with a meticulous focus on three generational clusters: Baby Boomers, Generation-X and Generation-Y. It is endorsed throughout the generated themes that the development of psychological contract varies in different generations. In the case of Pakistan, the career stages of the job play an intersecting role during employment timeline depending upon the organization nature as public or private. The association has shown meaningful and extremely influencing role in PC development. The findings show that the organizations in Pakistan display poor conditions of nationwide employment theory and practice, which are worsening the context of PC development, and the recruitment houses would soon be realizing the significance for PC as per their growing 3600 survival needs to become multinationals. Thus, the study postulates that it is indispensable for organizations to execute its implementation in the organizational context.*

**Keywords:** *Generational Differences; Psychological Contract (PC); Qualitative Study.*

## INTRODUCTION

Individuals in the changing generations are different. Despite this, they share similar thoughts, principles, and behaviors (Coyle-Shapiro & Conway, 2005), as they practice shared time or events (Tolbize, 2008). The relevant literature revealed that the generational differences exist

among workers, for instance, the changing characteristics of workforce explain some of the important changes that have taken place over the past decade in worker attitudes (Heuvel, 2014), and expectations (Benson & Brown, 2011). The influence of historical and social factors are also relatively constant in every cohort of life (Twenge, Campbell, Hoffman, & Lance, 2010; Lub, Bal, Blomme, & Schalk, 2016) and also hands out to differentiate one group from another in requisite of significant feelings (Raja, Johns, & Ntalianis, 2004), needs, or affirmed plans, in relation to the proposed work (Sparrow & Cooper, 2003).

### **Generations and their Dimensional Differences**

Generations have been reviewed by distinct angles and parameters in many studies. Heuvel (2014), argues in their research about changing insights for organizational consideration in dealing with different generations. As per the preferences of ageing workforce, Deepthi and Baral (2013), proposed timeline cohorts (allies) that are put in an exclusive group that share the same birth years and consequently form significant development aspects of life events at important stages, for instance they found flexible working arrangements, higher salaries, and more financial leverage. Park and Gursoy (2011), stress that work engagement is different for diverse generations. Benson and Brown (2011), found that some of the major differences are present in antecedents of sub-variables of Psychological Contract (PC) between generational groups. Twenge et al. (2010); and Lub (2013), validate that the context of work values is different for different generations. Sparrow and Cooper (2003), assert that the generations are well-thought-out to be a collection of an identifiable cluster that may stand in shared birth-years, age, location or noteworthy life actions or events that happened at different critical times of their development. Kotter (1973), identified that organizations are encountered to immense policy pressures. Lub et al. (2016), proposed that definition and implementation as per the employment generational gap holds in between newcomers and older workers.

Identification of different researchers about the widespread study of generational cohorts and attributes in relation to the present workforce and later to be realized as personnel at revolving of the millennium is good enough to proceed (Table 1). Each generational cluster is supposed to have three waves (split into the periods of five to seven years in cohort), transpired as first wave, Core group and Last wave (Heuvel, 2014; Park & Gursoy, 2011; Benson & Brown, 2011; Twenge et al., 2010; Tolbize, 2008;

Sparrow & Cooper, 2003). The literature reviewed above exposed a wide gap of identifying a preference for different generations in response to different types of PC (relational, transactional, balanced, or transitional). Thoughtful attention is not given to the context of understanding and involving key attributes for discrete generations in the development of PC (Table 1). However, to our knowledge, the focus on three generations study has not yet been considered, moreover, in Pakistan context. As the variable under the study has a qualitative perspective to initiate; this research was conducted to expose the following themes in the development of PC in working around three-generations of Pakistan. Moreover, the traditional cohort has been cut-off from the sample because this stratum might have retired as per the number of working years passed by their age.

Table 1. An Illustration to Discrete Generational Cohorts and Attributes.

<b>Generation Cohorts</b>	<b>Year-Born (Timeline)</b>	<b>Attribute(s)</b>
Traditional	1909-1945	- Have high experience of conventional aspects/situations. - Retired/Near to retirement.
Baby Boomers	1946-1964	- Have psychology of obtaining the Power. - Victims to civil, political, religious, and business revolutions. - Responsible for caring the ageing (old) parents. - Entering in the age of advanced designations. - Ambitious to materialistic success.
Generation-X	Early 60's – 1982	- Focus is on family, financial and social security. - Have more enthusiasm to be individual. - Are more concerned about modern management practices. - Higher qualification and educational competency.
Generation-Y	1983-1994	- Entering the age of employment. - The first generation born in the advanced computerized age. - Greater sense to build virtual network rather than the local network. - Values for money and is a victim to the individualism of parents. - A higher level of wealth is attained before career startup.
(Sparrow & Cooper, 2003); Lub, 2013); (Tolbize, 2008); (Twenge, Campbell, Hoffman, & Lance, 2010)		

**Generational Response to PC Development:** The derivative point of this study is to encircle generational response to PC development (Lub, 2013). We find that our sample that is Pakistan seems to be an under-developing nation; thus it is quite significant for us to assess right kind of respondent who may be aware of PC, its value, and his or her response towards PC development for the employed organization (Guest, 1998). Enforcing the response difference, we infer the very first theme of study as:

*Do individual employee generations respond differently to PC development?*

**Generational Preference to PC Context and Development:** Response of an individual employee towards PC development can be in a number of assortments related to study outcomes and discussion; as per the literature, gap is available for consideration in under-developed nations regarding the questions as who is the one who prefers PC context to be adopted in organizations or by individuals. Thus, we infer the *second theme* of study as:

*Which generation is more centric to the first choice of PC context and development?*

**Generational Choice to PC types in PC Development:** It has been found that the employee visualizes fair policy and justified practices as a base of definition to develop a PC context in his or her mind. Now it depends on one's personal choice to define PC as an array of types and prioritize a particular type of a PC (Aggarwal & Bhargava, 2009), that is either to develop relational, transactional, balanced or transitional in mental mapping; either it may rely on inclination of individual goals or enforcement of organizational culture (Aselage & Eisenberger, 2003). Thus, we infer the third theme of study as:

*What kind of generational differences (based on attributes of a generation) infers an employee towards Choice of PC types in PC development?*

**Generational Factors of Difference in PC Development:** Finding the PC context and generation wise preference difference, is a part of explanatory research framework served by three above study themes. However, still we comprehend that it is not just a privilege alone but it is now more ethical for the study to assemble generational responses and induce the same towards a fact-finding study, to come up with factors that exist in generational employment of an underdeveloped nation to provide a good stand to the study outcomes and display valid significance of the study. Therefore, we infer the *last theme* of study as:

*What are the differentiated contributing factors of individual preference in PC development?*

### **Psychological Contract**

The psychological contract holds in between a person and his affiliated organization in a sense that it is a collective and shared concept of value



exchange for hidden aspects, to form a requisite relationship (Schein, 1965). PC is an unspoken contract that specifies what each member anticipates, giving and receiving from one another, in their affiliation (Kotter, 1973). It is an individual's faith regarding specified legal settings and fulfilling the exchange of reciprocal agreement (Rousseau, 1989). It emerges when one party considers the future promise of returns for a contribution provided (Guest, 1998). It is a series of hope that states willingness to provide and gain, to form a relational factor (Sims, 1994). Emergent millennium studies recommend that a PC is a distinctive set of give-and-take expectations apprehended by employees in relation to their commitments and entitlements (Sparrow & Cooper, 2003). It is a two-way shared value-agreement of responsibility (Guest, 2004); an exchange of employment relations (Coyle-Shapiro & Conway, 2005), or an exchange of promises and commitments (Schalk & Soeters, 2008), that must have a clear inclination of communication (Guest & Conway, 2002).

### **Relationship between Generational Cohorts and PC**

Interpretation of attributes cited in Table 1 provides generational relation to PC in a sense that each of the generations stands at a different stage in developing and defining PC context for them Lub et al. (2016). As the traditional cohort (1909-1945) are more centric towards PC context of inducements for their contribution of a lifetime commitment to the organization (the third stage of the explanatory framework, See table 2) and may need high social recognition and entitlement to endorse their work engagement as per human esteem and self-actualization needs.

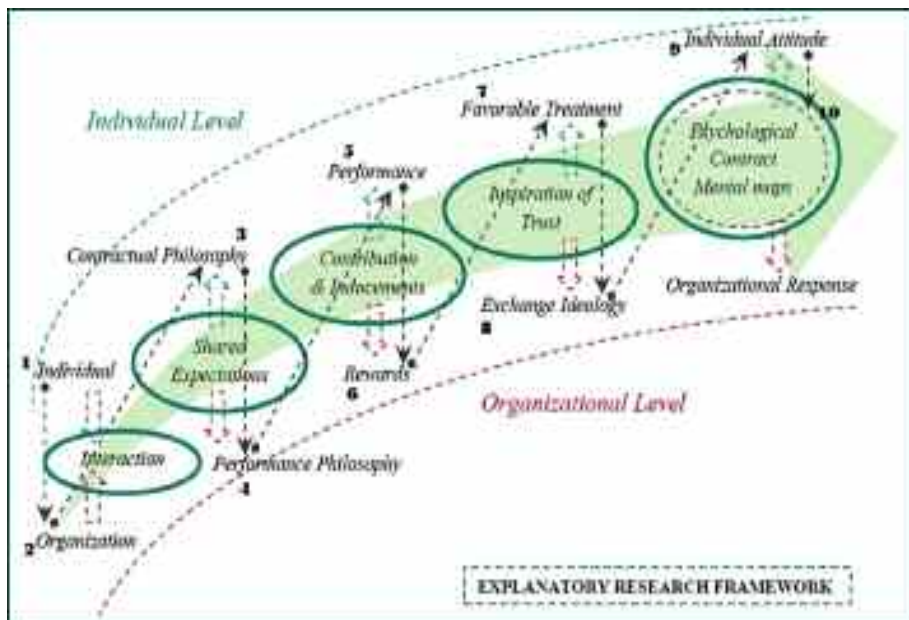
Baby boomers (1946-1964) take place at the fourth stage of the explanatory framework (table 2) as they are diverted to PC context to obtain inspiration of trust by favorable treatment; exchange ideology for power, decision role, independence of work; and a sharing experience of what they have been victim to several strikes and their outcomes. They might now make it a sure game of materialistic success for their offspring to display achievement in their life span (Lub, 2013).

Generation-X (Early 60's-1982) at present, stands at partially in two stages that are the second and fourth stage of the explanatory framework (Table 2), as they might now refer to PC context of belongingness needs; they need trust and need to be trusted (Lub et al., 2016); they need shared expectations to better describe long-term relational and contractual philosophy to ensure their performance marks (Robinson & Morrison,

2000); as they are directed towards higher individualism and independence (Lub, 2013), with implied modern management practices as per their competitiveness of higher education and qualification in comparison to other generations. They may intensify their efforts to make money and improve family lives (Twenge & Campbell, 2008).

Generation-Y (1983-1994) may take a placement in two stages as well, that is the first and the second stage of explanatory framework for a PC context track route (See table 2); as they are newly hired employees or hired instantly, they need to grow their interaction within organizational circle and may quickly then proceed to define contractual philosophy of shared expectations for performance management at their earliest; as they are inborn in highly fast-tracking career growth (Lub et al., 2016); and influenced by the computerized and scientific age (Lub, 2013). They may also tend towards social needs as they have a good financial standing by their natives and fathers; their priority is to be recognized virtually rather than by their family and surroundings (Twenge & Campbell, 2008).

Table 2. Exploratory Research Framework



Source(s): Self-generated explanatory research framework for PC development in view of Individual and Organizational Applications based on: (Rousseau, 1989; Guest, 2004; Aselage & Eisenberger, 2003; Guest, 1998; Sparrow & Cooper, 2003).

## **PC Development and Explanatory Research Framework**

Back to fifty-five years, PC arrived as a tool to understand organizational behavior (Argyris, 1960), but perhaps now it seems to be developed because of ongoing layoffs, downsizing mergers, acquisitions, and outsourcing strategies (Heuvel, 2014). More specifically the peer review studies in literature put a spy eye on PC development and thus a framework construct has been proposed in this study, to better clarify research themes explaining on centricity and emphasize the array of what it is revolving around. Five of valuable work factors have been introduced with the help of generational cohorts as per understanding and influence of individual and organizational level for PC development; what counts best for an individual level is successful response towards shifting trend of globalization in affiliation to achieve a sustainable competing state towards interaction of employment profile (Kataria, 2015), shared expectations (Sparrow & Cooper, 2003), contribution recognition and surety of inducements, advocacy and inspiration of trust (Robinson & Morrison, 2000) in specified terms and conditions (Guest, 2004), and likewise Mental Maps that are being constructed in mind of an individual employee for PC development.

**Individual and Organization Interaction:** An interaction is an interface (Lub, 2013), or a communication mode that proves to be a pioneer source of PC development in between an individual and organization. As the importance inflows in the study of Guest and Conway (2002) that effective communication trends and practices can better exercise the influence of PC to illustrate value-based relations. It is the core obligation of affiliation to promote a rich culture and decide what, how and when to communicate for good outcomes and to understand the employment attitude. The interaction may involve the definition of basic contents of growth & development, salary benefits, supportive work culture, resource availability and equity for good PC development (Raja, Johns, & Ntalianis, 2004; Aggarwal & Bhargava, 2009). An interaction may be considerably affected by a generational gap of employment bonding; thus, a close eye must be affixed in HR practice that addresses individual differences, else a massive bounce of failure can be found in achieving the prescribed goals (Sparrow & Cooper, 2003).

**Shared Expectations to Contractual and Performance Philosophy:** Shared expectations are an outlook window towards both parties as to form a parameter of the contract so that philosophy of performance may be

enlightened to make success an obvious factor in the employee work engagement. The ideology of effective individuals is to seek first to understand and then to be understood. Thus, a good circle of management can, of course, promote value-based working culture thereby providing clearer contractual terms and conditions to better comprehend employee satisfaction so as to cut the cost of operations (Heuvel, 2014). Consequently, successful recognition of shared expectations may involve context of good employee confidence (Twenge & Campbell, 2008); decision making, creativity (Twenge & Campbell, 2008); productivity and work independence (Twenge et al., 2010); reduced shifting, conflict and stress (Kotter, 1973). Further, factor implication revolves in changing ageing employment preference of shared expectations to define contractual and performance philosophy (Lub et al., 2016)

**Contribution to Performance and Inducements to Rewards:** Contributions are to provide a donation of efforts, skills, time and resources to the affiliated organization by an individual and anticipate for inducement that is incentive or encouragement in form of rewards (Lub, 2013; Lub et al., 2016). This lies in recognizing a good sense of responsibility between the two that can be proved as a significant determinant to the development of a valuable PC. Implication of the aspect lies in complexity of individual nature towards psychology of contribution and inducement that is completely based on who inherits what, like very basic contents for which individual begins to develop associations of PC are age, gender, type of work, hours worked, tenure, income, education, level in the organization, employment contract and ethnicity (Guest, 1998; Guest, 2004); and personality (Raja, Johns, & Ntalianis, 2004; Twenge and Campbell 2008), as well for the outcomes of higher flexibility in working hours, increased salary, and security providing incentives.

**Inspiration of Trust to favorable Treatment and Exchange Ideology:** Inspiration of trust refers to generate a brainwave in the individual mind to clarify the organizational view for employee betterment and growth, as it provides shelter to mediating employee variables like good employment timeline, remain in motivation and neglected intention to quit the job. The need here is to highlight modernized concept of exchange ideology and intellectual business strategies to improve relational state of employee-employer that may be possible with the help of people's management practices rather than HR practices as a whole; as it illustrates the significance of Human capital, changing time and quality

of employment relationship, that enhances development nodes of PC in individual minds (Heuvel, 2014). The implication lies in the growing pressures of professional generational gap Lub et al. (2016). The personal human traits of an employee have been a building force to employ a crystal clear exchange ideology by organizations to inspire individual employee trust and to promote a node of favorable treatment in one's mind, to avoid incoming mishaps by primarily focusing value-based relations (Twenge & Campbell, 2008).

**PC Mental Maps to Individual Attitude and Organizational Response:** Mental maps are brain plots that refer to PC development, enforcing that a pioneer source of introducing the PC mental maps is an individual, who when bonded to an affiliation begins to form some of perceptions or factors regarding relations that might be indefinite and informal or maybe presumed (Robinson & Morrison, 2000). Individual attitude refers to a source of optimistic or pessimistic employee behavior for affiliation to PC development (Twenge & Campbell, 2008), in response, the organization, initiates a perceived culture to an individual for work engagement and outcomes (Deepthi & Baral, 2013). The factor is having high implications for work-behaviour and job engagement as it is an unseen association of an employee in context to employment power; materialistic success; family, financial and social security (Twenge & Campbell, 2008), and the factors like qualification, educational competency; and technical know-how; are basics to trigger generational differences in employment attitude that might significantly contribute to development of PC (Heuvel, 2014; Deepthi & Baral, 2013).

### **RESEARCH DESIGN**

This exploratory study intends to address the generational differences that propose to put an emphasis on the context of PC development in the concentrations of individual employees; thus, a qualitative approach is optimized to better illustrate the meaningful outcomes for generational differences as per study themes. The primary source contains a direct interview methodology with an open-ended questionnaire. Whereby proper meetings lasting for around 35 minutes each, with discrete ageing respondents from distinct industries were made. Participants were having differential generation-relation; 18 interviews were carried out based on three clusters of generations taken in the sample as Baby Boomers, Generation-X and Generation-Y and each was comprised of six respondents.

The study put an emphasis on workforce domain in Sindh province, Pakistan. Table 3 shows complete sketching of demographics with their means, standard deviation, and a number of respondents to each classification for eighteen respondents. Pie charts are also given according to birth year (figure 1) and employment timeline (figure 2) with their weighted percentage. Secondary data was also cited by reviewing diverse publication of articles and concerned book chapters of other writers and researchers to ensure and relate the study outcomes.

	Mean	Std. Deviation	No. of Respondents = n		Mean	Std. Deviation	No. of Respondents = n
Gender	1.22	0.428	Male = 14	Organization Type	1.28	0.462	Private = 13
			Female = 04				Public = 05
Qualification	1.56	0.511	Graduate = 08	Age Group (years)	2.30	0.648	21-25 = 06
			Advanced = 04				26-30 = 06
Employment Timeline	1.70	0.941	11-24 = 02	Generation	2.30	0.818	40+ = 04
			25+ = 08				Baby Boomers = 08
Birth Year	2.80	0.818	1946-1964 = 04	Generation X = 05	Generation Y = 04		
			1965-1982 = 06			1983-1994 = 08	



Figure 1 and 2: Pie Charts

### Instrument Structure and Strength

A momentous review of relational studies endowed with some typical ideas to measure differences in horizons of a three-fold typology of generational cohorts. The instrument was an inclusive combination of 32 questions, pertained to several aspects of the study, as per the proposed framework regardless of seven classified demographics. Initial questions were in heads of demographics as per Table 3. All of the embarked items were a complete series of open-ended questions, based on research framework, factors with their citation sources as follows; Individual and Organization to *Interaction* with 5 items coded from Tolbize (2008); Heuvel (2014); and Guest (1998); *Shared Expectations* to Contractual and Performance Philosophy with 06 items coded from Kotter (1973) and Sparrow and Cooper (2003); *Contribution* to Performance and *Inducements* to Rewards with 06 items coded from Kotter (1973); Twenge et al. (2010) and Coyle-Shapiro and Conway (2005);

*Inspiration of Trust* to Favorable treatment and Exchange Ideology with 03 items coded from Rousseau (1989); Heuvel (2014); and Benson and Brown (2011); *PC Mental Maps* to Individual Attitude and Organizational Response with 05 items coded from Kotter (1973) and Sparrow and Cooper (2003); Questions related to *PC Orientation* were also included to know about PC acknowledgment with 04 items coded from Kotter (1973); Guest (1998); and Sparrow and Cooper (2003).

Further, a series of dichotomous questions were asked in the *brainstorming section* related to *finding attributes of Generations in Pakistan* (Table 4) with 14 items coded from Sparrow and Cooper (2003); Lub (2013); Tolbize (2008) and Twenge et al. (2010); *PC development Nodes or factors for an individual Employee* with 15 items coded from Sparrow and Cooper (2003); Tolbize (2008); and Heuvel (2014); and finally *Employee Attitude* (Table 5) with 15 items coded from Tolbize (2008); and Heuvel (2014).

Table 4. An Illustration to Generational Attributes of Pakistan workforce

<i>Attribute (s)</i>	<i>Baby Boomers</i> (1946 - 1964)	<i>Generation-X</i> (Early 60's - 1982)	<i>Generation-Y</i> (1983-1994)
You are near to retirement or retired.	YES (83%) NO (17%)	NO (100%)	NO (100%)
<i>You have psychology of obtaining the power.</i>	YES (100%)	YES (100%)	YES (100%)
You have experienced civil, religious, and business revolutions time.	YES (100%)	NO (100%)	NO (100%)
You are ageing parents (you have a younger and elder child).	YES (100%)	NO (100%)	NO (100%)
You are near to advancement of designation.	YES (50%) NO (50%)	NO (100%)	YES (33%) NO (67%)
You prefer materialistic (worldly) success.	YES (50%) NO (50%)	YES (67%) NO (33%)	YES (67%) NO (33%)
Your focus is on family, financial and social security.	YES (100%)	YES (100%)	YES (83%) NO (17%)
You prefer individual work.	YES (17%) NO (83%)	YES (83%) NO (17%)	YES (83%) NO (17%)
<i>You are more concerned to modern management practices.</i>	YES (100%)	YES (100%)	YES (100%)
You have a higher qualification and educational competency.	YES (50%) NO (50%)	YES (67%) NO (33%)	YES (67%) NO (33%)
You are now entering in the age of employment.	NO (100%)	YES (17%) NO (83%)	YES (83%) NO (17%)
You are born in an advanced computerized age.	NO (100%)	YES (33%) NO (67%)	YES (83%) NO (17%)
You have greater sense to build virtual (social) network rather than local network.	YES (33%) NO (67%)	YES (100%)	YES (100%)
<i>You have attained a higher level of wealth before career startup.</i>	NO (100%)	NO (100%)	NO (100%)

Table 5. An Illustration to Brain Storming Section for PC Development

<i>PC development nodes/factors for an individual Employee</i>	<b>Baby Boomers</b> (1946 - 1964)	<b>Generation -X</b> (Early 60's - 1982)	<b>Generation -Y</b> (1983- 1994)	<b>Em- ployee Attitude</b>	<b>Baby Boomers</b> (1946 - 1964)	<b>Generation -X</b> (Early 60's - 1982)	<b>Generation -Y</b> (1983- 1994)
Job Description	YES (100%)	YES (100%)	YES (100%)	Optimistic	YES (100%)	YES (100%)	YES (100%)
Role Definition	YES (100%)	YES (67%) NO (33%)	YES (67%) NO (33%)	Dedicated	YES (83%) NO (17%)	YES (100%)	YES (100%)
Terms & Conditions	YES (100%)	YES (100%)	YES (100%)	Driven	YES (83%) NO (17%)	YES (83%) NO (17%)	YES (50%) NO (50%)
Employment Policies	YES (100%)	YES (83%) NO (17%)	YES (67%) NO (33%)	Balanced	YES (100%)	YES (67%) NO (33%)	YES (83%) NO (17%)
Future Opportunities	YES (67%) NO (33%)	YES (67%) NO (33%)	YES (17%) NO (83%)	Determined	YES (83%) NO (17%)	YES (100%)	YES (50%) NO (50%)
Performance Measurement	YES (33%) NO (67%)	YES (33%) NO (67%)	YES (33%) NO (67%)	Dependent	YES (67%) NO (33%)	YES (33%) NO (67%)	YES (67%) NO (33%)
Work-details	YES (83%) NO (17%)	YES (100%)	YES (83%) NO (17%)	Competent	YES (83%) NO (17%)	YES (100%)	YES (83%) NO (17%)
Work-Culture	YES (33%) NO (67%)	YES (50%) NO (50%)	YES (67%) NO (33%)	Polite	YES (100%)	YES (100%)	YES (83%) NO (17%)
Non-financial Rewards	YES (33%) NO (67%)	YES (50%) NO (50%)	NO (100%)	Challenging	YES (50%) NO (50%)	YES (83%) NO (17%)	YES (83%) NO (17%)
Financial Rewards	YES (100%)	YES (83%) NO (17%)	YES (100%)	Confident	YES (100%)	YES (100%)	YES (100%)
Queries & Feedback	YES (33%) NO (17%)	YES (100%)	YES (50%) NO (50%)	Broad-minded	YES (100%)	YES (100%)	YES (67%) NO (33%)
Justice Criteria	YES (17%) NO (83%)	YES (33%) NO (67%)	YES (50%) NO (50%)	Sacrificing	YES (83%) NO (17%)	YES (67%) NO (33%)	YES (50%) NO (50%)
Job fairness	YES (67%) NO (33%)	YES (67%) NO (33%)	YES (100%)	Leadership	YES (83%) NO (17%)	YES (67%) NO (33%)	YES (83%) NO (17%)
Goal Serving	YES (67%) NO (33%)	YES (100%)	YES (83%) NO (17%)	Thankful	YES (100%)	YES (83%) NO (17%)	YES (83%) NO (17%)
Mission explanation	YES (67%) NO (33%)	YES (67%) NO (33%)	YES (83%) NO (17%)	Hard-working	YES (100%)	YES (100%)	YES (100%)

## RESULTS AND DISCUSSION

### Assessment Techniques

Themes of the study were purely qualitative based on finding generational differences, thus we promptly moved to indulge Nvivo10 queries, widespread used in identifying meaningful concepts for qualitative datasets. Queries run were drawing *word clouds*, making *cluster analysis*, generating *tree maps*, revealing *word frequency*, finding commonality by *word searching* and *matrix coding query* (generation v/s response-words coded) and finally creating *pie-charts*. SPSS was also indulged to get *weighted percentage* results for demographics and for dichotomous questions (Table 3, 4 and 6).



Referring to worldwide research for generational attributes done earlier in our work (*Table 1*), it was taken as a prime responsibility to this study to ensure compatibility of generational attributes of three clusters with Pakistan workforce, and thus we began to confirm the same as for generations of Pakistan are concerned. *Table 4* shows a comprehensive weighted percentage of responses for each generation in confirming the attributes uncovered in worldwide research. Three notable points are in italics; whereby all of the generations in Pakistan are completely directed to having the psychology of obtaining the *power*, extremely concerned about *modern management practices*, and have not attained a higher level of wealth before their career startup. All the other items are being shared in percentage weighted values showing a clear difference of expressions value for generations.

### **Factor Wise Discussion for Generations Response**

**Psychological Contract Orientation:** The factor was pre-requisite to find either PC holds in organizations in Pakistan or not and if holds or not what are theme explored ideas of the workforce around the informational level they perceive. *Baby boomers* exposed for a poor awareness about PC that might be because competitive HR practices were absent in their time from the early 50s to 60's and thus they were found very much conventional. They argued a lot that PC is embedded more in public firms than private firms as because of benefits are more retained by an employee at a government job. They were quite sentimental and of course think today for conventional promises like increased personal security and job promotions on seniority basis; endorsing that a PC is a complete aspect of need fulfilment for them and they are highly optimistic for promises to be fulfilled by the employer over the job and after due retirement. Moreover, they prefer to be balanced for choosing PC type.

*Generation-X*, in contrast, has a better awareness about PC that might be because of improving the state of competitive HR in their times of late 60's to early 80's. They are straight-forward in getting higher rewards (Benson & Brown, 2011), that are more tied to work-based promises that are higher performance, made to them by their employers. They even think that PC is an occupied element of public firms only not by private firms, arguing that PC is an aspect of showing job commitment to the employer and thus employer would work for their betterment at all. They are optimistic as well in getting promises to be fulfilled by their employer. Moreover, they prefer

to be relational and balanced for choosing PC type.

*Generation-Y* is best at illustrating the value and awareness of PCs, this is because rapidly changing practices of competitive HR in their times from the early 80's to late 90's. They are pioneers to achieve even better than two, especially for rewards endorsing that PC should be restrained to private entities and there is no need of PC in public firms as they are state-owned. They think more of future promises are tied to individual career development (Lub, 2013), arguing that PC is an adjacent aspect of the psychological settlement. They are optimistic as well in getting promises fulfilled by the employer but prefer to be transitional, relational, and balanced as per organizational goodwill and work culture for choosing PC type.

**Psychological Contract Mental Maps (Employee Attitude):** The factor was a requirement to uncover how a PC is ensuring the comfort of an employee and value-adding factor in organizations in Pakistan. *Baby boomers* exposed that each working day is a new addition of value in their work experience. They replied work-environment in their organizations is mixed as if we assist someone it might be in future proof as caring or as a cause of troubleshooting for us (Deepthi & Baral, 2013); a point is to be noted here that much of baby boomers sample was related to public entities and changed response can do occur when all of baby boomers sample is considered from private entities. They value work, self-respect, family, benefits, and company goodwill (Tolbize, 2008); in contrast, they think their organization values for work, performance, clients, and boss satisfaction with no complaints. They respect their company and desire to work near hometown.

While *Generation-X* reacted that each working day is an improvement in their work experience. They believe that work-environment in their organizations is supportive and encouraging (Moore, 2014). They value the quality of work and personal benefits; indifference, they consider their organization values for commitment and efficient working by employee work, and have high respect for their affiliation and conditional preference for job placement and are no more flexible in considering the disparity between job placement and personal choice (Aselage & Eisenberger, 2003). Each working day is an improvement in learning for *Generation-Y*. They believe work-environment in their organizations is mixed; endorsing that helping others would be assisting fellowmen or irritating

ones own-self at work. They value more for social and esteem needs with the passage of changing time Lub et al. (2016); they say needs are changing by time and they believe there is value for the fulfilment of all those needs; indifference they deem their organization values for higher work contribution and no more than that. They respect their affiliation as their own identity (Moore, 2014); and have the least preference for job placement and are highly flexible in considering inconsistency in between job placement and personal choice.

**Interaction:** It is an interface that tends to acknowledge for what has been said to others, meaningful in a sense that working organizations are providing the right information for the job to candidates when they are hired or not in Pakistan. It is more sophisticated that at the end of this section, a question measuring in weighted percentage was asked from generations and that provides a clear sense of what employee perceives about interaction (Robinson & Morrison, 2000), generation wise. No doubt in *Baby boomer's* timeline, hiring was just filling a seat regardless of employment competency in Pakistan and thus baby boomers confirmed the same that they were not even properly communicated when they were hired. Their response was like an inactive person about providing feedback to HR for job-related discrepancies. But more interesting they revealed whenever an organization is modifying their job they are being asked for modification and its acceptance and rejection as per their seniority level. They say higher authorities are approachable subject to job authority and their mean-score for interaction is about 62.5%.

*Generation-X* was effectively communicated when hired due to growing HR competency. They disclosed feedback is periodically provided to HR for job-related discrepancies. But more interestingly they are just informed whenever their job is modified and are not asked about their acceptance and rejection. Higher authorities are approachable subject to the proper channel and provided a mean-score of about 74.16% for interaction. *Generation-Y* is also properly communicated when hired, disclosed they are fresh, and feedback is not yet properly provided to HR for job-related suggestions. Interestingly they are directed to accept whatever is changed for their job or complete changing of their job. Higher authorities are not accessible and provided a mean-score of about 70.83% for interaction.

**Shared Expectations:** PC is all about expectations (Robinson &

Morrison, 2000), and this factor helped us to know about shared expectations formed between the two parties for job fulfilment in Pakistan. *Baby boomers* are of the view that a unit or departmental head is responsible for whatever expectations are being formed and promoted by their subordinates as per behavioral factors for an organization, simply it is shared in between them and the organization. They provided that no opportunity holds for improving their lives in their organizations (Benson & Brown, 2011), their supervisors and colleagues are good-fit but differ section to section and department to department. They are more committed to professional life and adjust their personal life. They think their organization is not spending enough time to explore their capabilities. Their mean-score for shared expectations is about 63.6%.

*Generation-X* inclines that a frontline person is more responsible for forming an array of personal shared expectations, but it is somehow shared as well. Opportunities are held for improving their lives, admitting work supervisors and colleagues are helpful everywhere. They partially adjust their personal life over a professional. Their organization is striving to explore its capabilities and placing them accordingly as well with a mean score of this factor for about 75%. *Generation-Y* disposes of how expectations are not shared and the employee himself is responsible for forming expectations about job opportunities held for them as well as for improving lives, confirming that work supervisors and colleagues are cooperative. They sometimes adjust to their personal life as a professional but prefer personal freedom (Coyle-Shapiro & Conway, 2005). They validated that the organization pretends to explore their capabilities, but nothing holds like that with a mean score of about 58.33% that is the lowest score by a generation.

**Inducements & Rewards:** Rewarding an employee is an integral part of promoting a PC dimension of giving in return for contribution (Coyle-Shapiro & Conway, 2005), and thus this factor is of good worth to be included in the discussion model to find out best for the same in Pakistan. *Baby boomers* prefer to contribute higher as they are of the view that contributing higher would reward them higher, but with the conventional methodology of paperwork that is time-consuming. They desire for higher social contribution in the organization and are responsible and caring for others too. Work is their personal accomplishment and motivator. Financial rewards are satisfying for them

but no gain in non-financial rewards. They confirmed that their organizational reward system is not good and provided a mean-score of 61.25% for the strength of this factor.

*Generation-X* prefers to contribute moderately for job and social role with paperless philosophy of work. They are responsible as well but self-caring. Work is learning for them, financial and non-financial rewards do not satisfy them, endorsing that high improvement is needed for organizational reward system up-gradation and provided a mean-score of 65.41% for the strength of organizational reward system. *Generation-Y* is very much fresh at employment but prefers to contribute less than *Generation-X* even with the same paperless work philosophy. They are situational at providing social contributions subject to their own ease; they are responsible but benefit-oriented, work is boosting their confidence level, financial and non-financial rewards are limited for them on jobs but organizational reward system is fulfilling their basic needs of employment as per economic conditions of Pakistan, providing a mean-score of 64.16% for strength of factor.

**Inspiration of trust:** PC is at all trust inspiring attribute of an organization that helps individuals to retain positive mental nodes with organizational system and setting that corresponds to higher results (Lub, 2013; Aselage & Eisenberger, 2003). The same has been inclined to expose for good study and measures in Pakistan. *Baby boomers* are traditional thinkers, having less information in hand for HR but prefer clear job rules and employment policies to be depicted in organizational employment (Lub et al. 2016). They trust their organization and are satisfied, wish for high job security (Coyle-Shapiro & Conway, 2005), and provided a mean-score of 65% for inspiration of trust.

*Generation-X* also favors clear job rules and employment policies that are fair to be represented in the organizational setting (Deepthi & Baral, 2013). They partially trust their organization and wish for high job security (Lub, 2013), as well as providing a mean-score of 72.91% for inspiration of trust. Finally, *Generation-Y* supports clear job rules and employment policies to be adopted in organizational management practices. As they are new and are trying to build trust for their organization, wish for high job security like the two clusters and provided a mean-score of 68.33% for inspiration of trust.

## **Themes Validation as Per Discussion and Results**

*Do individual employee generations respond differently to PC development?*

It is an endorsement of this study, we have been able to know that differentiation among generations does hold by their attributes, response to discrete PC relational factors, their mental nodes related to PC development and finally their attitude that cannot be changed at any cost (Aselage & Eisenberger, 2003). The workplace is different for older bosses with younger employees and younger bosses with older employees changing the role and response of a diversified workforce (Twenge & Campbell, 2008; Benson & Brown, 2011). Again, the mix of fast-tracking stars and slow learners in different generations do hold and meet different outcomes for PC development in our study (Deepthi & Baral, 2013). Generations highly affect PC orientation, interaction in an organization, shared expectations, inducement, and rewards for their input and finally reaching the top of the building ladder of the PC development framework.

*Which generation is more centric to the first choice of PC context and development?*

Each generation is value comparing node to another with some commonality of work value and responsible behavior in the context of developing PC. But the level of reciprocity in Pakistan has been aroused after the millennium and our study revealed that Generation-Y is more centric to the first choice of PC development. But regardless of situational factors, our study also confirms that the rest of two generations also prioritizes for PC promotion as per its value outcomes and significance. This means each of job obligations is bisected by the value being provided in return to its performer.

*What kind of generational differences (based on attributes of a generation) infers an employee towards Choice of PC types in PC development?*

Based on their habits, knowledge, attitude, skills and work-life experience as confirmed by generating coded queries in Nvivo10, it is found that baby boomers are more centric to the thread of good organization, shared values for working, fulfilment of job promises, preference of providing time to family, improved financial quality and a trusted system at all; Generation-X is more

centric to thread of value promises, enhanced organizational reward, personal needs fulfilment, finding good in work culture, trust need in contractual philosophy and prefer for psychological settlement; Generation-Y is more centric to thread of nature of work in organization, working is to be measured in number of hours worked, trust is needed in numeric values, shared contribution with individual mental comfort and needs high interaction by organization leadership (Tolbize, 2008). It can be validated for the theme in Pakistan that generational differences based on the factor of *Personal development* infer an employee towards the choice of PC types in PC development.

*What are the differentiated contributing factors of individual preference in PC development?*

Results indicate that generations may have a list of perceived, simultaneous, and differentiating factors as per the context of their background (Coyle-Shapiro & Conway, 2005). Their living surroundings or conditions differs from time to time. While making a brain-storming (Table 5), we found they perceive different meaning of a promise, expectations, interaction, quantity and quality of work, learning, working conditions and values, contractual philosophy, rewarding arena, trust inspiration, commitment, Human resource practicing portfolio and above all forming the compatibility of their personal attitude towards PC development nodes (Table 6) and the significance of each. Table 6 was included to observe the level of information that is provided to the employee in the recruitment process and for the attitude that he brings to the workplace, owing for what he differs from others by his generation classification.

Table 6. An Illustration of Generational Differences

<i>Factors</i>	<i>Baby Boomers</i> (1946 - 1964)	<i>Generation-X</i> (Early 60's - 1982)	<i>Generation-Y</i> (1983-1994)
<b>1 PC Orientation</b>	<ul style="list-style-type: none"> <li>- Poor awareness about PC.</li> <li>- PC holds more in public than private firms.</li> <li>- Conventional promises like personal security and promotions are there.</li> <li>- PC is an aspect of need fulfilment.</li> <li>- Optimistic for promise fulfilment from the employer.</li> <li>- Completely balanced.</li> </ul>	<ul style="list-style-type: none"> <li>- Better awareness about PC.</li> <li>- PC holds more in public firms only.</li> <li>- Highly performance-based promises are made.</li> <li>- PC is an aspect of commitment.</li> <li>- Optimistic for promises fulfilment from the employer.</li> <li>- Partially relational &amp; balanced (50-50).</li> </ul>	<ul style="list-style-type: none"> <li>- Best awareness about PC.</li> <li>- PC holds more in private.</li> <li>- Future promises like career development are made.</li> <li>- PC is an aspect of the psychological settlement.</li> <li>- Optimistic for promises fulfilment from the employer.</li> <li>- Transitional, relational &amp; balanced as per situation is.</li> </ul>

<p style="text-align: center;"><b>2</b> <i>PC Mental Maps (Employee Attitude)</i></p>	<ul style="list-style-type: none"> <li>- Work is value-adding.</li> <li>- Work-environment is mixed (caring and troubleshooting).</li> <li>- Value for work, respect, family, benefits, and company; in contrast their organization values for work, performance, clients, and boss satisfaction with no complaints.</li> <li>- Respect for their company is good for them.</li> <li>- Prefer job placement near hometown and are not flexible.</li> </ul>	<ul style="list-style-type: none"> <li>- Work is an improvement in experience and skills.</li> <li>- Work-environment is supportive and encouraging.</li> <li>- Value for the quality of work and self-benefits; in contrast their organization values for commitment and efficient work.</li> <li>- Respect for their company is their own respect.</li> <li>- Have a conditional preference for job placement and are less flexible.</li> </ul>	<ul style="list-style-type: none"> <li>- Work is an improvement in learning.</li> <li>- Work-environment is mixed (caring and irritating).</li> <li>- Value for social and esteem needs depending on changing needs dimension; in contrast their organization values for higher work contribution.</li> <li>- Respect for their company is their own identity.</li> <li>- Have the least preference for job placement and highly flexible to location.</li> </ul>
<p style="text-align: center;"><b>3</b> <i>Interaction</i></p>	<ul style="list-style-type: none"> <li>- Not properly communicated when hired.</li> <li>- Less aware to provide feedback for work to HR.</li> <li>- Asked for their job modification.</li> <li>- Higher authorities are easily accessible to them as per job designation.</li> <li>- Their mean-score for interaction is 62.50%.</li> </ul>	<ul style="list-style-type: none"> <li>- Properly communicated when hired.</li> <li>- Feedback for work is taken periodically by HR.</li> <li>- Just informed for their job modification.</li> <li>- Higher authorities are accessible with a proper channel.</li> <li>- Their mean-score for interaction is 74.16%.</li> </ul>	<ul style="list-style-type: none"> <li>- They are also properly communicated when hired.</li> <li>- Feedback for work is not yet taken by HR.</li> <li>- Not even informed for their job modification.</li> <li>- Higher authorities are not accessible.</li> <li>- Their mean-score for interaction is 70.83%</li> </ul>
<p style="text-align: center;"><b>4</b> <i>Shared Expectations</i></p>	<ul style="list-style-type: none"> <li>- Expectations are shared but the unit head is more responsible for promoting employee expectations.</li> <li>- No opportunities hold for improving their living standards in the organization.</li> <li>- Supervisors and colleagues are good but differ from unit to unit.</li> <li>- Adjust their personal life for professional commitment.</li> <li>- Think their organizations are not spending enough time to explore their capabilities.</li> <li>- Their mean-score for shared expectations is 63.6%.</li> </ul>	<ul style="list-style-type: none"> <li>- Expectations are shared but a frontline person is more responsible.</li> <li>- Opportunities hold for improving their living standards in the organization.</li> <li>- Supervisors and colleagues are cooperative everywhere.</li> <li>- Partially adjust their personal life for professional life (50-50).</li> <li>- Think their organizations are striving to explore their capabilities.</li> <li>- Their mean-score for shared expectations is 75%.</li> </ul>	<ul style="list-style-type: none"> <li>- Expectations are not shared; the employee is responsible for himself.</li> <li>- Yes, opportunities hold for improving their living standards in the organization.</li> <li>- Supervisors and colleagues are cooperative.</li> <li>- Sometimes adjust their personal life for professional but prefer personal freedom.</li> <li>- Thinks their organization pretends to explore their capabilities, nothing is like that.</li> <li>- Their mean-score for shared expectations is 58.33%.</li> </ul>



<p style="text-align: center;"><b>5</b> <b>Inducements &amp; Rewards</b></p>	<ul style="list-style-type: none"> <li>- Prefer to contribute good enough with paperwork and higher social contribution in the organization.</li> <li>- Are responsible and caring for others too.</li> <li>- Work is their personal accomplishment and motivator for them.</li> <li>- Are satisfied with their financial rewards but no gain in non-financial rewards.</li> <li>- The organizational reward system is not good.</li> <li>- Their mean-score for reward system 61.25%.</li> </ul>	<ul style="list-style-type: none"> <li>- Prefer to contribute moderately with paperless work and moderate social contribution in the organization.</li> <li>- Are responsible but self-caring.</li> <li>- Work is their learning.</li> <li>- Are completely unhappy with their financial and non-financial rewards.</li> <li>- Organizational reward system needs to be improved.</li> <li>- Their mean-score for reward system 65.41%.</li> </ul>	<ul style="list-style-type: none"> <li>- Prefer to contribute least with paperless work and situational social contribution in the organization.</li> <li>- Are responsible but benefit-oriented.</li> <li>- Work is boosting their confidence.</li> <li>- Limited financial rewards and no non-financial rewards for them.</li> <li>- Organizational reward system is satisfactory as per economic conditions.</li> <li>- Their mean-score for reward system 64.16%.</li> </ul>
<p style="text-align: center;"><b>6</b> <b>Inspiration of Trust</b></p>	<ul style="list-style-type: none"> <li>- Prefer clear job rules and employment policies.</li> <li>- Trust their organization.</li> <li>- Desire high job security for trust inspiration.</li> <li>- Their mean-score for inspiration of trust is 65%.</li> </ul>	<ul style="list-style-type: none"> <li>- Also, prefer clear job rules and employment policies.</li> <li>- Partially trust their organization (50-50).</li> <li>- Desire high job security.</li> <li>- Their mean-score for inspiration of trust is 72.91%.</li> </ul>	<ul style="list-style-type: none"> <li>- Prefer clear job rules and employment policies.</li> <li>- Try to build trust for their organizations.</li> <li>- Desire high job security for trust inspiration.</li> <li>- Their mean-score for inspiration of trust is 68.33%.</li> </ul>

### CONCLUSION

Among three-generational clusters holds some similarities and some distinctions were found (Benson & Brown, 2011). All generations show that all of them are highly polite and hardworking to respond in discrete working situations (Moore, 2014). The debatable PC development differentiation lies in each and every stage and factor where the employees are in at career stage in explanatory framework (*Table 2*), with a fact that gender differentiation also impacts in feminine or masculine leadership (Benson & Brown, 2011); and technological cut-off in jobs can form a bisecting relationship in PC development for an individual (Twenge & Campbell, 2008).

Baby boomers acknowledged that their principles are highly affected by savvy generations of today; preference of value factors available in PC development framework in this study is changing day by day. They consign employment relationship practices as transparent (Guest, 1998), their expectations tied to work-circle have improved, enumerated situations are positively influencing their behavior towards better PC outcomes for their employer, they enjoy lesser, work higher and thus behave strongly on promises being made to them by employer, their trust

and commitment is highly mediated by age factor in expectations assessment, thus organizations value their interference and suggestions that ultimately bring positive word-of-mouth endorsement for rest of two generations to display optimism and dedication in work (*Table 5*). Generation-X and Y in support of study themes confirmed that study is best at assuming for organizations which avert practice of satisfying all three clusters with one-fit (same) model of the employment relationship (Moore, 2014). X and Y are no doubt more informed employees but lack to cope with complex situations as balanced, are less determined and sacrificing as compared to baby boomers. Even though they are competent, challenging and grasp on good leadership skills but they less thankful to whosoever provides them with the employment in Pakistan. Career development from starting is their religion.

Referring to discrete discussed situations, it implies that organizations in Pakistan display poor conditions of nationwide employment theory and practice that are worsening the context of PC development and recruitment houses that do not have yet build PC circle would soon be realizing the significance for PC as per their growing 360<sup>o</sup> survival needs to become multinationals. Moreover, worldwide researches also prove that organizations understanding deeper generational distinctions will be endowed to added success in long-run and would better be coping with destructive counter pressures than others (Twenge & Campbell, 2008). Their profits would be a reaping outcome of their employee commitment and satisfaction but discussing all this matter for Pakistan, study implies that it will even take decades to decode the value of PC in perspectives of generational differences. Finally, we provide the outcome theme that PC development is different in different generations of Pakistan Lub et al. (2016); because of the career stage they are in at workplace, intersecting role of their employment timeline (Coyle-Shapiro & Conway, 2005), and nature of organization (Deepthi & Baral, 2013), that is either public or private as per their psychology and willingness.

### **RESEARCH IMPLICATIONS**

Organizations in Pakistan can get help as proposed factors in explanatory research framework are contributing at their best in understanding relative importance (*Table 2*) and rating of PC with a citation of individual employee well-being at work in clarifying what is best to be adopted to increase their commitment and satisfaction and lessen

breaching of contract. It will bring a pleasant state for work culture and workers productivity endorsing theory and practice of HR at an individual level. HR line managers must also be assigned responsibility to assess unrealistic and realistic expectations formed by employees that results in contract breach and improve for that with a solution of fostering the employee to make creative but realistic demands in Pakistan. Organizations can also conduct sessions for praise programs that are imperative in providing prestige to the workforce, whereby understanding reciprocity is theme point to pioneering long term relation in initiating meaningful fulfilment of psychological contractual philosophy in the employment relationship.

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# THE IMPACT OF CORPORATE REPUTATION ON BUILDING BRAND EQUITY: A PERSPECTIVE OF MULTINATIONALS FMCGs

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## ABSTRACT

*The purpose of this study is to generate a model to examine the relationships between corporate reputation and brand equity in a study of multinational firms operating within Pakistan. This research employs a quantitative approach to examine the hypothetical relationships presented in the conceptual framework. The data was collected from a sample of the assistant, deputy, and senior managers from various multinational firms of different origin having either manufacturing or operational concerns throughout Pakistan. The hypotheses testing suggest that the proposed model achieved an acceptable fit with the data (i.e., out of six hypotheses, five hypotheses were significantly accepted). The study has limitation in generalization, in terms of the survey questionnaire, the targeted audience (employees of the firms) and multi-national firms' context. It was concluded that there is a significant impact of corporate reputation in building a firm's overall brand equity. However, the magnitude of the impact of reputation over brand equity is subject to the choice of particular uses of corporate reputation. The study contributes to the corporate reputation literature in the area of brand management for multinational firms, particularly fast-moving-consumer-good (FMCG) firms existing in Pakistan.*

**Keywords:** Corporate Reputation; Brand Image; Brand Equity; MNC's (Multi National Companies).

## INTRODUCTION

The concept of corporate reputation is quite multidimensional in nature and follows a variety of explanations, contexts, and its overall application within the business world. Regardless of its number of different definitions, projections and understandings drawn within the literature,

there was not any noticeable deviation based on all the researches reviewed which can undervalue the aggregate importance of corporate reputation both in theory and practice. Therefore, corporate reputation is not a mere option to consider in business perspective rather mandatory concern for the managers and stakeholders worldwide (Deephouse, Newburry, & Soleimani, 2016). Brand equity has been considered as a dimension of quality which was seen through the tangible and intangible components (Kamakura & Russell, 1991). Brand equity can be taken as the economic value of a brand to the firm from an economist's point of view like Simon and Sullivan (1993). Moreover, brand equity was defined by Mudambi, Doyle, and Wong (1997), as "the total value added by the brand to the core product". The incremental usefulness or total value of the product offered through its brand name is also mentioned as brand equity (Yoo & Donthu, 2001). In order to declare a brand's brand equity, a higher degree of awareness and familiarity with the brand must be witnessed. The increasing level of expectations by multiple stakeholders and growth in interest groups have intensified the need to assess the detailed role and importance attached to corporate reputation these days than before. Corporates which do not actively engage in managing their reputation are now more susceptible about their existence and encircled by greater risk to survive in future. Companies like Enron are history now because of terribly failing to maintain their corporate reputation (Shamma, 2012). A good corporate reputation not only helps in increasing customers and sales but also has a positive effect on decreasing costs and maximizing income and revenues of the business. It works as a "magnet" in pulling better human, financial, and technical resources. Considering the other factors being constant, the perceived business risk will be lower when the firm has developed a positive reputation (Nicolò, 2015). Therefore, a good corporate reputation helps in receiving better behavioral stakeholders' support, which later results in the competitive advantage of the firm (Rindova, Williamson, Petkova, & Sever, 2005).

## **LITERATURE REVIEW**

In the marketing literature, corporate reputation is viewed as a signal of a firm's actions to its customers (Herbig, Milewicz, & Golden, 1994). Marketers put their efforts to understand the beliefs, attitudes, or intentions of market participants by sending, looking for, and understanding cues (Herbig & Milewicz, 1995). Nevertheless, vague, or negative signals can bring about opposite results (LaBarbera, 1982). Similarly, corporate



reputation is also found as a grouping of personalities; a company can have up to seven types of human-like traits such as agreeableness, chicness, and ruthlessness (Chun, Da Silva, Davies, & Roper, 2005). Depending on the perceived fit between the firm's personality and an observer's personality, a certain type of personality is evaluated to be positive or negative (Berens & Van Riel, 2004). Furthermore, empirical evidence suggests that the complex nature of corporate reputation has demanded marketers to interpret each of the multiple characteristics separately to better describe a company (Chun et al., 2005; Davies, Chun, da Silva, & Roper, 2004). However, in the previous researches, the term corporate reputation has been used interchangeably with corporate image. Corporate reputation denotes the perception built up over a period of time, focusing on what an organization does and how it behaves (Gray & Balmer, 1998). In economics, corporate reputation is defined as either a trait or clues given by the company to customers about its products (Kreps & Wilson, 1982; Shapiro, 1982). In the context of strategic management, corporate reputation is defined as the characteristic(s) attributed to a firm and concluded from the firm's past actions. It is the stakeholders' view of a firm's strategic character and it can serve as an advance warning about retaliation in case if rivals respond aggressively (Weigelt & Camerer, 1988). Corporate reputation is the public's aggregate judgment of a firm in due time (Roberts & Dowling, 2002). However, few researchers argued that corporate reputation can be considered as an account of customers perception and overall beliefs about a firm's identity and reputation (Rao, 1994; Rindova & Kotha, 2001). Similarly, publicity or positive coverage received through media sources is also evidence of corporate reputation (Deephouse, 2000). From the viewpoint of strategic management, corporate reputation is considered either as a strategic resource or mobility barrier (Rao, 1994; Roberts & Dowling, 2002; Carmeli & Tishler, 2004); and an advantage that cannot be bought, copied, or even substituted (Barney, 1986; Dierickx & Cool, 1989). In general, it is not easy to duplicate the interaction of a firm with its stakeholders (Fombrun & Van Riel, 1997). In order to develop a corporate reputation, a company must regularly sustain reliable transactions (Herbig & Milewicz, 1995; Herbig, Milewicz, & Golden, 1994). Conversely, sociologists sight reputation as a sign of social acceptance, which reveals the fit between expectations and reputation (Fombrun & Van Riel, 1997). For example, a company can acquire approvals from its stakeholders through winning a certification challenge in the automobile industry (Rao, 1994). The projection of

corporate's reputation is based on identity (who we are), and the image (what we think other people think about us), (Chun et al., 2005). Subsequently, Fombrun and Van Riel (1997) defined corporate reputation as "a perceptual representation of a company's past actions and future prospects that describes the firm's overall appeal to all of its key constituents when compared with other leading rivals".

Although many scholars have considered the meaning of reputation quite debatable (Halpern, 2001) yet, this study has adopted a most generic form for explaining the corporate reputation as an assessment of the firm's position based on its subjective nature. Secondly, reputation is considered as a "resource" or as an "intangible, financial or economic asset" (Shamma, 2012). According to Helm (2005), since corporate reputation is a socially shared impression, it heavily depends on an individual's perception of others viewing the firm. The general public perception developed about the employer will be affecting the employees. Employees' self-esteem needs can be catered through a positive corporate reputation. Consequently, satisfied employees will follow satisfied customers and employees' evaluation of the firm's reputation will determine other stakeholder's perceptions about the firm (Helm, 2005; 2007; & 2011). Therefore, in order to have in-depth understanding regarding mechanism through which stakeholders constitute perception about reputation, highly demands to examine corporate reputation at the stakeholder level. Though employees' perceptions are not just dependent on aggregate past and future actions of the corporation. Nevertheless, the actions of the immediate management play a huge role in perception building (Shamma, 2012). This study aims to explore the less studied impact of the employee perception of corporate reputation on employee engagement (Shirin & Kleyn, 2017). The literature supports different views about stakeholder's perspective when marketers are faced to evaluate corporate reputation. However, the current study has considered employee-based corporate reputation (Albinger & Freeman, 2000; Turban & Greening, 1997), because stakeholder-specific measures are suitable when dealing with perceptions of a specific stakeholder group (Shamma, 2012). Based on the above discussion following hypotheses are proposed for this study:

*H<sub>1a</sub>: Value creation as one dimension of the uses of corporate reputation has a significant and positive impact on brand loyalty as an aspect of brand equity.*

*H<sub>1b</sub>: Value creation as one dimension of the uses of corporate reputation has a significant and positive impact on perceived quality as an aspect of brand equity.*

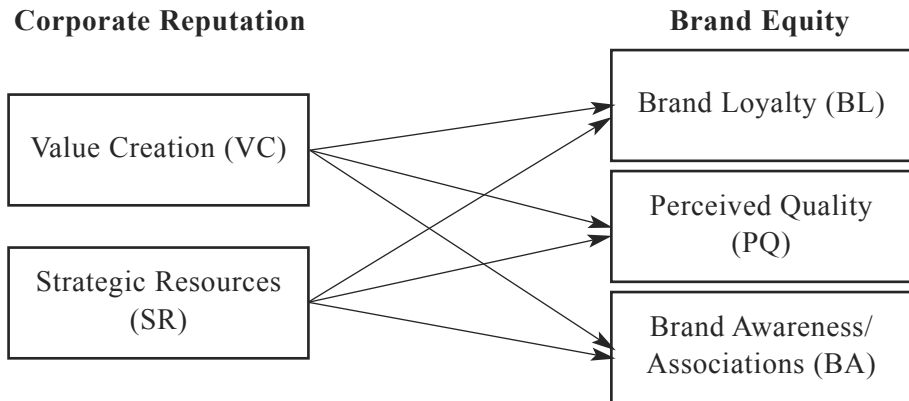
*H<sub>1c</sub>: Value creation as one dimension of the uses of corporate reputation has a significant and positive impact on brand awareness/associations as an aspect of brand equity.*

*H<sub>2a</sub>: Strategic resource as one dimension of the uses of corporate reputation has a significant and positive impact on brand loyalty as an aspect of brand equity.*

*H<sub>2b</sub>: Strategic resource as one dimension of the uses of corporate reputation has a significant and positive impact on perceived quality as an aspect of brand equity.*

*H<sub>2c</sub>: Strategic resource as one dimension of the uses of corporate reputation has a significant and positive impact on brand awareness/associations as an aspect of brand equity.*

### CONCEPTUAL FRAMEWORK



Source: This Study

### RESEARCH METHODOLOGY

The data for the study was gathered through a cross sectional questionnaire survey. This technique is faster, inexpensive, efficient, and can be administered to a relatively large sample (Churchill, 1995; Sekaran & Bougie 2016), hence it is considered as the most appropriate technique. The questionnaire was developed using a seven-point Likert scale, ranging from (1) strongly disagree to (7) strongly agree. The initial survey instrument was developed by adapting to the pool of items widely accepted in the previous corporate reputation, brand image, and brand equity literature. Based on the pilot study findings, the instrument

went under the revision of some items based on content validity and reliability of the measures. After finalizing the instrument, using a probability sampling approach, data was collected through self-administrative and mail (postal and email) survey methods. The targeted population was employees working at managerial positions in consumer goods and pharmaceuticals’ multinational firms operating within Pakistan. Moreover, cluster sampling also known as area sampling or geographical sampling (Teddlie & Yu, 2007), aligns well with the current study as the researcher has identified four main capital cities: Karachi, Quetta, Lahore, and Peshawar of Pakistan as four clusters. Finally, 311 responses out of 500 were collected from the sample for data analysis. The data was statistically run through the statistical software like SPSS at an initial stage and AMOS at the later stage of the analysis. Descriptive analysis, missing value analysis and exploratory factor analysis were conducted using SPSS version 16.0 and hypotheses testing were performed using AMOS version 16.0.

### DATA ANALYSIS AND RESULTS

Both descriptive and inferential data analysis were performed, the latter included exploratory factor analysis.

Table 1. Descriptive Statistics at Construct Level (Data Normality test)

	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
BL	1.00	7.00	4.7884	1.69895	-.621	.149	-.821	.297
BA	1.00	7.00	4.7210	1.76427	-.751	.149	-.733	.297
VC	1.00	7.00	4.6404	1.72169	-.629	.149	-.957	.297
PQ	1.00	7.00	4.6348	1.74518	-.521	.149	-.909	.297
SR	1.00	7.00	4.8876	1.67313	-.614	.149	-.783	.297

Source: This Study

All the results for itemized data normality mentioned below in the above table show values of skewness and kurtosis less than  $\pm 1$  suggesting that deviations from data normality are lacking.

Table 2. Little’s MCAR test results

Chi Square ( $\chi^2$ )	Df	Sig.
273.236	280	.603

Source: This Study

The amount of missing data is exceptionally low; however, drawing a conclusion without examining the randomness of missing data is not worthwhile. Therefore, chi-square statistics for diagnosing the randomness of missing data has been used.

Table 3. KMO Statistics and Bartlett’s Test of Sphericity

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.919
Bartlett’s Test of Sphericity	Approx. Chi-Square	7155.174
	Df	406
	Sig.	0.000

Source: This Study

Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett’s Test of Sphericity were performed which confirms the appropriateness of the sample data, where sample adequacy (.919) is above the cut off and the p-value is less than .001 for sphericity.

Table 4. Communalities

	Initial	Extraction
BL1	1.000	.865
BL2	1.000	.813
BL3	1.000	.808
BL4	1.000	.844
BA1	1.000	.776
BA2	1.000	.798
BA3	1.000	.807
BA4	1.000	.787
BA5	1.000	.826
VC1	1.000	.681
VC2	1.000	.765
VC3	1.000	.765
VC4	1.000	.747
VC5	1.000	.754
VC6	1.000	.809
PQ1	1.000	.816
PQ2	1.000	.824
PQ3	1.000	.792
PQ4	1.000	.831
PQ5	1.000	.814
PQ6	1.000	.809
PQ7	1.000	.840
SR1	1.000	.863
SR2	1.000	.808
SR3	1.000	.749
SR4	1.000	.743
Extraction Method: Principal Component Analysis.		

Source: This Study The communalities score of measured items is noticed between .681 (lowest) for VC1 and .865 (highest) for BL1, before generating the extraction model.

Table 5. Construct Reliability Statistics

Construct	Construct Reliability
<b>Criteria</b>	<b>≥0.7</b>
PQ	0.963
BL	0.930
SR	0.898
VC	0.924
BA	0.931

Source: This Study

The reliability of the constructs was measured using Cronbach’s alpha coefficients and above reliability coefficients for each of the five constructs surpassed the minimum threshold level i.e. .07 and the alpha coefficients range from .89 to .96. This shows overall, strong reliability and high level of internal consistency coupled with other estimations which are above than required cut off, suggest strong construct validity.

### DISCUSSION

The results of the respondents’ ratings of mean scores for six measured items of value creation are ranged between 4.50 ( $\pm 1.887$ ) and 4.78 ( $\pm 1.853$ ). This supported the strong influence of value creation over the brand equity of a firm. However, the respondents’ perception regarding the influence of strategic resources possessed by the firm was measured by four items were found between 4.65 ( $\pm 1.942$ ) and 5.04 ( $\pm 1.674$ ). Moreover, the 0.924 and 0.898 coefficient of alpha (Table 5) confirmed that there was strong internal consistency among all the measured items of value creation and strategic resources construct, respectively. In the proposed model, there were two main hypotheses, which were further broken down into sub-dimensions of the corporate reputation and brand equity constructs, respectively. This resulted in 6 hypotheses which were examined through the exploratory impact of value creation and strategic resources on the brand equity of the firm. Out of six hypotheses, five hypotheses were found statistically significant and positive except one hypothesis which resulted as statistically insignificant and was rejected.

Table 6. Hypotheses Testing

MConstruct	Code	Hypotheses	Relationship (Positive) ( $\beta$ -value)	Standardized Regression	Supported
Brand Loyalty	BL	H1a	BL VC	0.301	YES
		H2a	BL SR	0.19	YES
Perceived Quality	PQ	H1b	PQ VC	0.294	YES
		H2b	PQ SR	0.077	NO
Brand Awareness/ Associations	BA	H1c	BA VC	0.156	YES
		H2c	BA SR	0.215	YES

The most significant ( $\beta= 0.301$ ) relationship was highlighted between value creation and brand loyalty followed by  $\beta$ -value of 0.294 between perceived quality and value creation. Similarly, the highest beta value of 0.215 was observed between the strategic resource and brand awareness/associations followed by 0.19  $\beta$ -value between brand loyalty and strategic resource. Nevertheless, 0.077 beta value for H2b was found statistically not significant, hence rejected.

### CONCLUSION

This research investigated the role of the uses of corporate reputation for developing brand equity. In the context of quantitative methodology, cross-sectional primary data was collected through a survey questionnaire. The data was statistically run through the statistical software at an initial stage for resulting descriptive analysis, missing value analysis and exploratory factor analysis. The data normality statistics for each construct were presented through descriptive analysis. In terms of reliability and construct validity results, .07 percent reliability as the minimum standard was achieved by all scales. Out of the six hypotheses presented, five hypotheses were supported based on their standard regression ( $\beta$ -value) estimates. Overall, study findings suggested that there was a significant and positive impact from both uses of corporate reputation over brand loyalty and brand awareness/association aspects of the brand equity, except the perceived quality, where the relationships were measured as partially significant since one hypothesis was rejected. Moreover, the highest impact of both uses of corporate reputation was observed for brand loyalty as an aspect of brand equity rather than perceived quality or brand awareness/associations. This study contributes by incorporating a variety of quantitative findings for marketing researchers and practitioners.

### **RESEARCH IMPLICATIONS**

Both the value-based and resource-based theory were considered to intricate the particular usage of corporate reputation in building brand equity of the firm. Specifically, value creation and strategic resources as the two key uses of corporate reputation amounting to the development of brand equity. Although this study carefully measured the two uses of reputation i.e. value-based and resource-based, however, value creation (VC) was considered as the most significant determinant than strategic resources (SR). Finally, a remarkable finding was witnessed from the results of perceived quality (PQ) as an aspect of the brand equity that it was least influenced by the strategic resource whereas, highly influenced by the value creation activities of the corporations.

### **RECOMMENDATIONS**

It is recommended that for the firms, in short run, to keep the customers satisfied consistently, as value creation occupies greater weight than strategic resources, however, the firm may lose in the long run, failing to develop strategic resource like competitive advantage. On the other hand, the brand managers working in multinationals and interesting to know the perception of the brand among consumers are strongly recommended that at least in context of fast-moving-consumer-goods, consumers judge or interpret the quality in terms of value, which can be substantially true in case of a developing country like Pakistan.



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# IMPACT OF POLITICAL STABILITY AND MANAGERIAL OWNERSHIP ON FIRM'S PROFITABILITY

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## ABSTRACT

*The vibrant business sector is a dynamic segment for Pakistan's economic development because it offers employment to a larger population of skilled and unskilled labour; creates foreign reserves through exports; and also satisfies local demand for the products. Moreover, the listed companies perform a significant function in the growth of an economy, however, on pragmatic grounds, access to capital is evidenced as a matter of grave concern for the business sector in Pakistan. Moreover, it has been observed that in order to reduce the firms' agency costs, managerial ownership is utilized. Hence, in this essence, this research investigates the relationship of political stability, managerial ownership, dividends, sales, and total assets with the firm's profitability in Pakistan during 2013-2017. The findings depict that the variables of political stability, total assets, dividends, and sales, positively and significantly affect the firm's profitability, while, managerial ownership is in significantly associated with profitability.*

**Keywords:** *Political Stability; Managerial Ownership; Pakistan; Profitability.*

## INTRODUCTION

The combination of debt and equity which is used to finance the capital assets is labelled as the firm's capital structure. The extent of debt finance is measured through leverage as the debt and equity are fundamental components of the capital structure. For businesses in a developing country like Pakistan, acquiring finance is considered as a critical issue due to informational unpredictability for external finance and also due to inadequate internal financial resources. Hence, the opportunities for capital financing are lesser and far-off as compared to developed economies. Moreover, government policies affect the interest rate on debt finance and other financing resources. In this regard, Singh (1995), claimed that

businesses in developing economies depend more on external financing than internal finance. The corporate governance literature presumes a key conflict between stockholders and management in business (Berle & Gardiner, 1933; Jensen & Meckling, 1976). The stockholders' major concern in business is their investment return, whereas, the managers may want power and repute of running a larger business in addition to other perquisites. Therefore, more availability of insider information to managers and relatively weaker situation of numerous segregated stockholders propose that the managers may have more advantage. The researchers have offered various measures to reduce this agency issue including realignment of perquisites, monitoring, and discipline.

A business can realign the incentives of stockholders and managers by stock options and market incentives (Fama & Jensen, 1983). The monitoring of operations by independent directors confirm that managers work for the best interest of stockholders (Fama & Jensen, 1983). If the CEO of a firm is unable in maximizing stockholders' interest, then the board directors can remove them, and if a firm ignores the benefit of the stockholder, it will be disciplined through hostile takeovers (Jensen & Ruback, 1983). Jensen and Meckling (1976), asserted that separating the ownership and control results in more differences between managers and stockholders. The authors also described that the managerial ownership assists the organization in aligning owners and managers' interests and thus reduce the agency issues. Contrarily, the researchers also argued that managers are entrenched due to greater managerial ownership which aggravate the agency issues (Demsetz, 1983; Fama & Jensen, 1983).

This study investigates the association of political instability, managerial ownership, sales, firm size, and dividends with the firm's profitability in Pakistan by employing OLS model on data from 2013 to 2017. As, previously, there is limited research which attempted to analyze this association for Pakistani listed companies, thus justifies the rationale of this research endeavour. The remaining paper is structured as follows: Literature review is discussed in the next section, research methodology and results have been discussed in further sections, whereas, the conclusion has been provided in the end.

## **LITERATURE REVIEW**

Rajan and Zingales (1995), analysed leverage and different components of leverage in G-7 economies and found that there was a

positive association of profitability with leverage only in Germany, whereas, tangibility has a positive tendency in all economies. The variable of leverage is positively associated with size except for Germany. Opler, Saron, and Titman (1997); Levy and Alderson (1998), both attempted to find a formula which reveals a firm's appropriate capital structure and found consideration analyses as their research outcome. Nonetheless Aswath (2001), found factors of debt and equity financing and stated that businesses should recognize the costs and benefits of debt finance, but businesses use the following benchmarks based on businesses in similar industries, pecking-order theory; and the life cycle for choosing the capital structure. Deloof (2003), suggested that management of working capital has a positive association with profitability; whereas, profitability was found to have a negative association with receivables in the collection period. If a business reduces the collection, then there will be an increase in profitability. Moreover, better working capital management is extremely significant for stockholders as well. Antonios, Guney, and Paudyal (2002), analysed factors of leverage for the firms in Germany, Britain, and France and reported that variable of leverage has a positive effect on the size, whereas, size positively affect leverage. Mukhopadhyay (2004), found that an effective structure of working capital assists in increasing a firm's value. The study was conducted on fifty-eight smaller businesses in Mauritius during 1998-2003. The results also depict that lower profitability is associated with higher investment in receivables. Shah and Sana (2006), described that managerial ownership has a positive return through careful management of working capital. The study was conducted on data from 2001 to 2005 from seven oil and gas companies. Lazaridis and Tryfonidis (2006), examined the association of profitability with capital management for Greece firms and depicted that cash conversion is positively associated with profitability. Frank and Goyal (2008), concluded that several variables are associated with debt ratio while some factors have significant influence. The authors also described that variables of leverage and size have a positive association. Ilyas (2008), stated that owing to different reasons, the businesses develop a capital structure that assists them in guiding to raise funds and it would be an ideal structure.

For Pakistan's economy, Butt and Hasan (2009) determined the relation of capital structure with governance practices for Pakistani firms for 2002-2005 and depicted that board's size and managerial

ownership have a negative and significant association with debt to equity ratio. The results also depict that the firm's financing has an insignificant relation with independent directors and CEO duality. The variables of business size and ROA significantly affect capital structure. Raheman, Afza, Qayyum, and Bodla (2010), concluded that smaller conversion cycles and management of working capital affect a firm's profitability and have a major contribution to business performance. The managers can improve stockholders' value through better management of working capital and reduction in the conversion cycle. Nazir, Hussain, and Nawaz (2011) demonstrated that businesses in Pakistan employed pecking order and trade-off theories in their financing arrangements and the variable of leverage has no effect on ownership. Shah and Wasim (2011), studied the influence of ownership structure on the organization's dividend pay-out policy for Pakistani businesses during 2002-2006 and concluded that ownership structure has a significant impact on dividend-pay-out policy. Din and Javid (2011) examined the association of managerial ownership and firm performance during 2000-2007 and concluded that leverage variable has a negative impact on managerial ownership, whereas, managerial ownership significantly and negatively affect dividend policy.

Al-Jafari and Al Samman (2015), determined important factors of profitability for businesses in Oman by utilizing the data from 2006 to 2013 and concluded that business size, fixed assets, growth, and working capital significantly affect profitability. Margaretha and Supartika (2016), determined determinants of profitability for SME's in Indonesia and discovered that business size, lagged profitability, growth, industry affiliation and productivity significantly affect profitability. Chen, Hung, and Wang (2018) examined the association of mandatory CSR disclosure with profitability for Chinese firms and concluded that CSR disclosure negatively and significantly affect profitability. Khan, Shamim, and Goyal (2018) identified determinants of profitability for telecom businesses in India during 2004 to 2017 and reported that growth and firm size positively affect profitability, whereas, leverage has a negative impact on profitability for Indian telecom organizations.

Azhar and Ahmed (2019), explored the association of business size with firm's profitability in Pakistan's textile sector for a period of 2012-2016 and found an insignificant association of business size with firm's profitability in Pakistan's textile sector. Fuertes-Callén and Cuellar-



Fernández (2019), determined relation of growth with profitability during a crisis for manufacturing business in Spain by utilizing data for the pre-crisis period and crisis period. The authors concluded that growth positively affects profitability in the short run, whereas, the effect of profitability on growth is dependent on growth measure employed.

It can be observed from the literature review that very few researchers have analyzed the association of managerial ownership and political instability with the firm's profitability for Pakistani firms. Thus, this research attempts to bridge this gap by determining the association of managerial ownership, political instability, total assets, dividends, and sales with firm's profitability for Pakistani businesses by employing OLS model during 2013 to 2017.

### **RESEARCH METHODOLOGY**

To determine the association of political instability and managerial ownership with the firm's profitability, the data for the study is used for years 2013 to 2017. Firstly, the descriptive analyses technique have been conducted and the results were explained; secondly, correlation analyses among the variables have also been conducted. Finally, the OLS model is used for analysing the relationship between the variables.

This study has used the following regression model:

$$\text{Profitability} = \beta_0 + \beta_1\text{PolStab} + \beta_2\text{ManagOwn} + \beta_3\text{TotalAssets} + \beta_4\text{Sales} + \beta_5\text{Dividends} + U_t$$

Where:

Profitability = Natural log of earnings after taxes

PolStab = Value of 0 for military government and 1 for civilian government

ManagOwn = Ratio of managers' shareholdings

TotalAssets = Natural log for total assets of a firm

Sales = Amount of total sales divided with total revenue

Dividends = Percentage of dividend payments

The SPSS software version 20 is utilized for performing the above-stated analyses.

### **RESULTS**

Firstly, descriptive analyses are measured, and results have been reported in Table 1:

Table 1. Descriptive Statistics

	Profitability	PolStab	Dividend	Sales	Total Assets	Manag Own
Mean	3.926	0.580	12.779	8.716	8.627	53.692
Median	5.020	1.000	7.330	8.800	8.530	57.840
Maximum	8.990	1.000	70.000	11.130	11.580	84.350
Minimum	-5.920	0.000	0.000	6.750	6.160	1.450
Std. Dev.	4.553	0.502	13.770	0.837	0.784	21.080
Skewness	-0.654	-0.344	2.138	-0.183	0.256	-0.247

Table 1 depicts that Dividends and Profitability variables have higher variation as the standard deviation value for these variables is larger than their mean value. The correlation matrix is depicted in table 2.

Table 2. Correlation Matrix

Name of Variable	Profitability	Pol Stab	Total Assets	Sales	Dividends	Manag Own
Profitability	1					
PolStab	.248**	1				
TotalAssets	.484*	-.312	1			
Sales	.491**	.406	.548**	1		
Dividends	.521**	.209	.312	.406*	1	
ManagOwn	.172	.115	-.319	-.169	.204	1

Table 2 indicates that all the variables have reasonable correlation and multicollinearity issue does not exist in data. Finally, the OLS model is to determine the association of independent variables with the dependent variable and findings have been reported in tables 3, 4 & 5.

Table 3. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.826a	.782	.619	2.275	1.578

Table 4. ANOVA

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	238.098	4	50.022	6.760	.000a
Residual	268.184	38	6.637		
Total	506.282	42			

Table 5. Coefficients<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t Sig.	
	B	Std. Error			
(Constant)	-10.501	3.853		-3.134	.003
PolStab	0.586***	0.301	-1.942	0.064	.006
ManagOwn	-0.008	0.014	0.027	0.167	.725
TotalAssets	1.365**	0.750	-0.327	-1.547	.026
Sales	2.158**	0.672	0.726	3.569	.002
Dividends	0.075**	0.026	0.252	1.803	.045

*a. Dependent Variable: Profitability*

\*\*\* Significant at 1% level, \*\* Significant at 5% level, \* Significant at 10 level

The results presented in table 3 depict that adjusted R Square value is 0.619 which indicate that all independent variables are able to explain 61.9 percent of variations occurred in the firm's profitability for Pakistan. The findings also indicate that the Durbin-Watson figure is 1.578 which means that there is no multicollinearity issue in data. Table 4 depicts that the P-Value is 0.000 which means that overall the model has a significant impact in explaining the firm's profitability.

The table 5 depicts that the variable of political stability is positively and significantly affecting the profitability of Pakistani businesses which means that if there will be 1 percent increase in political stability, it will result in 0.86 percent increase in profitability. The variable of total assets has a significant and positive association with profitability which means that if total assets will increase by 1 percent, it will result in an increase of 1.365 in profitability. The findings also indicate that Sales variable is also positively and significantly affecting profitability which means that if this variable will increase by 1 percent, it will result in an increase of 2.158 percent in firm's profitability. The dividends variable also has a significant and positive relationship with the firm's profitability which means that if this variable will increase by 1 percent, it will result in an increase of 0.075 percent in profitability. Furthermore, managerial ownership has an insignificant association with profitability in Pakistan. The findings depict that the variable of political stability has a significant impact on profitability, but managerial ownership does not have a significant impact.

## CONCLUSION

This study investigates the association of managerial ownership and political stability with firms' profitability in Pakistan. To achieve this objective, the relationship of managerial ownership, political stability, total assets, dividends, and sales with the profitability of Pakistani firms is determined by OLS model from 2013 to 2017. The findings depict that variable of political stability, sales, total assets, and dividends are significantly affecting the profitability of organizations, whereas, managerial ownership is insignificant in explaining the firm's profitability. The findings suggest that a firm's profitability of Pakistani businesses is affected by political stability but not by managerial ownership.

Based on the findings, the following measures are suggested for improving the profitability of Pakistani firms:

- The political environment should be stabilized for increasing profitability.
- The firms should increase their assets for improving profitability.
- The businesses should pay more dividends cautiously to improve profitability.
- The firms should work to enhance their sales for boosting profitability.

## RESEARCH IMPLICATIONS

Following are the recommendations and practical implications of this research:

- The Government of Pakistan should take some effective measures for improving political stability to promote the business environment, attract local and overseas investors, and for improving profitability of firms.
- The organizations should distribute higher dividends for increasing the trust of investors and improving profitability.
- The managers should take effective measures for increasing sales volume and improving profitability.
- The organizations should invest in those assets which ultimately result in higher profitability for business organizations.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

- In this study due to time and resource limitations, a smaller sample size has been considered. For future studies, a larger sample size with inclusion of more diverse subgroups can be included.
- To embrace diversity, comparison of different economic sectors can be considered.
- This study has taken Pakistan as the study area, to widen the research sphere and to conclude more generalized results, cross country data analysis can be utilized.
- For expanding the research scope, other factors such as terrorism and electricity load-shedding can also be considered in future similar studies.

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# ROLE OF LEADERSHIP IN ORGANIZATIONAL DEVELOPMENT: A STUDY OF BANK ALFALAH LIMITED, PAKISTAN

Irfan Zeb

## ABSTRACT

*The following study is aimed to examine leadership and its role in organizational development at Bank Alfalah Limited. The purpose of the study is to investigate the role of leadership; to find the measures/performance criteria of the leadership, and its application in the organizational development in conjunction with determining the antecedents of organizational development. The study has incorporated quantitative research design for which the primary data collection method has been used to collect information from employees of Bank Alfalah Limited in Pakistan. The probability sampling has been used to conduct the study using multistage sampling, with a sample size of 260 respondents selected for the study. The entire analysis of this research is done through SPSS and Smart PLS statistical softwares. The results showed that the relationship between leadership and organizational development is strong, positive, and significant. The model for the study was appropriate and the instrument is valid and reliable for conducting the study. The study findings postulate that restructuring should be executed for improvisation among leaders for better organizational development, which will also contribute to technological development, employee performance, and organizational profitability on an overall basis which is determined through the leadership style.*

**Keywords:** *Transactional Leadership; Transformational leadership; Organizational Profitability; Organizational Performance; Bank Alfalah Limited.*

## INTRODUCTION

The entrepreneurial ventures around the world have been focusing on leadership because it is one of the most significant factors for organizational success. This is due to the fact that effective leadership

might lead to the accomplishment of an organization's strategic goals and objectives. Leadership also plays an important role in the banking sector due to the high-level dependence of these organizations on the leadership style of a leader. The effective communication of the vision and mission has been proposed by leaders to the other units of the organizations to bring all the business entities on a common ground to gain high-level profit margin and organizational development. The term organizational development is referred to the body of practice and knowledge which results in individual development and performance of the organization.

This research has been intended to study leadership and its role in organizational development. The case study of Bank Alfalah has been chosen for having a strong understanding of leadership role in the organizational development in banking sector.

In a highly competitive business world, leadership plays a crucial role in organizational development which must be aligned with the technological advancements and change (Crane & Matten, 2016). With this aspect, effective leadership plays an imperative role in mitigating the risks of business losses, to obtain high-profit margins, and achieving advancements in organizational development. This study has the main aim to explore leadership and its role in organizational development particularly in Bank Alfalah, Pakistan.

It is a challenging task for the leaders to analyze the pertaining issues particularly in situations where power and control belong to one business entity i.e. the leader. To achieve organizational development, the banks must establish systems and hierarchy based on talents, experience, and work, parallelly countering the limitations of energy and resources required for business tasks (Cummings & Worley, 2014). This purports a great deal of strategic allocation of existing resources to gain marginal benefits however the leaders in banks face many difficulties due to the challenging economic and financial conditions in the banking sector, and same implies with the leaders in Bank Alfalah. In other words, for organizational development, the leaders are required to obtain an array of knowledge and skills which cover the demands of the business as well the customers, and ability to foresee the emerging demands in terms of changing market and customer trends.

The issue of effective leadership has been the most discussed

phenomenon for the banking sector (Wictor, Andersson, & Mullern, 2013). This is because leadership is the pre-requisite for the achievement of the organization's goals and objectives. The major issue with the banking sector is that the leaders are not usually democratic in their decision-making process and actions. For this matter, the leader in these companies profess the authoritative leadership style and dictate their decisions on the organization's management and employees. This research will thus assess how leadership can affect Bank Alfalah's organizational development.

Another issue with banks regarding leadership is the issue of competence. For instance, in some cases the leaders lack in merit (Salvato & Corbetta, 2013). It has been identified that in some situations the managers of Bank Alfalah profess nepotism due to the political pressure. This has been the reason that the chairperson of the bank solely makes majority of the decisions. The effective leadership where the employees are satisfied can bring fruitful results for an organization's success and profitability. Tannenbaum, Weschler and Massarik (2013), explained that the leader would also be required to maintain a high-performance culture within the organization for obtaining employee job satisfaction and customer retention which would ultimately lead towards the high revenue and lucrative gains as well organizational development. This research was intended to assess the same notion regarding the role of leadership in organizational development particularly in Bank Alfalah.

### **RESEARCH OBJECTIVES**

The main aim of the study is to study leadership and its role in organizational development for which the case study of Bank Alfalah has been undertaken. The aim of the study has been divided into the following objectives.

- To explicate the role of leadership in the organizational development of Bank Alfalah Limited.
- To define the antecedents of organizational development.
- To find out the measures/performance criteria of the leadership and their application in the organizational development of Bank Alfalah Limited.

### **LITERATURE REVIEW**

Fiedler (1978), reported that over the time it has been identified that for effective organizational development, organizations need effective

leadership. Additionally, they also explicate that effectiveness in work performance of the employee is also associated with the effectiveness of leadership, thus leadership is an essential part of employee performance, technological advancement, and organizational development.

According to various studies, effective leadership attitude assists in the accomplishment of the employee as well as organizational goals (Fiedler, 1978; Maritz, 1995; Madanchian, Hussein, Noordin, & Taherdoost, 2016). Similarly, Cummings and Schwab (1973) identified in their study that leadership is found to be the most influencing variable on the enhancement of employee performance and technological development via customer-driven strategies. A large body of experiential evidence has established that the leadership behaviors influence organizational performance; strong leaders outperform weak leaders; and transformational leadership generates higher performance than transactional leadership (Burns, 1978; Bass & Stogdill, 1990; Howell & Avolio, 1993). Kirkpatrick and Locke (1996), recognized over 35 studies reporting confident associations between leadership and performance. Oreg and Berson (2019), stressed that leadership shapes organizational changes and influences its beneficiaries. Lowe and Kroeck (1996), reported in a meta-analysis study that transformational style of leadership is positively influential in the enrichment of employee performance. Similarly, recent researchers elucidated that there is a positive association between leadership and organizational development (Dumdum, Lowe, & Avolio, 2013; Dvir, Eden, Avolio, & Shamir, 2002; Howell, Neufeld, & Avolio, 2005; Cameron, Quinn, DeGraff, & Thakor, 2014).

Profitability is propelled by being efficient in attaining an organization's goals and objectives. It is also seen that guidance is needed by employees to be efficient in their performance because the employees that cannot perform well or efficiently, can lead to waste organizational resources, and result in non-profitability to the organization. It is, however, important to impact the effectiveness of leadership in a way that will lead to organizational profitability rather than modern leadership programs which do not focus on the behaviors that matter the most for the success of the organization (Glenn & Laura, 2010).

Pradeep and Prabhu (2011), studied the relationship between leadership and employee performance. They emphasized that transactional (leaders promote compliance by followers through both rewards and punishments),

and transformational (leadership approach that causes a change in individuals and social systems through inspiration with the end goal of developing followers into leaders), styles of leadership have a significant impact on employee performance and overall effectiveness of the organization. Levin and Riffel (1997), studied that transformational leaders are associated with technology adoption, implementation, organizational change, and innovation. Glenn and Laura (2010), measured leadership through employee effectiveness and their impacts on organizational profitability. Church, Melanie, David, Oliver, and Carol (2002), studied the role of technology on organizational development. Thus, this research primarily focused on the use of technology as an integral part of organizational development. Glenn and Laura (2010), measured leadership through employee effectiveness and their effects on organizational profitability, and the relationships were found significantly positive and strong.

### **RESEARCH HYPOTHESES**

Based on the above literature, the following hypotheses have been generated for this study:

- H1: Transactional leadership style of has a significant and positive impact on leadership.*
- H2: Transformational leadership style of has a significant and positive impact on leadership.*
- H3: Leadership is significantly and positively correlated with Employee Performance.*
- H4: Leadership is significantly and positively correlated with technological development.*
- H5: Leadership is significantly and positively correlated with Organizational Profitability.*
- H6: Effectiveness of Employee Performance has a significant and positive impact on Organizational Development.*
- H7: Technological Development has significant and positive impact on Organizational Development.*
- H8: Organizational Profitability has a significant and positive impact on Organizational Development.*

## CONCEPTUAL FRAMEWORK

Figure 1.



## RESEARCH METHODOLOGY

### Measures

This study operationalized its constructs with certain adopted items developed by different researchers, although some amendments were made to utilize the adopted items in the context of this research. Items were altered with considerations of objectives, problems statement and specifications of this research. Two broad elements were measured i.e. leadership and organizational performance which were further divided into constructs i.e. transactional and transformational leadership styles; technological development; employee performance; and organizational profitability, respectively. To address these variables via the research questionnaire, a five-point Likert scale has been used ranging from strongly disagree to strongly agree.

For the transactional leadership, five items were adopted and modified from the study of Bass and Stogdill (1990), to operationalize the association of transactional leadership with different job-related aspects of the employees working in bank Alfalah, where transactional leadership style was represented as leadership variable.

To operationalize the transformational leadership construct, five items were adopted and modified by the study of Bass and Stogdill (1990), to

explicate how transformational leadership style contributes within bank Alfalah, symbolizing leadership variable. For employee performance, five items were used to measure observations of employees working in bank Alfalah regarding the association of leadership with their work performance and how they relate their performance contribution in organizational development. Items were adopted and modified from the study of Pradeep and Prabhu (2011).

Moreover, for technological development, five questions were adopted and modified from the study of Church et al. (2002), and Levin and Riffel (1997), to address the linkages among leadership and technological development with the overall impact on organizational development. Items will also explain how leadership can contribute to organizational development with the assistance of technological development.

Organizational profitability was measured through five items which were adopted and modified from the study of Glenn and Laura (2010). Items are developed in accordance with the relationship between leadership impact on profit maximization of organization and explaining perceptions of respondents about organizational profitability and development.

Lastly, to address the organizational development construct five items were adopted and modified in line with the research objectives in order to investigate the perceptions of employees working in Bank Alfalah regarding organizational development. These items were however originally developed by Karamat (2013).

### **Sample and Procedure**

This research is focused to explicate relationship of leadership on overall organizational development in the context of the findings at Bank Alfalah. Due to certain research-oriented constraints, it was not viable to target the entire population belonging to bank, consequently, multistage sampling techniques were used relating to probability sampling technique. Initially, the entire population was classified using stratified sampling techniques and then randomly respondents were targeted from each stratum. To determine the sample size, the table of the sample size formula given by Krejcie and Morgan (1970) was used and at a population size of 800, the sample size was calculated to be 260. Due to certain constraints, only 226 respondents were targeted and after data screening test 200 responses were considered for the final analysis.

## DATA ANALYSIS AND RESULTS

### Descriptive Results

Majority of the respondents in the survey were male with a frequency of 158, ageing from 33 to 39 years. Approximately 49 percent of the participants had experience of 3 to 6 years. Table 1 expressing the initial score of the measures was used in this study. Initially, the scale was piloted and for all constructs, the Cronbach's alpha was well above 0.7 indicating stronger internal consistency. Hence, a full-scale study was undertaken and in the same table mean and the standard deviation is also presented which is considered adequate and is taken for further PLS-SEM analysis.

Table 1. Descriptive Statistics and Cronbach's Alpha

Variable	Alpha <sup>1</sup>	Alpha <sup>2</sup>	Mean	Std Deviation
Leadership	0.764	0.898	5.23	1.478
Transactional Leadership	0.759	0.842	6.15	0.813
Transformational Leadership	0.729	0.868	5.32	1.243
Organizational Profitability	0.760	0.800	5.53	1.176
Technological Development	0.825	0.843	5.39	1.102
Employee Performance	0.761	0.798	6.12	0.734
Organizational Performance	0.728	0.713	6.55	0.723

<sup>1</sup> Cronbach's Alpha of Pilot Study

<sup>2</sup> Cronbach's Alpha of the final Study

### PLS-SEM Results

Table 2 depicts the discriminant validity of latent variables. Hair, Black, Babin, and Anderson (2010), described discriminant validity as a test to explicate margin to which various conceptually identified concepts are dissimilar and additionally it has been reported that it confirms variances of latent variables in their own blocks much stronger as compared to other latent variables. Discriminant validity test analysis of this study explores that covariance on the diagonal of table 2. is stronger than other latent variables, as latent variable EP depicts a discriminant value of 0.795 which is stronger than other covariables. Similarly, Leadership, OD, OP, TD, TFL and TSL also show considerable variance values of 0.716, 0.714, 0.787, 0.785, 0.771 and 0.867, respectively.



Table 2. Discriminant Validity Test

Discriminant Validity Test							
Latent Variables	EP	Leadership	OD	OP	TD	TFL	TSL
Employee performance	<b>0.795</b>						
Leadership	0.448	<b>0.716</b>					
Organizational Development	0.438	0.268	<b>0.714</b>				
Organizational Profitability	0.391	0.369	0.574	<b>0.787</b>			
Technological Development	0.343	0.439	0.459	0.587	<b>0.785</b>		
Transformational Leadership	0.414	0.903	0.256	0.292	0.356	<b>0.771</b>	
Transactional Leadership	0.371	0.86	0.216	0.366	0.426	0.557	<b>0.867</b>

Table 2 is based on various covariance-based analyses i.e. Average Variance Extraction, also called convergent validity, composite reliability, and R-Square. Fornell and Larcker (1981), reported in their study that convergent validity is an analysis of two similar concepts which are in fact correlated. They further explained that average variance extracted value is good if the value is 0.5 or greater, and consequently in perspective of this research AVE value of all latent variables are good enough and significant as per required value, such as EP having AVE value of 0.632 and similarly Leadership, OD, OP, TD, TFL and TSL having adequate values of 0.513, 0.509, 0.62, 0.617, 0.595 and 0.752 respectively. Bagozzi and Yi (1988), reported that the composite reliability of latent variables should be 0.7 or greater in the context of explanatory research. Thus, findings of composite reliability test of this research are very much considerable and above 0.7 such as Employee Performance having CR value of 0.772, CR value of latent variable Leadership is also strong i.e. 0.84 and correspondingly remaining latent variables OD, OP, TD, TFL and TSL also depict considerable significance values i.e. 0.753, 0.83, 0.828, 0.815 and 858.

According to the researches of Tabachnick and Fidell (2007); and Hair et al. (2010), R square is a kind of analysis which explains the outcome effect of indented latent variables on dependent latent variables. The R square value of all latent variables is satisfactory, as given below in table 3.

Table 3. Overview of Covariance among Constructs

Latent Variable	AVE	Composite reliability	R Square
Employee Performance	0.632	0.772	0.2
Leadership	0.513	0.84	1
Organizational Development	0.509	0.757	0.397
Organizational Profitability	0.62	0.83	0.136
Technological Development	0.617	0.828	0.193
Transformational Leadership	0.595	0.815	0
Transactional Leadership	0.752	0.858	0

According to the famous book of research methods in business by Kothari (2004), factor analysis test explains how closely indicators of latent variables are associated with each other. In other words, it is a kind of test which explains factor-variable correlation along with their particular internal consistency reliability in their constructs. Bagozzi and Yi (1988), described that significance value of outer loading is 0.7. Corresponding to the findings of outer loading analysis which is given below in table 3, outer loading values of all significant indicators of the entire scale are mentioned, although some indicators were not loaded significantly in the model, as their values were below the significant level therefore those indicators were excluded from the model for further analysis.

Table 4. Factor Analysis/ Outer Loadings of each Indicator

Outer Loading							
Indicator Code	TFL	TSL	EP	TD	OP	OD	Leadership
TFL1	0.767						
TFL3	0.796						
TFL5	0.75						
TSL1		0.865					
TSL2		0.869					
EP1			0.89				
EP4			0.7				
TD2				0.786			
TD4				0.806			
TD5				0.762			

OP1					0.758		
OP2					0.839		
OP5					0.762		
OD2						0.697	
OD3						0.739	
OD5						0.704	
Leadership TFL1							0.733
Leadership TFL3							0.706
Leadership TFL5							0.644
Leadership TSL1							0.739
Leadership TSL2							0.752

**Hypotheses Testing Analysis**

Table 5 shows the Path coefficient effect, Total effects, Beta and T-statistic for the entire items in the dimension model with high loadings for nearly all the measures.

Table 5. Path Coefficient Test

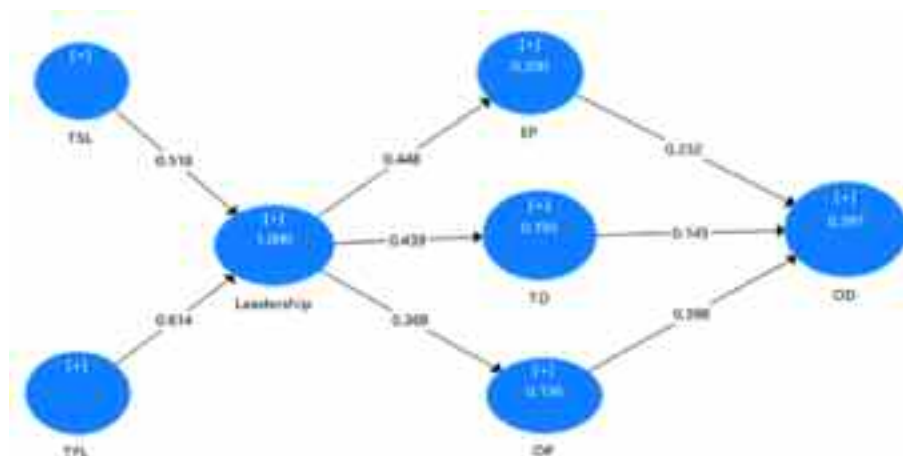
Path Coefficient Test (Hypotheses Testing)		
Hypotheses	Beta Test (Original Sample Size)	T-Test (Bootstrapping)
TFL -> Leadership	0.614	11.211
TSL -> Leadership	0.518	10.754
Leadership -> EP	0.448	5.46
Leadership -> TD	0.439	3.881
Leadership -> OP	0.369	2.98
EP -> OD	0.232	1.926
TD -> OD	0.145	0.995
OP -> OD	0.398	3.28

According to Hair, et al. (2010), the path coefficient analysis is based on two types of hypothesis testing. The initial test is based on original sample size, called as Beta test at the default significance level of 0.05 and secondary test is T- Statistics test which is based on bootstrapping sample size of 5000, the significance level of T- Statistics is 1.96.

Coordinating to the first hypothesis transactional leadership is positively associated with leadership. Figure 2. depicts that this hypothesis is supported and validated statistically with the Beta value of 0.614 and T value of 11.211 at a significance level of 0.05 and 1.96. Similarly, the

second hypothesis i.e. Transformational leadership is positively related to leadership is also significant at 0.05 and 1.96 level with the beta and T value of 0.518 and 10.754. The third hypothesis which focuses on leadership association with Employee performance is also significant with the Beta and T values of 0.448 and 5.46 and remaining hypotheses i.e. leadership association with TD and OP, EP, TD and OP with OD portray sufficient values of 0.439 and 3.881, 0.369 and 2.98, 0.232 and 1.926, 0.145 and 0.995 and lastly 0.398 and 3.28 respectively.

Figure 2.



## DISCUSSION AND RESEARCH FINDINGS

The first objective of the study was statistical in nature which focused towards the investigation of the role of leadership in the organizational development of Bank Alfalah. The objective was successfully achieved through statistical review in the SPSS software. It was identified through the results that there is a significant role of leadership in the development of the organization particularly in the case of Bank Alfalah.

The results of the study can be triangulated from the study of Abbas and Yaqoob (2009), which states that the employee perception and the performance can be enhanced by good leadership practices which should be taken into consideration for the high performance of employees and encouraging them towards performing a particular task within the organization. From the test results, it was clearly observed that leadership plays a vital role in the development of the company. Within the context of leadership, the employees of the organization can maintain their

performance which is highly significant for the development of the company. Therefore, leadership plays a significant role in the development of Bank Alfalah.

The second objective of the study was theoretical in nature, which was directed towards determining the antecedents of organizational development. The objective was successfully achieved by reviewing different articles, theories, and journals focused on the role of leadership in organizational development. From the theories presented in the favor of antecedents of the organizational development, it was found from the study conducted by Jago (1982), that profitability is regarded as the main antecedent which helps in developing the organization.

However, empowered, and strong leadership can influence a smooth transition in the company which is also favorable for the transformation of the business. In this essence, it is required that the leaders should possess a set of qualities which can inspire, communicate, and encourage the employees within the company and help in smooth transformation and development of the organization. From the study conducted by Abbas and Yaqoob (2009), leadership was also found as the main antecedent which can be used for the development of the organization and brings profitability and sustainable competitive advantage to the company.

The third objective determined towards the measures of the leadership and their application in the development of the organization. The objective was also successfully achieved by the researcher through both theoretical and statistical methods and identified that the performance criteria include culture understanding of the organization which is crucial for the role of leadership and engagement of employees (Roberts, McNulty, & Stiles, 2005). The factors are discussed in an in-depth manner in the light of different theories and perspectives from different authors.

## **CONCLUSION**

From the discussions demonstrated above, it can be concluded that there is a significant role of leadership on the organizational development in Bank Alfalah. Moreover, it can be asserted that the development of the organization is based on the vision of a leader and is followed by an effective leadership approach. The results portrayed a strong and close relationship with the performance of the organization which also leads to possible innovation. Though the study was limited to one organization, it

was beneficial to the researcher in understanding the concept and role of leadership in the development of the organization. Yet the result of the present study is sufficiently helpful in comprehending how the leader can envision the development of the organization. Moreover, the study also reflects that the leaders in the company can influence and empower the employees which contribute towards the development of the organization. The results also reflected a direct association between the independent and dependent variables i.e. transactional and transformational leadership and development of the organization respectively revealing that there is a growing significance of leadership.

### **RESEARCH IMPLICATIONS**

It should be ascertained by the managers of the organization that an effective leadership program is implemented in the company for the betterment of the employees and the development of the organization. However, it is a challenging situation for the company to design an effective leadership program as it leads to the sustainability of the competitive advantage for the company which is beneficial for the organization in the long run. In addition, the effective role of leadership in the bank should be directed towards the betterment of the company as well as the employees. Furthermore, the ultimate effect will be placed on the organization itself along with the employees.

This research also provides some managerial implications which include the recognition of the benefits for the employees within a diverse workforce and hence focus on hiring best employees for the company. Moreover, workplace diversity offers an organization with numerous advantages and to counter the challenges along with creating a cohesive environment. The implications can also include the development of policies which is an essential element of an organization in order to experience growth within the diversity that exists in the employees of the company.

In addition, improved focus on empowering the employees of the company, should be stressed, by increasing the leadership practices and diversity in the workplace which helps the company in countering the challenges associated with low performance of the employees and managing diversity. For this purpose, managers should plan different training programs directed towards the enhancement of the employee's skills and empowerment.

## **RECOMMENDATIONS FOR FUTURE RESEARCH**

The findings of this study have contributed towards an understanding of the nature of managerial and leadership work within an organization along with a link between formal organizational processes and the style of managers. The quantitative nature of the study has depicted an in-depth understanding of the role of leadership on the organizational development of Bank Alfalah Pakistan. This research will help the future researchers in increasing the knowledge about the role and significance of the leadership for the development of the organization which will also be significant in practical situations. However, this research can be carried out in different perspectives such as employing a qualitative technique which would enhance the rationale and authenticity of the research.

In addition to the above statement, the qualitative technique will help in employing diverse responses of the branch managers on the notion of leadership which is significant for the organizational development. Further, this research can also consider multiple studies such as the overall banking industry in which the researcher can take insights from the respondents belonging to different banks. Furthermore, a contrasting study can also be considered which includes the comparison of a bank with another developing bank in Pakistan.

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# THE MEDIATING ROLE OF ORGANIZATIONAL CYNICISM IN CAUSING WORK ALIENATION IN HIGHER EDUCATIONAL INSTITUTIONS

Tahira Yawer, Dr. Riaz Hussain Soomro, and Shahid Rashid

## ABSTRACT

*This paper aims to examine the mediating role of organizational cynicism in instigating work alienation with constructs such as perceived supervisor support and perceived organizational politics. The study is descriptive research and quantitative approach was utilized to conduct the study. Data was collected through a self-administered questionnaire from full time faculty members employed in private universities of Karachi. It was found that although organizational cynicism can significantly be predicted by perceived supervisor support and perceived organization politics; however, organization cynicism failed to play a mediating role in establishing the relationship between the perceptions and work alienation. This study will help the heads of the universities to identify the level of organizational cynicism in their institutions, to overcome the problem and eliminate it.*

**Keywords:** Work Alienation; Organizational Cynicism; Supervisor Support; Organizational Politics; Higher Education.

## INTRODUCTION

Nowadays, with intensifying competition and a rapidly changing environment, employees have become a valuable asset for the organizations. Keeping in view the volatility of the environment, the top management should be on the lookout for the negative tendencies that can cause employees to respond to work settings in an indifferent and unenthusiastic manner. In literature, the term used to reflect such state is regarded as “work alienation”.

For more than sixty years, this general attitude has been a subject of profound interest in organizational sciences (e.g. Chiaburu, Thundiyl, Wang, 2014; Shantz, Alfes & Truss, 2014; Podsakoff, Williams, & Todor, 1986; Argyris, 2017; Seeman, 1959; Fromm & Anderson, 2017). Since

such a negative attitude is formed by an employee's work-related experiences, therefore they can presumably cause a devastating impact on organizational and work outcomes such as task performance (Shantz, Alfes, Bailey, & Soane, 2015; Banai & Reisel, 2003; Chisholm & Cummings, 1979) and citizenship behaviors (Shantz, Alfes, Bailey & Soane, 2015; Jesús Suárez-Mendoza, & Zoghbi-Manrique-de-Lara, 2008; Suarez-Mendoza & Zoghbi-Manrique- de-Lara, 2007). Keeping in view the devastating consequences of work alienation, Shantz, Alfes, Bailey, and Soane (2015) recently recognized the need to identify other drivers of work alienation apart from task variety, task identity, social support, and autonomy to make decisions. Thus, this paper focuses on how "organizational cynicism" may lead to alienation. Apart from this, the purpose of this paper is to explore the role of organizational cynicism as a mediator towards work alienation. Thus, organizational cynicism will be tested as a mediator between two perceptions (perceived supervisor support and perceived organizational politics) and work alienation. This is done to further attend a call by Chiaburu et al. (2013) where they highlighted a need to assess organizational cynicism as a mediator between its predictors and outcomes. Application of mediation tool will also assess a direct impact of perceived supervisor support and perceived organizational politics with alienation as its first step, thus increasing the literature by identifying and evaluating two other drivers of work alienation.

The propositions claimed in this study will be tested in higher education institutional setting as education is one of the fields which is most affected by alienation (Caglar, 2013). Moreover, perceived supervisor support, perception of organizational politics (Munir, Khan, Khalifah, Asif, & Khan, 2014), organizational cynicism (Ahmet, 2015; Munir, Khan, Khalifah, Asif, & Khan, 2014; Karadağ, Kiliçoğlu, & Yilmaz, 2014; Mete, 2013; Konakli, Özyılmaz, & Çörtük, 2013; Qian & Daniels, 2008) and work alienation (Jesús Suárez-Mendoza & Zoghbi-Manrique-de-Lara, 2008) are important issues faced by faculty members.

Following research questions are developed to achieve the purpose of the present study:

- I. How perceived supervisor support is related to organizational cynicism and does organizational cynicism mediate the relationship between perceived supervisor support & work alienation.

- II. How perceived organizational politics is related to organizational cynicism and does organizational cynicism mediate the relationship between perceived organizational politics & work alienation.

## **LITERATURE REVIEW**

### **Organizational Cynicism**

Cynicism is a concept that has attracted researchers' attention for a long time. Review of the literature indicated that the wealth of research work is available on the subject matter. A number of researchers have looked at the concept by using various lenses. For instance, a group of researchers looked at cynicism as a concept having negative consequences and causing contempt, frustration, negative attitudes towards organization and objects, and distrust (Abraham, 2000; Dean, Brandes, & Dharwadkar, 1998; Wanous, Reichers, & Austin, 1994; Andersson, 1996; Buzan, 1980). Contrary to this view, few authors have also highlighted its positive impact stating that cynical employees are most likely to blow the whistle on any unethical practice that is being adopted by the management. Such employees are likely to question various poor choices made by the organization under various conditions (Dean et al. 1998; Cutler 2000). Further it is seen that a group of researchers theorized cynicism as a personality trait (Smith et al. 1988; Johnson & O'Leary-Kelly, 2003; Singelis et al. 2003) while other researchers are of the view that situational factors play an important role in the development of cynical behavior (Andersson, 1996; Reichers, Wanous, & Austin, 1997; Wanous Reichers, & Austin, 2000; Pugh, Skarlicki, & Passell, 2003). However, Dean et. al. (1998) conceived cynicism as having both personal and situational components. Moreover, they provided a tripartite attitude framework of organizational cynicism where they suggested that the development of an individual's negative attitude towards the organization is based on three dimensions. The cognitive dimension of organizational cynicism is the feeling that the organization and the individuals who work there lack honesty and clarity (Brandes & Das, 2006). Affective dimension relates to increased emotional reactions to the organization while behavioral dimension denotes to negative attitudes and tendencies. This dimension also considers strong criticisms, pessimistic judgments as well as critical statements about the organization (Yıldız & Şaylıkay, 2014). Many recent researchers have adopted the same definition and conceptualization of cynicism in their study such as Nafei (2013); Kuang-Man (2013); Konakli, Özyılmaz, and Çörtük (2013); Mantere & Martinsuo (2001); Chiaburu et

al. (2013). Organizational cynicism can be detrimental to the organization. The employees who are cynical can influence the entire organization and can hinder the organization from reaching its goals (Nafei & Kaifi, 2013). The term is therefore focal point for researchers in this era.

### **Perceived Supervisor Support**

Research conducted by Greller and Herold (1975), has traditionally recognized that employees are more receptive and tend to appreciate feedback from those who are in close relationship to them. Such employee beliefs are based on the feelings of how they are being treated by their supervisors when they require help and recognition of their efforts when they perform extraordinarily (Edmondson, Boyer, & Artis, 2012). In the literature, the term that is used to refer to such perception as known as perceived supervisory support (PSS). As defined by scholars (DeConinck, 2010; Kottke & Sharafinski, 1988), perceived supervisor support is a worldwide employee notion regarding the extent to which the employee efforts are, and their welfare is recognized by the supervisors. A recent empirical study by Zhou and Liu (2013) have described the concept of perceived supervisor support by referring supervisors as an agent of the organization and the actions of the agent will be taken as the intentions of the organization.

With reference to the effect of perceived supervisor support, concepts related to social exchange theory have previously demonstrated that employee cynicism can be shaped by beliefs regarding the extent to which the organization cares about their future and prosperity (Treadway et al., 2004). Therefore, as agents of the organization, it is believed that supervisors' negative treatment of the employees will also have a negative impact in terms of an increased level of cynicism. Scholars such as Neves (2012); Johnson and O'Leary-Kelly (2003), have also mentioned organizational cynicism as the main violator of social exchanges in an organization. In accordance with this line of research, it can be predicted that employees having low-quality exchanges with their supervisors will experience negative suffer from an increased level of cynicism.

Another rationale behind choosing perceived supervisor support as an antecedent of cynicism is also supported by Chiaburu et al. (2013) where they highlighted the possibility that supervisors support can be one of the factors that may interact with organizational cynicism in determining outcomes. Based on the above evidence, the following hypothesis is proposed:

*H1: Perceived Supervisor Support is negatively related to organizational cynicism.*

### **Perceived Organizational Politics**

Organizational politics is a common component in almost all work environments these days and its effects have been realized across various work environments (Kacmar & Baron, 1999). Hochwater James, Johnson, and Ferris (2004) have identified that sensing political activity at the workplace is mainly perceptual in nature. In another empirical study, Ferris et al. (2002) found that political workplace signifies a non-prosperous, inequitable, and unfair workplace where procedural guidelines of proper conduct are unstable to a great extent.

Over the past decade, most research in the area of organizational politics has singled out perceptions of organizational politics as a central component in creating stress at work environment (Ferris, Russ & Fandt, 1989; Jex & Beehr, 1991). Moreover, Hardy and Smith (1988) also suggest that cynical employees are likely to react when faced with stressful situations including perceived politics in an organizational setting. Earlier studies in Organizational cynicism showed that threatening and disruptive organizational environments promote cynical attitudes towards both the organization and the management (Cartwright and Holmes, 2006).

The theoretical perspective of Leader-Member exchange can be brought into consideration, which posits that high-quality leader and subordinate relationships are less likely to produce a perception of politics and vice versa (Ferris & Kacmar, 1992). The fundamental reason behind selecting this particular relationship is also in part prompted by the preliminary work done by Mayer, Davis and Schoorman (1995). They proposed that when employees perceive organizations to be bias in their own favor instead of supporting the employees, a feeling of suspicion is generated which eventually promotes distrust and cynical attitude by the employees towards the organization.

A number of studies have found that perceived organizational politics enhance cynical behavior and reduce organizational citizenship behavior at the workplace as individuals suffer from increased stress and interpersonal conflicts because of Organizational cynicism (Dyne & Graham, 1994). Chiaburu et al. (2013) stated that employee perceptions towards the organization regarding lack of trustworthiness will subsequently lead employees towards the development of cynical behavior

toward the organization. Hence, it can be concluded that perceived organizational politics can be positively related to organizational cynicism. Furthermore, perceptions of organizational politics force employees to formulate cynical behavior which weakens their faith in the organization. Perceptions of organizational politics affect employees negatively characterized by cynicism, dissatisfaction, stress, and intentions to quit (Miller, Rutherford, & Kolodinsky, 2008; Poon, 2003; Cropanzano, Howes, Grandey, & Toth, 1997). Considering the above literature, the following hypothesis is formulated:

*H<sub>2</sub>: Perceived organizational politics is positively related to organizational cynicism.*

### **Work Alienation**

Latin in origin, Alienation is a term that has a long history. Hegel and Marx are considered to be “founding fathers” of alienation. The conceptualization of the term started when Hegel introduced two German words to describe different meanings of alienation. The first one *Entfremdung* meant “a state of separation” whereas *Entäußerung* meant “surrender”. He talked about spiritual alienation in his writings (Kanungo, 1982). However, Marx and Engels (2009) started his conceptualization from the same terms meaning “surrender” and “separation” but he talked in the context of economic and social life. He was more focused on speaking of alienation in the context of labor. He believed that all sources of alienation are apparent in labor such as division of labor, wage labor. According to him, capitalism is the root cause of alienation. He believed that in the process of manufacturing products, the labor achieves the sense of well-being. They tend to become attached to it and could see their own reflection in it. Thus, under the capitalist society, when a worker’s labor is detached from him and can be bought/sold in the market, he takes his work only as a means of survival and thus becomes alienated.

Building upon the initial conceptualizations as developed by Hegel and Marx, the concept is used in the studies of various disciplines. As a consequence, the term is attributed to several different meanings. To consolidate various meanings, Seeman (1959) classified the meanings into five distinct dimensions. As a result of which many scholars view it as a multidimensional concept. These dimensions include social isolation, meaninglessness, powerlessness, normlessness, and self-estrangement. It is seen that many scholars have employed different combinations of these



dimensions in their studies that best fit their research context. For e.g. Mau (1992) used four dimensions to study student alienation, Rayce, Holstein, and Kreiner (2008) utilized three dimensions to study adolescent alienation while Tummers (2011), made use of only two dimensions to study police alienation. Contrary to this view, there are other groups of researchers who declared self-estrangement (alienation from work) to be the heart of alienation. Thus, they viewed the concept to be uni-dimensional (Nair & Vohra, 2009; Mottaz, 1981; Kanungo, 1982). As this perspective is consistent with Marx theory as well as the definition provided by other researchers (such as Sulu, Ceylan & Kaynak, 2010; Brandes, 1997; Cheung, 2008) who view the term work alienation to be associated with working condition that isolates employees from work, the uni-dimensional concept is adopted in this study.

Alienation has previously been linked to its various predictors. Few of them include poor job conditions (Banai & Reisel, 2007), unsupportive leadership (Banai & Reisel, 2007; Sarros et al., 2002), task variety (Shantz, Alfes, Bailey, & Soane, 2015; Nair & Vohra, 2010; Ramaswami, Agarwal & Bhargava, 1993). The current paper focuses on its relationship with organizational cynicism.

### **Organizational cynicism as a Mediator**

The role of organizational cynicism as a mediator between various predictors and work outcomes has been analyzed by many researchers. For instance, Scott and Zweig (2008) positioned organizational cynicism as a mediator in the relationship between dispositional variables (negative affectivity & core self-evaluation) and job satisfaction. Evans, Goodman & Davis (2010) analyzed the mediating role of organizational cynicism in the relationship between perceived corporate citizenship and job-related behaviors such as OCB and employee deviance. More recently, Aküzüm (2014) investigated its mediating role in the impact of organizational justice on commitment. Chiaburu et al. (2013) have also highlighted the grounds that Supervisory support and Coworker support can determine employee outcome as a result of their interaction with cynicism. Relying on the above-mentioned evidence as well as the central role of organizational cynicism in influencing employee's attitudes and behaviors, it is reasonable to assume that organizational cynicism may mediate relationships between few other predictors and outcomes.

*H3: Organizational cynicism mediates the relationship between perceived*

*supervisor support and work alienation*

*H4: Organizational cynicism mediates the relationship between perceived organizational politics and work alienation.*

## RESEARCH METHODOLOGY

### Participants and Procedure

The participants in the study consisted of faculty members who responded to the survey. The sample consisted of full-time faculty members working in private higher education universities of Karachi. Since education is declared as one of the fields that are influenced by alienation the most, therefore, for the purpose of this study, a sample of faculty members from higher educational universities was considered to be suitable. The survey was self-administered in nature and was distributed through in-person and also online. An online link was also prepared through Google Docs to approach a larger number of respondents. The respondents were also briefed about the purpose of the study as well as the confidentiality of their identity. Despite this, only a response rate of 47.14% was received. 52% of the participants were female and 48% were males. 46% were single while 54% were married. The study was cross-sectional in nature that is the data was collected on a single point in time.

### Measures

The response scales for all measures under study ranged from 1 (strongly disagree) to 5 (strongly agree). Perceived supervisor support was measured with a 4 item scale adapted from Rhoades, Eisenberger, and Armeli (2001). The sample item was labelled as, "My supervisor really cares about my well-being". The Cronbach's alpha of the scale was 0.713. Perception of Organizational Politics was measured with a six-item scale adapted from Hochwarter, Kacmar, Perrewe, and Johnson (2003) labeled as "There is a lot of self-serving behavior going on". The Cronbach's alpha of the scale was 0.857. Organizational Cynicism was measured with a nine-item scale adapted from Dean et al. (1998), with item labelled item as "I believe that my organization says one thing and does other". The Cronbach's alpha of the scale was 0.922. Work Alienation was measured with an eight-item scale adapted from Nair and Vohra (2009). The sample item label was "I do not enjoy my work". The Cronbach's alpha of the scale was 0.957.

Moreover, the control variables that were part of the overall

questionnaire include gender, age, name of institution, teaching department, position level and marital status. In order to test the hypothesis, mediated regression analysis was run through SPSS 16.0 and to check for the mediation effects, the procedure was followed as described by Baron and Kenny (1986).

### RESULTS AND DISCUSSION

The variables under the study were tested using SPSS 16.0 software to identify various statistical findings. Table 1 presented below reveals the mean and standard deviations. Moreover, Pearson's correlation coefficient was used to evaluate interactions between the variables. The results of the correlation matrix revealed that all the variables are significantly related to each other except correlation between perceived organizational politics and work alienation which shows positive weak and insignificant correlation ( $r=0.209$ ,  $p > 0.10$ ).

Table 1. Descriptive Statistics and Correlations for Study Variables (N = 33)

	<i>M</i>	<i>SD</i>	1	2	3
1. Perceived supervisor support	3.02	0.81			
2. Perception of organizational politics	3.61	0.83	-.380*		
3. Organizational cynicism	3.23	0.94	-.593**	.612**	
4. Work alienation	2.68	1.10	-.480**	0.209	.496**

\*.  $p < 0.05$  \*\*.  $p < 0.01$

Additionally, in order to determine the mediating effects, a regression analysis was applied as suggested by Baron and Kenny (1986). The approach suggests three steps to identify whether a variable is a mediator between a relationship or not. Table 2 shows the mediating role of organizational cynicism (OC) in the relationship between perceived supervisor support (PSS) and work alienation (WA). Table 3 shows the mediating role of organizational cynicism (OC) in the relationship between perceived organizational politics (POPS) and work alienation (WA).

Table 2 checks hypothesis 1 and 3. Hypothesis 1 claimed that perceived supervisor support is negatively related to organizational cynicism. As shown in the step-2 of the table, hypothesis 1 is supported for the predictor (perceived supervisor support) in the hypothesized direction ( $b = -0.692$ ,  $p < 0.001$ ).

Hypothesis 3 claimed that Organizational cynicism mediates the relationship between perceived supervisor support and work alienation. As

can be seen in table 2, at step-1, the relationship remained significant when work alienation (as a dependent variable) was regressed with perceived supervisor support and also with organizational cynicism at step-2. However, the results became insignificant at step-3 which shows that cynicism is not playing a mediating role in the relationship with perceived supervisor support and work alienation. Thus, we reject hypothesis 4 and suggests that although perceived supervisor support has a significant impact on work alienation ( $b = -0.653, p < 0.01$ ) as well as on organizational cynicism ( $b = -0.692, p < 0.001$ ), when organizational cynicism is added to the model, it does not perform any role as a mediator in the relationship between perceived supervisor support and work alienation.

Table 2. Step Regression Analysis- PSS, OC, WA

<b>Step-1 Regression Analysis</b>			
<b>Dependent Variable: Work Alienation</b>			
<b>Independent Variable:</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Perceived Supervisor Support	-0.653	-3.044	0.005
<b>R= 0.480</b>	<b>Adjusted R<sup>2</sup> =0.205</b>	<b>F= 9.266</b>	
<b>Step-2 Regression Analysis</b>			
<b>Dependent Variable: Organizational Cynicism</b>			
<b>Independent Variable:</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Perceived supervisor support	-0.692	-4.102	0.000
<b>R=0.593</b>	<b>Adjusted R<sup>2</sup> =0.331</b>	<b>F=16.825</b>	
<b>Step-3 Regression Analysis</b>			
<b>Dependent Variable: Work Alienation</b>			
<b>Independent Variable:</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Organizational Cynicism	0.380	1.714	0.097
Perceived Supervisor Support	-0.39	-1.509	0.142
<b>R=0.547</b>	<b>Adjusted R<sup>2</sup> =0.252</b>	<b>F=6.392</b>	

Table 3 checks hypothesis 2 and 4. Hypothesis 2 claimed that perceived organizational politics is positively related to organizational cynicism. As shown in the step-2 of Table, hypothesis 2 is supported for the predictor (perceived organizational politics) in the hypothesized direction ( $b = 0.698, p < 0.001$ ).

Hypothesis 4 claimed that Organizational cynicism mediates the relationship between perceived organizational politics and work

alienation. As can be seen in table 2, the mediation testing failed to pass even the first Step of checking mediation impacts and the results became non-significant at step-1 only ( $b= 0.278, p > 0.10$ ), so step-2 and 3 were not performed to check the mediating role of cynicism in the relationship between perceived organizational politics and work Alienation. It should be noted that step-2 is performed only to check hypothesis 2. Thus, hypothesis 4 is rejected.

Further insight into the analysis of table 3 reveal that perceived organizational politics is not a significant predictor of work alienation as can be shown in step-1 of mediation ( $b= 0.278, p > 0.1$ ). This is also supported by the correlation matrix as presented in table 1 that suggests that they have an insignificant association ( $r=0.209, p > 0.10$ ).

Table 3. Step Regression Analysis-POPS, OC, WA

<b>Step-1 Regression Analysis</b>			
<b>Dependent Variable:</b> Work Alienation			
<b>Independent Variable:</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Perceived organizational politics	0.278	1.191	0.243
<b>R=0.209</b>	<b>Adjusted R<sup>2</sup> =0.013</b>	<b>F=1.419</b>	
<b>Step-2 Regression Analysis</b>			
<b>Dependent Variable:</b> Organizational cynicism			
<b>Independent Variable:</b>	<b>Beta</b>	<b>t</b>	<b>p</b>
Perceived Organizational Politics	0.698	4.311	0.00
<b>R= 0.612</b>	<b>Adjusted R<sup>2</sup> =0.355</b>	<b>F=18.582</b>	

### **CONCLUSION AND RESEARCH IMPLICATIONS**

Since work alienation and organizational cynicism both reflect negative behaviours, therefore this study was designed to check the mediating role of one of the negative attitudes to cause the other one. The purpose of this paper was to explore the role of organizational cynicism as a mediator to work alienation. This study has identified that although perceived supervisor support and perceived organizational politics are significant predictors to organizational cynicism, these factors did not support in identifying the role of cynicism as a mediator to work alienation. However, in the process of mediation, perceived supervisor support was identified to be a significant predictor of work alienation.

The key implication of this study is that the issue of work alienation, as faced by the full-time faculty member of higher education universities is not because of perceptions of politics at all. This suggests that politics may be viewed as a healthy exercise and may lead employees to work harder to strive and be successful rather than causing alienation in them. Moreover, the practical implications to this research suggest, that more support should be provided to employees as this study has interestingly identified it to be the cause of work alienation. Besides this, providing more support can also lead to a decrease in organizational cynicism.

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# THE NEXUS BETWEEN CAPITAL STRUCTURE AND FIRMS' PROFITABILITY: EVIDENCE FROM OIL & GAS SECTOR OF PAKISTAN

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and Dr. Arjumand Soomro**

## ABSTRACT

*The optimal capital structure is conceptualized as a basic framework pertinent to acquiring, utilizing, and contributing financial resources of the organization. The estimation and maintenance of the capital structure of a firm are the integral managerial decisions that could ultimately affect the future of the organizations. No doubt, the potential of profitability is the first thing for its future growth and to inculcate a sense of confidence among investors to invest in the firms. This study aims at examining the nexus between capital structure and profitability of firms in the context of the Oil & Gas sector of Pakistan. The sample of this research is comprised of the top five top performing firms of the Oil & Gas sector for a period of ten years (2006-2015). Keeping in view the explanatory orientation of this research, quantitative research approach was employed. In order to achieve study objectives, the secondary data were extracted from the financial statements of the firms under study and data were analyzed through descriptive statistics and correlation coefficients. During data analysis, the profitability of the firm was measured in terms of Gross Profit Ratio (GPR), Return on Capital Employed (ROCE) and Return on Equity (ROE). Whereas, the capital structure was measured in terms of Debt to Equity (D/E) ratio and Debt to Total Funds (D/TF) ratio. The findings drawn from this study revealed a negative linkage among various dimensions of capital structure of firms and their profitability potential in the context of the Oil & Gas sector of Pakistan. Primarily, this study findings corroborated that sample firms*

*under study brought sudden changes in the composition of their debt and equity mix (capital structure) that significantly threatened the profitability of firms. This study suggests that selected firms understudy need to adopt consistent capital structure policies with a clear understanding of future profitability. Financial managers need to focus on developing prudent optimal capital structure and avoid making abrupt changes in the debt and equity mix of the firms.*

**Keywords:** Capital Structure; Profitability; Oil & Gas Industry; Debt & Equity Mix.

## INTRODUCTION

The debate concerning the selection and potential of optimal capital structure attained sufficient attention within prior studies in the relevant field. It has been stressed that profitable firms employ less debt financing in comparison to equity financing in their capital structure (Kodongo, Mokoaleli-Mokoteli, & Maina, 2015). Debt financing is considered as a core part of capital structure in terms of availing the benefits of leveraged financing, however, equity financing could offer higher prospects of positive contribution towards the earning potential of the firms (Hamid, Abdullah, & Kamaruzzaman, 2015). Primarily, maximizing shareholders' wealth is the main target that the majority of the firms strive hard to achieve and it mainly depends on the return from investment or profit earned by the company. Therefore, higher profits and better financial position reflected through the balance sheet tends to increase shareholders' willingness to invest in the company (Velnampy & Niresh. 2012). Generally, shareholders' intention to invest in the company is shaped by higher expected returns that shareholder could earn on share investment and to a considerable extent that could be largely determined by the use of optimal capital structure (Velnampy & Niresh, 2012). Decisions concerning the selection of capital structure of a firm are very crucial because it determines the risk and returns tradeoff of a company that ultimately leads to forecasting firms' profitability or bankruptcy (Gill, Biger, & Mathur, 2016). The risk of bankruptcy severely threatens firms because when a firm faces bankruptcy its assets are sold to repay outstanding liabilities. In order to avoid this situation, financial managers need to take efficient capital structure decision for the sake of balancing debts and equity composition.

Primarily, capital structure decisions relate to financing firms' assets



through equity, debt, or issuance of different hybrid securities (Abor, 2005). Mainly, the acquisition of higher debt financing reflects that most of the capital structure is of debt financing that could increase the probability of financial distress. In this regard, for debt financing, a company has to pay lower taxes but higher interest payments, whereas, for equity financing company has to pay taxes but no fixed payments (Goyal, 2013). On the other hand, profitability could be elaborated as the potential or occurrence of attaining financial gain and it is frequently reflected through price/ earnings ratio and other profitability ratios (Abor, 2007). Analysis of profitability of a firm is of vital concern to stockholders because they earn revenue in the form of dividends as well as price appreciation of shares to generate a capital gain. Similarly, profitability is also an important consideration for creditors because profit is the key source of funds for debt coverage and management also uses profitability as a performance measure. Overall, the capital structure could determine the profitability of firms; therefore, the selection of most advantageous capital structure is the key issue that needs to be dealt in the best possible manner (Das & Swain, 2018).

In Pakistan, investors have a wide choice of making investments across different sectors and notably, among them, Oil & Gas industry is one of the most attractive investment choices due to its reliable performance. Pakistan is naturally gifted with different material resources and the Oil & Gas sector plays a major and significant role towards its favorable economic prospects. The Oil & Gas sector has witnessed remarkable expansion since the independence of the country in 1947 when oil production was scant and no gas reservoirs were known, but within fifty years of independence, large gas discoveries were undertaken that played a leading role concerning economic uplift of the country (Economic Survey of Pakistan, 2016-17). This industry first captured the interest of investors when exploration and production policy of 1992 was introduced; afterwards, further improvements were made in the forthcoming policies that turned this sector attractive for potential investors (Khan, 2010). Currently, there are many firms working in this industry and playing their notable role in fostering economic development as one dimension and offering financial benefits to investors as the second dimension.

It has been argued that the Oil & Gas sector despite having greater potential is not yielding best performance in terms of investors' confidence and profit potential. Primarily, the focus of this research endeavour is to

assess the nexus between capital structure and firms' profitability in the context of Pakistani Oil & Gas sector. The prior research in this area is mainly embedded within a western context and there is a lack of relevant research in the domain of less developed countries in general and within Pakistani context in particular.

### **LITERATURE REVIEW**

Pertinent to avail the detailed scenario of the underlying topic, the prior research relevant to this study was reviewed and study variables were selected. Kodongo, Mokoaleli-Mokoteli, and Maina (2015) assessed the nexus between small and large-sized firms' capital structure with profitability in the Kenyan context. Their findings reported that leverage could significantly hamper the profitability of firms. However, Yinka & Oluwadetan (2015), noted that the worth of the firm could also get influenced by other factors alongside borrowing and shareholders' equity. Tailab (2014), in the energy sector of the USA, assessed the underlying nexus between capital structure and firms' profitability. His study concluded a significant negative association between total debt and profitability of firms, but noticeably positive linkage was found among short term sources of borrowings and firm's profitability.

Singh and Singh (2016), investigated the underlying influence of capital structure on firm's profitability in the context of cement industry of India and reported significant negative nexus between debt and profitability by asserting that companies with heavy debt tend to have lesser profitability. Muraleetharan (2016), evaluated a case study of tobacco, beverage as well as food companies in the context of Colombo Stock Exchange (Sri Lanka) to investigate the interaction of capital structure of firms with their profitability. The sample of study includes Colombo Stock Exchange listed tobacco, beverage as well as food companies and their financial statements were analysed for the time duration of 2008 to 2014. This study includes Debt to Equity ratio (DE), Debt to Total Asset ratio (DTA) and Gearing ratio (GR) to represent the capital structure, whereas, the profitability of firms was measured by Return on Capital Employed (ROCE) and Return on Assets (ROA). A significant positive nexus was reported between the capital structure of firms and THE firms' profitability.

Chisti, Ali, and Sangmi (2013), explored the influence of capital structure on profitability within the context of Indian listed companies.

The study sample was comprised of ten companies from the automobile industry and their five years of data were analyzed. This data includes various ratios like Debt to Equity ratio (DE), Debt to Asset ratio (DA), Interest Coverage ratio (DCR), Gross Profit Ratio, Net Profit ratio, Operating Profit ratio, Return on Capital Employed (ROCE) and Return on Investment (ROI). Their study findings demonstrated a significant impact of capital structure on profitability of firms. In another study, Revathy and Santhi (2016), explored the nexus between sources of capital and profitability across manufacturing sector in the Indian context. Revathy and Santhi (2016), categorized seventy companies into three categories and his findings identified that there is an underlying significant direct association between capital structure and profitability, and rising debt to equity ratio could negatively affect the manufacturing firms' profit potential.

Vijayakumaran and Vijayakumaran (2018), evaluated the nexus between capital structures and corporate profitability in the context of Chinese Stock Exchange. The study reported a negative correlation between total debt to asset ratio and profitability, whereas, a positive relationship was reported between long-term debt to total debt ratio and profitability. Addae, Nyarko-Baasi, and Hughes (2013), investigated the effects of capital structure on profitability of the 34 listed firms in the context of Ghana for the time span of five years. Whereas, the profitability of the firms was assessed by Return on Equity ratio, while for the capital structure measurement, three ratios were included for the analysis, namely short-term debt to total capital ratio, long term debt to total capital ratio and total debt to total capital ratio. In this regard, Addae et al. (2013), corroborated positive association between the profitability of firms and their short-term debt, a significant negative association between profitability of firms and their long-term debts and a significant negative association was disclosed in relation to profitability and total debt in the context of Ghana.

In the Pakistani context, although some prior studies examined underlying nexus between capital structure and profitability of firms, however, these studies were embedded in diverse sectors and concluded with contradictory findings. In this regard, the underlying nexus between capital structure and profitability of firms was investigated in the engineering sector (Khan, 2012); non-financial firms (Shah & Hijazi, 2015); insurance sector (Ahmed, Ahmed, & Ahmed, 2010); manufacturing

sector (Sheikh & Wang, 2011); banking sector (Saeed, Gull, & Rasheed, 2013); and the cement industry (Hijazi & Tariq, 2006). Keeping in view the variations present across different sectors and the distinct nature of financial management practices in Oil & Gas sector, this research attempt aimed at examining the nexus between capital structure (debt and equity financing) and profitability of selected firms in the context of Pakistani Oil & Gas sector. Drawn from the underlying research objective, the following six propositions were suggested for this study:

<b>P<sub>1</sub></b>	Debt to Equity ratio significantly (positively/ negatively) relates with Gross Profit ratio.
<b>P<sub>2</sub></b>	Debt to Equity ratio significantly (positively/ negatively) relates with Capital Employed ratio.
<b>P<sub>3</sub></b>	Debt to Equity ratio significantly (positively/ negatively) relates with Return on Equity ratio.
<b>P<sub>4</sub></b>	Debt to Total Fund ratio significantly (positively/ negatively) relates with Gross Profit ratio.
<b>P<sub>5</sub></b>	Debt to Total Fund ratio significantly (positively/ negatively) relates with Return on Capital Employed ratio.
<b>P<sub>6</sub></b>	Debt to Total Fund ratio significantly (positively/ negatively) relates with Return on Equity ratio.

## **RESEARCH METHODOLOGY**

Pertinent to attaining research objectives, this research study adopted a quantitative approach drawn from secondary data. The financial statements of sample companies were obtained from the Pakistan Stock Exchange (PSX) websites for the time bracket often years (i.e. from 2006 to 2015). This study is a preliminary effort to look into the nexus between capital structure and profitability in the context of the Oil & Gas sector and employed a sample of top five companies from the sector. The rationale of the selection of five companies is embedded in the availability of required data, the share of their business in the overall Oil & Gas industry, and the focus of the study. The study sample is constituted of the following top five companies:

1. Pakistan State Oil Company Limited (PSO)
2. Shell Pakistan Limited (SPL)
3. National Refinery (NRF)

4. Pakistan Oilfields Limited (POL)
5. Attock Petroleum Limited (APL)

Although, in the relevant literature, profitability and capital structure variables draw impetus from multiple dimensions, however, this research has measured these variables through key financial ratios. For the measurement of capital structure, Debt to Equity ratio (D/E) and Debt to Total Fund ratio (D/TF) were employed; whereas, profitability of the firm was measured in terms of Gross Profit ratio (GP), return on Capital Employed ratio (ROCE) and Return on Equity ratio (ROE). Drawn from research focus, six propositions were developed to summarize the study findings. In order to encapsulate key findings; data were analyzed by means of descriptive statistics and Pearson correlation with the help of SPSS version 22. The descriptive statistics aimed at describing the capital structure composition and profitability of firms under study. Whereas, the correlation coefficient was used to know the strength and direction of the relationship between capital structure and profitability of the firms.

### ANALYSIS AND DISCUSSIONS

Pertinent to study findings, initially descriptive statistics of study variables i.e capital structure and profitability ratios are presented and later correlation coefficient values to examine the nexus between capital structure and profitability are described.

#### Capital Structure Ratios

With regard to the capital structure of firms, the summarized data related to Debt to Equity ratio (D/E) of selected companies for the period of ten years (2006-2015) is presented in Table 1.

Table 1. Debt to Equity (D/E) ratio (Figures in times)

Com.	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean	SD
PSO	3	3.18	6.86	6.76	6.68	5.20	6.20	3.64	3.73	3.14	4.54	1.44
SPL	1.78	2.08	5.27	3.06	6.69	4.93	6.65	4.62	5.56	5.34	4.38	1.39
NRF	1.65	1.56	1.67	1.44	1.62	1.29	1.24	1.06	0.97	0.56	1.30	0.34
POL	0.58	0.28	0.29	0.32	0.32	0.38	0.45	0.59	0.64	0.71	0.45	0.15
APL	2.21	1.60	1.80	1.58	1.32	1.12	1.46	1.14	1.47	1.20	1.49	0.31

Table 1 demonstrates that according to the mean value, the Pakistan State Oil limited (PSO) has the highest Debt to Equity ratio of 4.54, that means it is a highly leveraged company in the industry or it has higher debts than equity. Similarly, Shell Pakistan limited also reflected high leverage at 4.38. On the other hand, Pakistan Oilfields limited has a minimum ratio of 0.45. This shows that it has lower debts and more equity; however, Attock Petroleum and National Refinery have mean values of 1.49 and 1.30 respectively and indicate balanced debt and equity composition. Moreover, the value of standard deviation identifies that PSO has the highest standard deviation of 1.44, so it could be inferred that PSO undertakes frequent changes in its debt and equity mix. While a lower value of standard deviation shows fewest changes in debt to equity mix. In this regard, as Attock Petroleum and National Refinery has 0.31 and 0.15 standard deviation respectively, so it could be inferred that these companies undertook fewer changes in their capital structure or debt and equity mix.

Table 2. Debt to Total Fund (D/TF) ratio (Figures in times)

Com.	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean	SD
PSO	0.95	0.71	0.75	0.86	0.85	0.34	0.86	0.78	0.78	0.75	0.71	0.15
SPL	0.64	0.67	0.84	0.75	0.79	0.83	0.86	0.82	0.84	0.84	0.78	0.07
NRF	0.62	0.60	0.62	0.59	0.61	0.56	0.55	0.51	0.48	0.35	0.54	0.08
POL	0.37	0.22	0.22	0.24	0.24	0.26	0.31	0.37	0.39	0.41	0.30	0.07
APL	0.68	0.61	0.64	0.61	0.56	0.52	0.59	0.53	0.59	0.54	0.58	0.04

Table 2 presents the descriptive statistics pertinent to Debt to Total Fund ratio. In this regard, Shell Pakistan and PSO reported higher Debt to Total Fund ratio reflected through mean values of 0.78 and 0.71, respectively. This suggests that these companies have more burden of debt; on the other hand, Pakistan Oilfields and National refinery have relatively less reliance on debt. Moreover, a higher value of the standard deviation of 0.15 reported by PSO, reflects recurrent changes in its capital structure, whereas, remaining four firms reported slower changes in their capital structure reflected through their lower standard deviation values.

### Profitability Ratios

With regard to measuring the profitability of firms, Table 3 sums up

the descriptive statistics related to Gross Profit ratio of five selected companies.

Table 3. Gross Profit (GP) ratio (Figures in percent)

Co.	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean	SD
PSO	4.86	2.97	5.14	0.49	3.92	4.17	3.35	3.10	3.10	2.58	3.36	1.24
SPL	7.03	4.40	-3.47	8.27	6.13	5.58	4.36	4.56	3.02	5.30	4.51	3.01
NRF	5.17	5.73	7.30	4.81	5.74	6.74	2.70	2.83	1.48	4.61	4.71	1.76
POL	48.43	52.27	56.80	57.88	59.52	61.23	59.97	54.92	53.48	52.67	55.71	3.85
APL	3.91	4.09	4.57	5.32	4.54	4.30	3.00	3.14	2.89	2.86	3.86	0.80

As shown in Table 3, Pakistan Oilfields have the highest gross profit ratio of 55.71. This might reflect efficient production and use of resources in comparison to other companies, whereas, Attock Petroleum and PSO reported lower Gross Profit ratios of 3.86 and 3.36, respectively. Moreover, reported values of the standard deviation to indicate that Pakistan Oilfields has many fluctuations in its Gross Profit than other firms, while PSO has much constant Gross Profit ratio.

Table 4: Return on Capital Employed (ROCE) ratio (figures in percent)

Co.	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean	SD
PSO	55.99	34.01	96.03	-61.15	49.93	66.16	47.52	41.29	50.73	25.43	40.59	38.50
SPL	45.44	4.00	-134.56	46.08	37.62	48.02	26.07	39.01	16.27	41.34	16.92	52.28
NRF	56.11	47.81	50.69	16.08	24.20	2.969	10.50	10.93	3.60	13.08	23.59	19.24
POL	50.03	42.21	37.74	21.42	26.83	32.83	35.76	31.84	36.05	26.59	34.13	7.84
APL	95.10	70.50	63.75	58.36	50.87	56.46	53.59	50.04	42.00	32.96	57.36	16.04

Table 4 shows descriptive statistics pertinent to return earned on capital employed in terms of reflecting how efficiently a company is utilizing its funds. In this regard, Attock Petroleum and PSO have mean values of 57.36 and 40.59, respectively. This indicates that these firms are very efficient in using capital funds and consequently, expected to be the first choices for investors, while Shell Pakistan has the lowest ROCE ratio of 16.92, indicating that it is not using its funds efficiently as compared to

others. Moreover, the value of standard deviation shows variation in using capital funds efficiently, therefore, Pakistan Oilfields has a lowest standard deviation of 7.84 and shows consistency in using its capital, whereas, Shell Pakistan has a greater standard deviation of 52.28, that shows inconsistency pertinent to using its funds efficiently.

Table 5. Return on Equity (ROE) ratio (figures in percentage)

Co.	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Mean	SD
PSO	35.16	22.15	45.16	-55.38	47.91	35.27	18.74	20.84	27.75	8.43	20.60	27.84
SPL	59.92	4.95	-135.97	37.85	24.77	26.02	0.07	37.01	-16.27	15.13	6.27	51.81
NRF	37.50	32.10	33.95	10.31	15.39	26.69	10.35	10.62	3.60	13.08	19.35	11.40
POL	41.82	34.73	25.73	24.13	28.09	46.48	45.18	39.82	36.50	25.04	34.78	8.15
APL	68.07	49.57	47.06	44.62	39.10	57.91	47.19	42.33	31.08	24.02	45.09	11.85

Table 5 present the descriptive statistics regarding Return on Equity of the firms. In this regard, the Attock Petroleum and Pakistan Oilfields with the mean scores of 45.09 and 34.78 respectively, are earning a good return as compared to others, while Shell Pakistan with a mean score of 6.27, is less profitable as compared to others. Moreover, PSO and National Refinery have medium mean scores of 20.60 and 19.35, respectively. Furthermore, the values of the standard deviation reflect that Shell Pakistan and PSO have the highest values of 51.81 and 27.84. This suggests that these companies have many fluctuations in their profits, while Pakistan Oilfields and National Refinery have a lower standard deviation of 8.15 and 11.40 respectively, which shows that these companies have relatively constant Return on Equity as compared to other firms.

### Overall Overview of Companies' Capital Structure and Profitability

Overall the above discussion relatable to the capital structure and profitability of selected sample firms reflects that Pakistan State Oil Company Limited and Shell Pakistan are employing higher debts and similarly have more capital structure fluctuations. While concerning Profitability ratios, Attock Petroleum and Pakistan Oilfields have good profitability trends as compared to others, but Shell Pakistan and PSO have higher fluctuations in their earnings. Notably, during 2008 and 2014, Shell Pakistan faced net loss while PSO also incurred a net loss in 2009.



Moreover, the overall descriptive statistics of sample firms are presented in Table 6.

Table 6. Overall Descriptive Statistics of Selected Firms

Ratios	N	Mean	Std. Deviation
Debt to Equity	50	2.437	1.950
Debt to Total Funds	50	0.598	.199
Gross Profit	50	14.435	20.998
Return on Capital Employed	50	34.522	34.683
Return on Equity	50	25.221	30.967

In order to address the research questions proposed in this study, based on the overall descriptive statistics presented above, Table 7 sums up the findings drawn from the correlation test to find out the association between study variables and their underlying significance.

Table 7. Correlation Matrix for Profitability and Capital Structure of Selected Firms

	ROE	ROCE	GP	DTF	DE
<b>ROE</b>					
Correlation Coefficient	1	.919**	.214	-.283*	-.402**
Sig. (2-tailed)		.000	.135	.047	.004
N	50	50	50	50	50
<b>ROCE</b>					
Correlation Coefficient	.919**	1	.043	-.082	-.183
Sig. (2-tailed)	.000		.764	.569	.204
N	50	50	50	50	50
<b>GP</b>					
Correlation Coefficient	.214	.043	1	-.750**	-.528**
Sig. (2-tailed)	.135	.764		.000	.000
N	50	50	50	50	50
<b>DTF</b>					
Correlation Coefficient	-.283*	-.082	-.750**	1	.795**
Sig. (2-tailed)	.047	.569	.000		.000
N	50	50	50	50	50
<b>DE</b>					
Correlation Coefficient	-.402**	-.183	-.528**	.795**	1
Sig. (2-tailed)	.004	.204	.000	.000	
N	50	50	50	50	50

\*\* . Correlation is significant at the value of 0.01 (2-tailed).

\*. Correlation is significant at the value of 0.05 (2-tailed).

Primarily, the findings are drawn from the correlation analysis support six propositions developed for this study, as mentioned below. These findings reveal that Debt to Equity ratio and Debt to Total Fund ratio have a significant negative relationship with the profitability of sample firms as evident through Gross Profit ratio, Return on Equity ratio and Return on Capital Employed ratio.

Proposition		Pearson correlation coefficient
P1	Debt to Equity ratio is significantly negatively related to Gross Profit ratio.	-.528**
P2	Debt to Equity ratio is significantly negatively related to Capital Employed ratio.	-.183
P3	Debt to Equity ratio is significantly negatively related with Return on Equity ratio.	-.402**
P4	Debt to Total Fund ratio is significantly negatively related with Gross Profit ratio.	-.750**
P5	Debt to Total Fund ratio is significantly negatively related to Return on Capital Employed ratio.	-.082
P6	Debt to Total Fund ratio is significantly negatively related with Return on Equity ratio.	-.283*

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

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

## CONCLUSION

No doubt, in this competitive era, managing the capital structure of any firm in Pakistan is a very complex task and same stand true for the rest of the world. This study identifies that the Oil & Gas industry of Pakistan is dealing with higher fluctuations in setting up their capital structure and profit potential. Primarily, companies under study could not enjoy full earning potential due to the absence of strong capital structure management policies, as evident by abrupt changes in their capital structure. Overall, management of debt and equity financing entails an optimal combination that leads towards the potential of higher profitability. This study points out that Oil & Gas companies are having more debts than equity and this results in the imbalanced capital structure. Here, this could be suggested that firms can enjoy higher profitability for a longer time if they have optimal debt-equity composition because the negative impact of debt financing can be decreased by proper risk management strategies, embedded in the optimal capital structure. Overall, in Pakistan, Oil & Gas industry is having obstacles in managing debt-equity composition, which leads towards frequent and sudden changes in

their capital structure that ultimately decrease the potential of sustainable profitability.

The major limitation of this study is rooted in the selection of five companies; therefore, the generalization of findings needs to be taken with precaution. While making any recommendations regarding the selection of optimal capital structure, there is a need to acknowledge that no readymade solution is available that could be used to develop optimal capital structure, however, effective financial strategies could be devised to workout optimal capital structure informed by real scenario. While shedding light on the limitation of this study, future studies could focus on larger sample size through the inclusion of more firms and regression as well as more advanced statistical techniques could be applied to get more detailed insights. Moreover, the inclusion of comparative analysis among different sectors could further validate the association between capital structure and profitability of firms in the context of the Oil & Gas sector in Pakistan.

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# IMPLEMENTATION OF FREE EARLY CHILDHOOD EDUCATION AND ECONOMIC DEVELOPMENT: A CASE STUDY OF GOVERNMENT SCHOOLS IN PAKISTAN

Abdul Jalil Qureshi, Dr. Arabella Bhutto, and Paras Rani Mahar

## ABSTRACT

*This research paper aims to review and evaluate the implementation of arrangements made by the government of Sindh for free Early Childhood Education. Furthermore, this study undertakes a case study of the government schools of Hyderabad District. Since this topic is under-researched in the province, the authors of this paper have tried to see the efforts of government regarding the implementation of the law passed after the implementation of the 18<sup>th</sup> amendment, especially for early childhood education, which is one of the important phases of education. This study is based on descriptive data and analysis were conducted using the Force Field Analysis (FFA). Both primary and secondary sources were used for data collection. The study concludes that the government's initiative to pass the Sindh Right of Children to Free & Compulsory Education (SROCTF & CE) law is facing barriers in its implementation. In the end, the study suggests some recommendations, in light of the research findings.*

**Keywords:** *Early Childhood Education; Brain Development; Brain Shaping-Personality; Economic Development; Skills Development; Act Implementation.*

## INTRODUCTION

Education is the key factor in the development of a human being. It is the main driving factor for the development of an individual, society and a country as a whole. To get education and knowledge, one must pass distinct phases in life. Early education is one of the most important stages of life, which helps children in their physical, psychomotor, social, emotional, mental, and linguistic development (National Research Council, 2015).

Previous research studies have recognized the education acquiring phase of life as a time of rapid growth and development, including brain growth

and foundational social-emotional development (Porter, 2014). Early schooling is recognized by different titles like pre-primary education, early childhood education and early education (Doherty & Hughes, 2009). The early childhood education is offered by home-based centres, daycare centres, early education centres, Kindergarten schools, and other similar institutions. Informally, early education starts from the lap of the mother but formally it begins at the age of two in formal institutional setting up to the age of five to seven years of primary schooling (Doherty & Hughes, 2009).

According to the medical and educational researchers, these early years are crucial for mental growth to rapidly develop intelligence, personality, and social behaviour (UNICEF, 2019). It is also estimated that half of the intellectual development potential is established by the age of four years (Bloom, 1964), thus, early education has been given immense importance.

### ***Benefits of Early Childhood Education: Early Childhood Education and Human Capital for Socio-Economic Development***

Early childhood education helps countries to acquire well behaved, knowledgeable, and skilled individuals. These individuals build a civilized society and provide skilled human resources to the country and that's why investment in early education yields more profit than investing in any other life stage. This notion is corroborated as an evidence of the research, conducted by Heckman (2008), on Human Capital Policy.



Figure 1. Returns to a Unit Dollar Invested  
Source: Heckman (2008).



According to figure 1, education investments at an early age yields the highest return than any other phase of life, i.e. schooling, post-schooling or professional training. More imperative fact may be realized that, the return declines step by step with high margin when a child grows older, despite excessive increment in investment. It is therefore presumed that, early phase of education starting from prenatal to five years not only have profound impact on the child's personality for the long-lasting academic brilliance, but also have premier return on a unit dollar invested.

Keeping in view the importance of early childhood education, the Government of Sindh (GoS) passed a bill titled "The Sindh Right of Children to Free & Compulsory Education" in March-2013 (ECCE, 2015). The chapter three (3) section nine (9) of the bill, states that GoS must make the necessary arrangements to provide free early childhood education and early childcare to the children before the age of three years until they join primary schools. Undoubtedly, this will help the nation to focus on brain development, personality development, enhancing attitude, refining leadership qualities, conferring enriched basic and cognitive skills (ECCE, 2015; 2017).

Conclusively, it is expected that this initiative taken by the Government of Sindh will bring a great deal of changes in early childhood education. Thus, a review of the updated status of arrangements made by GoS so far, and to assess its implementation with reference to relevant and important key areas i.e. planning, budgeting, schools' infrastructure, teachers' training, curriculum and books, teaching applets, teaching methodology are indispensable.

### **RESEARCH OBJECTIVES**

This research attempts to review and assess the implementation made by the Government of Sindh to provide free early childhood education and early childcare for young children before the age of three years until they join the school for formal education. Moreover, a way forward with recommendations based on empirical research is provided for better implementation of the study. The following three objectives were designed for this study:

1. To review the present arrangements of Sindh Government for implementation of Early Childhood Education in Government Schools of Hyderabad district under SROCTF&CE Act-2013.
2. To assess the implementation status through Force Field Analysis (FFA) of Early Childhood Education in Government Schools of Hyderabad district under SROCTF&CE Act-2013.

3. To recommend the measures (based on Force Field Analysis (FFA) for better implementation of SROCTF&CE Act-2013.

## RESEARCH RATIONALE

Early childhood education is one of the crucial phases of education where the personality of a child is built through the development of the brain, social, emotional, and cognitive skills (National Research Council, 2015). This has a long-lasting impact on further education of children and consequently on the socio-economic status of the country. At present, the world has recognized that early childhood education orchestrates the foundation to produce skilled human resource. The better the human capital, the better the economic development. Recently much focus has been given to free early childhood education/schooling which is a positive sign. The Government of Sindh (GoS), Pakistan has passed a bill to formalize it, however, its implementation has rarely been evaluated. Although informal assessments have been conducted to see the implementation of the bill, so far, no formal study has been made as shared by the GoS officials during this study interviews, hence, this study will review its implementation by GoS and come up with the empirical findings and solutions which may assist the government to implement it in true sense.

This study focuses on the implementation of Article 25A of the constitution. In fact, Article 25A was added to the constitution after the 18<sup>th</sup> Amendment, which was passed on 8<sup>th</sup> April 2010. Article 25 A is about the constitutional guarantee regarding children rights to free education, to girls and boys, up to the age of 16. The government of Sindh (GoS) responded to the amendment by proposing the Sindh Right of Children to Free & Compulsory Education Act (SROCTF & CE)- 2013 (ECCE, 2015, 2017). This study is a review and assessment of SROCTF&CE Act 2013, chapter III (9) point as shown in figure 2.

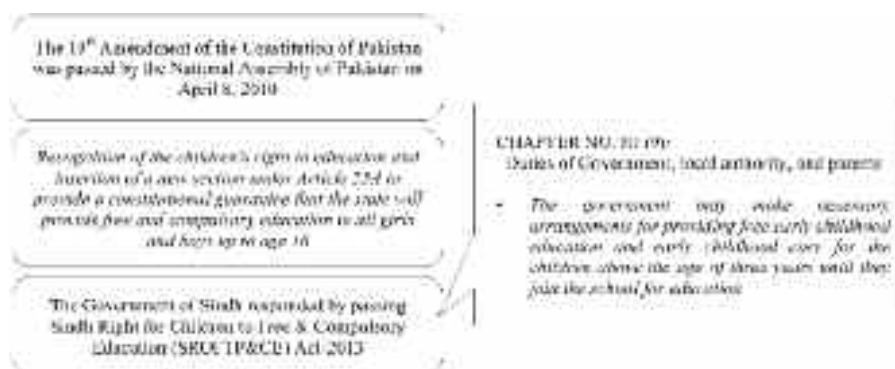


Figure 2. Research Introduction

## LITERATURE REVIEW

The literature review part of this study portrays how the relevant literature was identified. Different search engines including Google Scholar and Web of Science were used to gather the secondary information on the topic. The authors have found various pieces of relevant literature and have presented the reflection in this part of the paper. Furthermore, the literature review part of the paper is based on the following themes supporting the central purpose of the paper.

It is clear from earlier studies that three fundamental areas develop in this age which become the main determinants of making a person a valuable human resource, beneficial to fabricate a civilized society and favourable for socio-economic development of a country. These three basic areas of early brain development are, i) *early childhood education and brain development*; ii) *early childhood education and brain shaping-personality development*; iii) *early childhood education and skills development*.

### i. Early Childhood Education and Brain Development

The brain is an important organ of a human body which happens to be embryonic at the time of birth. It holds around 100 billion neurons, and each neuron makes connections with other neurons as maximum as 15000, and in this way, the brain develops its process (Elliot, 1999). This is called brain development process in scientific language. It starts from birth to the five years. Connections that are activated often stand retained whereas others will be pruned or discarded. Early education provides an external environment where the child uses his/her brain, develop its connections, maximizes the brain memory and power to acquire, store, and retrieve the information acquired through the external environment (Nelson, 2000), this illustration is shown in figure 3.

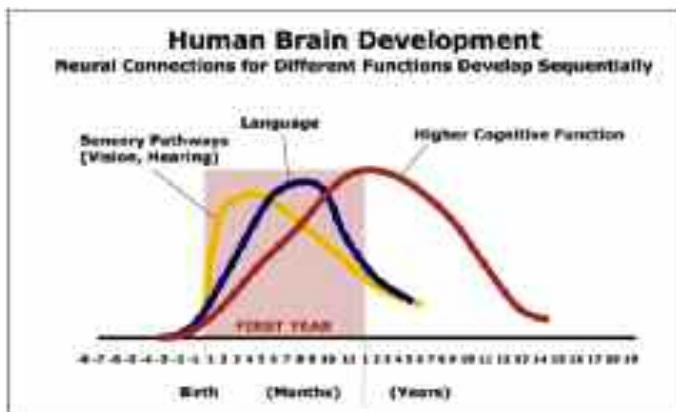


Figure 3. Human Brain Development  
Source: Nelson, 2000

Early childhood education helps children in their physical, psychomotor, social, emotional, mental, and linguistic development and prepare them for primary schools and for their socio-economic life in the future (Gokalp, Barut, & Mentese, 2010). The initial years of a child's life are crucial, as necessary brain development happens during this period (Phillips & Shonkoff, 2000). Many studies concluded that early education contributes to the brain's developing architecture (Blakemore & Frith, 2005), and lay a solid foundation in the development of intellectual domain, hence well before entering school, the young child gets learning as well as main cognitive skills (Sylva & Pugh, 2005).

## **ii. Early Childhood Education and Brain Shaping-Personality Development**

The neurons in early childhood education have a particularly significant role in shaping the brain. They have a profound impact on a child's behaviour. Consequently, the child will gain experience (positive/negative) from the environment and this will remain long-lasting. Therefore, this age requires care and attention in midst to provide a constructive environment to make him/her positive and a well- well-mannered human (Phillips & Shonkoff, 2000).

Eminent research studies conducted by Bell and Fox (1994); Burchinal, Roberts, Nabors, and Bryant (1996); Broberg, Wessels, Lamb, and Hwang (1997); and Emde (1998), summarize that the quality of Early-Learning can shape not only children's intellectual development but also their social and emotional development, that can build a foundation for their long-lasting learning and provide social and economic advantages.

Those children who were not provided opportunities for early education or whose minds were not inspired by proper interaction with adults and peers in their environment; pay for these early losses throughout their lives. In addition, their inefficiency affects labour productivity and national economic wellbeing (Young & Mundial, 1996).

## **iii. Early Childhood Education and Skills Development**

There are many important and special skills developed in this age through early childhood education including adequate motor skills, gross motor skills, auditory skills, visionary skills and above all cognitive skills which enable a child to perform different assignments and activities successfully in the adult life (Barnett, 2008). In 1930, a notable research was conducted in the United States on the importance of the early childhood environment. The research results indicate that qualitative early

childhood education has a direct and constant impact on cognitive, social, and emotional development (Barnett, 2008; Currie & Blau, 2005; Camilli, Vargas, Ryan, & Barnett, 2010; Heckman & Masterov, 2007).

For years research has been known of the extra development of a child’s brain during the first phase that is the first five (5) years, current advances in neuroscience have assisted in the development of earlier findings and have brought latest understanding to the area of early brain development. Children are born ready to learn, they cultivate 85 percent of their intellect, personality, and skills by age first five (5) years to fix the phases for lifelong development.

### Education Policy Implementation

Pakistan is suffering from numerous education related challenges (GoP, 2011), and almost 5.5 million children are out of school (Ailaan & SDPI, 2014). According to the UNESCO Education For All (EFA) Global Monitoring Report, indicates that Pakistan has the second highest ‘out of school population’ in the world and is facing qualitative learning crises encapsulating literacy, academic performance, enrolment, and attendance or dropout rates, despite the fact that Pakistan persist in spending 2 percent of its GDP on the education sector (UNESCO, 2010).

### RESEARCH METHODOLOGY

The three objectives aimed to conduct this study, as stated earlier, are further divided into various research steps. All parameters are studied in relation to the implementation of free early childhood education and illustrated in figure 4 below.

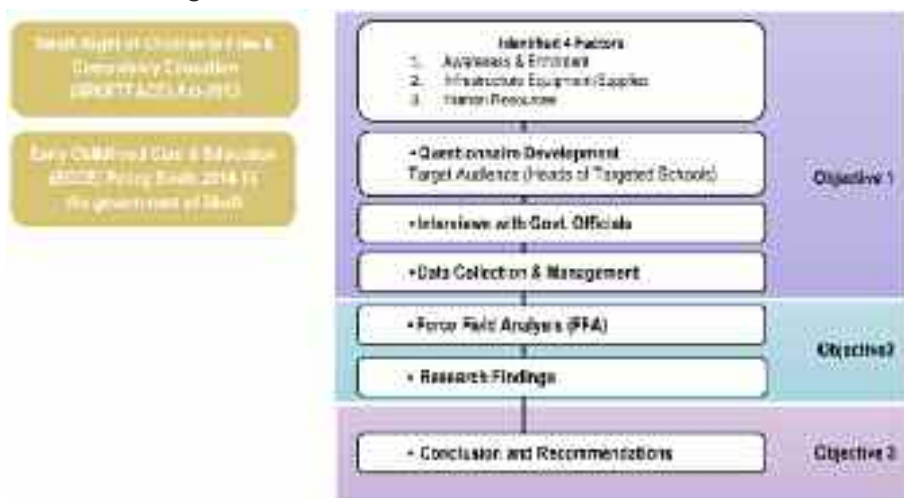


Figure 4. Research Flow

## Data Collection

The primary data for this study was collected from 119 schools in the Hyderabad district. In addition, a semi-structured questionnaire of open and close-ended questions was used to assess the arrangements made by the government for implementation of free Early Childhood Education. The questionnaire was divided into three parts, the first part enquired about the questions related to the target audience, while, part two and three reflected the objectives of the study.

The following tools are used for the data collection of the study:

- i. Meetings with Provincial Government Officials, District Education Officers, and School Management were conducted for assessment of the research.
- ii. Questionnaires as a survey tool for a structured interview.

## Sampling

Table 1. Sampling Data

S/No	Taluka	Total Schools	Sample Selection
01	Hyderabad (City)	85	23
02	Latifabad	82	21
03	Qasimabad	31	11
04	Hyderabad (Rural)	290	64
		<b>488</b>	<b>119</b>

As shown in Table 1, a total of 119 schools were surveyed out of 488 schools in the district. 23 schools were surveyed out of 85 in Hyderabad city; 21 schools out of 82 from Latifabad area, 11 of 31 from Qasimabad area; and 64 out of 290 schools in Hyderabad rural area were surveyed. For analysing the data Kurt Lewin's, Force Field Analysis (FFA) technique is utilized. FFA draws a framework for identifying the forces (factors) that effects a situation. FFA, in fact, identifies the forces that either influence moment towards a goal or block movement towards a goal (hindering forces). Following are the research findings as analogous to the study objectives:

*Objective 1: To review the existing arrangements of the Sindh Government, for implementation of Early Childhood Education in Government Schools of Hyderabad district.*

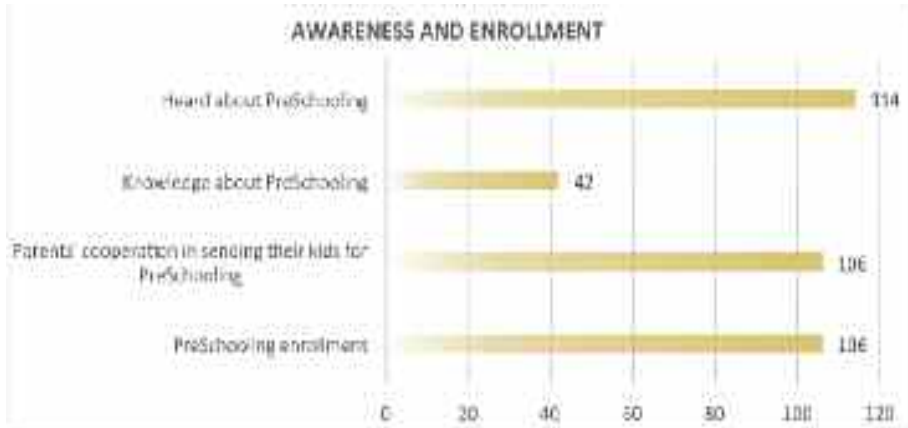


Figure 5. Awareness and Enrolment

According to the findings, figure 5 above shows that, out of the 119 surveyed government schools in Hyderabad district, 114 school respondents affirm that they had heard about the Early Childhood Education concept and 42 of the respondents had knowledge about the concept. Further, in 106 schools' parents cooperate in sending their kids for Early Childhood, therefore in the same number of schools', pre-school enrolment is found on self-awareness basis.



Figure 6. Total Students Enrolled in Early Childhood Education

Similarly, figure 6 shows the frequency of the enrolments of Early Childhood Education students. On X-axis number of schools are demonstrated and the Y-axis shows the number of enrolled students. It is concluded from the findings that there are overall 8,110 students enrolled in 106 schools ranging from 13 students to 205 students, while the remaining 13 schools have zero enrolments.

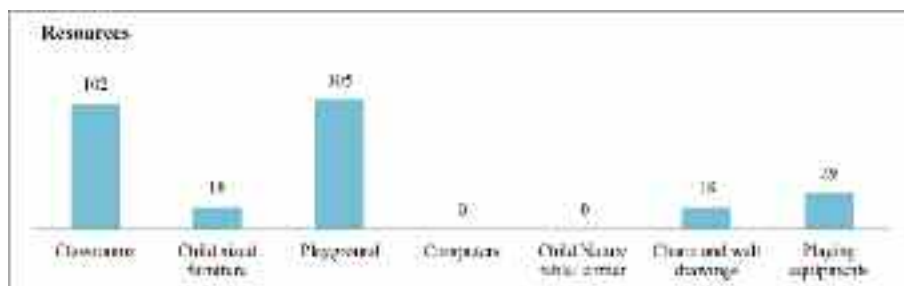


Figure 7. Infrastructure and Equipment/Supplies

Figure 7 depicts the status of most important basic resources required for the quality of Early Childhood Education. It is found that out of 119 schools, 102 schools have classrooms and 105 schools have playground in varied sizes. More than 18 schools which offer Early Childhood Education, have child-sized furniture and playing equipment. It is worth to mention here that these playing equipment and child-sized furniture have not been provided by the Government but the donations and contributions from the heads and teachers of the schools have made these available to the students. In addition, out of 119, none of the schools have computers or academic corners for exploration and experiments for the Early Childhood Education.



Figure 8. Infrastructure and Supplies

Moreover, the findings depicted in figure 8 reveal that out of 119 schools none of the schools have a separate building for Early Childhood Education. Similarly, no separate course/curriculum required for the Early Childhood Education (through the power of play that focuses knowledge, skills, and attitude) has been prepared or adopted. The same course/curriculum of Grade 1 is being taught to the children enrolled in beginners' grade. In this regard, the textbooks of grade 1 have been followed to teach the Early Childhood Education children. The status of free books provided to children from Early Childhood Education children to Grade 1 was found in 87 schools; which is otherwise be given to every student of the 109 schools under reference.



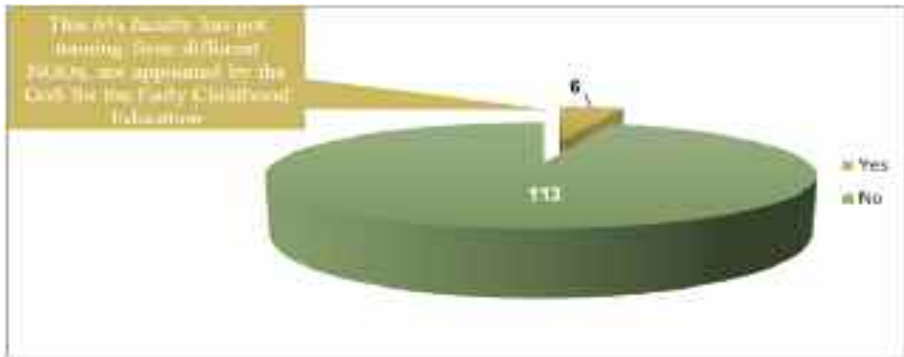


Figure 9. Human Resources for Early Childhood Education

For any institution, the trained and qualified human resources are the most essential means for organizational success and progress. Figure 9 above illustrates that there is a severe dearth of human resource in the target area, none of the 119 schools covered in the survey, have any relevant Early Childhood Education qualified human resources or teaching staff or those provided trainings by the Government. The lack of proper training or qualification, consequently, results in poor tutoring which should be alternatively imparted with care and concentration. A few teachers were reported in only six (6) schools who obtained training through personal resources from different NGOs due to their personal interest.

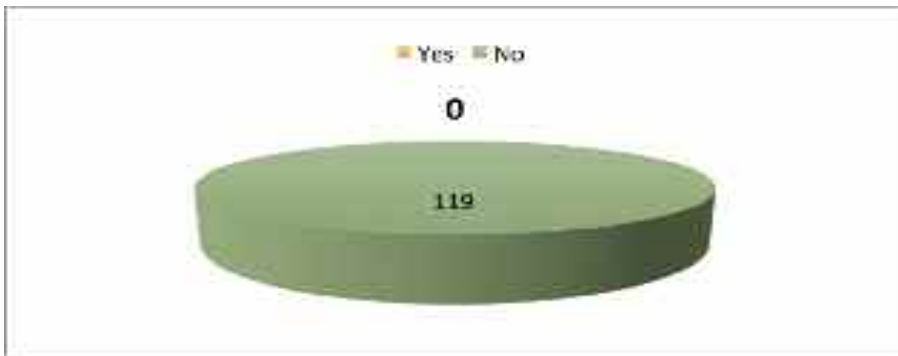


Figure 10. Budget allocated by Government of Sindh (GoS) for free Early Childhood Education

Figure 10 shows that the Government of Sindh has not earmarked any budget provision for Early Childhood Education in 119 targeted schools specifically, and other schools throughout the province in general.

*Objective II: To assess the Implementation status of Early Childhood Education in Government Schools of Hyderabad district under SROCTF&CE Act-2013 through FFA.*

During the study it was revealed that 96 percent of the respondents have heard about Early Childhood, 35 percent have the knowledge, 83 percent of the respondents co-operates in sending their kids to school, while 83 percent of schools have an enrolment of preschool children as shown in figure 11. So, for, the forces as barriers to implementation are concerned, a few percentages need to be worked out. However, the second point of knowledge about Early Childhood Education has a very negligible response and stand in an alarming position.

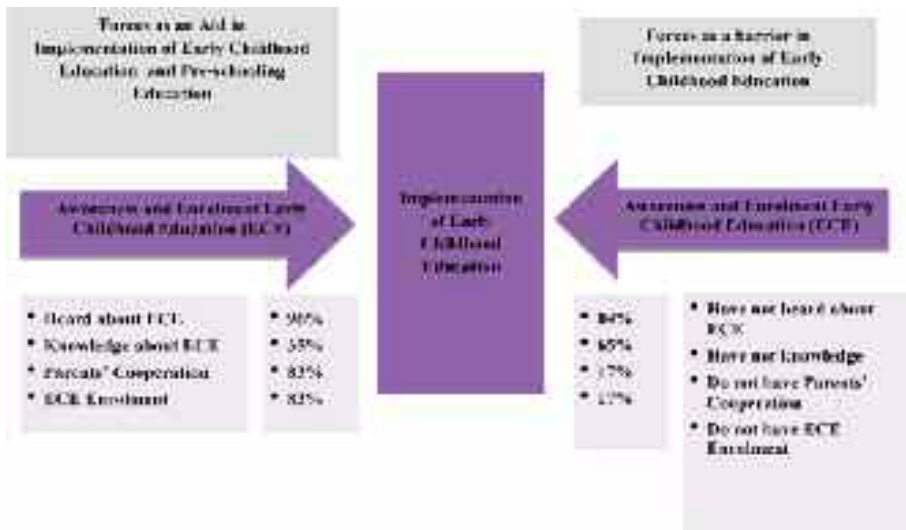


Figure 11. Force Field Analysis – Awareness and Enrolment Early Childhood Education



Figure 12. Force Field Analysis – Infrastructure and Equipment/Supplies

Figure 12 shows either zero or a negligible response from most of the areas, related to provision of infrastructure and other equipment like, computers, nature tables/corners, allocated building, separate curriculum, child-size furniture, charts, playing equipment, however, only the provision of free books received an adequate response.



Figure 13. Force Field Analysis – Human Resources

Figure 13 shows that about 95 percent of human resources, especially faculty is available in the schools. However, the faculty was not trained for early childhood education, moreover, other assisting staff specialized in pre-school education was also found to be unavailable in the surveyed schools.

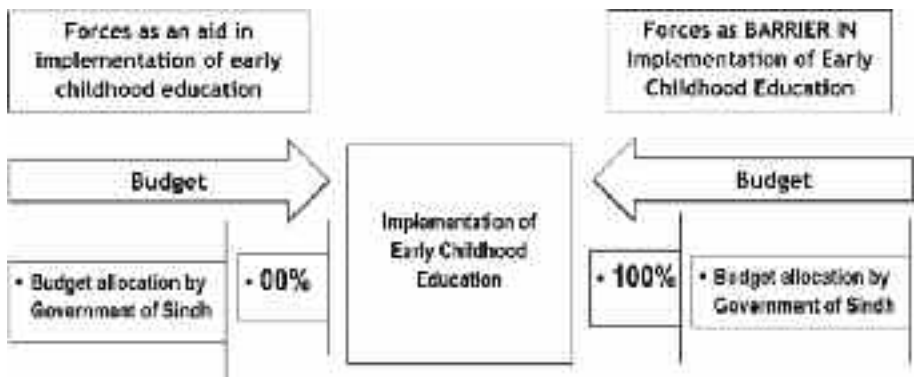


Figure 14. Force Field Analysis – Budget

During the study, it was revealed that no budget was allocated by the government of Sindh, even after the Sindh Right of Children to Free & Compulsory Education (SROCTF&CE) Act -2013 has been passed, illustrated in figure 14. This is hindering the main implementation of the SROCTF&CE Act-2103.

### **Meeting with the Government Officials- Findings**

A meeting regarding the implementation of SROCTF&CE Act-2103 Chapter-III (9) for providing free early childhood education, was conducted by Deputy Secretary, Childhood Education, and Deputy Secretary Schools. The following are the main findings of the interviews:

- i. Government officials confirmed the non-availability of funds/budget for early childhood education.
- ii. The curriculum for early education and care policy has been prepared by the government of Sindh under the Reform Support Unit
- iii. The government of Sindh has a lack of interest and awareness not only at the school level management, but also at the secretariat level about early childhood education and care in Sindh.

*Objective III: To recommend the measures (based on FFA) for better implementation SROCTF&CE Act-2013.*

The objective of the study was to recommend the measures for better implementation of the Sindh Right of Children to Free & Compulsory Education Act 2013. It was concluded that the government should take the following necessary steps to implement the law for early childhood education:

- Awareness programs at the community, school, management, and secretariat level should be organized.
- Necessary arrangements should be made in terms of infrastructure, i.e. separate buildings having enough classrooms, furniture, and equipment.
- Separate curriculum should be designed for Early Childhood Education.
- The government should supply proper school dresses, course books, and stationery.
- Trained staff should be appointed to conduct activity-based learning programs through the power of play.
- The budget should be earmarked to conduct Early Childhood Education.

## **DISCUSSION AND CONCLUSIONS**

This study focuses on the implementation of Article 25A of the constitution. In fact, the article was added in the constitution after the 18<sup>th</sup> Amendment, which was passed on 8<sup>th</sup> April 2010. Article 25A is about constitutional guarantee of children rights to free education, to girls and boys, up to the age of 16. The Government of Sindh (GoS) responded to the amendment by passing the Sindh Right of Children to Free & Compulsory Education Act -2013. This study is the review and assessment of the Sindh Right of Children to Free & Compulsory Education (SROCTF&CE) Act 2013, chapter III (9).

During the study, it was found that:

- The government initiated to pass the Sindh Right of Children to Free & Compulsory Education (SROCTF&CE) law.
- There are poor implementation arrangements for free Early Childhood Education.
- Traditional methods of Kachi Pehren prevails in the sampled schools.
- There is a lack of understanding of the importance of early education at the school, management, and secretariat level.
- A number of students of early education age were found in schools that shows the parents' interest in Early Childhood Education.
- No budget earmarked for Early Childhood Education despite the law has been passed.
- Insufficient infrastructure and equipment were found to be another hindering impediment against the Early Childhood Education.
- Insufficient appointments of faculty and staff for Early Childhood Education were also identified during the study.

## **RECOMMENDATIONS**

The following recommendations are made from the study for the implementation of the Sindh Right of Children to Free & Compulsory Education (SROCTF&CE) Act 2013, chapter III (9) passed by the government of Sindh in response to the 18<sup>th</sup> amendment. It is recommended that the government should take the following necessary

steps to implement the law for Early Childhood Education:

- Awareness programs at the community, school, management, and secretariat level should be organized.
- Necessary arrangements should be made in terms of infrastructure, i.e. separate buildings having sufficient classrooms, furniture, equipment.
- Separate curriculum may be designed for Early Childhood Education.
- The government should supply proper school dresses, course books and stationery.
- Trained staff should be appointed to conduct activity-based learning programs through the power of play and other activities.
- Adequate budget may be earmarked to conduct Early Childhood Education.

#### **LIMITATIONS OF THE STUDY**

In view of the Sindh Right of Children to Free & Compulsory Education, it covers vast educational arrangements about all segments that has a wide range of scope and requires a meticulous work to be done. It is therefore quite challenging to conduct study on the whole document, thus, keeping in view the time limitation, only the implementation of necessary arrangements for free early childhood education under chapter III section 9 has been selected for the government schools of Hyderabad District, in this study. Future studies may include other segments to extend the study scope.

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# FACTORS AFFECTING GROWTH OF LOGISTICS OUTSOURCING: A PERSPECTIVE OF THIRD- PARTY LOGISTICS PROVIDERS IN PAKISTAN

Dr. Mohammad Shaiq, and Masood Hassan

## ABSTRACT

*Logistics outsourcing market is globally expanding at a breakneck pace. Like other industries, the demand and supply forces of logistics service industry are also affected by external determinants. The primary objective of this research is to evaluate the behavior patterns of Logistics Outsourcing Market (LOM) in Pakistan in contrast to global demand and supply patterns of logistics industry and find out the major factors, drivers and obstacles which impact the growth of logistics outsourcing in Pakistan. For statistical analysis, this study solely relied upon the perspective of logistics service providers. A sample of 180 logistics service providers was surveyed to gather information through a semi-structured questionnaire. Results confirmed that the behavior of logistics outsourcing market in Pakistan is tilted towards local business needs and customer demands. Statistical analysis also proved that, as far as the growth of logistics market is concerned, the internal industry factors along with national business environment have more impact on the growth of logistics outsourcing than global drivers and challenges.*

**Keywords:** Logistics; Outsourcing; Logistics Service Providers (LSP); Pakistan; Logistics Outsourcing Market (LOM).

## INTRODUCTION

The rapid development in communication technology during last three decades has opened new doors of opportunity for the growth of international trade, but simultaneously it has also instigated intense competitive environment that businesses are now more focused to adopt competitive strategies. Every business tries to find out the possible efforts to get a competitive edge over others. Due to this growing competition in the global market, organizations are compelled to consider new techniques to generate additional value (Elmuti, 2003). Because of globalization,

many companies all around the world started outsourcing their non-core business activities, in order to concentrate on their core competencies (Gupta, Sachdeva, & Bhardwaj, 2011). The objective and purpose behind the decision of outsourcing the non-core business activities are always to get those benefits which otherwise are not possible (Hashmi & Mansoor, 2013). Since the primary emphasis of all business plans is to obtain cost competitiveness in domestic and international markets, an effort is made to reduce the cost of production and distribution without compromising on the quality of the product and service. Efforts are made to regularly enhance the quality and minimize the costs involved (Szuster, 2010). This philosophy of outsourcing logistics services has given birth to the concept of a new service market known as Logistics Outsourcing Market (LOM). Like all other markets, LOM is also governed by the market forces; demand and supply; where demand for service comes from manufacturers and shippers, whereas the services are supplied or provided by 3rd Party Logistics (3PL) Service Providers.

During last twenty years, substantial research work is done on the concept of outsourcing of logistics functions, but most of the work is done on the demand side perspective of manufacturers, distributors, and shippers. Previous researchers attempted to find out the answers of questions like what functions shippers usually outsource?; what services should be outsourced?; what are the factors affecting shippers' decision to outsource?; how the outsourcing decision could be made more profitable?; and what should be the criteria to select a right service provider? (Hashmi & Mansor, 2013; Zameer & Ali, 2013; Szuster, 2010; Vasiliauskas & Jakubauskas, 2007). However, research on Logistics Outsourcing Market (LOM) from the perspective of Logistics Service Providers (LSPs) is rarely found (Evangelista & Kilpala, 2007). Few studies are conducted on Third-Party Logistics (3PL) companies to know their structure and characteristics (Hertz & Alfredsson, 2003). Compared to developed economies, little research is done in Pakistan on LOM specifically on the supply side perspective, however studies could be found on the demand side perspective which focuses on the issues related to shippers and outsourcers. The prospect of producers and shippers about LOM is crucial as they are the source to generate demand for logistics services. However, the opposite market force that is the supply of services, which comes from Logistics Service Providers (LSPs), is equally critical for analyzing any LOM and this research is an effort in this direction.

There are many factors, drivers, and obstacles within the market itself or outside the market which not only affect the intensity and the direction of the demand and supply forces of logistics services, but resultantly affect the size and rate of growth of LOM. LSPs, specially Freight Forwarders (FF) in Pakistan are not working in ideal business conditions. Unavailability of proper infrastructure, unstable economic and political conditions, ambiguity in government trade policies, inefficient operations of concerned government offices and agencies and above all the over expectations from shippers regarding the quality of services make LSPs job more difficult. This consequently hinders the growth of LOM in Pakistan. How these factors affect LSPs' performance and what is the extent of their impact on the growth of LOM is the primary objective in order to assess and analyze LOM's performance.

### **RESEARCH QUESTIONS**

This research is an effort to find out the answer to two fundamental questions related to logistics outsourcing in Pakistan.

- What is the overall condition of the 3PL market in Pakistan and how it compares with the trends in the global market?
- What are the major challenges, logistics capabilities, and local factors, within and outside industry, which help or hinder the growth of Logistics Outsourcing Market in Pakistan?

### **LITERATURE REVIEW**

Logistics encompass all processes related to procuring, converting or producing and distributing raw material or final goods to customers meeting their satisfaction, maintaining the quality of goods and services in a cost-effective manner (Sheikh & Rana, 2014). The most common services which come under the umbrella of logistics and are usually outsourced by producers and shippers are domestic haulage, international transportation, warehousing, customs brokerage, freight forwarding, reverse logistics (defective, repair, return), freight bill auditing and payment, product labeling, packaging, assembly and kitting, cross-docking, inventory management, order management and fulfillment (Langley, 2015). These services, though apparently look very ordinary to leave any prominent impact on the productivity or affecting company's competitive status but in present days, better logistics management is considered to be a primary source to make money or save money and the last frontier to maintain or enhance a company's competitive advantage (Vasiliauskas & Jakubauskas, 2007). The technological innovations and

communication advancement have created a bizarre scenario for trade today, that is, “cooperate to compete” both within the geographical boundaries of countries and beyond. This scenario gave birth to the concept of Supply Chain Management (SCM), and currently, even large companies are have entered into supply chains to achieve competitive advantage (Noor, Saeed, & Lodhi, 2013). The advancements in communication technology, consequent virtual shrinkage of distances and globalization of trade has established emphasis on customers’ satisfaction along with the quality of the product, the quality of distribution channels, timeliness, and customer convenience.

Initially, the concept of the supply chain was presented in 1982 and the term was first used in management literature (Noor, Saeed, & Lodhi, 2013). Supply Chain Management (SCM) is defined as a sort of connectivity between mutually supplementing and supporting organizations to add value to the interrelated processes through timely and accurate flow of material, money and information, for the benefit of all parties, right from the point of origin to the point of final usage or consumption of product. (Christopher, 2016). It is the philosophy of management which starts from the doorstep of the supplier to provide material and information down the stream up to the end user (Noor, Saeed & Lodhi, 2013). The logistics activities cover the whole supply chain, so it becomes imperative to enhance the performance of total supply chain for the benefit of all members in the chain (Sheikh & Rana, 2014).

Logistics management within the supply chain is the name of holding and moving right material to make available in the right quantity at the right place. The third party logistics provider is an external partner not the part of a trade deal between two parties, but providing and executing logistical needs on behalf of the suppliers or shippers (Hertz & Alfredsson, 2013). Definitions of third-party logistics presented by Evangelista, Cioffi, and Sweeney (2005); Berglund, Van Laarhoven, Sharman, and Wandel (1999), are amalgamated together to extract refined definition which says that the logistics activities executed and performed by some other person/organization on behalf of, and under the name of actual shipper, and comprise of at least transportation activity are known as third party logistics.

In other words, the middle party which never possesses the title of the product but handles short-term storage and helps moving goods from one party to other is called a third-party logistics service provider (Hertz &

Alfredsson, 2003). The third-party logistics also undertake other activities including inventory management, warehousing, tracking, tracing and some other value-added activities like installation, after sale service, assembly and knitting (Evangelista & Kilpala, 2007). It was initially mentioned by Bolumole (2001), that the third-party logistics are those who provide various services like warehousing, distribution, transportation and inventory control but all in a customized way, as and when required by the customer (Green, Turner, Roberts, Nagendra, & Winger, 2008). The quality of performance of 3PLs increases due to the ability to cooperate with supply chain partners both vertically and horizontally (Sheikh & Rana, 2014). In this capacity 3PLs provide services like inland transportation, short or long-term storage and in case of international trade the consolidation and deconsolidation also becomes an essential function. Other than this the tracking and tracing facility, cargo insurance, pick and pack, border and custom related functions, contacting and contracting with the carrier are regular services provided by these providers (Ajakaiye, 2012).

A job, function or process which otherwise could be performed through in-house resources of the business but instead it is contracted out to a third party for a fixed period of time is known as outsourcing (Handfield, 2006). As a strategy, management of business organizations outsource few non-core but essential business activities to efficient and specialized service providers (Elmuti, 2003). It is a strategy to get some business activities done through outside resources and releasing internal human and other capital assets traditionally occupied to perform such activities in-house (Handfield, 2006). In general, the activities which businesses usually outsource are secretarial and clerical work, accounting functions, customer support, sales marketing, I.T support function, warehousing and distribution, management services, manufacturing of components, etc. (Elmuti, 2003). Logistics outsourcing is considered to be a contractual agreement with any outside logistics service provider to execute some logistics activity, on behalf of a manufacturer or shipper against some specific costs within some definite time period, which otherwise could be or would have been performed through in-house human and capital sources (Szuster, 2010). The fundamental difference between traditional outsourcing of warehousing or transport service and the modern concept of 3PL outsourcing is that of a single activity and transactional outsourcing versus complex natured, multiple activities contracted out for a specific usually more extended time period (Szuster, 2010).

The concept of outsourcing is that “something is better left to others” (Hashmi & Mansoor, 2013) and only to do what one can do better than others. To achieve a competitive edge or advantage over the competitors, one must concentrate more on core competencies and should do only what one can do better. Although outsourcing has its demerits too, the outsourcing market for LSPs is rapidly growing (Elmuti, 2003). Of course, the obvious downside of entrusting on part of the critical business in the hand of others is like losing some control over some part of own business operation, but simultaneously businesses get benefits for using others’ assets, specialized knowledge, and professional expertise. Such business decisions have two aspects, the advantages, and disadvantages but in the good supply chain practice, one’s advantage is not a disadvantage of another partner. This is the situation which should be called the win-win situation as both parties gain something but not losing anything (Szuster, 2010). Majority of the advantages and disadvantages which various researchers have identified are mentioned in Table 1. (Green et al., 2008).

Table 1. Advantages and Disadvantages of Logistics Outsourcing

<b>Advantages</b>	<b>Disadvantages</b>
Cost effectiveness	Losing control over functions outsourced
Concentration on core competency	Possibility or discount of services
Freeing up Financial and Operational Resources	Negative impact on in-house force
Access to LSPs resources	Business culture clash
Efficiency and Flexibility	Business culture difference
Risk Sharing	Disconnection Supplier and customer
Improvement cash inflow	

Source: Green, et, al, 2008

In the recent past, the performances of LSPs have been under microscopic view. Various international research organizations have conducted numerous surveys to find the latest trends in LOM and looking at the merits and demerits of outsourcing from a different perspective. These surveys and studies identified various risk factors, challenges, capabilities, benefits, and problems faced by logistics outsourcing markets around the world. Some of the studies and surveys with important conclusion are discussed below.

### **Capgemini Consulting**

The 21st Annual Third-Party Logistics Survey revealed that almost all 3PL providers and users were of the view that in recent days outsourcing,

instead of transactional relationship it has turned into a strategic partnership and has resulted in logistics cost reductions, improved customer service and innovative ways to improve logistics effectiveness (Langley, 2015). This survey also listed the services which shippers mostly outsource to 3PL provider. The top 10 services from their survey are listed in Table 2. The findings of this survey can be a perfect benchmark for reviewing any regional or national logistics outsourcing market and comparing the demand and supply of logistics services with the findings of this survey.

Table 2. Most frequently Outsourced Services

Logistics Services	
International transportation	Order management and fulfillment
Warehousing	Inventory management
Customs brokerage	Supply chain consultancy by 3PLs
Freight forwarding	Service parts logistics
Reverse logistics (defective/return)	IT related services
Freight bill auditing and payment	Fleet management
Product labeling, packaging, kitting	LLP / 4PL services
Cross-docking	Customer service

Source: 21st Annual Third-Party Logistics Survey (2014)

### Amber Road Survey

Sponsored by Amber Road Powering Global Trade, on behalf of Supply Chain Management Review, Peerless Research Group carried out a survey of 929 top logistics and supply chain managers from all over the world and published their findings under the title “*Globalization Drives Market Need for Supply Chain Segmentation: Research & Key Strategies.*” Based on the findings of their survey they mentioned top ten challenges and threats for Logistics Outsourcing Market, which are mentioned in Table 3.

Table 3. Top Ten Challenges and Threats to Logistics Outsourcing

International Challenges	
Rising transportation rates	Ability to find, trained and right skilled people
Fluctuation in customer demand	Access to accurate, time-sensitive information
Increasing customer expectations	Ability to form relationship with SC partners
Global economic turmoil and uncertainty	Keeping up with new technology & innovation
Changing regulatory requirements	Globalization of customers and suppliers

Source: Amber Road 21<sup>st</sup> Annual Third-Party Logistics Study, 2014

## World Bank Logistics Performance Index (LPI)

The international bank for reconstruction and development and the international trade unit of the World Bank, based on an international survey of all exporting and importing countries, calculate LPI and rank all countries by their logistics performance. It was started in 2007, and since then five surveys have been carried out which are published in report form. According to the survey, Pakistan stands 68<sup>th</sup> out of 160 countries (Arvis et al., 2016). This study used six indicators, shown in table 4, to judge logistics performance of all countries.

Table 4. LPI Indicators

World Bank Logistics Performance Indicators	
Efficiency of customs and border clearance	Ability to track/trace consignments
Quality of transport infrastructure	Competence and quality of logistics services
Arranging competitively priced shipments	Frequency shipments reach in time

Source: Arvis et al. (2016).

Based on the review of various other studies; research carried out on logistics outsourcing market; and the knowledge gained through formal and informal discussion with various logistics service providers and experts in this field, few more factors, related to business environment with Pakistan's logistics industry, are identified and are shown in Table 5. These factors affect the growth of the logistics industry and outsourcing trends.

Table 5. Pakistan Specific Issues

Customer Related Issues	
Internal security situation and restlessness	Hold of foreign logistics companies
Attitude of customs staff and border officials	Delaying payment habit of clients
Lack of local LSPs mutual cooperation	Lack of financial resources
Undefined and undeclared Govt. policy changes	Personal liking and disliking
Demand for commission from clients staff	

Source: Authors' Conceptualization

## Research Hypotheses

Various research studies and recognized global surveys from professional consultants and organizations highlighted different factors which help the growth of logistics outsourcing markets around the world. Similar surveys and research studies have identified various issues and obstacles which discourage shippers in outsourcing logistic activities to 3PL providers. As Capgemini two-year survey (Langley, 2015), mentioned that some customers reported increased use of



logistics services while others indicated that they might return to their in-house resources for services, there are always factors which incite shippers to outsource more, but simultaneously there are few risk factors which stop shippers from doing so. For the sake of studying any regional or national market, one needs to take into consideration all global, regional and local issues and external and internal industry concerns. In order to conduct the study on LOM in Pakistan, few research questions were raised and mentioned above. Based on the previous research and surveys, following research hypotheses were formulated.

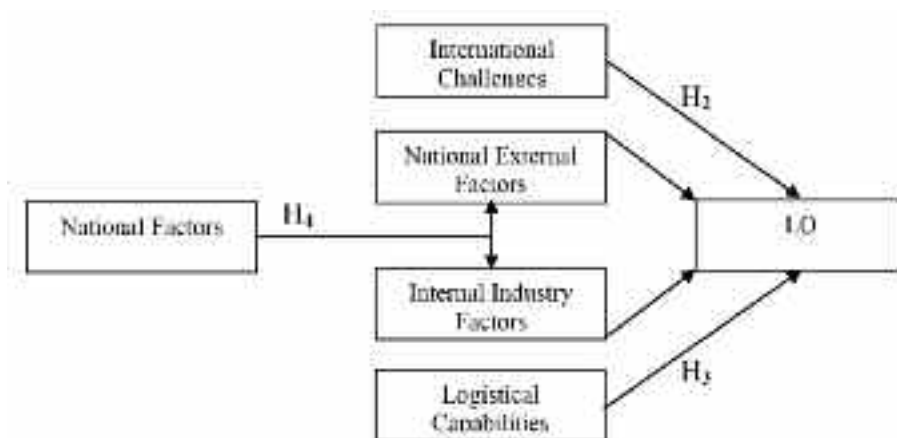
*H<sub>1</sub>: Logistics services offered by LOM in Pakistan are globally competent and shipping industry is looking for similar logistics capabilities in LSPs in Pakistan.*

*H<sub>2</sub>: Global challenges in logistics industry significantly impact the growth of logistics outsourcing in Pakistan.*

*H<sub>3</sub>: Logistics performance indicators identified by the World Bank significantly impact the growth of logistics outsourcing in Pakistan.*

*H<sub>4</sub>: At the national level, Internal and external industry-related factors significantly impact the growth of logistics outsourcing in Pakistan.*

The conceptualized model to test these hypotheses and to get answers to the questions raised in the introductory section is presented in Figure 1. The factors, issues, capabilities, drivers, and obstacles identified through research surveys will be used as independent variables (IV) or predictor to assess their causal impact on LO as dependent variable (DV).



**Independent Variables:** International Challenges (IC), Logistics Capabilities (LC), External Factors (EF), Industry Factors (IF), **Dependent Variable:** Logistics Outsourcing Market (LOM)

Figure1. Conceptualized Model

## **RESEARCH METHODOLOGY**

To analyze Pakistan's logistics outsourcing market, the findings of globally recognized international surveys of significant producers, shippers and logistics professionals about the factors, challenges, issues and problems faced by logistics outsourcing are taken into consideration. The findings of these surveys shall be used as a benchmark to compare the capability of domestic logistics service providers in Pakistan. Also, another quality research work is reviewed to establish the major indicators to measure the impact of these indicators on the growth of logistics outsourcing in Pakistan. For the purpose of analysis, various challenges, factors issues and problems referenced above are categorized in the following four categories

- International Challenges
- Logistical Capabilities
- National Industry Related Factor
- National Non-industry Related Factors

This research is based on the knowledge and findings of global surveys on pragmatic grounds supported by numbers and values through a collection of psychometric data, so the method used here is mixed research method (Creswell, 2003). There are hypotheses about measuring the effect of various internal and external factors on LOM, so the regression analysis is conducted to measure the impact of various factors (IV) on the growth and performance of LOM (DV) in Pakistan.

### **Participants and Sample**

As mentioned above, this study is based upon the perspective of LSPs on the importance and effectiveness of the above factors and reasons and their impact on the growth of LOM in Pakistan. Selection of a valid representative sample for the collection of primary data is always a tricky step, and this becomes further difficult when it comes to select a sample where the actual size of the population is either underestimated or misreported. In less developed economies like Pakistan, where many other sophisticated logistics activities like warehousing, customer orders, inventory control, etc. are not frequently and widely outsourced, International Freight Forwarder (FF) is another term for 3PL service providers (Szuster, 2010). Due to the nature of logistics industry in Pakistan, many local LSPs might not be registered with the federal board of revenue or with other related government agencies. Thus, for population determination, we took members of Pakistan International Freight

Forwarders Association (PIFFA) as our population. PIFFA is the recognized Pakistani chapter of Fédération Internationale des Associations de Transitaires et Assimilés (FIATA). Chin, Bae, and Kim (2007), used the same criterion and took the members of Shanghai International Forwarders Association as total population while surveying Chinese LSPs. Currently, in total, there are 648 registered members of PIFFA, out of which 449 are registered in Karachi. Since so far Karachi is the only port city of Pakistan, most of the remaining 200 LSP belonging to other cities also have their branch offices in Karachi. Considering time and resource constraints, through systematic random sampling method, a sample of 250 possible respondents, that is 38% of the total population was drawn.

### **Instrument and Data Collection**

For data collection, this study used a standard questionnaire survey method to get a response from informants who are strategic or tactical managers working for LSPs in Pakistan. The questionnaire was mainly comprised of closed questions in order to get simple and straightforward responses from respondents. The first two sections of the questionnaire contained questions related to information about demographics and the capability and flexibility of the responding company and its span of services provided to its clients. The next section was comprised of the questions regarding the current state of outsourcing market and various challenges and problems faced by Pakistan's LOM. A 5-point Likert scale was used to carry out statistical inference analysis, for questions related to the level of agreement and satisfaction of respondents. Questionnaires were mailed to all possible respondents, followed up emails were sent, and calls were made, but the response was feeble. After a continuous effort of four and a half month, 193 questionnaires were filled. The response from 13 LSPs was not up to the mark, so responses only from 180 respondents were included in the final analysis.

### **Data Analysis**

Other than some descriptive statistics to test hypothesis  $H_1$ , multiple regression analysis was the main inferential tool to test hypotheses  $H_2$ ,  $H_3$  and  $H_4$ . Using Statistical Package for Social Sciences (SPSS), the necessary tests to check the reliability, validity, and multicollinearity were carried out being the prerequisite before running regression analysis between the four latent categories as independent variables and LOM as the dependent variable. The internal consistency and reliability were tested by computing Cronbach's Alpha ( $\alpha$ ) for each scale. According to Nunnally

and Bernstein (1994), and cited by many empirical business studies, the Cronbach's alpha coefficients of 0.70 and above are required for established scales as used in this research.

## RESULTS AND DISCUSSION

This section discusses the results of statistical analysis performed through SPSS, to test the hypotheses. Table 6 provides the necessary descriptive information related to age and staff size of sample companies and the percentage of companies which own assets, like a warehouse and delivery vehicles. Table 7 gives LSPs perspective about what makes shipper outsource logistics services or stops them from outsourcing. This table also shows what capabilities shippers prefer LSPs to have before shippers decide to hire LSPs services.

Table 6. Descriptive Statistics

<b>Descriptive Information</b>	
Range of Company Age	From Max = 35 years Min = 2 years
Average Company Age	12 years
Average Staff Size	14 Heads
Percentage of Companies having Own Warehouse	9%
Percentage of Companies having own vehicles	17%

Table 7. LSP's Perception About Shippers/Customers

<b>LSPs Perspective about Client</b>	
Top 3 factors shippers consider most while outsource logistics activity to LSP	1- Service quality 2- Cost saving 3- Ease of operation
Top 3 reasons why Shippers are afraid of or reluctant to outsources logistics activity.	1- Hidden cost 2- Inefficient management 3- Leakage of latent information
Top 3 qualities shippers emphasize while qualifying LSPs for outsourcing logistics activity.	1- Past track record 2- Competence and experience 3- Reputation enquiry from other shippweers
Top 3 services which LSPs further sublet to other LSPs in Pakistan.	1- Past track record 2- Competence and experience 3- Reputation enquiry from other shippers

### Statistical Analysis

To satisfy the assumptions for the appropriateness of the data, few tests as advised by Hair, Black, Babin, Anderson, and Tatham (2006), were carried out. Cronbach's alpha coefficient was calculated to check reliability and internal consistency of data for the scales or subscales used

in the analysis. The value of Cronbach's alpha was 0.78 which is within the acceptable range from 0.70 to 0.95 (Tavakol & Dennick, 2011). Although Kaiser-Meyer-Olkin Test of Sampling Adequacy (value of 0.61) and Bartlett's test of sphericity (value of 262.59, Sig .000) were run, however, since this study mostly uses established and internationally validated scales, so no component analysis was required.

Before running the regression analysis between independent variables and LOM, the multicollinearity of all factors was checked. All factors having a tolerance value between 0.377 and 0.604 and Variance Inflation Factor (VIF) values between 1.65 and 2.65 were found free from multicollinearity. A value of 10 has been recommended as the maximum level of VIF (Hair, Anderson, Tatham, & William, 1995). For hypotheses testing, multiple regression was run using SPSS. The results of hypotheses testing are discussed below:

**Hypothesis Testing.** Four hypotheses were formulated to study the LOM in Pakistan. The first hypothesis was about the comparison of local service offerings with global offerings, and the other three hypotheses were about the impact of national and international challenges and logistics capability on the growth LOM in Pakistan.

*Hypothesis H<sub>1</sub>.* This hypothesis was about the span of services offered by LOM in Pakistan to be in line with the global pattern presented by Langley (2015), survey of global organizations. Figure 2 depicts the comparison, and it is observed that the pattern of the services offered by LOM in Pakistan is significantly different from LOM of other countries especially for major services like *Domestic Transportation, Warehousing, Freight Forwarding, Customs Brokerage, and Customer Service*. Possibly this difference is due to the following reasons.

- 1) Road transport in general, within the country, and most of the Afghan Transit Trade (ATT) is handled by private small truck owners and not by LSPs. Our survey shows that almost 90% of formal logistics companies usually do not own or maintain vehicle fleet so are seldomly directly involved in domestic transport.
- 2) Our survey also reveals that 90% of the firms do not own warehouses, so most of the manufacture in Pakistan take private storage space on rent and are maintained by themselves. For this function too, LSPs are not directly involved.

- 3) As shown in our sample survey the freight forwarding is the single most offered service by almost all LSPs to help businesses in their export and import activities.
- 4) Customs clearance is one of the most regulated activities, and usually, this function cannot be performed in-house by shippers, so LSPs are necessarily hired for this function.



Figure 2. Services offered by LSPs in Pakistan

*Hypothesis H<sub>2</sub>, H<sub>3</sub>, and H<sub>4</sub>*: These three hypotheses were about the impact of *International Challenges (IC)*, *Logistics Capabilities (LC)*, *Industry External Factors (EF)*, and *Industry Internal Factors (CF)* on *Logistics Outsourcing (LO)* in Pakistan. Multiple regression was conducted to assess the impact of above mentioned four independent variables on LO as the dependent variable. This model was found statistically highly significant  $F_{(4, 175)} = 11.094; p < .000$  with the value of coefficient of multiple determination ( $R^2$ ) of 0.202, which means that all four independent variables collectively explained 20.20% of the variance in the logistics outsourcing. Out of these four independent variables only *Industry External Factor (EF)* ( $t = 2.697, \beta = 0.226, p < .008$ ) and *Industry Internal Factors (IF)* ( $t = 4.004, \beta = 0.410, p < .000$ ) made a statistically highly significant unique contribution to the model, clearly confirming hypotheses H<sub>4</sub>, which was about Pakistan’s local factors. *International Challenges (IC)* although showed a positive impact on LO but was not statistically significant, while *Logistics Capabilities (LC)* showed a non-significant negative impact on logistics outsourcing in Pakistan.

## **CONCLUSION**

Through the results, it could be concluded that growth of Pakistan's logistics outsourcing market is more affected by local or national factors instead of global challenges, contrary to the identification by various global surveys. National factors can be divided into two major categories: problems within the industry which we call the industry's internal factors, and others are general factors of macro-level outside the industry. Issues related to industry include factors like price war within LSPs, payment of commissions to get business, kickbacks, credit payment issues, service quality, hidden costs, confidentiality of information, etc. Other external macro-level national factors which include security issues, political stability, government policies, exchange rate stability, the customs department's efficiency, etc. International challenges like an international regulatory requirement, rising transport rates, global economic turmoil, complex demands of importing countries, globalization issues did not show a direct impact on the growth of logistics outsourcing in Pakistan. One can say that such international factors can harm the growth of international trade in general, but logistics functional complexities remain same whether logistics is performed by shipper using in-house resources or through outsourcing such activities to 3PL, so logistics outsourcing within Pakistan is not affected by such global factors. Another critical variable was about logistics capabilities and six indicators used by World Bank for the calculation of the Logistics Performance Index were also used in this research. This variable showed a negative impact not accepting the null hypothesis, although this researcher was expecting these factors to play a vital role in the growth of logistics outsourcing which this study did not prove right. Again, as said in the case of international challenges, logistics capabilities measured by World Bank are at national level, so good or bad those will be same whether logistics activity is sourced out or performed in-house.

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# **BUSINESS ANGELS AND INVESTMENT REJECTION REASONS: A QUALITATIVE STUDY BY USING EXPLORATORY SEQUENTIAL MIXED METHOD**

**Naveed Iqbal, Dr. Tania Mushtaque, and Iram Shahzadi**

## **ABSTRACT**

*The main focus of this study is to evaluate the decision-making process of business angels and the reasons for which they reject investment opportunities. According to heterogenetic views of business angels, their investment criteria might be different corresponding to their knowledge and preferences. The data of nineteen (19) business angels from different cities of Pakistan was collected by face to face interviews, through phone calls, and email interviews. The study confirms that the rejection reasons are mostly related to the management team and entrepreneur. However, they do not predict the reasons for rejection of investment opportunities nor do their characteristics clarify the number of rejection reasons. This could be due to the trend of business angels to join groups of business angels and through shared experiences, for which they behave accordingly. Unlike previous studies, this paper provides guidance to entrepreneurs with reference to Pakistani business angels, about which reasons to be avoided to get investment opportunities. Moreover, it provides actual investment criteria for business angels.*

**Keywords:** *Business Angel; Investment Rejection Reason; Opportunities; Entrepreneur.*

## **INTRODUCTION**

Development of new business ventures is highly beneficial for firms and for every economy (Khan & Lew, 2018), but usually there is a stern constraint in starting new business ventures, that is, the unavailability of sufficient funds (Fisch, 2019). It is a fact that angel investors or the Business Angels (BA) are the main sources of financing for new ventures for their start-up and growth (Mason & Harrison, 2015). Business angels are the people who invest their money in businesses to support them

efficiently. Several previous studies conducted have also shed light on the impact of business angels on numerous activities of new ventures (Ughetto, Cowling, & Lee, 2019). Nevertheless, a lot of investment actions have been occurred but not managed properly to be documented, thus now these investment activities are being managed by angel groups (Colin Mason, Botelho, & Zygmunt, 2017). Through this, the investments could be documented, just like using associations of national angels. Business angels have dominated the preliminary stages of investment as this evidence is sure about speculative estimates done previously. The network of the Pakistan business angels shows that business angels are ready to invest in the country according to their affordability and preferences. There is no fixed rule about the minimum and maximum amount of investment and every individual sets a fixed amount of investment according to their capability. Nowadays, angel investors are increasing their investment sphere worldwide (Mason & Harrison, 2015).

Investors mostly rely on their relationships and less formal techniques to select ventures for investments. Most importantly, they adopt herding behaviours when they intend to make any investment decisions. Herding behaviour occurs when nearly all business angels select the same investment criteria by considered by other investors without rationality. One business angel takes guidance from the procedure of another business angel's investment criteria. According to Fisch (2019), this type of behaviour occurs due to the reason that managers ignore private information to maintain their reputation and go for imitation of other's procedures. Due to this reason, the procedure for investment rejection becomes the same for most of the business angels which lead to a higher number of rejections of investment opportunities. While investors are sure that they are more rational and getting information more easily, they tend towards excessive confidence and herding behaviour (Prohorovs, Fainglozs, & Solesvik, 2019)

Angel investors are mostly converting into groups, so their financial capacity increases, consequently, they make large investments as compared to investments made individually (Mason, Botelho, & Harrison, 2013; Mason & Harrison, 2015). Business angels prefer to invest in businesses that are innovative, involve more technology, and have more chances of growth. Therefore, the Government emphasises on angels to support new ventures (Firms, 2011; Robson, Wijbenga, Parker, & Mason,

2009). If we want to know how the market works, it is important to create more in-depth understanding about the participants of angel investment (angel investors, entrepreneurs, people who make policy, advisors, and potential angel investors) to know the worth of angel investment. The critical issue in this regard is the decision of angel investors because they reject a lot of deals of investments. According to a study conducted in Canada (Haines Jr, Madill, & Riding, 2003), angel investors reject investment opportunities one out of forty of deals presented, 73% deal are rejected on the bases of first impression of ventures, 16% at the screening stage, and 6% at the stage of due diligence, subsequently only 3% deals are accepted.

According to a study conducted in the UK by Pedchenko, Strilec, Kolisnyk, Dykha, and Frolov (2018), angel investors affirm that from all proposals, only 30% go beyond the screening stage and the percentage of attracted proposals is less than 3%. According to Geibel and Yang (2018), in Quebec, a group of angel investors accepted that only 2.4% investment opportunities, while (Tenca, Croce, & Ughetto, 2018) noted that only 4% proposals presented to the Italian angel group became successful in screening stages. The high percentage of rejection investment deals induces people to do more research to know the criteria of angel investors so that the factors that cause rejection can be mitigated. Research shows that those proposals which pass the screening stage have more chances of acceptance at further stages, so emphasis is being changed with the passage of time (Brush, Edelman, & Manolova, 2012; Haines Jr et al., 2003; Maxwell, Jeffrey, & Lévesque, 2011; Mitteness, Baucus, & Sudek, 2012; Paul, Whittam, & Johnston, 2003). However, these studies omitted the reasons for rejection of investment opportunities. Although Feeney, Haines Jr, and Riding (1999) noted some reasons for the investment rejection, these reasons show only a small image of rejection reasons. Therefore, the focus should be on rejection reasons because these are most important for entrepreneurs. As compared to the previous literature, this article contributes specifically about rejection reasons. Primarily, a few major issues have been observed inn this essence which include: what are the reasons for which angel investors reject investment opportunities?; Is there a single deal killer, if not then how many reasons are proposed by angel investors?; Whether angel investors reject investment due to the same reasons, or is there a diversity of views? And lastly, to what extent do the personal characteristics of angel investors cause a deal killer?

## **LITERATURE REVIEW**

There is an extensive research conducted in different countries to find out the BAs criteria for investment opportunities based on questionnaire surveys, and by enlisting different factors (White & Dumay, 2017). The actual style of the questions differs; for example, business angels make investments in businesses that close the equity gap and also provide guidance and support to their investee companies. Brettel (2003), asked for factors which are considered, inducing business angels, and making informed investment decisions. In this study, we outline a group of informal investors, their criteria of investment and the nature of their referral network. The study supports the results of earlier studies (Haar, Starr, & MacMillan, 1988) and indicate how well BA's prioritize their criteria for investment (Sudek, 2006).

Many of the researchers consider the angel's investment criteria as a stepwise process. In the early screening stage, it is important to consider what the business agency is about (Mason et al., 2017). On the other hand, according to Prohorovs et al. (2019), angel investors are much more concerned about their contribution to the business than their financial contribution. Some researchers focused on the decision stage to consider the assessment criteria of business angels as highly important in this regard, much importance is given to the abilities and track record of angel investors for the investment process (Feeney et al., 1999; Mason & Harrison, 1996). While coming close towards a decision, angel investors find it difficult to balance between risk and reward. It might be possible that expected results are not as same as our actual results, then how could anyone compare such type of risk with predicted returns? According to Payne, Bettman, and Johnson (1992), an angel investor may face a problem that includes clash, ambiguity, and complications. The clash reflects upon the larger facts of the decision. While on the other hand, ambiguity may arise where provoking doubts about the abilities of entrepreneurs' business abilities evolve. Lastly, the complication problem surfaces when the investment opportunities available will be more than one or the member of investment association has different opinions about the commercial feasibility of the business plan. The prediction of the angel investor about the abilities of the entrepreneur include assessment of the entrepreneurs about the strategies that are used for marketing (Mason et al., 2017), and also the estimated financial values of the business (Franić & Drnovšek, 2019). The angel's needs and requirements connected to the investment opportunity

should be settled with the entrepreneur's requirements as an ultimate decision (Block, Fisch, Vismara, & Andres, 2019).

It is reported that some informal investors also directly invest in unlisted companies where they had no prior familiar or formal networks (Reitan & Sorheim, 2000). Some studies based on interviews explored the reasons that influence business angels to invest in an opportunity and asked for what the factors that influence them to invest in the chosen firm (Feeney et al., 1999). The justifications that prompt investors to reject opportunities are not simply the inverse of reasons that prompt them to invest. However, the findings indicate that an angel group's importance is to increase the investment sphere. Tuomi and Harrison (2017) have explored how BAs undertake the decision-making process, observing how it differs from others. There is an evidence available that angel investors not just remain calm with their financial contributions, but they also concern about after investment decisions; about their effective participation based on their skills, abilities and prior experience, to add some value to the business (Mason et al., 2017). The angel investors who have enough finance needs not to wait for perusing other opportunities unless the prior investments give rewards but the angel investor's experience with one firm advocates him about investing in further consequent opportunities.

### **Evaluation of Investment Opportunities**

Tenca et al. (2018) suggest some essential points about the evaluation of investment criteria. It is observed that when angel investors come to know about an investment opportunity, their first question is to check how good that plan meets their investment criteria. This criterion may involve knowledge of the entrepreneur about the market, finance required for investment, and maybe the location of the proposed business (Kafeshani, Rezvani, Chitsazan, & Kazemi, 2018). Business angels thus quickly screen out what plans fall under their criteria. This quick assessment is to decide if the proposed plan is valuable enough to spend time for its further assessment (Pedchenko et al., 2018). Angel investors beforehand develop their mind due to their prior experiences. Therefore, they try to find rejection reasons; these are called "three strikes, and you're out" (Mason & Rogers, 1996; Mason & Rogers, 1997). According to Mason et al. (2017), angel investors look for a little flaw to reject investment opportunity, but it is strongly believed that rejection is not based on a single typical deal-killer, rather it is comprised of multiple reasons

(Pedchenko et al., 2018). At this stage, product and monetary factors are not as important as the importance of market and abilities of an entrepreneur. There is no doubt that angel investors always show reservations about financial projections for the new businesses. However, they want to see the potential of a return on investment and the purpose for which they are investing their money. Some investors will be stretchy and want to compensate it as a criterion but others will see it as non-compensatory (Kafeshani et al., 2018).

Angel investors first screen out specific opportunities so that they spend time on such opportunities that have some capacity for financial returns. Besides this, there are also some techniques to evaluate the business plan. Angel investors go through the details of the whole business plan, the commercial values, see the locations, using their special references to collect better information about the market and more than this. The most active part of the process is to conduct a formal or informal meeting to know about owners personally (Bessière, Stephany, & Wirtz, 2019). There might be telephone calls, special summits, documentation, queries, enquiries, and questions (Argerich & Cruz-Cázares, 2017). It is also observed that many angel investors use their intuitive feelings and perceptions to decide on investment rather than implementing the whole official procedure (Block, Fisch, Obschonka, & Sandner, 2019). Angel investors focus on entrepreneurs at this point, concentrating on the requirements, personal references, trustworthiness, cultural, reliability, and frankness (Geibel & Yang, 2018).

### **Rationale for Rejection**

They may be willing to trade off financial returns if they know the products are socially beneficial. It is also important to note that most BAs undertake inadequate research and due diligence before investing and spend fairly little time on discussion and negotiation (Mason & Harrison, 1996), making their assessments more on “feeling than analysis” (Mason et al., 2017). Although the qualitative study explored the significance of motivation, integrity, and competence of the entrepreneur (Pedchenko et al., 2018), there are slightly fewer suggestions about the rejection of investment opportunities; as it is a subjective matter. However, mostly, it is accepted that the investment opportunities are rejected due to the deficiencies of entrepreneurs. Croce, Tenca, and Ughetto (2017) noted that 80% reasons of rejections related to the angel’s lack of confidence upon managerial skills of principals and due to their typical deal killer;



including poor personal chemistry, absence of belief, hopelessness, irrational expectations, absence of eagerness to share possession and accept the involvement by the venture capitalist (Franić & Drnovšek, 2019). The failings of an opportunity and the appropriate traits of an opportunity, while overlying is not similar to others. The primary deal killer is poor management rather than the ability of management, irrespective of its importance. In its place, angels mostly emphasize the opportunity that is growing and not seeing the skills of the entrepreneur. It is not just the opposite of poor management to enable the potential of the business (White & Dumay, 2017). When opportunities come, their investment criteria change according to the different stages of the investment process (Croce, Tenca, & Ughetto, 2016; Feeney et al., 1999; Riding, Duxbury, & Haines Jr, 1995). It is possible that angel investors reject a business plan just because the return expected is not enough according to their requirements. There are also chances that business angels reject investment opportunities due to the high risk expected. The business angel's assessment risk is the possibility of failure to succeed. The risk might include technology risk, peoples' risk, or financial risk.

Many past studies have found that BAs' decision about the rejection of investment is based on managerial risk. They study the characteristics, abilities and skills of entrepreneurs team members properly to assess whether they are capable because the current behaviour of entrepreneurs may predict their future behaviour (White & Dumay, 2017). The appearance of unnecessary characteristics of entrepreneurs shows their bad decisions in future, which might reduce their chances of getting investment. It is understood just as an expression of overconfidence, which increases regulatory risk. Another important reason for rejection is unnecessary relationship risk, due to which an entrepreneur will likely to put his interest over and above the interest of an angel investor. BAs judge this risk by evaluating the expression of trust from the heretical behaviours of entrepreneurs, which may decrease the assurance of relationship and will increase the insight about excessive relationship risk. It can happen due to the lack of trust-building behaviours or due to the extravagant trust-breaking behaviours. Trust-building behaviours can be increased by showing his control upon trust-breaking behaviours. Moreover, there is a difference between trust-breaking and trust violence. In trust violence, the person intends to be involved, while in the trust-breaking behaviour, the intent of the person is not to be involved (Croce et al., 2017). Investment

opportunities are mostly affected by the source of investment opportunity, whether they should proceed further or not. The opportunity that comes with referrals keeps fewer chances of rejection as compared to the opportunity that comes from an unfamiliar source.

### **Rejection at Different Stages**

The business angels that are experienced look carefully at each stage to make their decision better and to assess the investment opportunity efficiently (Payne, Bettman, & Johnson, 1988). But some researchers are of the view that at a later stage, angel investors need more cognitive power to evaluate investment opportunities because some opportunities remain under consideration. In the early stages, business angels mostly use non-compensatory techniques, where one flaw is enough to reject investment opportunities (Maxwell et al., 2011). If business angels in the start evaluate that the return would not be enough, then they might reject such a business plan. Return of business angels is calculated as the amount they would receive at the end when they can exit, divided by the initial investment by the business angel. Angel investors mostly rely on referrals from familiar people because in this way, the people who refer proposal, their credibility might be at risk. Referrals from familiar venture capital funds are more likely to pass through a screening stage (Sun et al., 2016). After this, they see whether the proposal matches with their knowledge and criteria (Mason & Rogers, 1997; Mitteness et al., 2012). After the screening stage, the criteria become easier and the chances of proposal acceptance increases. According to Mitteness et al. (2012), the significance of entrepreneur matters considerably at the screening stage, but when angel consider whether he should move towards the due diligence, its importance declines. It is also important that at the screening stage, angels mostly rely on computable criteria but after increasing analysis, it depends on less computable criteria, such as the passion and commitment of entrepreneur and their credibility (Brush et al., 2012). The opportunities that do not pass through screening stage, are mostly due to accumulation of lacking factors, Mason et al. (2017) called it a “three strikes & you are out” approach but Mason and Harrison (1996), reported that if opportunities fail at later stages, it is due to one deal killer.

### **Angel’s Tough Criteria**

Due to the agency problems, angels put great emphasis on entrepreneur related to the tough criteria and typical deal killer. There are two reasons: first, according to agency theory, there might be a goal conflict between

principal and agent because in this case, the agent (entrepreneur) may adopt opportunistic behaviour that may damage the financial interest of the angel investor. According to Landström (1992), there is no such opportunistic behaviour between these two parties. But their relationship mostly relies on interactive trust (Kelly, 2007). Secondly, there are information irregularities; either information is so expensive or difficult to understand, or even unavailable. In this situation, for an angel, it is tough to know the competencies of the entrepreneur or may the agent misrepresent himself in front of an angel investor, the whole risk is on the angel's shoulder. To mitigate this risk, angel investors directly involve with their investee firms (Levratto, Tessier, & Fonrouge, 2018). Besides this, the background of the entrepreneurs' matter. In short, the agency problem is reflected due to the angel's focus on choosing the right entrepreneur (Hsu, Haynie, Simmons, & McKelvie, 2014). According to Tuomi and Harrison (2017), angel investors focus on certain points: they make fewer investments as compared to venture capitalists so they do not focus on more analysis, but they mostly rely on the entrepreneur to manage market risk. As a result of this criterion, they focus on agency problem by emphasizing on finding a trustworthy and competent person.

### **The Impact of Angel's Individualities**

One of the major issues is to find out how BAs differ in the evaluation of investment opportunities. As the angel investors are human beings with different minds, their differences in decision making may be due to the heterogeneity of human capital. According to Grilli (2019), decision-making standards are related to the individual's minds and may differ according to their assessments about the new venture. The industry experiences of different angel investors can have strong effects on their decisions about funding opportunities (Hoyos-Iruarrizaga, Fernández-Sainz, & Saiz-Santos, 2017). The differences in their requirements do not seem to be large enough because mostly they follow shared experiences. Most of the BAs share their experience with other BAs, and those requirements become selection standards; due to which, the chances of different opinions are less.

### **RESEARCH METHODOLOGY**

The main purpose of this research was to find the correspondent responses toward the business angel's rejection criteria of investment opportunities. For this purpose, the philosophy used in this study is interpretivism (there is interference in research data or things), and

inductive approach is applied to access the problem and provide a solution, as the research is started from specific and made general. The method used in this research is qualitative related to the subjective thoughts of respondents. The nature of the study is analytical in which the earlier research was conducted in different country business angels, and this research is conducted on Pakistan's business angels. The data was collected at one time from multiple respondents.

To fulfil the research purpose, all the business angels of Pakistan were targeted. This sector is related to the services of business angels toward entrepreneurs and venture capitalists. The reason for choosing this sector is that this sector has much expansion today, and they are further moving towards growth, moreover it is a vibrant sector as these business angels have invested in almost 50 industries in Pakistan. The researchers had known chances to select the sampling because only registered BAs in Pakistan business angels' list were chosen. For this purpose, a systematic sampling technique was adopted. For qualitative research, no predefined sample size is required. The procedure to use data collection was interviews. Interviews with 19 business angels that were listed on the Pakistan business angels list were conducted

The first source was face to face interviews with ten business angels based in Pakistan undertaken during the first quarter of 2017. The second source was phone calls and email interviews with nine angels based in Pakistan undertaken during the second quarter of 2017. The participants in the interview survey were mostly middle-aged (average age 48 years), and 90% of the respondents were male participants who had a university degree, whereas, 50% had a professional qualification. Remaining 10 % were female participants. The questions were adapted from the previous research of (Mason et al., 2017) and modified in the local context. For analysis, NVivo software was used as the analytical tool. The frequency of the word, matrix query and coding query through the NVivo software were checked. Under the ethical protocol, permission was sought from the authors through e-mail to use their questions in this research study. It was decided that the current authors will be responsible for business angels' confidentiality in the current research.

### **Data Analysis**

The data for this study is collected by two sources. The first one is face to face interviews from 10 angel investors, and the second source is data

collected from 9 angels through phone calls and emails. This analysis shows that on average, the age of angel investors was 34 years, which means, the angel investors were mostly young people and most importantly, all investors were men. The angel investors believed that to become an angel investor age is not important, but it should be at least 18 years so that a person is mature enough to make a good decision. In the research sample, the least aged person was 27 years old, and the person who was the highest age was 42 years old. They were all energetic, and they respond to the authors appropriately.

Analysis about qualification in which it is observed that 90% of the investors hold a university degree and most of them did MBA, but all of them were with the same view that for this purpose, qualification is not necessary. But they affirmed that they should know the market and should have experience about how to judge the behaviours of entrepreneurs to evaluate whether they have certain capabilities, or they are exaggerating. It does not mean that qualification does not give them benefits. but they mostly decide investment according to their experience and gut feelings. Some of the investors hold a professional degree relating to business investments. The investors on aggregate entertained 152 investments and on average entertained eight investment opportunities, and by average, they have been involved in investment for almost seven years.

In the past, angel investors were not involved in groups, but nowadays, they prefer to join a group so that they can participate in big investments. For new ventures, it is a good advantage because the businesses that require a huge amount of money can procure it easily, however they must prove that they are capable of getting investment. The number of business angels who join BA groups is increasing day by day. But in Pakistan, it is still at a low level as there are a lesser number of angel investors, and mostly they are working alone. Amongst all angel investors, only 34% of the investors engaged in an angel group, and they do so to increase their capacity to invest in big business plans, but 64% of the investors like to invest alone.

Angel investors are the people who are investing in different businesses as they provide investment, so most of the angel investors do not show confidence in many business plans presented. They mostly prefer to modify business plans according to their preferences. BAs have much information about the market and the businesses in which they go for investment. There are sporadic chances that they invest in such businesses

about which they did not know before. It happens when they are strongly convinced by entrepreneurs. They mostly avoid managerial risk, excessive relationship risk, and financial risk. If people come with plans that are rigid and cannot be changed, mostly, such plans are rejected. Therefore, the plans should be flexible that can be altered according to the preferences of business angels.

The analysis also shows the rational decision making of business angels. They carefully observe all points about an investment opportunity, entrepreneurs, premises etc. It should be noted that if they feel that the entrepreneur is not genuine rather trying to exaggerate, does not portray openness, integrity, trustworthiness, and honesty; they do not entertain such business proposals. Mostly, business angels were of the view that rejecting an investment opportunity due to the reason that angel investors dislike a person is completely an irrational decision. They carefully see each and everything about a business plan. If a business plan is attractive and according to their requirements, they entertain such projects because they are mostly concerned about their returns rather than their likeness or dis-likeness. They conduct detailed evaluation criteria to make a choice of a perfect plan that meets their requirements. BAs do not like any unrealistic plans which do not have genuine feasibility, financial projections, and other important things. As they are experienced persons, they can easily identify unrealistic plans. Entrepreneurs should develop each and everything according to the market and should include realistic figures in their business proposals.

The data in the study is coded systematically using an axial coding approach in which the process of development of categories and linkage of subcategories with them is involved. The basic purpose of this technique is to identify how many deal killers were stated and to assess the description of that deal killer. There were two levels of a coding system. The first one is investment criteria, and the second one is comprising on the detail of investment criteria, to know in-depth about the investment rejection reasons. An independent t-test was conducted to compare the means of rejected investments for a particular reason with those investments which were rejected due to any other reason.

### **Reasons for Rejection Investment Opportunities**

Thirty-three deal killers were provided by 19 angel investors. Therefore, averagely 1.7 deal killers were provided by each investor. Most

of the reasons were related to people's factor, and the other factors were related to market, product, finance, and investor interest. There were four types of responses given by investors. Following were the statements extracted from interviews:

1. The first was related to people who were not straight, honest, and trustworthy.
  - You do not trust people if they are not straight forward and trustworthy that is always a worrying situation.
  - It is extremely uncomfortable when people do not tell the truth or tell half-truth and half lie.
  - If they hide some material information, obviously they do meet not satisfactory criteria, but it is also important to learn the motive behind the lack of disclosure. Answering "why" someone does something helps to improve my approach (either about people, due diligence on investments, or reward mechanisms).
  - If I feel any sign of duplicitous behaviour, it is a huge deal killer.
  - If they are open and answer questions without exaggeration, there are many chances of getting an investment of such persons, but the business idea also matters.
2. Angel investors select the persons who are well-informed and competent.
  - If people come here and do not exhibit enough knowledge and understanding about the market on which they are focusing, it would be a deal-killer because if they are not much aware about market or competition, they cannot run a business successfully.
  - I cannot trust a non-professional who engage without payment.
  - I ask some questions according to my experience; if they give answers quickly without searching, it means they are not lying, and they know each and everything, but if I realize that they are lying, I do not invest in their business.
  - As I am investing in different business plans from past 16 years, I have much experience in businesses that are related to my interest. Therefore, in every business plan, I make modifications if I feel any deficiency. It means I do not accept any inflexible proposals.
3. Entrepreneurs should exhibit reality.
  - The purpose of the business plan is to put together the entire thought process. The outcome, or plan, is not important. What I am looking for is if the entrepreneur has understood the need, a

clear solution that is better than the competition, knows how to sell it and what resources it will require.

- I know better about the market and competition, so in case of the wrong valuation, I would prefer to reject such business plan.
- It is not fine to be unrealistic in making a business plan. The business plan should be realistic otherwise I reject such proposals which lead towards any unrealistic information

4. Angel investors find their rapport with entrepreneurs.

- Mostly, I prefer those persons with whom I have personal rapport, but if a business proposal fulfils all my requirements, I would surely invest in such business.
- It is not rational to reject those people that you do not like, but you must be able to have an open conversation constructively.

### **Impact of Personal Characteristics**

Some studies suggest that the personal characteristics of business angels can affect their criteria of investment, but according to this study, the personal characteristics of angel investors do not affect their investment criteria. One reason is that this study includes all experienced and professional persons for interviews. They chose rational decision making; therefore, their values and traits do not affect investment criteria.

## **DISCUSSION & CONCLUSION**

### **Discussion**

Most of the investment opportunities that business angels receive are rejected. This paper is particularly extracting the points about what are the criteria of investment of business angels and why business angels reject most of the investment opportunities. This study provides almost all the reasons that occur during the decision process of angel investors due to which proposals are rejected. New ventures can benefit from avoiding those reasons. According to Thiault et al. (2018), it is human nature that when he feels any decision complicated, he converts that decision process into small stages and makes small decisions according to those stages. Mason et al. (2017), also proved that when individuals get complication in the decision-making process, they make it a step by step job to achieve it. That is the reason that angel investors look at investment opportunities at various stages. They spend less time on the screening stage to immediately realise whether this opportunity is good enough to spend more time for detailed investigation. Most of the investment opportunities



are rejected in the initial stage, and less are rejected in the next stages. They receive several investment opportunities, and most of them are rejected due to which they develop a negative perception in their mind about every new opportunity. Therefore, they try to find faults to reject opportunities. New ventures should beforehand complete all their requirements so that business angels cannot get any chance to reject it.

### **CONCLUSION**

Business angels are the main source of funding for new ventures. They provide resources and valuable information to which entrepreneurs use to make their businesses successful. They receive multiple investment opportunities, but most of them do not meet their requirements due to which they reject those investment opportunities. This study guides the selection criteria of business angels and what are the reasons due to which they reject most of the opportunities. In this study, a sample of 19 business angels was selected from Pakistan, and one criterion was adopted for selection of the sample, and that was to add only registered angel investors. The data was collected through interviews. Ten interviews were conducted face to face while the remaining nine were through phone calls and emails. Substantial research studies are available that elaborate the investment criteria of business angels, but very few are particular to rejection reasons. According to White and Dumay (2017), it is illogical not to refer to rejection reasons with investment criteria of business angels. This paper elaborates many reasons for rejection, but it is found that entrepreneurs are the main reason of rejection of investment opportunities when they are not experienced, trustworthy, straightforward, realistic (particularly about financial projections), honest, and believable. Angel investors make investments based on experience; therefore, if they feel any dishonesty, they reject that investment plan. It shows that most of the investment opportunities are rejected due to one or two reasons only, and most opportunities are rejected at the first stage. If investments pass the initial stage, they are less likely to be rejected from that investment. However, there is no association between angel characteristics and their decision criteria about rejection opportunities. That is because the sample consists only of experienced business angels. Therefore, we can argue that their approach is differentiated according to their earlier experiences. Besides this, the shared experience of angel investors with other investors makes a standard, and most of the angel investors then make decisions according to that shared experience. Most importantly, their characteristics

differences do not differentiate their investment decisions.

In Pakistan, business angels do not have any particular criteria for the minimum and maximum amount of investment. They take this decision according to their affordability and attractiveness of business and entrepreneurs. In this process, affordability matters considerably, thus many investors nowadays prefer making groups to enhance their financial position. According to Tenca et al. (2018), the increasing number of business angels are giving rise to the practising community. Most of the business angels are linked with each other, and their continuous engagement in investment opportunities provide them ideas, experience, repetitive tools, stories, and methods that become standard of investment for other business angels. These experiences are shared with other members (Bonini et al., 2018). Angel investors are personal in this sense that they reject investment opportunities not due to their characteristics but due to characteristics of entrepreneurs. The main deal killer is the lack of skills, abilities and knowledge that is required for that particular business. Angel investors possibly try to avoid managerial risks that is why they seek people that are honest, professional, trustworthy, and straight forward. Besides this, if they feel less probability of success, they do not step forward to consider those business plans.

### **RESEARCH IMPLICATIONS**

Most business angels take action according to the standards that are built due to continuous engagement in experiencing investments and sharing experiences. They also post some requirements on their websites as standard for exciting investment opportunities. This study guides entrepreneurs to create those characteristics (trustworthiness, confidence, straight forward, experience, realistic, proper analysis etc.) that are particularly required to get investment. This study has specifically mentioned approximately all the reasons due to which angel investors reject an investment opportunity. It is most important that BAs look for those persons to whom they already know. Therefore, entrepreneurs should include such persons in their team who have a convincing profile, knowledge about the market, and knowledge about business.

### **STUDY LIMITATIONS & RECOMMENDATIONS FOR FUTURE RESEARCH**

There are some limitations in this study, as the sample size is small so the results cannot be generalized in other countries. The future researchers

could select a large sample size to make it more appropriate. This study has included only experienced business angels, but the future researchers can select both experienced and non-experienced business angels and compare their investment criteria regarding rejection reasons. This study is particularly conducted in one country. Future researchers can conduct this study in more than one country at a time to make it closer to generalization. Moreover, in this study, only one method of collection of data is used and also collected it one time. Future researchers can collect data in more than one way and more than once to compare the results.

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