Journal of Business and Tourism

Editorial Board

Patron in Chief: Vice Chancellor, Abdul Wali Khan University, Mardan
Chief Editor: Prof. Dr. Qadar Bakhsh Baloch
Editor: Dr. Shahid Jan Kakakhel
Deputy Editors: Dr. Jehangir

Associate Editors: Dr. Adnan Khattak
Mr. Ihtesham Khan
Mr. Saqib Shahzad

Editorial Advisory Board

Dr. Shumaila Y. Yousafzai
Cardiff Business School, College of Arts, Humanities & Social Sciences, UK

Dr. Amjad Khan
Northwestern Michigan College, U.S.A.

Dr. Sang-Ryong CHA
University of Nagasaki, Japan

Prof. Dr. Samina Khalil
Director, Applied Economics Research Centre, University of Karachi

Prof. Dr. Dileep Kumar
University Institute for International and European Studies, Malaysia

Dr. Amira Khattak
College of Business Administration, Prince Sultan University, Saudi Arabia

Dr. Mansoor Akbar Kundi
Former Vice Chancellor, Gomal University, D.I. Khan

Dr. Jan Muhammad
Director, Institute of Management studies, University of Balochistan

Dr. Saleem Ullah Khan
Director Academics, Abdul Wali Khan University, Mardan

Dr. M. Shaukat Malik
Director, Alfalah Institute of Banking and Finance, Bahauddin Zakariya University, Multan

Dr. Zeeshan Khattak
Director, Institute of Business Studies, KUST, Kohat
<table>
<thead>
<tr>
<th>S.NO</th>
<th>Title of Research Article</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Impact of Relationship Marketing on Customer Loyalty in Banking Sector of Pakistan</td>
<td>1 – 13</td>
</tr>
<tr>
<td></td>
<td>Nouman Saeed and Naimat Ullah Khan</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>The Impact of Investors Overconfidence on Trading Activities and Stock Returns in Pakistan Stock Exchange</td>
<td>14 – 31</td>
</tr>
<tr>
<td></td>
<td>Muhammad Tahir Khan, Ghayyur Qadir Shah Raza Khan and Abdul Latif</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Big Five Personality Characteristics and Its Effect on Task Conflict: A Case Study of Telecom Companies</td>
<td>32 – 40</td>
</tr>
<tr>
<td></td>
<td>Sagib Shahzad, Ihtesham Khan and Dr. Jehangir</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Evaluation of Performance Appraisal System in Public Sector Universities: A Critical Case of a Public Sector Institution (PSI)</td>
<td>41- 60</td>
</tr>
<tr>
<td></td>
<td>Rabia Inam Khan, Muhammad Nisar Khan and Muhammad Ilyas</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Impact of Capacity Building on Emotional Intelligence and Counterproductive Work Behaviors: Evidence from FATA Secretariat, Pakistan</td>
<td>61 – 75</td>
</tr>
<tr>
<td></td>
<td>Dr. Qadar Bakhsh Baloch, Sheikh Raheel Manzoor and Farooq Hussain</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Measuring the Effectiveness and Validity of Employees Annual Confidential Report (ACR) and Its Applicability: A Case Study of Abdul Wali Khan University, Mardan</td>
<td>76 – 92</td>
</tr>
<tr>
<td></td>
<td>Ihtesham Khan, Dr. Adnan Ahmad and Dr. Shahid Jan</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>The Relationship of Deposits with Profit Rates and Advances with Mark-up Rates in Pakistan</td>
<td>93 – 101</td>
</tr>
<tr>
<td></td>
<td>Dr. Said Shah and Safdar Hussian Tahir</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Antecedents and Outcomes of Corporate Reputation Customer-based Analysis</td>
<td>102 – 112</td>
</tr>
<tr>
<td></td>
<td>Muhammad Tufail, Amir Ishaque and Muhammad Irfan</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Corporate Governance Factors Drive Firms’ Earning Per Share: Evidence from Pakistan Stock Exchange Listed Companies</td>
<td>113 – 122</td>
</tr>
<tr>
<td></td>
<td>Yasir Khan, Muhammad Amjad, Dr. Saima Batool and Obaid Ullah Bashir</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>The Impact of Share Pricing on Firm Performance: Empirical Evidence from Pakistan</td>
<td>123 – 127</td>
</tr>
<tr>
<td></td>
<td>Muhammad Ilyas, Dr. Shahid Jan and Muhammad Nisar Khan</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Performance of Banks in Pakistan based on determinants of Profitability</td>
<td>128 - 137</td>
</tr>
<tr>
<td></td>
<td>Aqsa Siddiq, Khursheed Iqbal and Shams ur Rehman</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Impact of Interest Rate on Stock Prices Volatility: A Case of Textile Sector of Karachi Stock Exchange</td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Muhammad Sohail Khalil, Muhammad Aamir Nadeem and Muhammad Tahir Khan</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>The Effect of Personality Traits on Organizational Commitment: Moderating Role of Distributive Justice: A Case of Public Sector Female Colleges of District Peshawar</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Imran Saeed, Ghayyur Qadir and Saif Ullah Khan</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Risk Management and Performance of Conventional Banks in Pakistan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Alam Rehman, Yasir Khan and Arif Hussain</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>A Study of Practices and Outcomes of HRM in Pakistan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dr. Saima Batool, Yasir Khan, Muhammad Tahir and Muhammad Idrees</td>
<td></td>
</tr>
</tbody>
</table>
Journal of Business and Tourism

Aims and Scope

Journal of Business & Tourism (JBT) is a double peer-reviewed, multidisciplinary research journal of international outlook. The journal publishes papers of an empirical or conceptual nature as well as literature reviews of a cross disciplinary nature on six monthly basis. JBT provides a platform for academicians, business professionals, and administrator’s scholarly works of intellectual and professional concerns on both theoretical and practical issues in the areas of business and public administration, human resource management, finance, economics, marketing, management, human and organizational psychology, corporate governance, Corporate Social Responsibility (CSR) and public health management. JBT, being multidisciplinary in scope and interdisciplinary in contents, seeks to publish innovative, impactful and cutting edge research that breaks the rules of thumb and sets new grounds in the real world of business management and administrative sciences.

Review Process: On receipt of a research article the process of Triple (blind) peer review shall be completed with in 8-10 weeks (maximum) and author shall be informed about the acceptance or otherwise about his/ her paper accordingly. The review process shall include following steps in sequential order:

- All manuscripts shall be initially scrutinized by the Chief Editor/ Editor to gauge its general worth and pass through plagiarism test on plagiarism software.
- Paper that withstands initial scrutiny and plagiarism test will be forwarded to three reviewers for blind reviews. The reviewers’ panel shall include; two Pakistan based scholars and one from abroad. Two positive review reports out of three will be mandatory for publication of the article in JBT.
- All efforts shall be made to expedite the review process as quickly as possible, without compromising set standards of quality, originality, academic significance and socio-administrative relevance. The management of the journal will share reviewer’s comments with authors within 8-10 weeks and seek modified copy of the manuscript in line with the reviewer’s comments/ suggestions. The final version of the accepted manuscript will be published in the immediate next issue, subject to the availability of space.

Publication and Submission of Articles

JBT is published bi-annually; its first volume was published in 2015 by Department of Management Sciences, Abdul Wali Khan University, Mardan and is regularly published in volume with two issues i.e January –June and July-December. Articles must be submitted on editor_jbt@awkum.edu.pk.

Address

Journal of Business and Tourism
Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan

Phone: +92-937-9230657-8
Web: http://www.awkum.edu.pk/jbt

Copyright: JBT will retain copy rights of all the manuscripts published in any of its number, however, the Chief Editor or Editor may allow its copy or use in any shape on request. Submission of a manuscript implies; that the work described has not been published before (except in the form of an abstract or as part of a published lecture, or thesis) that it is not under consideration for publication elsewhere; that if and when the manuscript is accepted for publication, the authors agree to automatic transfer of the copyright to the publisher.

Copyrights © 2016, Abdul Wali Khan University, Mardan. All rights reserved

First Print: Jan- June 2015, Mardan, Pakistan
Impact of Relationship Marketing on Customer Loyalty in Banking Sector of Pakistan

NOUMAN SAEED
Post-Graduate Scholar, Institute of Management Studies
University of Peshawar Pakistan

DR. NAIMAT ULLAH KHAN
Assistant Professor, Institute of Management Studies
University of Peshawar Pakistan.
naimatims@yahoo.com

Abstract

This study is a contribution towards marketing literature by analyzing the impact of Relationship Marketing (RM) on Customer Loyalty. Every business organization tries to attract and retain customers for a longer period of time. In recent years an intense competition in banking sector of Pakistan is witnessed as the industry has stretched and become very competitive, where retaining customers in long run become important for every bank. Relationship marketing emphasizes on the continuity of long term relationship with the patrons. Numerous marketing strategies have been employed by banking sector to increase customer base, reduce turnover and to spread positive word of mouth of product and services. The aim of this study is to investigate the impact of relationship marketing practices such as (Trust, Commitment, Communication, Competence and Customer Satisfaction) on customer loyalty in Banking Sector of Pakistan. For this purpose, data is collected with the help of 150 questionnaires across Pakistan. Statistical analysis is performed on the data using multiple regression analysis and reliability test. The results of the study show that all the five constructs of relationship marketing (mentioned above) have significant and positive relationship with customer loyalty. The factors are proved to be significant drivers of customer loyalty in banking sector of Pakistan. The study recommends that for retaining long-run customer loyalty, banks should consider relationship marketing as a core strategy. Hence, relationship marketing is important for banks to survive and excel in current intense competition.

Key Words: Relationship Marketing, Customer Loyalty, Banking Industry, Pakistan

1. Introduction

In past few decades the banking and financial industry has expanded and became very competitive around the globe (especially Pakistan). The product and services offered to customers are rationally uniform. There are enormous challenges for the banking sector to get a competitive advantage among the competitors as sophisticated technologies are reshaping the whole banking industry (Ghaziri, 1998). This can be accomplished through customer loyalty by establishing a long term relationship with the customers, as it is seen as the foremost factor in gaining market share and establishing a persistent competitive advantage among the highly competitive financial industry (Afsar et al., 2010). RM is an enduring process concerned with attracting new customers while retaining existing ones. RM significantly helps service based industry to give superior services to customers. Being a service sector, banking
industry focuses on providing services to customers with the help of direct marketing and internal marketing. Thus RM is about engagement of customers in long term so as to achieve efficiency in lowering costs and increasing sales (Betty et al., 2012). Similarly Grönroos (1994) defined RM as the basic approach employed by the organizations to establish, sustain and enhance profitable relationship with the patrons while ensuring profitability for both parties involved. Carson et al. (2004) defined RM as activities employed by banks to attract, retain and build long term profitable relationship with the clients. Customer retention means zero defections of high value clients or in simple words no switching. An enduring relationship helps in creating trust and a sense of security among the customers.

According to Gummesson (2008) RM is a new theory based upon relationships that can be blended into traditional marketing practices to produce better results. RM has a positive and direct relationship with customer's loyalty (Shahram et al., 2011). Due to head-on competition, enhanced level of customer loyalty can be achieved through long term relationship (Heffernan et al., 2008). RM is customer focused approach in which an organization established a long term connection with existing and perspective customers (Morgan & Hunt, 1994). Such a Customer centered strategy should be align with overall aim of improving market productivity and creating profitable relation for the parties involved (Paratiyar et al., 2001). The banking industry across the world is revolutionized and reshaped in terms of technology, intense competition, deregulations and growth in primary product and services demand (Bloemer & Ruyteranl, 1998). Customers are considered as life line of any business so in order to retain customers for long term, marketers attempted several marketing strategies (Meiden, 1996). Previous studies indicate that retaining customers offer a more persistent and sustainable competitive advantage over attracting new ones for a firm. The overall aim of this study is to analyze relationship between RM practices and customer loyalty in banking sector. The research suggests different ways to improve quality of service to attract new customers and retain old customers. For this purpose, the study focuses on two questions. (i) Is there any relationship between RM practices and customer loyalty in banking industry? And (ii) Which of the RM practice has more impact on customer loyalty?

2. Literature Review

According to Gummesson (2008) RM is a new theory which is based upon relationships that can be blended into traditional marketing practices to produce better results. A new paradigm of marketing and a new focus at the vanguard of service marketing practices. In last two decades RM emerged as a stimulus in the field of marketing, primarily focuses on building long-term relationships with the customers and other stakeholders of business. Customer RM is quickly advancing to become an essential part of Marketing Management Function (Aaltonen, 2004). Carson et al. (2004) defined RM as activities employed by an organization to attract, retain and build long term relationship with the clients. RM is an enduring process concerned with attracting new customers and retaining existing consumers. RM helps service based industry significantly so as to give superior services to customers. RM and banking industry performance have an affirmative and encouraging relation. Banking industry as a service based industry focus on providing services to customers majorly by direct marketing and internal marketing thus RM is about engagement of customers in long term so as to achieve efficiency in lowering cost while retaining existing ones (Betty et al., 2012).

According to Ismail (2009) RM stresses that relationship is partnerships with focus on social bonding, joint problem solving and cooperation as centering relationships on common goals. Transaction based
marketing situations encompasses a relationship between buyer and seller, such kind of relationship may be narrow in scope and short in duration. While on other hand, relationship developed by RM is long lasting and have more productive outcomes as customer contacts are more frequent and superior service to customers than in transaction marketing (Kotler et al., 2007). RM can be applied at four levels that is technology centered tool of data base marketing, customer retention, customer partnering and at last RM as an integrating everything from database marketing to personalized tailored services, customer loyalty, brand equity and social relationship. RM forms a new level of interaction between the firm and customers (Brodie et al, 1997).

Relationship manager is single point of contact for high net worth clients of retail businesses, to help grow the client financial future update clients regarding their financial need and tailored services according to their needs in order to retain them in long term (commbank.com/careers, 2014). Banking industry is becoming complex, dynamic and aggressive due to radical changes in past few years due to new technologies with low growth in demand, because of lower interest rates and financial crises, deregulation and high competition amongst the financial institutions. Quoting here Government of Pakistan in last decade privatized four out of five big banks operating in country which resulted in increased competition and complexity among them, with increased population of the country and growing economy the increased demand of banking services. Commitment, services quality and customer's satisfaction are important differentiator for gaining customer loyalty and bank success (Bilal, 2010). In this section the most important RM practices are discussed such as Trust, Commitment, Communication, Competence and Customer Satisfaction. Trust is one of the most important practices of RM. Trust can be defined as partner's confidence on integrity of another companion (Morgan et al., 1994). Trust and customer loyalty has affirmative relationship with each other. Abuse of trust may result in customer dissatisfaction (Ndubisi et al., 2005). After trust, commitment is another significant component of building relationship with customers.

Commitment is a worthwhile construct of determining customer loyalty and customer's future buying frequency. Commitment can be defined as a persistent desire to keep long term relationship with customer (Moorman et al., 1992). Communication refers to share and exchange timely information (both formal and informal) between buyers and sellers (Sin et al., 2002). Communication is very important determinant of RM. Retention of customer in long term and customer loyalty demand timely and reliable communication. In this new era of head-on competition and digital world companies cannot excel without it. Interactive communication (two-way) should exist between customer and organization in both before and after sales stages. Communication is all about keeping in touch customers with timely and accurate information (Ndubisi, 2007). Competence is defined as client's perception about the seller's technology and commercial capability (Anderson & Witz, 1989). Customer would more likely to become a loyal customer with organization in long run if the customer have faith upon the competence of organization. Competency and customer loyalty are positively related to each other. Organization having competitive edge is like to have more loyal customers. Customer satisfaction is a frequently used term in marketing. Customer satisfaction refers to the expectations of customer about products and services of a company. Customer satisfaction reduces customer' complaints, retain customers in long run and avoid negative word of mouth about products and services of a company. For achieving customer loyalty customer satisfaction about the desired product and service is must. Because if the client is not happy than it can led to give up of desired services. Unsatisfied customer cannot be engaged in long run. Achieving customer
satisfaction is important practice of relationship marketing. Customer loyalty is persistent, affirmative emotional experience, customer satisfaction and professed value of an experience that includes product and services of a company. Customer loyalty is strong commitment of customer to repurchase frequently and emotional attachment and bond with company (Oliver, 1999). Customer loyalty is all about buyer's commitment and propensity to retain relationship with the seller. Loyal customers are crucial to the success of any business as a small number of loyal customers can result into considerable amount of profitability. Employee motivation and enthusiasm is critical in the RM practices, as employee motivation positively affect customer loyalty, reduced employee resistance and up to mark service can attract and retain customer (Chen & Popovich, 2002).

3. Research Methodology

A general plan to answer questions that have been raised in the study is called research strategy (Saunders et al, 2000). There are four strategies such as case study, survey, action research and experimental strategy that researcher can adopt to carry out research (Taylor et al., 2006). In this study survey technique is used. Survey is common, attractive and widely used because of high distinction in data collected from individuals in organizations in easier way for researcher to make generalizations. Survey strategy in research normally associated with deductive method. It involves gathering large amount of data from population in an economical way. This research is conducted with the help of different ways including postal, online and self-administered questionnaires (Cooper et al., 2003). In this research questionnaire is distributed across selected bank branches. Some questionnaires are distributed through postal services to selected branches. Some are personally administrated in some nearly accessible branches. In addition along with postal and personally administrated questionnaires, online Google forms are used to reach respondents in different geographies in Peshawar region. According to Saunders et al. (2000) sampling can be grouped into two categories: Probability sampling and non-Probability sampling. In this research, non-probability sampling technique is used in which the chances for occurring for all the cases are equal. It is most common type of sampling technique used in survey method. The branches of different banks are chosen randomly, and same number of questionnaires is distributed in each branch. According to Dillman (1994) to get high response rate from respondents the questions are concisely and easily explained. In addition, pilot test of the research instrument is done with the help of filling the questionnaire from 10 respondents that are randomly selected from the targeted population. The questionnaire is distributed among target sample as they are representative of the population of banking sector to meet the requirement of the study (Dillon et al., 1993). The researcher is able to get the response of 150 questionnaires from sample bank giving response rate of 83%.

It is important to mention that the questionnaire is adopted from several studies i.e., Beerli et al (2004); Ghana et al. (2006) and Gyasi et al. (2012). As it is adopted questionnaire, so we assume that there is no issue of validity. First repeated questions are omitted and sequences of questions are altered (the questionnaire is provided in Appendix). Five point Likert scale is used because of small sample size and less time consuming in filling. The questionnaire is divided in many themes i.e., Demographic Questions; Trust Questions; Commitment Questions; Communication Questions; Competence Questions; Satisfaction Questions; Customer loyalty Questions

---

Regression analysis is used for analysis purpose. The regression model is stated as:
Colayat (y) = α + β₁TR + β₂COM + β₃COMT + β₄COMP + β₅SAT + error term
Where, Colayat is dependent variable where mean value is used as proxy for customer loyalty. And independent variables for RM are: TR = Trust; COM = Communication; COMT = Commitment; COMP = Competence; SAT = Satisfaction; E = Error term
In addition, reliability of the various themes is checked with the help of Cronbach Alpha.

4. Results

The questionnaires are first sorted out in order to get clean ones, only adequately filled questionnaire are considered. The data is then coded and analyzed. First, descriptive analysis is calculated followed by reliability test, correlation and regression analysis.

4.1 Demographic Information of Respondents

Demographic information about respondents is provided in Table 1 in terms of percentages and frequency of occurrence.

<table>
<thead>
<tr>
<th>Demographic factor</th>
<th>Item</th>
<th>No Of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>60.00</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>40.00</td>
<td>40%</td>
</tr>
<tr>
<td>Age</td>
<td>18-25</td>
<td>18.00</td>
<td>18%</td>
</tr>
<tr>
<td></td>
<td>26-35</td>
<td>48.00</td>
<td>48%</td>
</tr>
<tr>
<td></td>
<td>36-45</td>
<td>26.00</td>
<td>26%</td>
</tr>
<tr>
<td></td>
<td>45-55</td>
<td>8.00</td>
<td>8%</td>
</tr>
<tr>
<td>Education</td>
<td>Matric</td>
<td>8.00</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>Intermediate</td>
<td>24.00</td>
<td>24%</td>
</tr>
<tr>
<td></td>
<td>Graduate</td>
<td>54.00</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>Post Graduate</td>
<td>12.00</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>Illiterate</td>
<td>2.00</td>
<td>2%</td>
</tr>
<tr>
<td>Occupation</td>
<td>Un Employed</td>
<td>14.00</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Employed</td>
<td>37.00</td>
<td>37%</td>
</tr>
<tr>
<td></td>
<td>Student</td>
<td>40.00</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>Businessman</td>
<td>9.00</td>
<td>9%</td>
</tr>
</tbody>
</table>

Table 4.1 shows demographic data of gender, age and education of the respondents. The sample size is of 100 customers of Habib Bank Limited who have maintained their accounts in 17 branches cross Peshawar region. Male respondents were 60% and female 40%, hence majority of the respondents are male. The male respondent ratio is higher because of Pashtun culture as male is supposed to feed his family. The highest percentages of respondents are from the age group ranging 26-35. The education level of most of respondents is graduate i.e., 54% of total respondents. The level of education shows that bank customers are mostly educated class.
4.2 Reliability and Descriptive Statistics

In the context of this research Cronbach alpha is used to test the reliability of the research instrument. For reliability Cronbach alpha value must be greater than 0.6 (Ahsan et al., 2009). In case of this study all values are higher than 0.6 thus having adequate reliability as shown in Table 2. In addition, Table 2 shows the mean response of five elements (Trust, Communication, Commitment, Competence and Satisfaction). The mean of all elements show an approximately 4 value. This advocates that on average respondents agree that Trust, Communication, Commitment, Competence and Satisfaction are elements of RM of bank. The lowest standard deviation is of commitment (3.91) while highest is of trust (7.59). The lowest standard deviation means that the respondents have more consensuses in responses regarding commitment factor of RM. While the highest value of standard deviation refers that respondents have diverse view about Trust element of RM.

Table 4.2: Reliability and Descriptive Statistics

<table>
<thead>
<tr>
<th>Factor</th>
<th>Cronbach Alpha</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust</td>
<td>0.754</td>
<td>4.01</td>
<td>0.759</td>
</tr>
<tr>
<td>Communication</td>
<td>0.753</td>
<td>4.02</td>
<td>0.722</td>
</tr>
<tr>
<td>Commitment</td>
<td>0.702</td>
<td>3.99</td>
<td>0.391</td>
</tr>
<tr>
<td>Competence</td>
<td>0.722</td>
<td>4.00</td>
<td>0.688</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.773</td>
<td>4.22</td>
<td>0.641</td>
</tr>
</tbody>
</table>

4.3 Correlation Analysis

Correlation Analysis is technique used to measure the strength of relationship between two variables. In case of this research, researcher is interested to measure the degree of association between customer loyalty and independent variables (such as Trust, Commitment, Communication, Competence and satisfaction) to fit a regression model. To how strongly pair of variables is related to each other. Pearson correlation is performed to get the desired results.
In the Table 4.3, correlation is significant at 0.05 levels (2-tailed). In the above matrix Commitment has value of 0.749 which has strong positive correlation with loyalty showing a unit change in commitment has great impact on the loyalty of customer towards a bank. Second most important factor is satisfaction with coefficient value of 0.549; customer satisfaction has high impact on customer loyalty. When customers are satisfied they become loyal customers in long term. Therefore mangers of bank must address the needs and expectations of customers such as by suggesting low interest rates on loans and mortgages, errors free Alternative Delivery Services and comparatively better profit rates on deposits. Once client is satisfied his probability of becoming loyal customer increases (Asfar et al., 2010). Third important RM factor is competence with the coefficient of correlation of 0.517. Bank should provide best technologies and easy access and security to customer deposits and processes. Modern ATM machines, internet and mobile banking with superior quality can attract and retain customers (“Customer Behavior and Loyalty in Retail Banking”). The lowest positive correlation value is 0.465 for Trust factor of RM but highly significant (0.000) as well. The results propose that customer loyalty is strongly and positively correlated with RM practices such as Trust, Communication, Commitment, Competence and Satisfaction.
4.4 Regression Analysis

The table below shows regression analysis to determine the impact of five factor of RM on customer loyalty towards their banks.

**Table 4.4: Regression Analysis Estimated Coefficients of predicted variables**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized coefficients</th>
<th>t-stats</th>
<th>p-value</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Beta</td>
<td>Std.Error</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>1.473</td>
<td>0.234</td>
<td>3.128</td>
<td>0.003</td>
</tr>
<tr>
<td>Trust</td>
<td>0.686</td>
<td>0.057</td>
<td>4.81</td>
<td>0.020</td>
</tr>
<tr>
<td>Communication</td>
<td>0.643</td>
<td>0.058</td>
<td>2.58</td>
<td>0.004</td>
</tr>
<tr>
<td>Commitment</td>
<td>0.672</td>
<td>0.071</td>
<td>2.78</td>
<td>0.003</td>
</tr>
<tr>
<td>Competence</td>
<td>0.623</td>
<td>0.063</td>
<td>3.90</td>
<td>0.012</td>
</tr>
<tr>
<td>Satisfaction</td>
<td>0.631</td>
<td>0.045</td>
<td>3.10</td>
<td>0.180</td>
</tr>
</tbody>
</table>

**Table 4.5: ANOVA**

<table>
<thead>
<tr>
<th>F-Statistics Based on ANOVA</th>
<th>p-value</th>
<th>R-Square</th>
<th>No of observation</th>
</tr>
</thead>
<tbody>
<tr>
<td>41.02</td>
<td>0.000</td>
<td>0.585</td>
<td>150</td>
</tr>
</tbody>
</table>

The F-Statistics of 41.02 with P=0.000 shows that the overall model is significant and the five independent variables significantly explain depend variable of customer loyalty. In addition, R-Square value is 0.585 which shows that five RM practices together explain 58.5% variability in customer loyalty towards bank. Moreover, t-stats give information about the significance of individual independent variable. The results of t-statistics show that all five variables (trust, communication; competence, commitment and satisfaction) are significant at 5% level. ANOVA analysis examines the relationship between the customer loyalty and RM practices. In an effort to estimate how individual factors of RM contributes to customer loyalty in bank, it is documented that trust is prominent driver among five variables towards customer loyalty followed by commitment, communication, competence and
satisfaction respectively. The findings also show that trust, communication, competence and satisfaction have significant relationship with loyalty. Customer loyalty in banking industry is a core issue for managers in their lending products, mortgages and deposit mobilizations. In era of head-on competition among various financial institutions, customer’s retention is vital for survival of banks. In context of this research, study provides empirical evidence within Peshawar Context that five RM practices (Trust, Communication, Commitment, Competence and Satisfaction) have positive impact on customer loyalty (Kelly et al, 2003). The study determines that 58% of RM practices contribute to customer loyalty.

5. Conclusion

The attainment of Customer loyalty in banking industry is core issue for the managers in their portfolio management. In current era of head-on competition among various financial institutions, customer’s retention in long run is vital for the survival for any bank. This paper investigates the impact of RM practices on customer loyalty in banking sector of Pakistan. This study provides empirical evidence that five RM practices (such as Trust, Communication, Commitment, Competence and Satisfaction) have positive impact on customer loyalty (Kelly et al., 2003). It is concluded from the research that all five variables contribute significantly to customer loyalty and confirm positive relationship with customer loyalty in banking sector of Pakistan. The high degree of practices of RM results in more customer loyalty. Loyal customers spread positive word of mouth and are considered to be key drivers of future of banks. Customer loyalty can be formed, shaped, reinforced and retained with RM practices (Anabila et al, 2012). The finding also suggests that if any bank wants to realize a high rate of customer loyalty, RM is to be considered by them as their core strategy; a good investment in RM skills can result in a reasonable yield (Narteh, 2009). The major limitation of this study is time and scope. This research also excluded the central regulatory bank, investment and agriculture banks. The study recommends that future research should imply a larger sample size so the findings can be more generally applicable to the banking industry of Pakistan. Future Research on the subject should go beyond banking industry and include investment and financial service providers.

References


APPENDIX: QUESTIONNAIRE

“Impact of Relationship Marketing on Customer Loyalty”

Dear respondent, this questionnaire is designed to know your opinion related to your loyalty to commercial banks. Your precious time is needed to answer the questions in the following questionnaire which is intended for academic purpose, information should be provided with attention, experience and confidentiality. Your help can play decisive role in completion of this study. Do try all the questions and mark on the respective appropriate box. Your sincere contribution will be very much appreciated.

RESPONDENT’ INFORMATION

a) GENDER: □ Male □ Female

b) Age: □ 18-25 □ 26-35 □ 36-45 □ 46-55 □ 56 and above.

c) Education: □ Matric □ Intermediate □ Graduate □ Post Graduate □ illiterate

d) Occupation: □ Un Employed □ Employed □ Student □ Business person

If others, please mention ____________________________

e) Bank Customer For
□ Less than year □ 1-3 years □ 3-5 year □ More than 5 years

<table>
<thead>
<tr>
<th>Trust</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Has High Integrity</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Has Good will Reputation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consistent in Unique service providing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank is Trust worthy</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commitment</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>The services are provided by the bank at the settled timings to me</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Feel bank is looking out for my interests</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank team understand the exact needs of the customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Fulfill that it promises</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Communication</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff Communicates in Friendly manner</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The required information is delivered and obtained easily</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electronically messages delivered are very supportive</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The bank stay in contact persistently</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Competence

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank ATM machine are user friendly and easily accessible</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank has largest branch network</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Alternate delivery channels are better than other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank services are better than other banks</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Satisfaction

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank completely meets my expectation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank completely meets my expectation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Completely satisfied with all bank services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee Work in Tidy Professional way</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Loyalty

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I intent to use bank services for long time</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Even if another bank provide services at lower cost I will stay with bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I am willing to say positive things to other customer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I will encourage other people to use the bank services.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Impact of Investors Overconfidence on Trading Activities and Stock Returns in Pakistan Stock Exchange

MUHAMMAD TAHIR KHAN
Lecturer, Institute of Business Studies and Leadership
Abdul Wali Khan University Mardan
mtahir@awkum.edu.pk

GHAYYUR QADIR
Lecturer, Institute of Business Studies and Leadership
Abdul Wali Khan University Mardan
ghayyurqadir@awkum.edu.pk

SHAH RAZA KHAN
Iqra National University, Pesahwar

ABDUL LATIF
Demonstrator and PhD Scholar, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
Abdullatif89@gmail.com

Abstract
This study investigates the hypothesis of investor overconfidence that impact stock activity and stock return, using vector auto regressive model. Data observed consist of Monthly and daily returns from PSX 100 index. The results of the study shows that there are specific months in which the variables respond to each other or they are some actions that appears after some interval or else there is no significant relationship of current monthly return to past months volume, volume with volatility in stock returns as it is not increased with increase in volume. And there is no relationship of current monthly volume with previous market returns, Investor overconfidence has negative impact on trading activity as it keep them high and exaggerated level as it is not the real value of the securities and it may harm the investors. The results further marked that immediate past month return has an impact on current trading activity that is denoted from volume of trade.

Keywords: investor overconfidence, stock return, trading activity

1. Introduction
Many events have significant impact on stock exchange and its trading activities such as US stock market crash 1929, Asian crisis 1990,s earthquake of 2005, event of 12 may 2007 in Pakistan, the bullish market in regime of Musharaf 2007 than 2010, and bearish in 2008-09 all these issues have impact on stock activities, prices and behaviolr of investors. Human beings are diverse all over the world and they all act differently according to their knowledge, mental level and other psychological factors in different scenarios of life. And
their various acts are because they are put up with different psychological characteristics, financial, social and economical status including gender. All these factors contribute towards making decision in stock market and decisions are impacted by them as investors and their behavior. This impact some time become positive and some time affect the investors negatively. The negative impact is that people make the same mistake again and again while positive impact is that these psychological factors make them more confident if they have achieved good result. (Barberis and Thaler, 2001). These anomalies are hard to explain, the best way to explain, is to study behavioral finance. Some psychological components that are important and effect trading activity, influence decision making is Past experience, Individual differences, Age, Cognitive biases, Self attributes, Socioeconomic status (SES), Heuristic role, Overconfidence, Gender and Personal belief relevance. Traditional finance theories consist of the view that all investors participating in market are rational. But, now modern finance theories come with different perception that all investors playing role in markets are not rational and they have some characteristics of biases, irrationality and sentiments. The role of stock market in the social and general life of common individual who are participants in stock market is very significant in financial aspects. Since the households see the securities as source of income generating assets.

Theoretically stock market is a source for allocating the income of different participants in different time span in a proper way. Therefore individuals who can bear meager risk should participate to some extent in stock market. Rational investment in securities increases the financial status of household participating in market for long. As per the survey conducted in china the average community takes part in investment markets by only 17.5% (Wang and Liao). The very near results of stock market participation can also be seen in developed countries as in year 2010 America at the rate of 15% survey conducted in 2012 (Bricker et al). The overconfident investors are more likely to participate in stock market (Tian Xia Zhengwai Wang kunpenli) 2013. Distinctive features in behavior and personalities of investors are main characteristic that persuades them to act differently from each other and make decisions in stock market differently and in their routine life as well. For this very purpose behavioral finance keeps them in concentration which affects them in their decision making associated with stock market. Hence concentrating on investors feeling is the key to comprehend the behavior of today's securities exchanges and investors. Getting thorough information of investor feelings by diving into the variables that add to it, evaluating them and how they influence judgment is of foremost significance in the exploration of today investors of stock market. The most intense element in this connection is investors' overconfidence. Overconfidence is when investors think about his personal knowledge and information to be more accurate in choosing the best stock and best time to exhibit trading and exit from security market shown in the result of Terrence odean. The evidence of the study is already been documented on the behavior biases of overconfidence in behavioral finance theory. The different views about the topic make it more interesting.

1.1. Overconfidence and its Impact

Overconfidence mean the behavior of investor of self attribution and having perception that he have more reliable and accurate knowledge, which will lead him to aggressive trading in market and in response the return becomes inferior for the reason of irrational behavior. Larger returns of stock incline investors to be overconfident and in reaction, these investors trade more frequently (Ilyas & Faheem, 2014). Every human being is loss averse as well every investor they tend to maximize their wealth and ride of loss. There is positive relationship between overconfidence of CEO and taking risky investment decisions (Malmendier & Tate). Overconfident personalities are more positive and optimistic concerning the consequences generated...
through their actions (Moore and Healy). As larger quantity of study reveals that investors who are rational keep and hold those securities with themselves which will cause loss for them in that specific period of time while sell out those stocks which make them profitable on their sale at that particular point in time this was empirically demonstrated by Barber and Odean (2000, 2001, 2002) and Odean (1998, 1999). Benosin 1998 have argued in their result that overconfident investors have assurance in their judgments on which they relay however they are not as precise in real. He has further shown in their results that overconfident personalities in security markets leads to higher transactions, volume of trade larger depth more unstable and more information prices. Beside this basic normal return most investor do invest in stock market to do better and to get rich quicker. Due to such genuine reasons they trade more frequently and positive returns on investment decisions make them to be more optimistic and overconfident (Barber & Odean, 2001). Conducted study based on high overconfidence of investors the trading activities increases and price rise more regularly. Interaction between overconfidence and high returns shows that high returns intends investors even to be more overconfident (Inaishi, Toya, Zhai & Kita, 2010). Accordingly examining the Pakistani investors (Bashir et al, 2013) exhibits in their study that how these biases of investors interrupt and impact the financial decisions made by them their result implies that there is significant impact of overconfidence and undue optimism on the investor’s decisions. (Sultana & Pardhasaradhi)Investors and their decisions are commanded by investor behavior that can be very important and crucial for financial gain of investors in the future. (Chen et al, 2007) Identified three essential psychological factors consist of overconfidence behavior, loss aversion that carry them to disposition effect they argues that market participants mostly depend on the returns generated by their securities in past and use them as for future formation of wealth on securities.

1.2. Overconfidence Traits and its Consequences

Overconfident investors trade in moderate manners that might lead to poor performance overtime. Overconfident investors take more risk as they overestimate their abilities which has an impact on portfolio performance. Overconfident investors are not as much risk averse, giving preference to risk leads to an under diversified portfolio. Overconfident investor overvalues his own abilities and undervalues the available information. Presented information might indicate not to invest but overconfident investor will invest irrespective of projected negative gains. Previous study provides evidence of the impact of overconfidence on stock trading activities of investors they argues that they have impact on stock returns supported by above researchers. Over confidence is the over precision and over estimation some time refers to miss calibration, it is the belief that one knows more than he truly does.

1.3. Research Problem

Many study on this issue has been done by researchers such as (Beenish and Tariq, 2013; Hoffman and Thomas, 2013; Ilyas and Fahim 2014) and more have been through this in different countries and in different interval. To investigate that this impact exists in Pakistan we are carrying the study considering Pakistan stock exchange 100 index our sample period is ten years from 2005-2015. This research is about behavioral finance and utmost heed is paid to overconfidence, the psychological behavior of investors and the impact of this behavior on stock return and trading turnover of securities.
1.4. Research Question

What is the impact of overconfidence of investors on trading activities and stock returns in Pakistan stock exchange 100 indexes for the time period 2005-2015?

1.5. Research Objectives

This research study is directed to examine the impact of overconfidence on stock returns and trading activities.

1.6. Significance of the Study

This study is focusing on investor overconfidence and its impact on trading and stock returns, behavior in trading activities. It will help investors as well managers to know about the behavior of Pakistani investor as well as behavior of stock markets in Pakistan.

2. Literature Review

Recent studies in behavioral finance reveal that financial decisions of investors depend upon numerous internal and external behavioral factors (Shefrin, 2000; Shleifer, 2000). (Sultana, 2010) An investment decision of individual is influenced by emotions and insensible biases that lead people to non-optimal decisions. Ilyas and Fahim, (2014) showing the impact of overconfidence on trading activity, constructing vector auto regressive model in their study argues that high returns of stock tend investors to be overconfident and in reaction, these investors trade more frequently. When one person having view in mind that he possess more abilities than he in real does is known as overconfidence said by (e.g., Campbell, Goodie, & Foster, 2004; Lichtenstein et al., 1982; Yates, 1990). Overconfidence an important psychological bias, and analyzed the effect of overconfident investors behavior in security market using multi agent simulation. Overconfidence causes investors to be too certain about their own abilities and not to weight the opinion of others sufficiently. Overconfident investors apparently believe that they have superior information, even when this is not actually the case. Thus, the overconfidence hypothesis predicts that those investors will trade more who have perception that they have more knowledge from others and is more accurate, resulting in reduced returns (Inaishi, Toy, Zhai & Kita, 2010). Fayyaz and Khalid (2012) conducting their study found significant positive response of turnover to market return shock while exhibiting their results. Odean (1998) argues that the high level of trading volume is the most important effect of overconfidence.

Qadri (2014) the research has been conducted on questioner based survey in Islamabad Stock Exchange the majority of the respondents were males. They have checked the Impact of overconfidence and illusion control bias on investor’s decision and found that the above two components of psychology is present in investors decision of Islamabad stock exchange and the decisions are more affected by them. People think that the wealth, knowledge and experience they have has big impact on the investment decisions. Overconfident investors in Islamabad stock exchange rapidly trade based on their skills, knowledge and experience. They have also shown that males are more confident than women and investor do not rely more on technical and fundamental analysis.
De Bondt et al., (1985) published a paper about behavioral finance in which they query about: “Does the stock market overreact?” The study provides evidence to support the hypothesis that cognitive bias (investor over-reaction) to a long series of bad news could produce predictable mispricing of stocks traded on the NYSE. Statman in his study argued that overconfidence bias is a driver of the disposition effect, because overconfidence traits motivate investors to trade irregularly between gains and losses. Statman, Thorley & Vorkink, (2006). Benos (1998) states overconfident investors have faith in their judgments on which the relay but they are not as accurate in real. As abundance of study reveals that investors who are rational keep and hold losing stocks while sell winning this was empirically demonstrated by Barber and Odean (2000, 2001, 2002) and Odean (1998, 1999). Statman, Thorley, and Vorkink (2006) present empirical evidence for the US market and argue that trading volume is higher after high returns, as investment success increases the degree of overconfidence.

Markus and Martin (2009) showed in their study that trading volume of an investor is exaggerated by past market return and past portfolio returns. Investor Psychology is a significant facet of behavioral finance (Shleifer & Summers, 1990). Adel (2013) checked the relationship among bias, trading volume and volatility and the impact of overconfidence on investor’s decision. They have used 27 companies as a sample listed in Tunis stock exchange observed for the period of 2002 to 2010. And the analysis has been conducted through vector auto regressive model and reported the importance of overconfidence in Tunisian stock market. Hassan, Khalid and Habib (2014) while using questionnaire for data collection, OLS and correlation method for the study argued that male and experience investors of men gender to be more over confident where as females and experience investors in them are usually more loss and risk avoiders while making investment decisions. Trinugroho (2011) in an experimental research work which combines both between and subject design. The partakers of the study were undergraduate students who have knowledge of financial management through their courses but they don’t have practical experience of investing in security market. The main theme of their research was to investigate the excessive trading hypothesis investors with higher overconfidence by high miss calibration level will be intended to practice trade aggressively and excessively. The result of the study argues that investors having high overconfidence will trade more and who have low confidence will trade less. They further argue that there is difference no between higher overconfident traders before the bad news and after while investors who have lower confidence level have difference between their post and pre trading activities after the speculation of bad news that is they have reduce their trading activities. And regarding returns the lower returns of high confident investors with respect to low confident investors.

Grinblatt and Keloharju (2009) argue in their result that one moment in confidence of investor is accompanied by four percent of increase in trading stock. With these result the researcher further studied the performance of overconfident investors in stock market and found negative relation between them that is lower portfolio performance of overconfident investors. Different researchers in their study have measure the overconfidence through various proxies like the above had measured it through high trading volume some from stock market participation and others like Barber and Odean in their study measured it through gender as they hypothesized that males are more overconfident then women. Tariq (2013) while exhibiting their research taking Pakistan stock market as a case and investigating the impact of overconfidence on stock return while considering 27 sample companies on daily bases to examine stock prices from 2003-2010 in Karachi stock exchange. They have used the vector auto regression model for measuring and analyzing the
results. They had shown in their result that overconfidence is important for trading stock activity and monthly volume has no impact on returns. While monthly returns have impact on monthly volume. And monthly volume is not affected by monthly volatility while the monthly return is affected by volatility. Chungli (2009) Overconfidence has been focused in behavioral finance that how they affect trading activities from past. This paper investigates how overconfidence affects trader market properties. Their very initial result implies that overconfidence increases trade volume price distortion and volatility. Biais, Hilton, Mazurier and Pouget (2004) in their results argued that a form of tendency to underestimate the others information and overestimate the precision of oneself information being the traits of overconfident investors leads them to underestimate the sure uncertainty in valuating security and are expected to be especially vulnerable to the winner’s curse.

We can find literature support in favor of overconfidence as well as against overconfident investors. Its critique argue that overconfident investors over look risk factors and over estimate their investment decisions, ignoring market realities that’s why their active strategies make the market less efficient and give rise to excessive trading. While other argue that overconfident investors can help increase market efficiency because they spend most of their energy and resources to collect information. More ever considering the above argument, their overconfident personality makes them to trade more thus creating an arbitrage process which will help the securities to retain their original position. But the basic assumption is the level of overconfidence must not be too much high. These divergent views make this topic more interesting for researchers this paper is an attempt to define overconfidence bias and its relation with stock turnover and trading activity.

2.1. Hypotheses

In keeping view the question impact of investor’s overconfidence on trading activities and stock returns in Pakistan stock exchange our hypothesis are:

- H1: There is impact of overconfidence on trading activities.
- H2: There is impact of overconfidence on stock return.

3. Research Methodology
3.1. Data Collection and Sampling

The data collection is done through opendoors.pk, annual reports published on website of state bank of Pakistan and Pakistan stock exchange. The data is constituted of monthly and daily return of Pakistan stock exchange 100 indexes for ten years from 2005 to 2015. The variation of psychological factor i.e. overconfidence changes over monthly, weekly, daily and annually therefore we analyzed data of only monthly and daily observation because of time constraints. We have taken monthly volume for trading proxy and market capitalization to know about the turnover. We divided daily market trading values of 100 indexes to get daily market returns. PSX hold 90% of total market capitalization of the listed companies as it is a value weighted index of 100 companies. We have calculated monthly volatility while forming standard deviation of whole month day to day returns. That’s the risk in securities and the variance that occur in returns of securities and trading activity.
The data sample will consist of annual reports issued on websites Pakistan stock exchange 100 index, state bank of Pakistan and for some data we will be concerning to the opendoors.com. The time period of the data is ten years from 2005-2015. The research is of explanatory nature.

3.2. Analysis Method
3.2.1 Vector Auto Regression

This is a multi variant model in which one variable is taken as dependent and one or more than one are analyzed as independent variables and this model is auto regressive that regress its dependent variable automatically which shows that either the variable lagged value has an impact on itself. The model analyzes time series data, which are numerical numbers collected in regular interval over a period of time. This is an econometric model that converts theoretical data effect into numerical values. It shows the linear interdependencies among multiple time series. That is to check the past results and behavior has any impact on the current behavior. Current market returns have any dependency on previous or past month return. How volume and returns react to their past months lagged values. Either volatility is changed by volume and returns. To analyze this association of variables vector auto regressive model is best for getting significant results. Through this we forecast future trend in the market. In the model R square shows the percentage of change brought by independent variables in the dependent variable. The p value of f statistics shows the fitness of the model in percentage. The t ratio and p value for the variables show the significance level among the dependent and independent variable. The result will be significant if the p value in the result becomes lower than .05 and the t ratio greater than 2. On the other hand the result will be insignificant and there will be no relationship between the dependent and independent variable if the p value is calculated more than .05 and t ratio less than 2.

3.3. Model Specification

\[ Y = \alpha + \beta_1 Y_{t-1} + \beta_1 X_{1t-1} + \beta_2 X_{2t-1} + e \]

Where

- \( Y \) = it shows the variable taken as dependent in the equation.
- \( \beta_1 Y_{t-1} \) = It presents the independent variable
- \( \beta_1 X_{1t-1} = \) It represents other factor taken as independent variable and the \( t-1 \) represents the lagged value of previous month.
- \( t-1= \) Tells the previous lag values taken up to six months for each variable such as \( \beta_1 X_{1t-1}, \beta_1 X_{1t-2}, \beta_1 X_{1t-3}, \beta_1 X_{1t-4}, \beta_1 X_{1t-5}, \beta_1 X_{1t-6} \)
- \( \beta_2 X_{2t-1} = \) shows the third factor taken as independent variable.
- None of the variable is selected as exogenous and endogenous.

3.4. Dependent Variable

Overconfidence is taken as dependent variable. Trading volume is taken as proxy for measuring overconfident behavior of investors. Overconfidence increases when trading in a month or a day increases and decreases when trade becomes lower in given point in time.

3.5. Independent Variable

Monthly volume, monthly return, volatility and its lagged values are taken as independent variables.
3.6. Data processing

Monthly stock return was calculated on natural log of former values divided by initial values of PSX monthly return 100 Index. \([= \text{LN} (\text{Former value} / \text{Initial value})]\). Market volume was taken as trading proxy from monthly volume data of open doors. Taken natural log of PSX daily return daily returns were constructed. Monthly volatility is calculated by taking standard deviation on daily return from first transaction to end transaction date of the months.

4. Results and Discussions

4.1 Descriptive statistics

<table>
<thead>
<tr>
<th>Monthly Return</th>
<th>KSE</th>
<th>Monthly Volatility</th>
<th>Monthly Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>0.01302845</td>
<td>Mean</td>
<td>0.01157306</td>
</tr>
<tr>
<td>Standard Deviation</td>
<td>0.07761849</td>
<td>Standard Deviation</td>
<td>0.00666766</td>
</tr>
<tr>
<td>Sample Variance</td>
<td>0.00602463</td>
<td>Sample Variance</td>
<td>4.44577E-05</td>
</tr>
<tr>
<td>Range</td>
<td>0.64665462</td>
<td>Range</td>
<td>0.03437126</td>
</tr>
<tr>
<td>Minimum</td>
<td>-0.44879613</td>
<td>Minimum</td>
<td>7.37663E-05</td>
</tr>
<tr>
<td>Maximum</td>
<td>0.19785848</td>
<td>Maximum</td>
<td>0.03444503</td>
</tr>
<tr>
<td>Count</td>
<td>125</td>
<td>Count</td>
<td>125</td>
</tr>
</tbody>
</table>

In the above table over all statistics of the variable and there finding are expressed quantitatively. Mean shows the average level of the two variables monthly PSX return and monthly volatility in percentage form for ten year from time period 2005 to 2015. The values are expressed as 0.01302845, 0.011557306 for monthly return and volatility which shows the average value of return earned by PSX and monthly volatility. And the figure of monthly volume is shown in million rupees that have moved up to 158.058 million rupees, it is showing that from the period of 2005 to 2015 the mean value of volume is 158.058 million, and aggregate trade value in the ten year period remain on the specified figure in Pakistan stock market. The standard deviation shows the dispersion from the mean values and the change that occur in the variables on the average from its mean position with the passage of time in specified duration from 2005 to 2015 in the form of percentage for monthly PSX returns and monthly volatility. The values are placed as 0.07761849 and 0.00666766 which mean that deviation from mean position of PSX returns is 7.761% while the monthly volatility deviation takes place 0.666%. This shows that the volatility has fluctuated from the mean value by .0666% which shows that market remain volatile in this much percentage in these ten years. And the volume in same manners is expressed in million rupees i.e. it goes up or down from its mean value by an amount of...
124.756 million rupees. The range in the descriptive statistics shows the limit of the variable in which it remains as a function of other variable thus it shows the difference between largest and smallest or maximum and minimum figure of the variable in the volume, volatility and return. The count in last row reports the total number of observation in the study that is 125 for the whole period of ten year from January 2005 to May 2015.

4.2. Findings from Vector Auto Regression

The main concern of the study was to analyze the impact of investor’s behavior on stock return and the trading activities. For this very purpose we have selected the data time period from 2005 to 2015 and collected from different sources of open doors and Pakistan stock exchange web site. The data of our research is time series because we have analyzed one unit, Pakistan stock exchange for different time scales. Our data consist of monthly observations and the model used for processing was vector auto regression model. We have selected none of the variables as endogenous and exogenous and ran the model; the variables are monthly return in relation with volatility and volume, the relation of volatility with monthly return and volume, the association of volume with monthly return and volatility and at last the relation of current market return with its own past returns.

VAR system, lag order 6
OLS estimates, observations 2005:07-2015:05 (T = 119)
Log-likelihood = -21.434974
Determinant of covariance matrix = 0.00028776121
AIC = 1.3182
BIC = 2.6494
HQC = 1.8588
Portmanteau test: LB (29) = 245.64, df = 207 [0.0340]

Table 4.2: Monthly Return

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-ratio</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const</td>
<td>−0.00496603</td>
<td>0.0229374</td>
<td>−0.2165</td>
<td>0.8290</td>
</tr>
<tr>
<td>MonthlyKSERetunn_1</td>
<td>0.0745062</td>
<td>0.111815</td>
<td>0.6663</td>
<td>0.5067</td>
</tr>
<tr>
<td>MonthlyKSERetunn_2</td>
<td>−0.205377</td>
<td>0.111956</td>
<td>−1.8344</td>
<td>0.0696  *</td>
</tr>
<tr>
<td>MonthlyKSERetunn_3</td>
<td>0.124832</td>
<td>0.108202</td>
<td>1.1537</td>
<td>0.2514</td>
</tr>
<tr>
<td>MonthlyKSERetunn_4</td>
<td>0.247356</td>
<td>0.118404</td>
<td>2.0891</td>
<td>0.0392  **</td>
</tr>
<tr>
<td>MonthlyKSERetunn_5</td>
<td>0.190748</td>
<td>0.114602</td>
<td>1.6644</td>
<td>0.0992  *</td>
</tr>
<tr>
<td>MonthlyKSERetunn_6</td>
<td>0.18407</td>
<td>0.111465</td>
<td>1.6514</td>
<td>0.1018</td>
</tr>
<tr>
<td>MonthlyVolatility_1</td>
<td>1.34893</td>
<td>1.60951</td>
<td>0.8381</td>
<td>0.4040</td>
</tr>
<tr>
<td>MonthlyVolatility_2</td>
<td>−1.23114</td>
<td>1.70344</td>
<td>−0.7227</td>
<td>0.4715</td>
</tr>
</tbody>
</table>
F-tests of zero restrictions:
All lags of Monthly KSE Return F (6, 100) = 2.6462 [0.0201]
All lags of Monthly Volatility F (6, 100) = 2.6187 [0.0212]
All lags of Monthly Volume F (6, 100) = 2.4407 [0.0304] All vars, lag 6 F (3, 100) = 3.145 [0.0285]
R-Squared: 23.8%
P-value of F (statistics): 0.044266
H₀: The fit of model is not good.
H₁: The fit of model is not good.
The equation in the above table 01 shows that taking the monthly Pakistan stock exchange returns as dependent variable and others such as its lagged values as independent variables, volatility and volume.

4.3.1 Sub Hypothesis

H₀: There is no impact on current monthly market return of its own previous values and the investors are not confident.
H1: There is impact on current monthly market returns of its own previous values and the investors are confident.

Taken the current market return in this stage as dependent and its own previous lagged values as independent variable. We will accept Ho if the t ratio is lower than 2 and reject H1 and for p value we will accept Ho if p value is greater than .05. The P values in result table are 0.5067, 0.0696, 0.2514, 0.0392, 0.0992, and 0.1018 respectively from 1 to 6th lag and t ratios respectively from 1 to 6th are 0.6663,−1.8344,1.1537,2.0891,1.6644 and 1.6514. Thus the table shows that monthly return has no relationship with its own previous lagged values in which from first to sixth past months are insignificant except 4th/fourth month that is significant. That can be seen from lower t ratios and higher p values. We accepted our first hypothesis that investors are not overconfident and the investors do not make decisions while seeing the previous returns. The fit of model is good as shown above the f statistics value is less than .05.

4.3.2 Sub Hypothesis

H0: There is no impact on current market return of previous monthly volatility and there is no relationship between them.

H1: There is impact on current market return of previous monthly volatility and there is relationship in them.

In monthly volatility equation 1 in above table, the result of previous two months is insignificant we have accepted Ho and rejected H1 the 4th and 5th also give the same result but in 3rd and 6th the result shows that there is relationship among market return and volatility the result are significant and H1 is accepted as it can be seen from t ratios and p value. The p value for volatility in the above table from 1 to 6th lag are given respectively as 0.8381,−0.7227,3.0632,−0.4124,0.9887,−2.2235 and in sequence the t ratios are as follow 1.60951,1.73044,1.7231,1.63902,1.61087,1.48676.

4.3.3 Sub Hypothesis

H0: There is no impact on current market returns of previous monthly volume and there is no relationship between them.

H1: There is impact on current market returns of previous monthly volume and there exist a relationship.

In monthly volume as independent variable with market return the results are insignificant as shown from higher p values in 2nd, 3rd, 5th and 6th observation while significant in first and fourth observation in which the H1 is accepted and market return is affected by volume in these months. The ratios of t in ascending order from 1 to 6 is as follow 2.5602,−0.2170,0.8496,−2.5999,−1.3741,−1.0261 and p values are 0.0120,0.8286,0.3976,0.0107, 0.1725, 0.3073 So we can say that the information diffusion is slow in the market and there is no relationship of market return and volume. The investors are not overconfident and they do not over react or over trade while seeing the previous volumes of trade in the market.
Table 4.3: Monthly Volatility

<table>
<thead>
<tr>
<th></th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-ratio</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Const</td>
<td>0.00515899</td>
<td>0.00155613</td>
<td>3.3153</td>
<td>0.0013  ***</td>
</tr>
<tr>
<td>MonthlyKSEReturn_1</td>
<td>−0.0153147</td>
<td>0.00758579</td>
<td>−2.0189</td>
<td>0.0462  **</td>
</tr>
<tr>
<td>MonthlyKSEReturn_2</td>
<td>0.00868085</td>
<td>0.00759537</td>
<td>1.1429</td>
<td>0.2558</td>
</tr>
<tr>
<td>MonthlyKSEReturn_3</td>
<td>−0.0282672</td>
<td>0.00734071</td>
<td>−3.8507</td>
<td>0.0002  ***</td>
</tr>
<tr>
<td>MonthlyKSEReturn_4</td>
<td>−0.00193835</td>
<td>0.0080328</td>
<td>−0.2413</td>
<td>0.8098</td>
</tr>
<tr>
<td>MonthlyKSEReturn_5</td>
<td>−0.00602557</td>
<td>0.00777485</td>
<td>−0.7750</td>
<td>0.4402</td>
</tr>
<tr>
<td>MonthlyKSEReturn_6</td>
<td>−0.00238928</td>
<td>0.00756204</td>
<td>−0.3160</td>
<td>0.7527</td>
</tr>
<tr>
<td>MonthlyVolatility_1</td>
<td>0.35842</td>
<td>0.109193</td>
<td>3.2824</td>
<td>0.0014  ***</td>
</tr>
<tr>
<td>MonthlyVolatility_2</td>
<td>0.0467891</td>
<td>0.115566</td>
<td>0.4049</td>
<td>0.6864</td>
</tr>
<tr>
<td>MonthlyVolatility_3</td>
<td>−0.205309</td>
<td>0.116899</td>
<td>−1.7563</td>
<td>0.0821  *</td>
</tr>
<tr>
<td>MonthlyVolatility_4</td>
<td>−0.0624696</td>
<td>0.111195</td>
<td>−0.5618</td>
<td>0.5755</td>
</tr>
<tr>
<td>MonthlyVolatility_5</td>
<td>0.0594162</td>
<td>0.109285</td>
<td>0.5437</td>
<td>0.5879</td>
</tr>
<tr>
<td>MonthlyVolatility_6</td>
<td>0.065682</td>
<td>0.100865</td>
<td>0.6512</td>
<td>0.5164</td>
</tr>
<tr>
<td>MonthlyVolume_1</td>
<td>5.27061e-06</td>
<td>6.78787e-06</td>
<td>0.7765</td>
<td>0.4393</td>
</tr>
<tr>
<td>MonthlyVolume_2</td>
<td>3.222e-07</td>
<td>6.67069e-06</td>
<td>0.0483</td>
<td>0.9616</td>
</tr>
<tr>
<td>MonthlyVolume_3</td>
<td>6.0556e-06</td>
<td>6.55151e-06</td>
<td>0.9243</td>
<td>0.3576</td>
</tr>
<tr>
<td>MonthlyVolume_4</td>
<td>1.44497e-05</td>
<td>6.37578e-06</td>
<td>2.2663</td>
<td>0.0256  **</td>
</tr>
<tr>
<td>MonthlyVolume_5</td>
<td>−3.12279e-06</td>
<td>5.87531e-06</td>
<td>−0.5315</td>
<td>0.5962</td>
</tr>
<tr>
<td>MonthlyVolume_6</td>
<td>−3.32992e-07</td>
<td>5.78551e-06</td>
<td>−0.0576</td>
<td>0.9542</td>
</tr>
</tbody>
</table>

Mean dependent var 0.010941  S.D. dependent var 0.005842
Sum squared resid  0.002325  S.E. of regression  0.004822
R-squared 0.422706  Adjusted R-squared 0.318793
F(18, 100)  4.067890  P-value(F) 2.89e-06
Rho  −0.013664  Durbin-Watson 2.024335
F-tests of zero restrictions:
All lags of Monthly KSE Return $F(6, 100) = 3.3212 [0.0050]$
All lags of Monthly Volatility $F(6, 100) = 2.8577 [0.0130]$
All lags of Monthly Volume $F(6, 100) = 2.6462 [0.0201]$
All vars, lag 6 $F(3, 100) = 0.24807 [0.8625]$

R-squared: 42%
P value of $F$ (Statistics): $2.89 \times 10^{-6}$

$H_0$: The fit of model is not good.
$H_1$: The fit of model is good.

In table 2 in the above table the monthly volatility is taken as dependent variable and as independent variables market return, volatility, volume and its own lagged values of volatility are taken.

4.3.4 Sub Hypothesis

$H_0$: There is no current monthly volatility of previous market returns and there is no relationship between them.
$H_1$: There is impact on current monthly volatility of previous market return and there is relationship between them.

First we have checked it with market return taken as independent variable. In which the 1$^{st}$ and 3$^{rd}$ are significant mean the volatility has shown the significant relationship with market return that can be seen from lower p value and higher t ratio. $H_1$ is accepted and there is relationship and the monthly volatility is affected by previous market returns. There is immediate response for information flow as the immediate past month affected the current month volatility from previous month return. But from 2$^{nd}$ to 6$^{th}$ except the above two shows insignificant results mean that there is no relationship between monthly volatility and monthly returns. Here are the value of p depicted in result from 1 to 6$^{th}$ lag 0.0462, 0.2558, 0.0002, 0.8098, 0.4402, 0.7527 and t ratios respectively $-2.0189, 1.1429, -3.8507, -0.2413, -0.7750, -0.3160$. Volatility shows the risk in securities so the current volatility with ups and downs in previous market return does not changes.

4.3.5 Sub Hypothesis

$H_0$: There is no impact on current monthly volatility of its own previous lagged values therefore relationship does not exist.
$H_1$: There is impact on current monthly volatility of its own previous lagged values therefore the relationship exists.

In the second phase we have taken the lag of monthly volatility, its self lagged values as independent variable and dependent also. That the very first result is shown as significant and from 2$^{nd}$ to 6$^{th}$ the result is insignificant as seen from higher value of p and lower t ratio. The ratios of t in above result are as follow form 1 to 6$^{th}$ lag 3.2824, 0.4049, $-1.7563, -0.5618, 0.5437$ and 0.6512. The values of p are given in same manner as 0.0014, 0.6864, 0.0821, 0.5755, 0.5879, and 0.5164. So the hypothesis $H_0$ is accepted in them and there is no relationship between volatility and its own previous lags with current volatility except the immediate previous month. And this is not necessary that after every volatile month the next month will also be volatile.
4.3.6 Sub Hypothesis

\( H_0 \): There is no impact on current monthly volatility of previous volume and the volume does not increase volatility.

\( H_1 \): There is impact on current monthly volatility of previous volume therefore volume increases volatility.

Thirdly we have taken the volume as independent variable in relation with volatility. The result in table shows that there is insignificant relationship of volatility with volume. It tells us that there is no relationship of volatility and volume and the current volatility is not affected by previous volume of trading activity. As it is depicted in table from 1\(^{st}\) to 6\(^{th}\) month here Ho is accepted. While in 4\(^{th}\) month the result is significant and H1 is accepted here. The values of p are subsequently from 1 to 6\(^{th}\) lag 0.4393, 0.9616, 0.3576, 0.0256, 0.5962, 0.9542 and t ratios are as follows 0.7765, 0.0483, 0.9243, 2.2663,−0.5315 and −0.0576. We can say that volume of previous months does not affect volatility of current month and the volatility is not increased by trading volume.

<table>
<thead>
<tr>
<th>Table 4.4: Monthly Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coefficient</strong></td>
</tr>
<tr>
<td>Const</td>
</tr>
<tr>
<td>MonthlyKSEReturn_1</td>
</tr>
<tr>
<td>MonthlyKSEReturn_2</td>
</tr>
<tr>
<td>MonthlyKSEReturn_3</td>
</tr>
<tr>
<td>MonthlyKSEReturn_4</td>
</tr>
<tr>
<td>MonthlyKSEReturn_5</td>
</tr>
<tr>
<td>MonthlyKSEReturn_6</td>
</tr>
<tr>
<td>MonthlyVolatility_1</td>
</tr>
<tr>
<td>MonthlyVolatility_2</td>
</tr>
<tr>
<td>MonthlyVolatility_3</td>
</tr>
<tr>
<td>MonthlyVolatility_4</td>
</tr>
<tr>
<td>MonthlyVolatility_5</td>
</tr>
<tr>
<td>MonthlyVolatility_6</td>
</tr>
<tr>
<td>MonthlyVolume_1</td>
</tr>
<tr>
<td>MonthlyVolume_2</td>
</tr>
</tbody>
</table>
4.3.7 Sub Hypothesis

\( H_0: \) There is no impact on current volume of previous monthly market returns, the investors are not overconfident and the relationship does not exist.

\( H_1: \) There is impact on current volume of previous monthly market returns, therefore investors are confident and there exists a relationship.

At first we have checked the monthly return as independent variable in relation with volume. In which the results are shown as insignificant from 1st to 6th month Ho is accepted. That can be seen from lower ratio of t and higher value of p. The p values are expressed from 1 to 6th month are 0.0945, 0.3349, 0.9212, 0.7837,
0.5730 and the t ratios are placed in similar form as 1.6880,−0.9689,−2.3551,0.0992,−0.2753, and 0.5654. And it furtherpoints that there is no relationship between volume and market returns. The current trading volume is not affected by previous market returns. Except 3rd month result which signifies that there is relation between them and they are significant. And the investors are not overconfident in Pakistan stock market.

**4.3.8 Sub Hypothesis**

\( H_0: \) There is no impact on current volume of the previous lagged volatility there is no relationship.

\( H_1: \) There is impact on current volume of the previous lagged volatility and there is relationship between them.

Secondly we took the monthly volatility as independent variable in relation with volume. In which the 2nd, 4th and 5th month results are significant and H1 is accepted that can be seen from lower of p and higher value of t ratio. The values of p are provided from 1 to 6th as 0.4711, 0.0230, 0.4658, 0.0310, 0.0007 and 0.7161. In the result the t ratios are also given in same manner as 0.7234,−2.3082,0.7322,−2.1883,3.4882, and 0.3647. It shows that there is relationship between them. While the 1st, 3rd and 6th month results are of insignificant nature that tells us that there is no relationship between current monthly volume and volatility. And the current volume is not affected by previous month volatility. Here \( H_0 \) is accepted because of higher value of p and lower ratio of t from 2.

**4.3.9 Sub Hypothesis**

\( H_0: \) There is no impact on current volume of its own previous lagged values and there is no relationship.

\( H_1: \) There is impact on current volume of its own previous lagged values there is significant relationship.

At last stage we have taken the monthly volume as dependent and its own lagged values as independent variable for each other. In which the result shows that 1st and 3rd month are significant and the previous volume of these month affect the current trading volume. And there is relationship between them. For this result showing lower values of p and higher ratio of p \( H_1 \) is accepted. The values of p from 1 to 6th are expressed as 0.0002, 0.3489, 0.0130, 0.9109, 0.4744, and 0.9662. And the in same sequence the t ratios are sited as 3.9390, 0.9412, 2.5285,−0.1121,0.7180 and −0.0425. That shows that there is impact of previous values of volume on current trading volume. While the 2nd to 6th month the relationship is insignificant and there is no relationship between current volume and its previous lagged values. \( H_0 \) is accepted here because the value of p is higher than .05 and the ratio of t is lower than 2. So we can say that the volume of current month is not affected by its own previous lagged values. As a whole we can say that the impact is seen from immediate past month on monthly volume from its lag month and it is possible that there is same event or factors that occur in 3rd month again while not in proceeded months.

**5.1. Conclusion**

The whole study investigates the hypothesis of investor overconfidence that impact stock activity and stock return. We have documented further study in behavioral finance. For the development of theoretical aspect of investors’ overconfidence its impact on trading activity and stock return and vice versa we have used
vector auto regression model to carry out the study. As this study is consisted of multivariate variables so the said model is best to explain the result. The main aim is to know about the behavior of Pakistani investor in Pakistan stock exchange. Overconfidence is focused in the study one of its hypothesis postulates that overconfident leads to excessive and higher trading volume keeping in mind the assumption, the past return of security make the investor to be overconfident. The decisions of investors are made through psychological characteristics to trade in the security market or not. Which affect them in long run in both angles for positive we can say that the security purchased earn a big sum of money for them. On the other hand the affect can be negative as well that is it can cause huge sum of loss that may not be borne by the investor and can throw him out of the market.

The main focus is overconfidence and its impact in Pakistan stock exchange using vector auto regressive model. Data observed consist of Monthly and daily returns from PSX 100 index. Findings from the model shows that there are specific months in which the variables respond to each other or they are some actions that appears after some interval or else there is no significant relationship of current monthly return to past months volume, volume with volatility in stock returns as it is not increased with increase in volume. And there is no relationship of current monthly volume with previous market returns, Investor overconfidence has negative impact on trading activity as it keep them high and exaggerated level as it is not the real value of the securities and it may harm the investors. The results further marked that immediate past month return has an impact on current trading activity that is denoted from volume of trade. It is noticeable here that Pakistani investors consider the returns of security before investment and if they predict the return to be high they rush toward investment more over the investors know the full fundamental and technical information about the security or it’s the unsatisfactory, inadequate knowledge and overconfidence.

5.2. Recommendations

In the light of this research and result we suggest that investors while making investment decision in stock market should be aware of the stock fundamental and technical information. Even if he knows the complete information still the psychological factors such as overconfidence impact their decision and return in some manners. In this research we have taken only few variables to check the impact and only in one country due to time and data constraints. Further research can be done while considering more variables such as GDP, exchange rate etc and more psychological factors should be consider for more countries.

References

Chungli, Y. Z. (2009). Examining the Effect of Traders’ Overconfidence on Market behavior, Department of Information Management.


Shabbir, M. (n.a). An empirical study of Overconfidence and illusion of control biases, Impact on investor’s decision making: An Evidence from ISE.


Big Five Personality Characteristics and Its Effect on Task Conflict: A Case Study of Telecom Companies

SAQIB SHAHZAD
Demonstrator, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
PhD-Scholar Institute of Management Sciences, Peshawar
saqibshahzad26@gmail.com

IHTESHAM KHAN
Assistant Professor and PhD-Scholar, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
ihtishamkhan@awkum.edu.pk

DR. JEHANGIR
Assistant Professor, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan

Abstract
The study was an attempt to find out the effect of Myers Briggs Big Five personality characteristics on task conflict. The employees working in the telecommunication sector were considered as the population of the study. The employees were selected randomly. 180 questionnaires were distributed among employees. 127 properly filled questionnaires were received back from the respondents. The response rate was 70.56 percent. Simple Random sampling technique was used for the study. Analysis was used to testify the hypotheses of the study. As per the results of regression analysis big five personality characteristics were found to have significant effect on task conflict.

Keywords: Conscientiousness, Extraversion, Agreeableness, Neuroticism, Openness to Experience, task conflict

1. Introduction

In today’s era of global competition and so much advancement in technology, the survival of organization has become a vital factor. Since employees are the real asset for any organization and the major source for sustainable competitive advantage. The employees need to be focusing on the job fully. If due to any reason the employee feels disturbed, then the bad consequences could be faced by the organization. These bad consequences could be because of conflicts. In the firms, March and Simon (1958), stated conflict as a collapse in the process of decision making, so that a person or team observe complexity in the selection of alternate. The 21st century gives a wide experience by different source like internet and other approachable sources; now a large number of persons are now having the source to interrelate with others across the multi cultures (Templer et al., 2006). Due to these frequent communications, this culture dissimilarity is one of the main causes for the creation of conflict (Kaushal & Kwantes, 2006).
1.1 Research Problem

Chen and Sheng (2010) found the relationship among different factor of conflicts but studying them together has not been focused up to the best of my knowledge (Holt & DeVore, 2005). Researchers in the past have specifically focused on the developed countries (Ghorbani & Razavi, 2011), but there is limited or very scarce research on developing countries.

1.2 Research Questions

- What is the impact of personality characteristics on task conflict?
- Do Big Five Personality characteristics promote conflicts in organization?

1.3 Objectives of the Study

- To investigate the effect of Personality characteristics on task conflict.
- To explore the effect of Conscientiousness on task conflict.
- To determine the effect of Extraversion on task conflict.
- To study the effect of Agreeableness on task conflict
- To examine the effect of Neuroticism on task conflict
- To evaluate the effect of Openness to Experience

2. Literature Review

According to Chen, Mei-Liang and Juin-Ming (2010) Conflict is Latin word which means different forces have a collision, which is disagreement and abrasion between group members (Forsyth, 1990). Webster Dictionary explains conflict as disagreement, war, unfriendliness, or opposition among irreconcilable forces (Chin-Lien Wu, 2003). According to Encyclopedia of Management, conflict is defined as a process that one individual or group realize that concentration or interest is opposite by the other group or individual (Chau-Chiuan Yu, 2005). There are certain definition of conflict which is given by the scholars. Conflict theory is the most important theory for any manager. Primarily it is rooted in the field of psychology, business and sociology, but not in education and communication. It is difficult to define conflict as it is complicated to an agreement about the definition of this term (Borisoff & Victor, 1998). The simple way to identify the term “conflict” is to divide theories of conflict in situational functional and interactive. The followers of situational approach believe that a conflict as an expression or term under certain situation and those who view as functional think that a conflict serves a social function. The third theory views conflict as interactive. Many independent groups of researchers found and defined the five broad areas based on experimental, data-driven research. Agreeableness: Persons high in agreeableness are described as selfless, innocent, helpful, obedient, and “motivated by others ‘needs’” (Costa & McCrae, 1992). Conscientiousness: There is no known research investigate the relationship between conflict and conscientiousness. This is not completely incredible that conscientiousness is order, accomplishment orientation and dutifulness, characteristics that are unlikely to be linked conflict.

Fuller and Hall (1996) studied that difference in living behavior were a source of inter personal experience such as conflict. Since both incompetence and laziness (low conscientiousness) and extreme neatness (high conscientiousness) may be the cause of conflict with a partner. Extraversion: Extraverts are usually encouraging, societal, energetic, fantastic, and concerned with other people (Costa & McCrae, 1992; Watson
In addition to these trait, several conceptualizations of extraversion also include adjectives such as prevailing, self-confident, dominant, and forceful (Costa & McCrae, 1992; Trapnell & Wiggins, 1990). Neuroticism: Neuroticism is described as the tendency to understanding emotions such as unhappiness, anger, guiltiness and fear. The most often study of the five-factor traits; neuroticism has also been study in association to conflict. It is related to both frequency of conflict and affects intensity related with that conflict (Bolger & Zuckerman, 1995; McFatter, 1998; Suls et al., 1998). Openness to experience: Those people high on openness to experience are described as imaginative, interested, introspective, and conscientious to internal feelings (Costa & McCrae, 1992; Hofstee, deRaad & Goldberg, 1992). Openness is the least studied of the five-factor traits.

According to Antonioni (1998) several personalities traits with conflict in comfortable manner and others avoid it. People with a passive hostile personality tend to actively avoid conflict and feel uncomfortable confronting others in a conflicting situation. Individual feel angry or irritated but are not relaxed express that emotion. Emotions which are concealed for too long may erupt when control weakens and typically there is an explosion in a moment of heat, stress and pressure. John, Barbuto, Phipps and Xu (2010) point out that an integrate conflict management style completely mediates the relationship between neuroticism and leadership effectiveness and to some extent mediates the relationship between conscientiousness and leadership effectiveness. Personality and conflicts are related to each other in many ways.

2.1 Hypotheses

In the light of literature review the following hypotheses have been developed.

- **H1:** There is a significant effect of personality characteristics on task conflict.
- **H2:** There is a significant effect of conscientiousness on task conflict.
- **H3:** There is a significant effect of extraversion on task conflict.
- **H4:** There is a significant effect of agreeableness on task conflict.
- **H5:** There is a significant effect of neuroticism on task conflict.
- **H6:** There is a significant effect of openness to experience on task conflict.

![Figure 1: Theoretical Framework](image)

3. Methodology

The study was correctional in nature. Primary data was collected with the help of self-administered questionnaires. All employees of telecom companies formed the population of the study in two districts of KPK. The data was collected using simple random sampling technique (Ghorbani & Razavi, 2011). 180 questionnaires were distributed among the respondent using simple random sampling technique. 127 filled questionnaires were returned. The questionnaire consists of two sections sec 1 was independent variable Personality characteristics which contains five sub fates i-e conscientiousness, extraversion, agreeableness,
neuroticism and openness to experience. Personality characteristics questionnaire was adopted from Smith (2003) and measured with the help of 4 facets i-e agreeableness which was measured with 3 questions, extraversion which was measured with 3 questions, conscientiousness which was measured with 4 questions, neuroticism which was measured with 5 questions and openness to experience with 5 questions. Sec 2 was dependent variables i-e task conflict. Task conflict questionnaire was adopted from Henning (2003), was measured with 5 questions.

4. Results

Table 4.1: Reliability Analysis

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agreeableness</td>
<td>0.870</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>Extraversion</td>
<td>0.783</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>Conscientiousness</td>
<td>0.729</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>Neuroticism</td>
<td>0.714</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Openness to Experience</td>
<td>0.701</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>Task conflict</td>
<td>0.739</td>
<td>5</td>
</tr>
</tbody>
</table>

The above table 4.1 shows the reliability. Agreeableness was measured with 3 items the cronbach’s alpha value is .870 reflecting that the variable is highly reliable and the questions asked were relevant to the variable. Extraversion was measured with 3 items the cronbach’s alpha value is .783 reflecting that the variable is highly reliable and the questions asked are relevant to the variable. Conscientiousness was measured with 4 items the cronbach’s alpha value is .729 reflecting that the variable is highly reliable and the questions asked are relevant to the variable. Neuroticism was measured with 5 items the cronbach’s alpha value is .714 reflecting that the variable is highly reliable and the questions asked are relevant to the variable. Openness to experience was measured with 5 items the cronbach’s alpha value is 3017 reflecting that the variable is highly reliable and the questions asked are relevant to the variable. Task conflict was measured with 5 items the cronbach’s alpha value is .733 reflecting that the variable is highly reliable and the questions asked are relevant to the variable.

Table 4.2: Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>Conscientiousness</th>
<th>Extraversion</th>
<th>Agreeableness</th>
<th>Neuroticism</th>
<th>Openness to Experience</th>
<th>Task Conflict</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conscientiousness</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Extraversion</td>
<td>0.554**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agreeableness</td>
<td>0.452</td>
<td>0.342</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Neuroticism</td>
<td>0.634**</td>
<td>0.513</td>
<td>0.552</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Openness to Experience</td>
<td>0.329</td>
<td>0.338</td>
<td>0.437**</td>
<td>0.472</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Task Conflict</td>
<td>0.475</td>
<td>0.562**</td>
<td>0.425</td>
<td>0.431</td>
<td>0.448**</td>
<td>1</td>
</tr>
</tbody>
</table>

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

The above table 4.2 of correlation represents the strength of association between two variables. The correlation value of extraversion with conscientiousness is .554, means that strength of
association between extraversion and conscientiousness is 55.4% the association is highly significant at .01%. The correlation value of agreeableness with conscientiousness is .452 and with extraversion is .432 means that strength of association between agreeableness and conscientiousness is 45.2% and with extraversion is 43.2%. The correlation value of neuroticism with conscientiousness is .634, with extraversion is .513 and with agreeableness is .552 means that strength of association between neuroticism, conscientiousness, extraversion and agreeableness is 63.4%, 51.3% and 55.2% respectively. The correlation value of openness to experience with conscientiousness is .329, with extraversion is .338, with agreeableness is .437 and with neuroticism is .472 which means that strength of association between openness to experience, conscientiousness, extraversion, agreeableness and neuroticism is 32.9%, 33.8%, 43.7% and 47.2% respectively. The correlation value of task conflict with conscientiousness is .475, with extraversion is .562, with agreeableness is .425 and with neuroticism is .431 and with openness to experience is .448, which means that strength of association between task conflict, conscientiousness, extraversion, agreeableness, neuroticism and openness to experience is 47.5%, 56.2%, 42.5%, 43.1% and 44.8% respectively.

Table 4.3: Model Summary*

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.537</td>
<td>.562</td>
<td>.511</td>
<td>.19171</td>
</tr>
</tbody>
</table>

In table 4.3 the personality characteristics were taken as independent variable and task conflict as dependent variable. R shows the strength of association. The value of R is .537, which means that personality characteristics and task conflict are 53.7% percent correlated with each other. R^2 shows variance explained in the dependent variable due to variation in the independent variable. The value of R^2 is .562, which means that personality characteristics causes 56.2% percent variation in task conflict.

Table 4.4: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>19.677</td>
<td>2</td>
<td>8.633</td>
<td>171.987</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>7.501</td>
<td>125</td>
<td>.041</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>27.667</td>
<td>127</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above table 4.4 shows the results of ANOVA test. The test was used to know the model fitness. For the estimation of the results, the researcher should be sure about the model fitness. If the model is suitable then the results are trustable and if not then the model should be changed. The important value in this regard in the table is F-statistics. The standard in this regard is 4. If the value of F-statistics is higher than 4 then the model is statistically significant and suitable for the estimation of results and if the value of F-statistics is lower than 4 then the model should be changed and it is not suitable for the verification of hypothesis. The F-statistics value in the above table is 171.897. The p-value is .000, which means that the model is suitable and statistically significant.
Table 4.5: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.423</td>
<td>.102</td>
<td></td>
<td>09.071</td>
</tr>
<tr>
<td>Personality Characteristics</td>
<td>.182</td>
<td>.053</td>
<td>.133</td>
<td>4.713</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Task Conflict

The table 4.5 shows the results of coefficients that have been used in the regression test as the independent variables. The value of β for personality characteristics is .182. It further shows that 1 unit change in the personality characteristics causes .182 units increase in task conflict. The t-value of personality characteristics is 4.713 (p=.001), shows that personality characteristics were found to have significant effect on task conflict.

Table 4.6: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.671</td>
<td>.687</td>
<td>.601</td>
<td>.29711</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Conscientiousness, Extraversion, Agreeableness, Neuroticism, openness to experience

In this table 4.6 the factors of personality characteristics i.e conscientiousness, extraversion, agreeableness, neuroticism and openness to experience were taken as independent variables and task conflict as dependent variable. The value of R is .671, which means that personality characteristics and task conflict are 67.1% percent associated with each other. The value of adjusted R-Square is .601 shows that 60.1% variation in task conflict is caused due to variation in the independent variables.

Table 4.7: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>26.765</td>
<td>2</td>
<td>9.323</td>
<td>24.71</td>
<td>.000</td>
</tr>
<tr>
<td>1 Residual</td>
<td>8.9391</td>
<td>125</td>
<td>.061</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>34.667</td>
<td>127</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Conscientiousness, Extraversion, Agreeableness, Neuroticism, Openness to Experience

b. Dependent Variable: Task Conflict

The above table 4.7 shows that the F value = 24.71 (p=.000) means that the model is statistically highly significant.
Table 4.8: Coefficients\(^a\)

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>1.423</td>
<td>.102</td>
<td>09.071</td>
<td>.000</td>
</tr>
<tr>
<td>Conscientiousness</td>
<td>.125</td>
<td>.033</td>
<td>.113</td>
<td>3.813</td>
</tr>
<tr>
<td>Extraversion</td>
<td>.119</td>
<td>.025</td>
<td>.109</td>
<td>2.327</td>
</tr>
<tr>
<td>Agreeableness</td>
<td>.327</td>
<td>.081</td>
<td>.301</td>
<td>5.381</td>
</tr>
<tr>
<td>Neuroticism</td>
<td>.271</td>
<td>.113</td>
<td>.319</td>
<td>4.268</td>
</tr>
<tr>
<td>Openness to Experience</td>
<td>.319</td>
<td>.105</td>
<td>.298</td>
<td>7.251</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Task Conflict

The above table 4.8 shows that the \(\beta = .125\) means that one unit increase in conscientiousness causes .125 units increase in task conflict, the \(\beta = .119\) means that one unit increase in extraversion causes .119 units increase in task conflict, \(\beta = .327\) means that one unit increase in agreeableness causes .327 units increase in task conflict, \(\beta = .271\) means that one unit increase in neuroticism causes .271 units increase in task conflict, \(\beta = .319\) means that one unit increase in openness to experience causes .319 units increase in task conflict. The t values for conscientiousness, extraversion, agreeableness, neuroticism and openness to experience respectively are t=3.813 (p=.001), t=2.327 (p=.003), t=5.381 (p=.000), t=4.268 (p=.000) and t=7.251 (p=.000). Hence show that all the values are significant which means that all factors of big five personality characteristics have significant effect on task conflict. All the hypotheses v been accepted.

5. Conclusion

The study was conducted to analyze the effect of personality traits and organizational culture. The study was basically conducted on the telecom sector of Pakistan. The employees working in the telecom companies at Peshawar were the population of the study. 207 employees from telecom companies comprised of sample size of the study. Simple random technique was used. The data was collected by closed ended, structured questionnaire. 5 likert scale method was used in the questionnaire (strongly disagree, disagree, neutral, agree, and strongly agree). Reliability statistics was used to know the reliability of the variables, to check that whether the variables are reliable for the data collection. Correlation test was used to know the relationship among the dependent and independent variables. Regression test was used to know the cause and effect of the variables. As per the results of reliability test all the variables are reliable. The value of Cronbach’s alpha is above 70% for all variables. As per the results of correlation test, organizational conflict has 83 percent positive relationship with organizational culture and this relationship is significant under 5 percent. Organizational conflict has 55 percent positive correlation with personality characteristics and also significant. According to the regression results of personality characteristics and organizational culture on organizational conflict, personality characteristics have insignificant effects on organizational conflict (p-value= .089). While organizational culture has significant effects on organizational conflict (p-value= .000).

References


Evaluation of Performance Appraisal System in Public Sector Universities: A Critical Case of a Public Sector Institution (PSI)

RABIA INAM KHAN
Lecturer, Bacha Khan University, Charsadda
rabia.khan138@live.com

MUHAMMAD NISAR KHAN
Lecturer, Bacha Khan University, Charsadda
nisarmgt@bkuc.edu.pk

MUHAMMAD ILYAS
Lecturer, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
Milyas_85@awkum.edu.pk

Abstract

The utmost aim of this research is to examine the current performance evaluation system undertaken by a public sector university and to uncover the perceptions of teachers about the existing system and to present some recommendations to perk up the system. This research is an exploratory study where primary data has been collected from a well-recognized public sector university through questionnaires. 344 questionnaires were distributed out of which 300 were returned. Findings of the study depict that the current evaluation system does not provide feedback to the teachers. The results of the appraisal reports are kept confidential which becomes a hurdle in teachers’ developmental process. In addition to it, results have showed that performance appraisal system have impact on teachers’ commitment and their skills. This study can play a crucial role in coercing the higher authorities to contemplate their performance evaluation system. This study suggests that by setting mutual performance objectives, emphasizing on performance planning, and providing feedback to the teachers’ can help in learning and development purposes of teachers in universities.

Key words: Performance appraisal (PA), evaluation, teacher, feedback, Performance management, performance planning, Public Sector Institution (PSI)

1. Introduction

Every organization has some objectives and is dependent on its employees for the achievement of these objectives. The attainment of these goals and objectives is contingent on the performance of personnel of an organization. So, it is imperative to analyze the performance of employees and evaluate their role in the success of an organization. For this purpose, organizations engage themselves in performance evaluation of their employees. They appraise employees’ performance through different means. Performance appraisal is a central part of HRM. According to Renganayaki (2013) performance appraisals were first used during the World War II back into the twentieth century. Performance appraisal is a formal assessment tool that helps to measure employees’ performance against some pre-determined performance standards. It helps to evaluate
the quality of employees’ work. Performance appraisal is a part of performance management system. Organizations use performance appraisals for the number of purposes. Firstly, on the basis of appraisal, employees are being allocated with rewards such as salary raise, increments, promotions etc. Secondly, performance appraisals help to highlight the areas of strengths and weaknesses. It helps employees to develop by identifying the deficiencies in their performance. Thirdly, it differentiates between average and above average performers. It helps management to take administrative decisions.

Like other organizations, Higher Educational Institutions (HEIs) also employ themselves in appraisal process. Educational institutions are dependent upon teachers’ skills and knowledge. HEI’s particularly universities appraise the performance of teachers for the purpose of learning and development. In Pakistan, High Education Commission (HEC) is responsible for development of teachers’. For this purpose, HEC provides various scholarship and training programs and other initiatives. HEIs emphasize on the quality of education and for providing quality education teachers’ efforts and performance are being assessed through performance appraisals as they are the nucleus of the universities. This study is executed within an aim of examining the performance appraisal system of a public sector university. A Public Sector Institute has been taken as a case study for this research. This PSI is the top ranked university in the southern Punjab. It was established in 1925. Since then, this institution has been providing quality education to thousands of students. In 1975, this PSI was chartered as a general university. Today more than 2000 employees are working in it and more than 15000 students are studying here.

1.1 Research Objectives

The utmost objectives of this study are as follows
- To understand the significance of performance appraisal process for the purpose of employee development and advancement.
- To analyze the current technique being adapted by PSI for evaluating employees’.
- To investigate the connotation of feedback in appraising teachers’ performance in PSI.
- To highlight the problems which are often being by teachers while executing the process of performance appraisal.
- To suggest some recommendations for the current system of appraisal.

2. Literature Review

Performance appraisals of employees are indispensable and obligatory to comprehend every employee’s abilities, knowledge, strengths, competencies, work behavior and relative value and worth for the particular organization. Performance appraisals act as cornerstone for achieving individual as well as organization wide objectives. Performance appraisals aim at rating the employees’ in terms of their performance and Feedbackprovides information about the effectiveness of employee’s performance and let them know about their strengths and loopholes of their work. Performance appraisal is an effectual contrivance for an organization to prospect and move towards its goals and progress. It is an opportunity in a way that it enhances two-sided/way communication and develops a harmonious relationship between supervisor and subordinate. Hence, employees are inspired and motivated to make advancements in their performance when they are being rewarded both financially and non-financially for their performance (Stone, 2008). As organizations are becoming diverse and going through a period of rapid change, they are in quest of effectual
management techniques and one of these techniques is performance appraisal (De-Waal, 2007). Aguinis (2007) concluded his views by defining performance appraisal as an unremitting and incessant procedure of categorizing, computing and enhancing the performance of the personnel and achieving organization wide objectives. Various practices escort this process such as human resource development, career development opportunities, feedback on regular basis and differentiating employees’ attainments and accomplishments. Dessler and Varkkey (2007), are of the view that performance appraisal is the comparison between actual and the desired performance of the employees. Associating actual results with the standards of the organization is a very crucial process. DeCenzo and Robbins (2006) revealed that performance management systems are formed for the purpose of feedback, documentation and the most imperative is development. But if poorly executed, performance appraisals can de-motivate the employees and can lower the productivity. 

Performance management is a two way communication between an employee and an employer of a firm. It ensures that individuals are working towards organizational goals. It also assists an organization to create alignment between individual and organization’s objectives. Stronge and Tucker (1999) described that employees’ evaluation can be a great source of learning and development and organizations should assess their employees on formal and informal basis. Atiomo (2000) stressed the significance of performance appraisals by concluding that appraisals not only highlight the recital of employees but they also draw attention to those organizational issues which need attention regarding to the performance of the incumbents. For that purpose, managers should clarify the roles and responsibilities of their subordinates so that they know what is expected of them and how they should achieve it. Rather than evaluating performance on personal characteristics of job incumbents’, performance is appraised on the job behaviors and results and outcomes. There is a scenario of open communication during the evaluation and review of appraisal as managers tell their subordinates about their performance and ways to continually improve it.

Organizations should focus on improving individual performance through all legitimate and ethical ways. He further stressed that one of the cornerstone approaches to improve performance is to provide feedback to the employees about their work so they can develop themselves. Traditional organizations related appraisals with pay only but contemporary organizations are of the view that performance appraisals prove to be a helpful tool in determining training needs, improving communication skills of the employees, spotting their current performance and taking corrective actions. According to Dulewicz (1989), performance evaluation is the ability of the job holder to make judgments about the performance of colleagues and oneself too. So, organizations should form a general phenomena with the help of which they can evaluate performance of all their workers. Similarly, Beer (1981) pointed out that performance appraisal system are a basis of providing knowledge to the employees about themselves, that how they are performing and also what level of performance is expected of them by the manager.

Armstrong (2006)is of the view that performance management is a two way and a systematic process and it aims at refining organizational performance by mounting the recital and performance of individuals and teams The overall endeavor of performance management is to ascertain a high performance culture where all the organizational members take personal responsibility for the unremitting perfection and enhancement of business processes and for their own skills and abilities. Performance appraisal is the continuous course of acquiring, examining and collecting evidence about all the related knowledge of employee’s work. The foremost rationale of evaluating performance of workforce is to determine and improve the authentic performance of the employee to let them know their loopholes so that they can overcome them in order to progress. Performance appraisal and evaluation helps individuals by providing them necessary feedback and
provide opportunities for career development (Gomez-Mejia, 2007). Obisi (2011) revealed that one of the major determinants of boosting organizational performance is evaluating its employees on regular basis. Those organizations that have adapted error free appraisal system have a competitive advantage while organizations having weak and inconsistent appraisal system fail to execute their businesses and do not develop. It opens paths for training and development. It also creates configuration between individual growth and organizational growth.

Cokin (2004) is of the view that performance appraisal is central to organizations as it entirely focuses on the development of employees’ capabilities and help them to advance their career ladder. Performance appraisal serves different objectives. From manager’s perspective, employees’ performance is assessed to provide efficient workers with rewards and incentives and to promote them to the next rank whereas punishing the non-productive workers. While from an employee’s perspective it provides a sense of satisfaction and motivation to them and helps them to know about their annual performance against the standards. Thus a strong mutual relation between supervisor and subordinate is important for evaluating performance of the employees (MacKenzie, 1995). For organizations, performance appraisal is a very productive and beneficial activity if conducted properly. Employees should be appraised on the basis of their job knowledge and performance rather than on the basis of their personal characteristics and liking and disliking. Performance evaluations increase job motivation of employees (Leila et al., 2011).

Likewise, Teratanavat et al. (2006) emphasized the significance of performance appraisal process. According to their view, the results of performance appraisal include reduction in employees’ anxiety and assessing employees’ current performance and providing them feedback to make it better. This feedback helps them to work with more determination and help them to advance in their career. The traces of performance appraisal and evaluation can be found during the epoch of F.W. Taylor in the start of 20th century. His principles of scientific management brought revolution in the discipline of management. But performance appraisal got popularity after 2nd world war. During 1950’s the organizations of America started evaluating their employees performance through different means and since then almost every organization evaluates its employees’ efforts now (Khan, 2013). Contemporary organizations are shifting their trend to pay according to the performance. Managers are focusing more on performance management systems and rewarding their employees according to their contribution. So, performance evaluations can bring a drastic revolution in the organizations if conducted properly. Performance appraisals have a sound impact on employees’ motivation (Jabeen, 2011).

Khan et al. (2011) elaborated that along with attractive rewards and salaries employees also get motivated if their performance is evaluated and is linked with rewards. Organizations which focus on improving individual performance of their employees can flourish organizational performance too. According to Aslam and Sarwar (2010), those firms that review employees performance, execute performance planning, provide training and development needs can help develop their employees’. Likewise, Malik et al. (2011) explained that performance appraisal is concerned with the enhancement of performance of an employee. Supplementary to performance appraisal, there are many other factors like opportunities for training and development provided by the organization, employee motivation and job satisfaction which are crucial for boosting performance. So, top management of an organization can work on these factors to develop their personnel. Qureshi et al. (2010) have asserted their views that performance appraisals are indispensable for the success of organizations. It has been found that fair evaluation of employees’ help them to motivate and
achieve higher outputs. But often organizations face some challenges while evaluating employees’ work. It is because organizations often neglect different aspects of appraisals which can distort the whole phenomena.

Renganayaki (2013) has also viewed the outcomes of performance appraisals. He concluded that performance appraisal is a source of job advancement and promotion, helps to determine training and development needs and design programs for improving skills of employees’ and provide feedback to the workers. But this process of appraising employees should be carried out carefully and efficiently. Showing leniency and carelessness in appraisals can have adverse effects on employees’. Organizations engage themselves in a number of different techniques for assessing employees’ independent and group performance. These techniques include Essay method appraisal, straight ranking method, paired comparison, critical incidents method, checklist method, assessment centers, MBO, BARS, forced choice method and 360 degree performance appraisal (Sharma et al. 2012). Essay Method of appraisal is of the traditional approach for assessing employee’s performance. It involves detailed description of appraise performance by his/her immediate supervisor. This method often includes examples to support the description of employee’s performance. Straight ranking method is one of the uncomplicated methods of appraisal. It involves simply ranking employees from top performers to the low performers” on the basis of their annual performance. It is useful when we compare employee’s performance independent of others (DeCenzo and Robbins, 2006).

In paired comparison, an individual is compared to the group of workers one by one. After all the comparison, final rankings are being given. While in critical incidents method, managers keep all the record of subordinate’s positive and negative work related behavior. They maintain a log of all critical situations and employee’s behavior during that particular situation. With the passage of time, managers discuss those incidents with the job incumbent so they can improve themselves if necessary. Checklist method of appraisal is also a simple technique involving a list of statements regarding the behavior of employees on job. The appraiser rates that statement which best describes the worker’s behavior. Assessment centers are an expensive source of evaluating an employee’s abilities. It involves different activities and often involves a job simulation where employees’ perform same kind of work which they would perform in the future if they get promoted. Employees’ are being observed and rated by senior managers and often psychologists. One of the modern approaches that organizations adapt to assess their employees’ work is Behaviorally Anchored Rating Scales (BARS). This technique is a combination of two approaches i.e. graphic rating scale and critical incidents approach. It comprises some pre-established significant areas of job performance or behavioral statements that explain some significant qualities for performing job as good or bad. These qualities may include relationships with your colleagues, subordinates and seniors, flexibility towards a job and organization and having job related knowledge. These statements are made with the help of critical incidents. Organizations that adapt BARS require more expertise and knowledge (Sharma et al. 2012).

In forced choice method, employees have to select the most appropriate or most suitable answer from the number of options given in the form. While Management by Objectives method involves goal setting and continually reviewing employees’ performance to verify the attainment of those goals. Managers and employees set mutual goals. As a result, employees’ will exhibit better performance than before as they are involved in goal setting. If employees attain their organizational goals successfully, they are being rewarded and often promoted. 360-Degree feedback is one of the most powerful and widely used techniques of employee appraisal. This method involves collecting information from different sources. These sources may include peers, subordinates, customers, supplies. This technique is considered as one of the most reliable and valid method as it involves numerous sources. Most of the organizations use a combination of these methods.
to reduce the errors of each method and to increase the reliability and validity of the appraisal process (Robbins and Courtler, 2005). Rasheed et al. (2010) found in their study that along with financial rewards there are some non-financial rewards that act as a great source of motivation for teachers in academic field. These non-financial or intrinsic rewards involve decision making power and authority given to the employees, working environment, job element and design, and feedback given to the teachers in higher education institutions. This information in the shape of feedback assists teachers in knowing. Likewise, Rasheed et al. (2011) asserted their views about the implication of performance appraisals in universities. They are of the view that teachers’ performance should be appraised continuously as they are a foremost starting place for students’ learning and development. There are a number of obstacles in appraising teachers’ performance. These impediments include untrained appraisers, lack of constructive feedback from students, lack of motivation and superseded appraisal system. Ishaq et al. (2009) stressed that employees’ of Pakistani organizations are well aware of the outcomes associated with performance appraisal. But they are unaware of those factors that can detriment the process of appraisal. These factors may include policies within an organization, appraisers’ insufficient knowledge and many else. Vaillant (2008) stressed the significance of teachers’ appraisal. According to her view, there are many different ways for appraising teachers in academic institutions and there exists some hurdles that can hinder the appraisal process. These obstacles may be operational or political. According to Flores (2010), while evaluating teachers there can be some decisive issues. These issues include present rules and regulations, untrained appraisers and the concept of quota system.

3. Research Methodology
3.1 Research Design

As the study was executed with the intention of gaining insights and clearly explaining the problem so I opted for exploratory research. As Zikmund (2003), stressed that exploratory studies are conducted when researchers have little or no initial information about the particular problem. This type of research assists researchers to explore and clearly define the nature of problem. According to Sekaran and Bougie (2010), exploratory study is conducted when we lack sufficient information. So, for obtaining rigorous results the researcher has conducted exploratory research. The survey research design methodology was used in this study to get an idea about the phenomenon or to explain the nature of the study.

3.2 Research Strategy

The ultimate strategy behind conducting this research is to analyze the current system being implemented in PSI for evaluating teachers’ performance and suggesting them a better system with some broader perspective that can be advantageous to the management as well as can enhance the performance of teachers. The target population for this research was employees of the public sector institution. As the population is huge, so a sample of the population was chosen. Sample consisted of 344 employees. 344 questionnaires were distributed among employees out of whom 300 were returned. The profile of the respondents included lecturers, assistant professors, associate professors and professors. The total population of the PSI is 2343. Non-teaching staff is 1933 and the teaching staff is 510.
3.3 Research Tools

In this research, the researcher has adopted quantitative approach. Questionnaires were distributed among the respondents. And the questionnaire has been adopted from another research conducted in Nass Construction Company of Bahrain and its title is “PERFORMANCE APPRAISAL SYSTEM: It’s Implication to Employee Performance” (Lisa Estino Daoanis, 2012). The questionnaire has been divided into two parts. The first part comprises of demographics portion and the second part includes item that measure performance appraisal and management practices being implemented in PSI. Below is the questionnaire being used in this research.

4. Data Analysis
4.1. Reliability and Validity of the Performance Appraisal System

The questionnaire consists of 6 variables and 38 items. Different items measure different variables. The first variable is Reliability and validity. The first question to measure this variable was “the results of the evaluation are openly explained and discussed to the employee concern. The results show that more than 40% of the employees disagreed with this statement. The reason is that being a public sector university, the management evaluates performance of its employees through Annual Confidential Reports (ACR) which are also referred as Performance Appraisal Reports (PARs). The basic rationale behind these reports is that the results are not being shared with the employee. These PARs do not tell employees their strengths and loop wholes. Their annual performance and evaluation is kept confidential. There is no concept of sharing. In response to the statement of the questionnaire “the performance appraisal system is aligned with the vision and mission of the institution” was evident that 60% of the employees agreed that the performance evaluation system is supporting the organization’s purpose and its longtime objectives. The response to the questionnaire statement “The appraisal system is accurate in terms of content and purpose” depicted that more than 40% agreed with the statement and 22% of teachers disagreed with the statement. It depicts that the majority of the teachers agree that the purpose of the evaluation is accurate. Teachers’ response to the questionnaire statement “Conducts of evaluation are honestly and fairly done” showed that 60 % of the teachers agree that evaluations are done on fairly basis while 20% disagreed with this statement. 55% of the teachers agreed with the questionnaire statement “the performance appraisal system is relevant and reliable”. It shows that the majority of the teachers are of the view that the evaluation system is related as well as consistent too. By conducting in-depth analysis of the secondary documents of PSI, it was concluded that ACR consists of 4 parts. The concerned teacher fills the first part. The second part is being filled by the chairman of that particular department, who is the reporting officer as well. The third person who fills the ACR is the Dean of that particular faculty. Finally, it goes to the vice chancellor of the university, who typically analyzes the first three sections of the form.

4.2. Quality of Performance Appraisal System

To assess the quality of the performance evaluation system of PSI, four questions were asked from the respondents. The first statement was “The objective of the appraisal tool is appropriate to the needs of the staffs and faculty”. More than 30 % of the teachers agree with this statement. They are of the view that appraisal system fulfills the needs of all the teachers. While more than 20% disagreed with this statement. According to them, the appraisal does not serve the requisite purposes. According to them, they are not given
increment and promotions on the basis of ACRs whereas the utmost purpose behind assessing employees’ performance is to give them salary rise, promotions and incentives. In response to the questionnaire statement “the performance appraisal system is designed to motivate employees” 45% employee agreed while 15% disagree with it. Majority of the teachers are of the view that the basic drawback of this obsolete evaluation system used in PSI is that the results of this evaluation is not shared with the concerned employees. These reports are kept in secrecy and confidential and the feedback is not provided to the employee. In response to the questionnaire statement “the performance appraisal of the organization is fair and objective” 38% of the teachers agreed while 25% of the teachers disagreed with it. Majority of the teachers think that they are being evaluated on some fair criteria and without any biasness. Teachers are evaluated on their performance but these evaluations are kept confidential. Good and bad performers are not distinguished. In response to the statement “the performance appraisal system recognizes employee achievement and performance objectively” 60% of the teachers agreed while 15% of the teachers disagreed. For many of the teachers, PA system identifies their achievements.

4.3. Effectiveness of Performance Evaluation System

Teachers’ response to the questionnaire statement “Those who got the highest rank are given appropriate rewards” was negative. 58% of the teachers disagreed with this statement as one of the Assistant professor said that “we are not given rewards and increments on the basis on ACRs. Rather it is simple evaluation of our annual performance and the biggest drawback of this evaluation system is that the results are not being shared with the teachers. ACRs do not serve the purpose of learning and development.” 40% of the teachers agreed while 30% disagreed with the statement “the appraisal system of the organization is motivating to the employees”. For the majority of the teachers, appraisal motivates them to work hard while for others it does not. Teachers’ response to the statement “the employees are satisfied with the way they are being evaluated and ranked” was neutral. Majority of the teachers showed neutral response while 28% agreed with it and 23% disagreed with the statement. Satisfaction level of all the teachers varies. Some have positive verdicts about this evaluation system while others have negative.

In response to the questionnaire statement “the appraisal system is effective in encouraging employees to work hard” 35% of the employees showed positive responses while 40% showed neutral responses. One of the lecturer said that “fair evaluations encourage us to work better and enhance our performance while biased evaluations de-motivate us and are a source of poor performance”. In response to the research questionnaire statement “employees take part in the formulation of the performance appraisal system” 38% agreed while 30% disagreed while 12% of the teachers strongly disagreed with this statement. Majority of the teachers’ response showed that they are not involved in setting the performance standards for the university. This is only the top management who executes the performance planning process. According to many teachers’ one of the utmost reason that becomes obstacle in achieving higher performance is lack of communication and lessen performance planning among HOD’s and teachers. They said that the lack of involvement of teachers in setting standards of performance, making significant decisions and performance planning is a drawback of the current evaluation system. Contemporary organizations are adapting 360 degree appraisal method. As this method involves feedback from multi sources, so this system is most valid and reliable and has many advantages. These organizations are also moving towards mutual goal setting, performance reviews, and performance development and evaluate performance for the purpose of learning and development. So, public sector universities should also adapt this system to enhance their performance.
4.4. Impact of the Performance Appraisal on Commitment as perceived by Teachers

The fourth part of the questionnaire analyzes the impact of performance appraisal on teachers’ commitment and skills as perceived by teachers themselves. The analysis explored that almost 60% of the teachers agreed with the questionnaire statement “my enthusiasm in performing my job” while 15% strongly agreed. According to the employees’, fair and unbiased appraisals have a positive impact on performance of individuals’ and it encourages teachers’ to exert more efforts. 58% of the respondents agreed with the statement “my efficiency and effectiveness”. It depicts that appraisal have a sound impact on the effectiveness and efficiency of teachers’ performance. In response to the questionnaire statement “my initiative in doing my work” 50% of the teachers’ agreed while 20% strongly agreed. It shows that performance appraisal helps to encourage employees’ to take initiative steps and enhance their learning. Data analysis of the respondents showed that more than 50% of the teachers agreed to the statement “my attitude towards assigned task”. Research showed that more than 50% employees agreed with the statement that impact of performance appraisal on “my attitude towards assigned task”. 58% of employees agreed while 22% strongly agreed with the statement that PA influences “my punctuality and attendance”. Effective Performance appraisal systems have a profound effect on organizational members and their performance. Analysis showed that 60% of the employees’ agreed that “my attitude towards doing my work beyond my time” is influenced by the performance appraisal. Response to the questionnaire statement “my loyalty to the organization” showed that 53% agreed with this statement while 33% of the teachers’ strongly agreed. They said that clear performance objectives help in creating loyalty towards organization. Coherent and cogent goals related to individual and organizational performance help in attaining success throughout the organization. 30% of the employees agreed while 35% strongly agreed with the statement impact of PA on “my motivation in doing work”. Efficient PA system is also a source of employee motivation. Employees’ competencies are enhanced when they are evaluated fairly.

![Impact of PA system on employee's enthusiasm](image-url)
4.5. Impact of Performance Appraisal on Skills as perceived by Teachers

Transparent evaluation systems set clear performance goals for the organizational members and help to enhance the skills and knowledge of employee. Evaluations based on some predetermined criteria help employees’ to learn and develop their skills with the passage of time. According to the analysis of the data collected from teachers’ of PSI, 54% of the teachers agreed while 20% strongly agreed with the statement “my interpersonal relationships.” Teachers stressed that open communication and performance reviews are a source of harmonizing the relationship among faculty members and the Chairman of the particular department. Feedback from the HOD helps to strengthen the interpersonal relationship but the evaluation system of PSI lacks feedback and the performance appraisal reports are kept confidential. 60% of employees agreed to the statement “my productivity and output”. Those employees’ that get good appraisals enhance their productivity and are motivated to perform better. According to the research, 48% of the employee agreed while 24% strongly agreed to the statement that PA has an impact on “my knowledge and understanding of my task”. 51% of the employees agreed while 22% strongly agreed with the questionnaire statement “my expertise”. Performance appraisals highlight areas of strengths and weaknesses of employees. In this way, employees try to now their weaknesses and try to improve them through upgrading their knowledge and through trainings. Similarly 62% of the employees agreed with the statement “my work skills”. Analysis showed that 47% agreed while 32% strongly agreed that performance appraisal has an impact on “my initiative in pursuing higher education”. Those teachers whose performance is above standard are encouraged to get higher education by their seniors and chairman. 48% of the teachers agreed while 12% strongly agreed that PA has an impact on “my leadership skills”. 40% of the respondents agreed that PA has an impact on “my technical skills” while 22% disagreed.
4.6. Problems in the implementation of performance appraisal system as perceived by the Respondents

Every system has some strong points and some loopholes in it. Similarly, performance appraisal systems also have some weak points. After collecting data from the teachers of PSI, it was assessed that it also lacks some important constituents of a transparent and effective Performance appraisal system. According to the respondents’ response, 42% of the teachers disagreed while 12% agreed to the statement “the current appraisal system does rates the extra work of employee”. Teachers stressed that often they work beyond time and perform some clerical work too but they are not evaluated and rewarded for that.

Analysis showed that 33% of the teachers showed neutral responses whilst 28% disagreed and 20% agreed to the questionnaire statement “the result of the evaluation is reliable and valid”. Some teachers think that the current appraisal is consistent and accurate while others think that there is no consistency in the system and ratings are not accurate. Research analysis showed 42% of the teachers disagreed and 18% strongly disagreed with the questionnaire statement “results of the evaluation are discussed and explained to the employee concern”. The biggest drawback of the current PSI’s PA system is that the results are not explained with the teachers. Chairmen do not discuss the evaluation results with the concerned teachers. This communication gap is the source of teachers’ de-motivation and discouragement and it often becomes an obstacle in achieving organizational objectives.
42% of the teachers’ agreed while 12% agreed that “employees are involved in the formulation of tool evaluation”. Performance standards and tools for evaluation are decided by the chairmen, deans and vice chancellor of the university while faculty members are sometimes involved and most of the times they are informed about it. Analysis showed that 49% of the teacher agreed whilst 10% teachers disagreed with the questionnaire statement “the appraisal system of the organization is relevant”. Research analysis showed that 36% of the teacher agreed whilst 22% teachers disagreed with the questionnaire statement “the criteria of the appraisal system are accurate”. Majority of the teachers had a view that current system of the PSI has accurate criteria for measuring teachers’ performance. In response to the questionnaire statement “employees are rated according to the nature of their job and responsibilities” 33% of the teachers disagreed while 18% agreed. Teachers’ job elements are quite challenging and require hard work to complete the job but they are not rated according to their duties and responsibilities which they perform at the workplace. In response to the last questionnaire statement” the performance appraisal system is effective” 35% of the teachers showed neutral responses, 32% disagreed while 13% agreed. This system lacks effectives because teachers’ are not given promotions and increment on the basis of the current appraisal system. It also lacks feedback. HODs do not share the results of the reports with the concerned employees which is the biggest drawback of this system. Due to lack of feedback, teachers cannot develop their skills and knowledge.
5.1. Conclusion

This research was executed with the prime goal of analyzing the current performance evaluation system of employees particularly of teachers in PSI. After the data collection and analysis, findings suggest quite a few conducts that the top management including Chairmen, Deans and VC should acclimatize in order to enhance the quality of education and in order to develop the skills and knowledge of teachers. As universities are knowledge based organizations, so the effective evaluation of teacher’s performance is of utmost importance and teachers are the building blocks of universities. The university is dependent on the expertise, knowledge, commitment and innovation of the teachers. The development of students’ skills is dependent upon teachers’ skills and abilities. It is important to inform teachers about their strengths and weaknesses. The current evaluation system of the PSI does not provide feedback to the teachers about their performance. This lack of feedback and employee recognition is a major source of de-motivation among teachers. Chairmen should focus on performance planning and should involve teachers in setting goals and objectives. They should conduct appraisal interviews and performance review meetings frequently with the faculty members.

Along with the task performance of teachers, contextual performance should also be emphasized. It is might possible that an employee is dexterous in task performance but he is underperformer regarding the contextual performance. The management of the university should implement a Performance management system that is open, flexible, and inclusive and that differentiates efficient and inefficient teachers. Results have shown that appraisers play an integral role in appraising performance of the teachers so chairmen, who are the reporting officers, should be trained enough to evaluate their faculty members. They should be well aware of the job description of the teachers and should know the mission and strategic goals of the department and
university as well. Findings have revealed that traditional sort of evaluation system does not works in knowledge based organizations. Similarly, ACR in PSI is less appropriate. In order to compete effectively, this PSI needs to maximize the learning and development of teachers who are the ultimate source of bringing innovation and enhancing quality of education. PA system should be acceptable to the whole staff. Contemporary organizations are adapting evaluation systems that are inclusive and evaluate employees on the basis of multiple sources. The management of the PSI should focus on feedback for the purpose of continuous improvement and should link performance with rewards. Performance of the teachers should be measured on the basis of their declarative knowledge, procedural knowledge and their motivation to perform the job rather than evaluating them on the basis of few aspects.

5.2. Recommendations

Keeping in mind the findings of the research, following recommendations have been made that must be considered by the management of the university in order to enhance the performance of the teachers and to implement modern evaluation system.

1. The most important step which should be taken by the university management is to execute performance planning before performance period. Chairmen and the faculty members should set mutual goals and objectives. They should decide that what to do and how to do. Teachers should do their self-evaluation and should know their strengths and weaknesses. They should know that what are their competencies and how they can increase their knowledge and what are their key performance areas (KPA’s). Not only is this, for the continuous improvement of performance, there is a need of conducting appraisal interviews throughout the year. In spite of evaluating an employee annually, Chairmen should inform them formally as well as informally about the performance standards and key accountabilities. In short, discussion of developmental plan and performance standards with teachers is crucial.

2. The current performance evaluation system of PSI does not provide feedback to the teachers regarding their performance. Performance management system is a source of information for the organizational members. The basic purpose behind evaluating performance in a knowledge based organization like PSI should be to communicate all the information to the teachers regarding their performance. The management should implement a Performance management system that provides information regarding who are the effective and ineffective teachers, which teachers should be rewarded, what type of skills are lacking at the departmental level or at university level and who should be trained and in which areas.

3. Role of appraisers is crucial in evaluating performance of employees. Chairmen and Deans should be provided training regarding evaluation of teachers. They should have the required skills necessary to observe job related behaviors of their faculty members and should be able to systematically evaluate their performance. They should act as counselors. They should communicate performance data with the teachers and should review performance throughout the performance period.

4. Performance evaluation has a direct impact on employees’ motivation and skills. The management needs to recognize teachers work and efforts. Their achievements should be rewarded as the development of educational institutions in dependent upon teachers. Teachers are of the view that performance appraisal directly influences their performance. To enhance their performance,
performance management system should be designed in a way that highlights their areas of strengths and weaknesses and is congruent with university’s mission and vision.

5. PA system of PSI should constitute procedural justice. There should be fairness in evaluating teachers’ performance. Performance appraisal should be free of bias so that alignment can be created between individual and organizational goals. In addition to that, rewards must be linked with the performance of the teachers. It is the utmost duty of chairmen to recognize accomplishments of teachers and offer rewards including financial as well as non-financial. Non-financial rewards can be in the form of best teacher of the year, best researcher of the year, excellence awards etc. Recognition of the achievements is a great source of teachers’ motivation and a way to success.

6. Chairmen should evaluate not only the task performance but also the contextual performance of the teachers. Along with the skills and abilities of the teachers, their enthusiasm in helping others, exerting extra efforts, willingness to follow rules and regulation and endorsing and defending organizational objectives should also be considered. Ideal performance management systems take into account both dimension of performance.

References


The Status of the Performance Appraisal System of PSI.

Name: ___________________ (optional)       Age: _______       Gender: ___________
Education: _________________       Income:  ________       Designation: __________

1. **RELIABILITY And VALIDITY**
   1= Strongly Agree    2= Agree    3= Neutral   4= Disagree   5= Strongly Disagree

   1.1 The result of the evaluation are openly explained and discussed to the employee concerned.
   1  2  3  4  5

   1.2 The performance appraisal system is aligned with the vision and mission of the institution.
   1  2  3  4  5

   1.3 The appraisal system is accurate in terms of content and purpose.
   1  2  3  4  5

   1.4 Conducts of evaluation are honestly and fairly done.
   1  2  3  4  5

   1.5 The performance appraisal system relevant and reliable
   1  2  3  4  5

2. **On QUALITY**
   1=Strongly Agree    2= Agree    3= Neutral   4= Disagree   5= Strongly Disagree

   2.1 The objective of the appraisal tool is appropriate to the needs of the staffs and faculty.
   1  2  3  4  5

   2.2 The performance appraisal system is designed to motivate employees.
   1  2  3  4  5

   2.3 The performance appraisal of the organization is fair and objective.
   1  2  3  4  5

   2.4 The performance appraisal system recognizes employee achievement and performance objectively.
   1  2  3  4  5

3. **On EFFECTIVENESS**
   1= Strongly Agree    2= Agree    3= Neutral   4= Disagree   5= Strongly Disagree

   3.1 Those who got the highest rank are given appropriate rewards.
   1  2  3  4  5

   3.2 The appraisal system of the organization is motivating to the employees.
   1  2  3  4  5

   3.3 The employees are satisfied with the way they are being evaluated and ranked.
   1  2  3  4  5

   3.4 The appraisal system is effective in encouraging employees to work hard.
   1  2  3  4  5

   3.5 Employees take part in the formulation of the performance appraisal system.
   1  2  3  4  5
2. Impact of the Performance appraisal as perceived by the Respondents

1. On COMMITMENT 1= Strongly Agree 2= Agree 3= Neutral 4= Disagree 5= Strongly Disagree

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>My enthusiasm in performing my job.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.2</td>
<td>My efficiency and effectiveness.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.3</td>
<td>My initiative in doing my work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.4</td>
<td>My attitude towards assigned task.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.5</td>
<td>My punctuality and attendance.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.6</td>
<td>My attitude towards doing my work beyond my time.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.7</td>
<td>My loyalty to the organization.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>1.8</td>
<td>My motivation in doing my work.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

2. SKILLS 1= Strongly Agree 2= Agree 3= Neutral 4= Disagree 5= Strongly Disagree

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>My interpersonal relationship.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.2</td>
<td>My productivity and output.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.3</td>
<td>My knowledge and understanding of my task.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.4</td>
<td>My expertise.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.5</td>
<td>My work skills.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.6</td>
<td>My initiative in pursuing higher education</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.7</td>
<td>My leadership skills.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>2.8</td>
<td>My technical skills.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

3. Problems in the implementation of performance appraisal system as perceived by the Respondents

<p>| | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>The current appraisal does rate the extra work of the employee.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.2</td>
<td>The result of the evaluation is reliable and valid.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.3</td>
<td>Result of the evaluation are discussed and explained to the employee concern.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.4</td>
<td>Employees are involved in the formulation of tool evaluation.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.5</td>
<td>The appraisal system of the organization is relevant.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.6</td>
<td>The criteria of the appraisal system are accurate.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.7</td>
<td>Employees are rated according to the nature of their job and responsibilities.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>3.8</td>
<td>The performance appraisal system is effective.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>
Impact of Capacity Building on Emotional Intelligence and Counterproductive Work Behaviors: Evidence from FATA Secretariat, Pakistan

DR. QADAR BAKSH BALOCH
Director, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
qbbalo@awkum.edu.pk

SHEIKH RAHEEL MANZOOR
Lecturer, University of Agriculture Peshawar, Pakistan
Greenberet786@yahoo.com

FAROOQ HUSSAIN
Assistant Professor, Health and Physical Education Department
Abdul Wali Khan University, Mardan
farooqhussain@awkum.edu.pk

Abstract

This study aim the capacity building practices intrusion on emotional intelligence and counterproductive work behavior about the staff members of FATA Secretariat, Pakistan. The study incorporated questionnaires as a survey tool for data collection among the individual respondents on cross-sectional basis. Two statistical software’s namely SPSS and Liseral were utilized to analyze the collected data. Reliability and validity of the survey tool was checked through confirmatory factor analysis and found ideal. Structure equation modeling was integrated to tartan 3 devotee variables and was also found good. Result of the study depicts that there exists direct positive path among predictors and response variable. Suggestions and future research indications are also included in the study.

Keywords: Capacity Building, Emotional Intelligence, Counterproductive Behavior, SEM

1. Introduction

In recent era, organizations become more realistic and performance oriented. The decline of organizational success is due to negative employee performance within the organization which is known as Counterproductive Work Behavior (CWB) and is harmful for organization (Kelloway et al., 2002). The CWB is against the legal interests of an organization (Sackett et al., 2000). These sorts of behaviors tarnish the image of organization and are very detrimental for organizational employees, customers and success. Some scholars depict the facets of CWB which are workplace deviance (violation of norms), retaliation (vengeance), and workplace aggression (belligerence behavior) and are harmful for organization (Neuman & Baron, 1997). The reason why individuals subsist in CWB is lack of skilled labor, emptiness, insufficient skilled managerial staff, quality control and emotional inconsistency. For organizational sustainability and
enduring success CWB should be diminish or trim down. There is a great need of Capacity Building (CB) and Emotional Intelligence (EI) practices in order to overcome CWB at workplace. CB focuses on the development of skills, knowledge and information through training, mentoring and technical education which aims at performing tasks accurately and precisely (Awan, 2008). Capacity development of an organization needs to be made people centered through individuals who must be given information, resources and skills to carry out their work (Cheema, 1997). EI is an ability to discriminate between individual emotions at workplace i.e. good or bad. EI also work as a guide for individual thinking and behavior. Employers are now giving more emphasis towards employee development with new knowledge and appropriate skills through training and mentoring interventions. Trained individuals cannot operate in a vacuum of emptiness which leads towards CWB and provide him/herself all the time for necessary assistance, support and expertise (Penny & Spector, 2002).

This research study will endeavor to examine how much CB practice i.e. (training, mentoring/coaching, technical education and skills and knowledge) towards controlling CWB including (performance deviance, workplace bullying, cyber loafing, property sabotage) and improving EI including (self regulation, self awareness, empathy/motivation, social skills) and also to find out the impact of EI on controlling CWB. In order to meet those objectives the study organization will be employees of FATA Secretariat Peshawar.

2. Literature Review

2.1 Capacity Building and Counterproductive Work Behavior

Capacity Building (CB) focuses on the development of individual job skills, knowledge, information through training, coaching/mentoring and education (Awan, 2008). Whereas, Counterproductive Work Behavior (CWB) is describe as a behavior of workforce that contravene organizational regulations and rules which leads to detrimental effect for organization and its member’s well-being (Bennett & Robinson, 2000). Training and education are different in nature as education is the process of transferring information and knowledge where as training specifically designed to improve individual job skills which further leads towards enhancement in performance and productivity (Maharajj, Moodley & Reddy, 2000). CB practices enhance employee’s potential skills and reduce performance deviance (Cascio, 1998). Study depicts that the when challenges are harmonized to skill and capability, the individual experience s job satisfaction and focused attention (Cheema, 1997). Trained workforce is a vital source of the firm efficiency (Clark, 2000) because all the companies studied by Vakola (2000) reported an urgent need of training in order to use the existing skills and competencies efficiently. The major benefit infatuated by Japan and South East Asian countries were extremely trained technical workforce. A strapping mechanism was needed to translate the available expertise into economically productive output (Fransman, 1995).

\[ H_1: \text{CB has positive effect on controlling CWB.} \]

2.2 Emotional Intelligence (EI) and Counterproductive Work Behavior (CWB)

The EI came from the idea of social intelligence that was presented by (Thorndike, 1920). The idea of EI was firstly produced by Salovay and Mayer (1990) and stated that it is a capability of the individual’s to cope
up with emotions. The other scholars explicitly explain the EI as an aptitude to be familiar with one’s emotions in diverse situation through self regulation, self awareness, empathy/motivation and social skills (Wong and Law, 2002). Scholars identified two forms of performance deviance associated with employees which are interpersonal deviance and organizational deviance. The interpersonal deviance is detrimental for individuals whereas organizational deviance is harmful for organization (Bennett & Robinson, 2000). CWB was found a serious issue for organizational success which has to be addressed. One research study revealed that if employee emotional intelligence enhanced employees deviant work behaviors would reduce astonishingly (Mayer et al., 2003). The scholars further suggested that there exist negative relationship between EI and CWB.

The study on EI was depicted that it plays a pivotal role in preventing negative behaviors of employees (Martin & Kuiper, 1999). Another study concluded that employees EI permanence has adversely affect on CWB (Salgado, 2002). Employees having high level of EI have good moral attitudes towards those who possess low EI (Deshpande et al., 2005). In addition, to that research scholars hypothesize that those employee who have high EI engages less in deviant behaviors as compared to those who have low EI (Petrides, Frederickson & Furnham, 2004). Employees with low EI is the key factor for performance deviance and CWB (Deshpande et al., 2005). In the light of different studies it concludes that high EI is the main factor which reduces the CWB’s. So the second hypothesis of the study is as follows:

\[ H_2: \text{EI has positive effect on controlling CWB.} \]

2.3 Capacity Building and Emotional Intelligence

A study concluded that low level of individual’s EI is enhanced through CB practices and interpersonal skills (Jordan et al., 2002). The study of Slaski and Cartwright (2003) reported that EI can be enhanced through on or off the job training interventions. It is obvious that training in general has positive impact towards positive outcome of individual communication and conflict resolution. A study of Mayer and Salovey (1997) reported that CB practices increases the individuals awareness, understanding, facilitation and emotion of management. On the basis of literature the third hypothesis of the study is as follows:

\[ H_3: \text{CB has positive effect on EI.} \]
3. Methodology

3.1 Sample and Population

Population of the study was comprised of 200 staff members of FATA Secretariat Peshawar KP, Pakistan. The sample size was determined by the formula of (Cochran, 1977) i.e.

\[ n = \frac{N}{1+N*e^2} \]

Where \( n \) = sample size
\( N \) = Population
\( E \) = marginal rate of error i.e. (5%)
\[ n = \frac{200}{1+200*(.05)^2} \]
\[ n = 133 \]

The final sample was consisted of 133 staff members in whom 124 members have taken part in survey.

Figure 1: Conceptual Framework: Conceptual framework of the study is as follows namely, CEC model.
3.2 Measures

Measurement instrument tool was questionnaire which was comprised of 2 parts. Part 1 was based on demographic information and part two encompasses the questions regarding CB, EI and CWB on Liker Scale (5-point).

3.3 Capacity Building

CB including (training, mentoring/ coaching, technical education and knowledge and skills) was measured from the studies of (Awan, 2008; Clark, 2000) respectively. For each variable five items were incorporate on Liker Scale (5-point). Cronbach’s α was found .801.

3.4 Emotional Intelligence

EI including (self regulation, self awareness, empathy/motivation, social skills) was measured with slightly changes from the study of (Deshpande et al., 2005; Wong & Law, 2002). Cronbach’s α value was found .798.

3.5 Counterproductive Work Behavior

For measuring CWB including (performance deviance, cyber-loafing, workplace bullying and property sabotage) some items were taken from the study of (Awan, 2008; Bennett & Robinson, 2000). Scale reliability found .791.

4. Result of the Study

4.1 Demographic Information

Total 124 respondents of FATA secretariat included male and female were incorporated in the study. Management level were categorized in three sections low level employee were supervisors that come under cadre 16 and 17 grade, middle level managers were come under cadre of 18 and19 grade and the top level managers include 20 grade and above. The following table briefly depicts the respondent information.

<table>
<thead>
<tr>
<th>Age</th>
<th>Total</th>
<th>Gender</th>
<th>Female</th>
<th>9</th>
<th>4</th>
<th>3</th>
<th>16</th>
<th>12.9%</th>
<th>1.78</th>
<th>.137</th>
</tr>
</thead>
<tbody>
<tr>
<td>15-30</td>
<td></td>
<td>Male</td>
<td>73</td>
<td>31-45</td>
<td>29</td>
<td>6</td>
<td>108</td>
<td>87%</td>
<td>2.99</td>
<td>.289</td>
</tr>
<tr>
<td>45 &amp; over</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>Total</td>
<td></td>
<td></td>
<td>16</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>15-30</td>
<td>9</td>
<td>4</td>
<td>3</td>
<td></td>
<td></td>
<td>16</td>
<td>12.9%</td>
<td>1.78</td>
<td>.137</td>
</tr>
<tr>
<td>Male</td>
<td>15-30</td>
<td>73</td>
<td>29</td>
<td>6</td>
<td></td>
<td></td>
<td>108</td>
<td>87%</td>
<td>2.99</td>
<td>.289</td>
</tr>
<tr>
<td>Management Level</td>
<td>Total</td>
<td></td>
<td></td>
<td>124</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Middle Level</td>
<td>15-30</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Level</td>
<td>15-30</td>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>15-30</td>
<td>82</td>
<td>33</td>
<td>9</td>
<td></td>
<td></td>
<td>124</td>
<td>87%</td>
<td>2.99</td>
<td>.289</td>
</tr>
</tbody>
</table>
4.2 Reliability Statistics

Acceptable range of Cronbach’s α is between .79 and above (Sekran, 2003). Following table depicts all values are in adequate ranges.

Table 4.2: Variables Measurement

<table>
<thead>
<tr>
<th>Measure</th>
<th>Items</th>
<th>Mean</th>
<th>SD</th>
<th>A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity Building</td>
<td>General Training</td>
<td>3.92</td>
<td>.588</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mentoring/ Coaching</td>
<td>3.83</td>
<td>.472</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technical Education</td>
<td>3.62</td>
<td>.559</td>
<td>.801</td>
</tr>
<tr>
<td></td>
<td>Knowledge &amp; Skills</td>
<td>4.07</td>
<td>.511</td>
<td></td>
</tr>
<tr>
<td>Emotional Intelligence</td>
<td>Self Awareness</td>
<td>4.06</td>
<td>.612</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Self Regulation</td>
<td>4.09</td>
<td>.593</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social Skills</td>
<td>3.01</td>
<td>.683</td>
<td>.798</td>
</tr>
<tr>
<td></td>
<td>Empathy</td>
<td>4.02</td>
<td>.757</td>
<td></td>
</tr>
<tr>
<td>Counter Productive Work Behavior</td>
<td>Motivation</td>
<td>3.14</td>
<td>.582</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Performance Deviance</td>
<td>3.42</td>
<td>.593</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cyber-loafing</td>
<td>4.02</td>
<td>.683</td>
<td>.791</td>
</tr>
<tr>
<td></td>
<td>Workplace bullying</td>
<td>3.12</td>
<td>.581</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Property Sabotage</td>
<td>3.73</td>
<td>.456</td>
<td></td>
</tr>
</tbody>
</table>

4.3 Matrix Correlation

Following table depicts the values of matrix correlation that depicts there exist positive relationship at (r = .702*, p ≤ 0.01), (r = .612*, p ≤ 0.01), (r = .603*, p ≤ 0.01) among CB, EI & CWB respectively.

Table 4.3: Correlation

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. CB</td>
<td>3.20</td>
<td>1.26</td>
<td>.115</td>
<td>.061</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. EI</td>
<td>3.29</td>
<td>1.17</td>
<td>.080</td>
<td>.064</td>
<td>.702*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. CWB</td>
<td>3.27</td>
<td>1.21</td>
<td>.137</td>
<td>.046</td>
<td>.612*</td>
<td>.603*</td>
<td>1</td>
</tr>
</tbody>
</table>

*p ≤ 0.01 (2-tailed)

4.4 Validity and Confirmatory Factor Analysis (CFA)

Before proper data collection phase the questionnaire were distributed among 20 employees of FATA Secretariat Peshawar, KP, Pakistan. Questionnaire items were found by experts in logical order, clear and understandable that depicts face validity was sound enough for data collection. In addition, veteran research
scholars were asked to critically observe and rectify the measurement instrument tool if they feel any gap in it and make it the actual representative of the needs of the study. After critically observation by the expert’s scholars they reported that all the statements were sufficient enough for the data collection and were the true representative of the needs of the study (content validity). Construct validity for questionnaire items was performed by confirmatory factor analysis (CFA) by using LISRAL software version 8.80.

Table 4.4: CFA Result

<table>
<thead>
<tr>
<th>Models</th>
<th>$X^2$/df</th>
<th>GFI</th>
<th>AGFI</th>
<th>NNFI</th>
<th>CFI</th>
<th>RMR</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model4: 3 factor model</td>
<td>2.9</td>
<td>0.94</td>
<td>0.87</td>
<td>0.93</td>
<td>0.91</td>
<td>0.02</td>
<td>0.08</td>
</tr>
<tr>
<td>Model3: 2 factor model (CB &amp; CWB)</td>
<td>2.6</td>
<td>0.93</td>
<td>0.90</td>
<td>0.95</td>
<td>0.96</td>
<td>0.02</td>
<td>0.06</td>
</tr>
<tr>
<td>Model2: 2 factor model (EI &amp; CWB)</td>
<td>2.8</td>
<td>0.92</td>
<td>0.85</td>
<td>0.93</td>
<td>0.94</td>
<td>0.03</td>
<td>0.08</td>
</tr>
<tr>
<td>Model1: 2 factor model (CB &amp; EI)</td>
<td>2.6</td>
<td>0.91</td>
<td>0.90</td>
<td>0.92</td>
<td>0.97</td>
<td>0.02</td>
<td>0.07</td>
</tr>
</tbody>
</table>

Different models of study were analyzed by incorporating structure equation modeling (SEM) technique. CFA’s analyses reveal that all values of 7 fit indices were in recommended range according to Usluel, Asker & Bas (2008) i.e. ($RMSEA \leq 0.06$ or $\leq 0.08$, $X^2$/df $\leq 3.00$, GFI $\geq 0.90$, AGFI $\geq 0.80$, RMSR $\leq 0.10$, NNFI $\geq 0.90$, CFI $\geq 0.90$).

4.5 Structure Model Analyses

4.5.1 Model 1 (Capacity Building and Emotional Intelligence)

Model 1 was evaluated by utilizing 7 fit indices. According to Usluel, Asker and Bas (2008) all variables have their own significant loading because all are in standard range. Direct path indicates 65% variation exist in response variable.
Table 4.5: Capacity Building and Counterproductive Work Behavior

<table>
<thead>
<tr>
<th>Model 1</th>
<th>(X^2/df)</th>
<th>GFI</th>
<th>AGFI</th>
<th>NNFI</th>
<th>CFI</th>
<th>RMR</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity Building &amp; Emotional Intelligence</td>
<td>2.6</td>
<td>0.91</td>
<td>0.90</td>
<td>0.92</td>
<td>0.97</td>
<td>0.02</td>
<td>0.07</td>
</tr>
<tr>
<td>Standard Value (Usluel et al., 2008)</td>
<td>&lt;3.0</td>
<td>&gt;.90</td>
<td>&gt;.80</td>
<td>&gt;0.90</td>
<td>&gt;.90</td>
<td>&lt;.10</td>
<td>0.06-0.08</td>
</tr>
</tbody>
</table>

4.5.2 Model 2 (Capacity Building and Counterproductive Work Behavior)

Model 2 was evaluated by utilizing 7 fit indices. According to Usluel, Asker and Bas (2008) all variables have their own significant loading because all are in standard range. Direct path indicates 70% variation exist in response variable.
Chi-Square=144.25, df =52, P-value=.000, RMSEA=0.07

Table 4.6: Emotional Intelligence and Counterproductive Work Behavior

<table>
<thead>
<tr>
<th>Model 2</th>
<th>X^2/df</th>
<th>GFI</th>
<th>AGFI</th>
<th>NNFI</th>
<th>CFI</th>
<th>RMR</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capacity Building &amp; Counterproductive B</td>
<td>2.7</td>
<td>0.93</td>
<td>0.90</td>
<td>0.95</td>
<td>0.96</td>
<td>0.02</td>
<td>0.06</td>
</tr>
<tr>
<td>Standard Value (Usluel etal., 2008)</td>
<td>&lt;3.0</td>
<td>&gt;.90</td>
<td>&gt;.80</td>
<td>&gt;0.90</td>
<td>&gt;.90</td>
<td>&lt;.10</td>
<td>0.06-0.08</td>
</tr>
</tbody>
</table>

4.5.3 Model 3 (Emotional Intelligence and Counterproductive Work Behavior)

Model 1 was evaluated by utilizing 7 fit indices. According to Usluel, Asker and Bas (2008) all variables have their own significant loading because all are in standard range. Direct path indicates 63% variation exist in response variable.
Chi-Square=138.15, df =48, P-value=.000, RMSEA=0.08

Table 4.7: Capacity Building, Emotional Intelligence & Counterproductive Work Behavior

<table>
<thead>
<tr>
<th>Model 3</th>
<th>( \chi^2/df )</th>
<th>GFI</th>
<th>AGFI</th>
<th>NNFI</th>
<th>CFI</th>
<th>RMR</th>
<th>RMSEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emotional I &amp; Counterproductive B</td>
<td>2.8</td>
<td>0.92</td>
<td>0.85</td>
<td>0.93</td>
<td>0.94</td>
<td>0.03</td>
<td>0.08</td>
</tr>
<tr>
<td>Standard Value (Usluel et al., 2008)</td>
<td>&lt;3.0</td>
<td>&gt;.90</td>
<td>&gt;.80</td>
<td>&gt;.90</td>
<td>&gt;.90</td>
<td>&lt;.10</td>
<td>0.06-0.08</td>
</tr>
</tbody>
</table>
4.5.4 Model 4: (Capacity Building, Emotional Intelligence & Counterproductive Work Behaviour)

Following is the result of three factor model (CB, EI & CWB).

Model 4 was evaluated by utilizing 7 fit indices. According to Usluel, Asker and Bas (2008) all variables have their own significant loading because all are in standard range. Direct path CB, EI and CWB were
significant and found ($\beta=0.70$, $t=11.2$, $p<0.05$), ($\beta=0.60$, $t=9.84$, $p<0.05$) and ($\beta=0.61$, $t=10.04$, $p<0.05$) respectively.

5. Discussion, Recommendation and Conclusion

Scholars become more aware with the importance of the development of women managers. Yet, little concentration has been given towards the CWB by enhancing CB and EI in eastern work setting. Drawing on the conservation of researchers (De Noble, Jung & Ehrlich, 1999; Covin & Slevin, 1989; Makombe, 2006) this study investigated the impact of CB and EI towards CWB. The study depicts the three-factor model i.e. CB, EI and CWB was compared with a series of alternative models. CFA result demonstrates that all the values were in acceptable ranges. Model testing result shows that CB has direct impacts on EI and its further impact on improving CWB. CB and EI accounted for 72% variation in CWB. The result of the study exhibits that CB have strong direct impact on EI which further leads towards improving CWB.

Table 6: Summary of Result

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Supported/ Not Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: CB has positive impact on controlling CWB.</td>
<td>Supported</td>
</tr>
<tr>
<td>H2: EI has positive impact on controlling CWB.</td>
<td>Supported</td>
</tr>
<tr>
<td>H3: CB has positive impact on EI.</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Aforementioned table demonstrates that all the three hypotheses of the study were supported.

5.1 Theoretical Contributions

Previous research studies on CB and EI in Pakistan not focus intensely on controlling CWB (Awan, 2008; Coleman, 2008). So, this study was incorporated to enhance the literature on controlling CWB through CB and EI practices in Pakistan. In addition, results of the study have direct insinuation on the reduction in CWB and developing the organizational environment.

5.2 Practical Implications

Study illustrates some vital implication for the managers. Managers become more conscious about the significance of CB and EI and its influence on CWB. Furthermore, managers give high level of encouragement towards CB and EI for CWB. Third, this study suggested that managers can enhance CWB by directly influencing two predictors: CB and EI. Managers consider the rising interference which directly influences a broader range of CWB.
5.3 Recommendations

Government should implement such strategies which develop organizational culture in Pakistan. It is vital to construct such an atmosphere where employees are well satisfied and motivated. This research study strongly suggests that CB and EI practices must exist within the organization which purely deals with the development of organizational culture.

5.4 Future Research Suggestions and Limitation

This study was partially generalized because sample was taken only one province of Pakistan that is KP and also study was based on cross-sectional basis. So, this acknowledges the fact that the possibility of common errors in some of our results. Thus, it is recommended that future research study should be on longitudinal basis and study should be performed on larger sample size which makes the study generalize for a larger population. The future research study will also encounters some more important mediators’ variables which influence on CWB.

5.5 Conclusion

Three important factors of SEM model (CB, EI and CWB) demonstrate significant relation among the variables. However, CB result depicts most significant and having strong relation with CWB. CB and EI were found to be of significant importance if properly oriented and implemented in the organizations of Pakistan. Moreover, CB and EI were found to have a positive impact on controlling CWB which brings benefits in terms of higher performance and productivity, increased cognitive ability, favorable outcome and enhancement of skills and knowledge pertaining to management. Findings of this study also exhibit that the CB and EI are very much beneficial and have direct effect on CWB.

References


Measuring the Effectiveness and Validity of Employees Annual Confidential Report (ACR) and Its Applicability: A Case Study of Abdul Wali Khan University, Mardan

IHTESHAM KHAN
Assistant Professor and PhD Scholar, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
ihtishamkhan@awkum.edu.pk

DR. ADNAN AHMAD
Assistant Professor, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
adnankhattak@awkum.edu.pk

DR. SHAHID JAN
Associate Professor, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
shahidjan@awkum.edu.pk

Abstract

ACR system is being used as a performance management and evaluation tool in AWKUM for the last five years since its inception as a Public sector university in KPK, Pakistan. The main purpose of this study is to find out that whether ACR system do fulfill the requirement of an effective and efficient Performance evaluation and management tool. What employees think of this system? As any excellent performance management system plays a very vital role in the success of any organization.

Keywords: Annual Confidential Report, Performance Management System

1. Introduction

Every organization uses a performance evaluation and management system to measure the performance of the employees within the organization. These performance evaluation systems help in finding out that whether the employees are working as per the requirement they are being asked for. The main purpose of the employee’s performance evaluation system is to support the company strategic aim. It’s a scientific approach to ensure that the employee’s efforts are linked with the organizational goal. In Pakistan mostly Annual Confidential Report (ACR) is used as performance evaluation tool. ACR system is based on a confidential report that is only being filled by the supervisor of the employee. Mostly ACR is used in public sector organizations in Pakistan while the private sector is moving towards proper performance management systems (PMS). PMS helps organization to give proper feedback, career management, proper training and development to their employees.
1.1 Problem Statement

To measure effectiveness and validity of employees Annual confidential Report as a performance evaluation system used by AWKUM and critical analysis of its ability to measure the employees performance.

1.2 Objectives of the Research

The following are the objectives of the research.

- To measure effectiveness and validity of employees Annual confidential Report as a performance evaluation system used by AWKUM.
- To critically evaluate the current system of ACR implemented.

2. Literature Review

ACR system is being used to measure the performance of the employees. So that proper feedback is being given to the employees. After that proper training session is being arranged if any deficiency is there. The main purpose of this research is to find that ACR system is serving that purpose or not? Feedback plays a vital role in managing the performance of any employee in the organization. Without a proper feedback an employee cannot judge its performance. Feedback must not be only from the supervisors it should be from the peers as well as from the subordinates. By using proper feedback system in the organization employee can revisit its performance. What mistakes he/she committed that my lack him in his performance (Bandura & Hackman, 1977). Feedback normally happens through communication with each other but proper system can be used for proper evaluation of the employees performance through feedback about their performance in the organization (Yeager, 1985). Feedback is a very important part in an organization to the employees about their performance. Without a proper feedback how the employees know that how they performed during the year. The employees will be thinking that are they doing ok or they need to improve their performance. For that organization must have a proper feedback system so that they can have a check on the employees that our performance is properly measured and evaluated and we are given proper feedback that how we are performing (Rabin, 1985).

In many organizations is using 360 degree feedback. In 360 degree feedback information is gathered about the employees from all the other people whom have an interaction with employees means supervisors, peer, subordinatess. This gives a clear picture to the organization that where the employee stands. Through proper feedback organization can have a proper look that whatever goal was set for the specific employee was achieved or not. So it means that goal setting should be linked to feedback. Porter and steers (1974) said that when the organizations connect goals with feedback then the employee will have a clear picture that he/she is doing and what is expected of him. Employee will then be told from time to time that whether he/she is on track or require any improvement. After proper feedback then if required employee can be properly trained and developed for the goal that is being set by the organization from him/her to perform properly. If an employee is lacking behind in any competency that require proper training then without proper training feedback has no effect on the employee. So with feedback proper training is also an important factor to consider in employees performance to increase (Belilos, 1997). With training employee can have a belief of development that he/she can now bitterly serve the organization but in public sector organization training is taken only as a formality. In the recent days career management is a very important concept in employee’s
job commitment towards organizations. Every employee plan their career and if organization help them to manage their career goal and set a career path then they start to show their commitment towards the organization (Philips, 1982). Once an employee is satisfied that organization is taking care of his/her career management then he/she taking interest in developing skills to set career goals. Many human resource experts have considered career management and career development important for employee’s motivation and commitment towards organization (Hall & Associates, 1986; London & Mone, 1987). Career management can be divided into three different steps. Step one is career exploration where the employee wants to explore his/her career he/she wants to pursue. Her employee starts to explore career that can fit his/her skills, aptitude and abilities. Employees match his/her skills with the job requirement (Philips, 1982). After career exploration then the stage of career development comes. In career development the employee sets the goals for his/her career. Career goals includes rise in salary, promotion and acquisition of skills that has positive influence on the overall job performance of the employee. In the next step employee prepare strategies for the career goals achievement (Gould & Pemly, 1984). Those employees whose career current job position is more closer to the career goal they set for themselves the more they go for the career exploration because they have already achieved what they strived for now they go for higher career goals.

These career management strategies help employees to keep themselves closer to the organization. Even it helps the super visors to allow them get the employee on course for the job they require of them. Supervisors can couch their subordinates by telling them which course of action takes them to their career goals. Couching is an ongoing process between the supervisors and the employees working under him. It is very important that a trust culture should be there between the supervisors and the employees (Farr & Jacobs, 2006). Both in public and private sector organizations supervisors should take employees on board. They should teach them and coach them by changing their behavior and setting directions for the employees to set their course of action (Peterson, 2006). Management by objective is new concept that is taking place in the current organizations, here the employees and management come together and gets agree about certain objectives (Drucker, 1954). There are two types of concept about employees working in the organization. One employee dislikes work and therefore strict rules should be set to take work from them. Other employee likes work they feel satisfaction when perform a task (McGregor, 2005). Management by objective requires full support of the supervisors and employees working under them. It can be a very effective tool in public sector organizations. Through it supervisor will know what they have to do and expect the employees to perform their task better as Management by objective only be implemented after both the supervisors and employees show their commitment to it.

2.1 Hypothesis

\[ H_0: \text{ACR is not an effective tool used to measure the performance of the employees in AWKUM.} \]

\[ H_1: \text{ACR is an effective tool used to measure the performance of the employees in AWKUM.} \]

3. Research Methodology

3.1 Sampling

The target segment was officers of AWKUM. Data was collected to assess the effectiveness of the ACR as performance evaluation system. The samples were randomly selected. Sample size was 40 different officers of AWKUM.
3.2 Questionnaire Design

Primary data had been collected by using questionnaire. Likert scale questionnaire was used that has options from 1 to 5. 1 show strongly disagrees and 5 shows strongly agree. To analyze mode and median were used as an analysis tool.

3.3 Procedure

Questionnaires were distributed among sample in AWKUM. After 3 days questionnaires were collected from the respondents.

4. Results and Analysis

Based on the questionnaire analysis was done using mode and median as an analysis tool. Results compiled on the basis of these tests for each question of the questionnaire are given below:

**Qno.1** The current ACR system has a significant impact on my career development and career growth.

<table>
<thead>
<tr>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>Missing</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mode</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q1</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>1</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Agree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>7.5</td>
</tr>
<tr>
<td>Neither Agree Nor Disagree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Disagree</td>
<td>26</td>
<td>65.0</td>
<td>65.0</td>
<td>77.5</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>9</td>
<td>22.5</td>
<td>22.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Based on the analysis given above it is clear that the current ACR system has no significant impact on the employee’s career development and growth as maximum employees had disagreed with the fact.

Qno.2. The current ACR system gives me recognition for giving outstanding performance.

<table>
<thead>
<tr>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>Missing</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mode</td>
</tr>
</tbody>
</table>

### Q2

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Strongly Agree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Agree</td>
<td>1</td>
<td>2.5</td>
<td>2.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Neither Agree Nor Disagree</td>
<td>5</td>
<td>12.5</td>
<td>12.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>21</td>
<td>52.5</td>
<td>52.5</td>
<td>72.5</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>11</td>
<td>27.5</td>
<td>27.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The above analysis shows that maximum employees are not being recognized for their outstanding performance. Whether they perform poor or best there will be no incentive for them for outstanding performance.

Qno.3. My pay and rewards are fairly and equitably linked to my performance in the current ACR system.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Agree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Neutral</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>24</td>
<td>60.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Sdisagree</td>
<td>6</td>
<td>15.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
The above analysis show that in AWKUM pay and rewards are not linked to the performance of the employees ACR is not being used to gather data and put in the cupboard of the registrar office. Pay and salaries are being given through a set formula. Both the high performer and the low performer are treated in the same way.

Qno.4. I am more motivated and produce the better expected results in the current performance evaluation system (ACR).

<table>
<thead>
<tr>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N Valid</td>
</tr>
<tr>
<td>Missing</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mode</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q4</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>7</td>
<td>17.5</td>
<td>17.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Neither Agree Nor Disagree</td>
<td>3</td>
<td>7.5</td>
<td>7.5</td>
<td>25.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>17.5</td>
<td>17.5</td>
<td>42.5</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>23</td>
<td>57.5</td>
<td>57.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The analysis above shows that in the current ACR system employees don’t show there motivation because they know that ACR is not a tool that can give him the edge if he perform well. So it can’t be a tool with which an employee can be motivated.

Qno.5. Supervisors give me advice in the current ACR system about my tasks.

Statistics

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>1</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Agree</td>
<td>6</td>
<td>15.0</td>
<td>15.0</td>
<td>27.5</td>
</tr>
<tr>
<td>Neither Agree nor Disagree</td>
<td>3</td>
<td>7.5</td>
<td>7.5</td>
<td>35.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>26</td>
<td>65.0</td>
<td>65.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The analysis above shows that ACR system and the supervisors advice about the employee has no connection between each other. The reason is that the supervisors only fill the ACR forms of the employee and is of no concern about sharing it with the employee. It means that ACR system is a total failure.

**Qno.6.** I am satisfied with the fact that my performance in current ACR system is evaluated at the end of the period and not the whole year.

<table>
<thead>
<tr>
<th>Statistics</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>40</td>
</tr>
<tr>
<td>Valid</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
</tr>
<tr>
<td>Median</td>
<td>4.0000</td>
</tr>
<tr>
<td>Mode</td>
<td>4.00</td>
</tr>
</tbody>
</table>

**Q6**

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Neither Agree Nor</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>12.5</td>
</tr>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>33</td>
<td>82.5</td>
<td>82.5</td>
<td>95.0</td>
</tr>
<tr>
<td>S .Disagree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Above Analysis shows that in ACR system employees are only judged at the end of the period. If an employee had worked hard for eleven months and didn’t performed well in the end month or the supervisor haven’t got satisfied with the employee in the end month then his/her ACR will poor. So an employee should be judged throughout the year not only in the last month.

Qno.7. The current ACR system is free from any kind of biasness of supervisors.

<table>
<thead>
<tr>
<th>Statistics</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Valid</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Missing</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>4.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mode</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q7</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Agree</td>
<td>3</td>
<td>7.5</td>
<td>7.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Neither Agree Nor</td>
<td>3</td>
<td>7.5</td>
<td>7.5</td>
<td>20.0</td>
</tr>
<tr>
<td>Disagree</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>28</td>
<td>70.0</td>
<td>70.0</td>
<td>90.0</td>
</tr>
<tr>
<td>S. Disagree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
In current ACR system supervisors are all in the all. They are the one who fill ACR form for employees. If the supervisor is biased then he/she can give false information about the employee’s performance during the year. Not only that the employee didn’t know even whatever is being written about his/her performance during the year as it is being kept confidential.

Qno.8 The current ACR system takes my feedback from the peers and students about my performance.

<table>
<thead>
<tr>
<th>Statistics</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>Valid</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td>Med</td>
<td>Missing</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>4.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mode</td>
<td>4.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q8</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Agree</td>
<td>1</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>Neither Agree Nor Disagree</td>
<td>2</td>
<td>5.0</td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>30</td>
<td>75.0</td>
<td>82.5</td>
</tr>
<tr>
<td></td>
<td>S. Disagree</td>
<td>7</td>
<td>17.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
One of the biggest drawbacks of the ACR system is that peers and subordinates feedback but the employees’ attitude, behavior and performance is not being taken. That helps the supervisors to put false feedback about employee.

**Qno.9** In the current ACR system proper training is offered to improve my deficiencies previously identified.

### Statistics

<table>
<thead>
<tr>
<th>N</th>
<th>Valid</th>
<th>40</th>
</tr>
</thead>
<tbody>
<tr>
<td>Missing</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Median</td>
<td>4.0000</td>
<td></td>
</tr>
<tr>
<td>Mode</td>
<td>4.00</td>
<td></td>
</tr>
</tbody>
</table>

### Q9

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Agree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td></td>
<td>Neither Agree Nor</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>28</td>
<td>70.0</td>
<td>70.0</td>
</tr>
<tr>
<td></td>
<td>S. Disagree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Every performance management and evaluation system has got a feedback system for the employees. Where the employees are informed about their performance during the year. While in ACR system it is kept secret.

**Qno.10. I am satisfied with the current performance evaluation system (ACR).**

<table>
<thead>
<tr>
<th>Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Mode</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Q10</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Agree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Neither Agree Nor Disagree</td>
<td>2</td>
<td>5.0</td>
<td>5.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>4</td>
<td>10.0</td>
<td>10.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>30</td>
<td>75.0</td>
<td>75.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
This question was strongly disagreed by most of the respondents because they were extremely dissatisfied with the current ACR system. As it is not an effective tool to be used as a performance evaluation tool.

5. Conclusion and Recommendations

5.1 Conclusion

Mostly in public sector organizations ACR system is used as a performance evaluation and management tool. No one has bothered to even bring change in the current system ACR system. AWKUM is also using ACR system without any change in it. An effective and Efficient Performance management system has many important aspects to be covered that ACR don’t even bother to cover those important elements. In any performance management system career management is an important tool for the employee’s performance management. All the employees must have to go through the three phase of career management that includes career exploration, career development and strategies for them. The current ACR system in AWKUM doesn’t even think of these things. In AWKUM a simple ACR form is being filled by the supervisors at the end of the year. Then it is send to the registrar office and kept there as a secret book. No one has access to them as it is a confidential report. It is an interesting thing to note that if an employee is evaluated and if he is not performing well then how he/she will know that his/her performance need improvement.

There is no feedback in the ACR system implemented in AWKUM. Without a proper feedback system employees will not have a clear idea how they performed in the last year. The improvement in employee performance is only possible when they are told that how he/she performed. So feedback in an effective performance management system is very important. Every employee wants recognition if his/her works hard. If an employee works hard throughout the year and his/her work is not recognized then soon his/her self motivation will fade away. Without recognition an employee can’t be motivated to work hard. The recognition can be in shape of pay rise, promotion, bounce. AWKUM doesn’t have this culture all the employees if they work hard or not are put in one category. Supervisor biasness is a big factor that can change the ACR report of an employee. If a supervisor is happy from an employee, he/she will have an excellent ACR without bothering the fact that he/she performed well or not and vice versa. Employee
performance should be evaluated not only by the supervisors but also by the peers, subordinates and students. It will reduce the biasness of the supervisors.

5.2 Recommendations

Based on the above facts, analysis and conclusion following are few suggestions given below.

- The current ACR system should be changed with some other effective and efficient performance management system.
- Proper career management system should be design for the employees that include career exploration, career development and strategies development for the career growth.
- There should be a proper feedback system where the employees are told about their shortcoming and performance during the year. The Evaluation of the employees should not be kept secret it should be shared among the employees.
- After the evaluation of the employees proper training session should be designed for the improvement in those areas.
- Employees performance management system should be 360 degree management means that only supervisors should not be the evaluator other people like peers, subordinates and students should also be taken on board. To reduce the level of biasness that can be shown by the supervisors to the employee.
- Evaluation of the employee should not be limited to the end of the year. He/she should be evaluated throughout the year.
- Supervisor should work as coach and mentor to the employees working under him/her. After analyzing employees performance the supervisor should communicate the employee that how he/she can improve performance in specific area.
- Pay rise, promotion and bounces should be linked to the employee’s performance. So that all the employee’s start showing commitment to the organization goals. Through this way all the employees will have a clear idea that higher performance in the task assigned is the only way to get career goals.

References

Bandura, A. A. (1977). Self-efficacy: Toward a unifying ... In A. Bandura (Ed.), Self-efficacy in changing societies (pp. 1-45). New York: ... In J. R. Hackman (Ed.), Groups that work (and those that don't) (pp.1-14). San Francisco:


Appendix

Research Questionnaire

This questionnaire is based on an effort to find out the validity of employees Annual Confidential Report (ACR) and its applicability as a performance evaluation tool in Abdul Wali Khan University, Mardan. The research is being conducted on an anonymous basis and we don’t ask you to provide your name or any information that will identify you. Thanks for your assistance.

Instructions:
Please Tick (√) the boxes as per your response to the statements given below

<table>
<thead>
<tr>
<th>Strongly agree</th>
<th>Agree</th>
<th>Neither agree nor disagree</th>
<th>Disagree</th>
<th>strongly disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Statements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>1. The current ACR system has a significant impact on my career development and career growth.</td>
</tr>
<tr>
<td>2. The current ACR system gives me recognition for giving outstanding performance.</td>
</tr>
<tr>
<td>3. My pay and rewards are fairly and equitably linked to my performance in the current ACR system.</td>
</tr>
<tr>
<td>4. I am more motivated and produce the better expected results in the current performance evaluation system (ACR).</td>
</tr>
<tr>
<td>5. Supervisors give me advice in the current ACR system about my tasks.</td>
</tr>
<tr>
<td>6. I am satisfied with the fact that my performance in current ACR system is evaluated at the end of the period and not the whole year.</td>
</tr>
<tr>
<td>7. The current ACR system is free from any kind of biasness of supervisors.</td>
</tr>
<tr>
<td>8. The current ACR system takes my feedback from the peers and students about my performance.</td>
</tr>
<tr>
<td>9. In the current ACR system proper training is offered to improve my deficiencies previously identified.</td>
</tr>
<tr>
<td>10. I am satisfied with the current performance evaluation system (ACR).</td>
</tr>
</tbody>
</table>

Thanks for your assistance
The Relationship of Deposits with Profit Rates and Advances with Mark-up Rates in Pakistan

DR. SAID SHAH  
Assistant Professor and Head, Department of Management Sciences  
University of Swabi, Pakistan  
saidshah64@yahoo.com

SAFDAR HUSAIN TAHIR  
Assistant Professor and Head, Department of Banking & Finance  
Government College University, Faisalabad, Pakistan  
safdartahir@gmail.com

Abstract

This article is regarding banking industry of Pakistan. The paper examines the extent to which deposits and advances are dependent on profit and mark up rates respectively. The required data on all the public sector banks and two private banks for six years (1999-2004) were obtained and analyzed using regression analysis. The results show that the relationship is quite strong in case of saving and current deposits. It has further been concluded on the basis of this analysis that there is a strong Correlation between advances and mark up rates.

Keywords: Advances, deposits, mark up rate, profit rate, Pakistan

1. Introduction

A bank for economy is like heart for a human body and plays a vital role in economic development of a nation. The banking industry has become more complex by introducing new products in the fields of advances, deposits, international trade etc. since early 1990s as against past when the banking job simply to accept deposits and give loans. In present banking too, advances and deposits play a very key role in increasing the efficiency of a bank. The more efficient a bank will be, the more confidence the general public will be having in it. The size of these two more important components on a bank’s balance sheet is dependent on various factors besides mark up and profit rates. Apart from mark up and profit rates, professionalism of the management, efficiency of the staff, consistency in government policies and world political conditions also affect the size of advances and deposits. In order to ensure the soundness of financial and operational condition of the banking industry, protect the interest of depositors and ensure achievement of the projected profitability, all the factors effecting the volume of deposits and advances must be minutely examined and analyzed.

A number of factors affect the volume of deposits and advances in different ways based on each individual’s interest. Such as a bank’s management is interested to charge maximum mark up on advances and allow a minimum profit on deposits in order to widen the spread towards earning profits. Both of these factors (mark up and profit rates) affect the dependent variables (volume of advances and deposits) in the same
direction. As in case of law of demand, increase in price of a commodity leads towards reduction in its demand. Just like this, with an increase in mark up rates, the demand for loans is reduced and ultimately its volume also reduced. Likewise, with a reduction in profit rates, the demand for deposits (on depositors’ side) is reduced and ultimately its volume also reduced.

There are several features relating to the creation of deposits by the South African commercial banks in the post world war II period which appear to hold out special significance for the conduct and efficacy of monetary policy in South Africa. These features are (a) the ease with which the public generally is able to acquire means of payment in the form of commercial bank deposits (b) the impact of external trade and foreign capital on the balance of payments (c) the impact of interest rate policy on the demand for commercial bank deposits (or bank credit) in the South African economy in the post-war period (d) to face any emergency needs arising out of an extraordinary events such as war etc., (e) the continuous shift which has taken place from interest-free demand deposits to interest-bearing time deposits (Cloete, 2006).

1.1. Objectives of The Study

The main objective of this article is to determine whether the volume of advances and deposits are only dependent upon mark up and profit rates respectively or there are also other factors which contribute in this regard.

2. Literature Review

Concentration in a specific sector say dependence only on consumer lending due to bankers strict or conservative policies towards advances and their eagerness for increasing their profitability only through rising interest rates on advances inversely leads to reducing their profitability and weakening their financial performance. Mere following conservative policies with highest mark up rates is not in favour of banks and they should bring their policies in accordance with the behavior of the public. In a study on determining the impact of market conditions on bank deposit interest rates and examining data for 1988-2000, Rosen (2007) found that rates are affected by market size structure. The study also found large differences between urban and rural markets and that in rural areas, changes in market concentration have no effect on deposit rates. Stronger competition implies significantly lower spreads between bank and market interest rates for most loan market products, in line with expectations. This result implies that stronger competition causes both lower bank interest rates and a stronger pass-through of market rate changes into bank rates (Leuvensteijn & Bikker, 2008).

Fraser (2005), in his study analyzed a sample of 78 banks and concluded that the principal distinction between high and low profit banks is the expenses which are to be reduced rather than the revenue which is earned. According to LIM (2001), it is worth speculating on the implication of banking practices which are strictly consumer oriented and one sided, that is if banks only pass on decreases to loan rates. Strict adherence to such a consumer-oriented policy will lead to a squeeze on profits and hence greater pressure to adopt risky, imprudent lending strategies leading to greater risk of financial instability. The results reported here are based on a simultaneous approach which takes into account the profit motive. Extraordinary high rates on deposits as well as extraordinary low rates on advances also negatively influence the investment policies of various regions or sectors within the country and in the world as well. Offering highest rates on
Deposits may be affordable for a few banks but a cause of disaster for others. So the policy of determining profit rates on deposits and mark up rates on advances must be realistic and not based on artificial tactics, window dressing and other policies like that. Eichengreen and Mody (1998) found that qualitative accounts have long emphasized the state of global financial markets, as proxied by interest rates in the advanced industrial countries, as a determinant of capital flows to emerging markets and the pricing of external debt. Curiously, econometric studies relying on disaggregated data have lent little support to this emphasis. Higher US rates have a negative impact on demand for international investors for fixed-rate issues by Latin American borrowers, as predicted by the search-for-yield hypothesis. The same effect is apparent for East Asian floating-rate issues, although the evidence in such cases is not robust. But this effect is evident only upon controlling for the impact of US interest rates on the decision of developing-country borrowers to issue debt. Higher interest rates in the major money centers have a negative impact on the borrower’s issue decision. This effect is strongest for East Asian Issues of fixed-rate securities, who appear to have been best able to withhold new placements when US interest rates rise curtail the supply of emerging-market paper and putting upward pressure on bond prices-effectively limiting the rise in spreads. Amount deposited is a source of creating loans which ultimately result in decline of market liquidity (Gatev and Strahan, 2006).

3. Methodology and Data

Annual reports for six years from all the public sector banks and also from two private commercial banks have been used as a source of data. Primary data has also been collected through meetings with concerned people. The variables which have been used for this study are as under:

3.1 Variables

In case of advances, independent variable is mark up rate on advances and dependent variable is volume of advances. In case of deposits, independent variable is profit rate on deposits and dependent variable is volume of deposits.

3.2 Model

The following model has been used for the calculation of the extent to which volume of advances is dependent upon mark up rates:

\[ V_{adv} = a + b(mu) + u_i \]

Where \( V_{adv} \) shows volume of advances in period i, \( mu \) indicates mark up rate, \( a \) is constant, \( b \) is coefficient and \( u \) is error term.

In order to further determine the relationship between deposits and profit rates the following regression equation has been used:

\[ V_{dep} = a + b(pr) + u_i \]

Where \( V_{dep} \) shows volume of deposits in period i, \( pr \) indicates profit rate, \( a \) is constant, \( b \) is coefficient and \( u \) is error term.
3.3 Justification of Model

The above model is most suited to measure the relationship between advances and deposits and mark up rates and profit rates respectively as such this model has been used.

3.4 Analysis

This research covers the entire public sector and partially private sector. In this research article, I have analyzed the data obtained from five commercial banks (three in the public sector and two in the private sector). The following are the banks:

3.5 Public Sector

- The Bank of Khyber
- The Bank of Punjab
- National Bank of Pakistan

3.6 Private Sector

- Askari Commercial bank
- Prime Commercial Bank

3.8 Statistical Tools used

The key statistical tools used are Coefficient of Correlation to determine the relationship between the profit rates and volume of deposits and Coefficient of Determination to measure the impact of change in dependent variable, volume of deposits and advances due to change in independent variable, profit and mark up rates.

4. Results and Findings

The data has been analyzed to determine whether the deposits and advances are fully dependent on profit rates and mark up rates respectively or there are also other variables which affect the same. In determining the relationship between advances and mark up rates, independent variable is mark up rate on advances and dependent variable is volume of advances. In determining the relationship between deposits and profit rates, independent variable is profit rates on deposits and dependent variable is volume of deposits.
### Table 1: The Impact of Profit Rates on Volume of Deposits 1999-2004 (Rs. In million)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Fixed Deposits</th>
<th>Saving Deposits</th>
<th>Current Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient of Correlation</td>
<td>Coefficient of Determination</td>
<td>P-Value</td>
</tr>
<tr>
<td>B.O.K</td>
<td>0.331527</td>
<td>0.10991</td>
<td>0.5209</td>
</tr>
<tr>
<td>B.O.P.</td>
<td>0.960007</td>
<td>0.921614</td>
<td>0.0024</td>
</tr>
<tr>
<td>N.B.P.</td>
<td>0.478885</td>
<td>0.229331</td>
<td>0.3366</td>
</tr>
<tr>
<td>A.C.B</td>
<td>0.782231</td>
<td>0.611885</td>
<td>0.0659</td>
</tr>
<tr>
<td>P.C.B.</td>
<td>0.971999</td>
<td>0.944781</td>
<td>0.0012</td>
</tr>
</tbody>
</table>

Results show that the relationship is quite strong and is significant at 10% level in case of saving and current deposits. However in case of fixed deposits, there is a weak positive relationship in The Bank of Khyber and National Bank of Pakistan which is statistically insignificant. It means there are other factors also which effect volumes of fixed deposits. Coefficient of Determination measures the impact of change in dependent variable due to change in independent variable. Results show that the dependent variable i.e. deposits are strongly dependent upon the independent variable i.e. profit rates in case of saving and current deposits. However in case of fixed deposits, the independent variable explains a low change due to change in dependent variable for The Bank of Khyber and National Bank of Pakistan.

![Diagrammatical presentation of volume of deposits (The Bank of Khyber)](image.png)
Figure 2: Diagrammatical presentation of volume of deposits (The Bank of Punjab)

Figure 3: Diagrammatical presentation of volume of deposits (National Bank of Pakistan)
Figure 4: Diagrammatical presentation of volume of deposits (Askari Commercial Bank)

Figure 5: Diagrammatical presentation of volume of deposits (Prime Commercial Bank)
Table 2: The Impact of Mark up Rates on Volume of Advances: 1999-2004 (Rs. In million)

<table>
<thead>
<tr>
<th>Name of Bank</th>
<th>Advances</th>
<th>Coefficient of Correlation</th>
<th>Coefficient of Determination</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Bank of Khyber</td>
<td>0.406864</td>
<td>0.165538</td>
<td>0.42338</td>
<td></td>
</tr>
<tr>
<td>The Bank of Punjab</td>
<td>0.861946</td>
<td>0.74295</td>
<td>0.027273</td>
<td></td>
</tr>
<tr>
<td>National Bank</td>
<td>0.745536</td>
<td>0.555824</td>
<td>0.088889</td>
<td></td>
</tr>
<tr>
<td>Askari Bank</td>
<td>0.91023</td>
<td>0.828519</td>
<td>0.011726</td>
<td></td>
</tr>
<tr>
<td>Prime Commercial Bank</td>
<td>0.90922</td>
<td>0.82668</td>
<td>0.011988</td>
<td></td>
</tr>
</tbody>
</table>

There is strong Correlation between advances and mark up rates for all the banks except for Bank of Khyber. Coefficient of determination show that independent variable i.e. mark up rate explains significant portion of their dependent variable i.e. advances at 10 percent level, with the exception of bank of Khyber where the results show that there exists very weak relationship and based on p-value it is statistically insignificant.

Figure 6: Diagrammatical presentation of volume of advances for all the sample banks
5. Conclusion

The results show that the relationship is quite strong in case of saving and current deposits. However in case of fixed deposits, there is a weak but positive relationship. It means there are other factors also which effect volumes of fixed deposits. The dependent variable i.e. deposits are strongly dependent upon the independent variable i.e. profit rates in case of saving and current deposits. However in case of fixed deposits, the independent variable explains a low change due to change in dependent variable. Furthermore, results of the majority of the banks in the data show that there is a strong Correlation between advances and mark up rates and co efficient of determination indicates that independent variable i.e. mark up rate explains significant portion of their dependent variable.

References

Appendix

List of Abbreviations
BOK: Bank of Khyber,
BOP: Bank of Punjab
NBP: National bank of Pakistan
ACB: Askari Commercial Bank
PCB: Prime Commercial bank
Antecedents and Outcomes of Corporate Reputation Customer-based Analysis

MUHAMMAD TUFAIL
Assistant Professor, Institute of Business Studies and Leadership
Abdul Wali Khan University Mardan

AMIR ISHAQUE
Lecturer, National University of Modern Languages, Peshawar Campus

MUHAMMAD IRFAN
Lecturer, National University of Modern Languages, Peshawar Campus

Abstract

For any organization its image and reputation is the level of affectionateness in the minds of employees, customers, expected candidates, and competitors. Reputation is the most critical and strategic asset that a corporation possess (Cravens et al., 2003). The objectives of the study was to examine the antecedents and outcomes of corporate reputation. The study was quantitative in nature. Data were collected by using convenient sampling technique from twin cities (i.e. Islamabad and Rawalpindi) of Pakistan. Respondents were asked to answer the questions keeping in mind the mobile company whose connection they use frequently or on permanent basis. Simple correlation and regression methods were used for analysis of data. Results revealed that if a customer is satisfied with the products and services offered by the company than the reputation of the company in the eyes of the customer will increase. In the same way, when customer has trust on the services offered by the company his confidence level will increase on the future offers and service quality of company resulting an increase in the reputation of the firm and this company reputation will influence customer loyalty and positive word of mouth. Managerial implications and recommendations for future research are given at the end.

Key Words: Corporate reputation, Antecedents, Customer loyalty

1. Introduction

Corporations are judged by their image in the market. Corporate reputation is decisive when understood by various stakeholders due to the reason that it cut the routine costs and affect economic and customer related display like customer satisfaction, level of confidence, trust and loyalty (Kreps and Wilson 1982; Shapiro 1983; Williamson 1985; Dowling 2001; Roberts and Dowling 2002; Rose and Thomsen 2004). Corporate reputation is the most critical portion for higher performance of the firm (Kay, 1993). Corporations with improved reputation have lead upon their competitors. Wang et al. (1999) suggests reputation is treated as publics’ information about a company in their long-term memory. The main aspect regarding the reputation is not something which is affirmed by the management but what the outsiders think it to be alike. For any organization its image and reputation is how affectionate it is in the minds of employees, customers, stakeholders, expected candidates, and competitors, reputation is the most critical and strategic asset that a
corporation possess (Cravens et al., 2003). In order to manage the organization’s reputation public relations departments exist in the organizations. Corporate identity, image and reputation are used interchangeably. Identity is the perception of insider of the firm i.e. employees and managers and image is the perception of outside observer. Reputation is the aggregate result of these two perceptions (Barnett et al, 2006). The present study only deals with one of the external observer i.e. customers. Corporation reputation has largely been studied with reference to the multiple stakeholder but the present study focuses on the customer based corporate reputation. Customers are the main source of income and it is very important to know how customers understand the corporate reputation, what are the determinants of corporate reputation from customers perspective and what are the outcomes of reputation, how it effects the customer behavior and generates the loyalty of the customer. The positive word of mouth has strong effect for the reputation of the firm. Sometimes, positive word of mouth has stronger effect than the powerful marketing campaigns.

1.1 Objectives of the Study

Objectives of the study were to examine the antecedents and outcomes of corporate reputation. This may help organizations and policy makers to understand the concept of corporate reputation and ways to build positive image of their organization in the minds of their customers.

2. Literature Review

Literature on the corporate reputation presents the measures of corporate fame as financial interpretation, social responsibility and consistency of the services. Most of the work done on the subject deal with the financial aspect of corporate dimension. Previous studies have mainly focused on multiple stakeholder group and customer focused studies are less common (Doney and Cannon, 1997). As a result, studies focused on the corporate reputation antecedents which are not connected with customers Dowling (2001) argued that an important determinant of corporate reputation is the affiliation an individual maintains with the organization and customers than other stakeholders are willing to continue link and relationship with the company. He further argued that the reputation is the sum total of esteem, respect, belief and assurance of the upcoming events of the company. According to Walsh and Beatty (2007) the corporate reputation is the result of the overall assessment of a company. In the same direction Gotsi and Wilson (2001) suggested that the corporate repute is a stakeholder’s valuation of a company over the time, based on the direct practices with the organization and some other shape of communication that gives information about the firm’s action and compassion with the actions of other leading rivals.

Nguyan and Leblanc (2001) elaborated that the corporate reputation has a positive outcomes on customer loyalty towards firm. Their study reveals that the degree of customer loyalty tends to be higher when perception of corporate reputation is strongly favorable. Their study also focuses on the customer retention due to the increased customer loyalty. Argenti and Druckenmiller (2003) argued that the companies gradually identify the significance of corporate reputation to attain business goals and keep on the competition. In modern years, companies cultured determined modules regarding how fast a dented reputation can damage employee and loyalty of the customer. Trust means advocating for the customer’s long-term interests. It is hard to earn trust but very easy to lose, but once the company when a company achieves it, there are continual reimbursements (Urban, 2003).
2.1 Antecedents of Corporate Reputation

2.1.1. Customer satisfaction

Customer satisfaction was addressed by Cardozo (1965) for the first time and said that customer satisfaction results in increasing the buying behavior. Olive (1997) stated that customer satisfaction is an emotional response a person shows after any precise business or transaction. As the due to difference in individuals and buying behavior it is a bit difficult to gauge that which specific product or services will give the maximum satisfaction to the customer (Maiyaki et al., 2011). In the same context Shapiro (1983) suggested that customer is one of the important stakeholders in enhancing the reputation of any corporation. Walsh et al (2006) found that there is significant relationship between corporate reputation and customer satisfaction. The same result was confirmed by Helm et al (2010). In the light of above discussion it is likely that a customer will assign good reputation to a company which accomplish or exceed their prospects.

\[ H_1 : \text{Customer satisfaction has a positive effect on customer-based corporate reputation.} \]

2.1.2. Trust

According to Morgan & Hunt (1994) trust is the assurance that one party has on another due to trustworthiness and integrity. According to Doney & Cannon (1997) trust is shaped of two dimensions: perceived credibility and benevolence. Credibility refers to the reliability, honesty of other party, while the second dimension is related to the fair objectives to meet the demands and needs of the other partner. Studies have elaborated that reputation has an impact on the degree customer’s trust (Lee, 2005; Lacy, 2007)

\[ H_2 : \text{Trust has a positive effect on customer-based corporate reputation.} \]

2.2. Corporate Reputation

The idea of corporate has been rooted from corporate image in 1950’s and then developed into corporate identity in decades of 1970 and 1980 (Bennett & Kottasz, 2000). In the same vein Fombrun (1996) stated that the reputation is based on the sum of collective beliefs regarding the aptitude and eagerness to comply the interests of stakeholders of any company. Similarly Bromley (2002) and Sandberg (2002) believed that reputation is a socially shared image and an agreement that how a firm will react in any particular situation. Regarding the benefits Gray and Balmer (1998) elaborated that in the current dynamic environment the survival of any firm depends upon structure and sustaining a better corporate reputation. According to Walsh et al (2008) four dimensions encompasses the corporate reputation including customer orientation, excellent employer, trustworthy and financial good company and lastly the product and service quality. Customer orientation is related to the perception of the customer that the company satisfies the customer needs, excellent employer refers to the concept that how fairly the company treats its employees and gives the considerable interest to their needs and interests and the company is having excellent employees, the third dimension is related to company’s overall financial position and competence. The last dimension is related to the quality of services the company provides to the customers.
2.2 Outcomes of Corporate Reputation

2.3.1. Customer Loyalty

Customer loyalty is the surety of customer to buy any particular products or services of a specific organization over a constant time period regardless of the innovative products and services of its competitors and these consumers are not willing to switch (Oliver, 1997). It is like to maintain the long term affiliation between customer and organization. (Gundlach, Achrol & Mentzer, 1995; Anderson & Weits, 1992). Dick & Basu (1994) stated that customer loyalty is the potency of the attitude towards the object relatively available alternatives. Shapiro (1983) stated that ideal corporate reputation results in elevated market share and financial performance of the firm. Research studies like Porter (1985), Robertson (1993) stated that first class reputation aids firm’s to build strengthen association with customers. In the same direction Nguyen & Leblanc (2001) found that the level and degree of the loyalty of customer is professed to be higher when customer is imaging strong and fair perception about the corporate reputation.

\[ H_3 : \text{Customer-based corporate reputation has a positive effect on customer loyalty.} \]

2.3.2. Word of mouth behaviour

According to Chaudhri and Holbrook (2001) the customers who trust any product will show positive attitude, will pay a premium price, will be loyal to that product and finally results in positive word of mouth. A satisfied customer will spread a positive word of mouth and company will not pay for that to him.

\[ H_4 : \text{Customer-based corporate reputation has a positive effect on customers’ positive word of mouth.} \]

2.3 Conceptual Framework

The conceptual framework encompasses the cusomter variables that influence the customer based corporate reputation. The conceptual model includes the two antecedents and two consequences of customer based corporate reputation.
Dependent & Independent Variables and Equations:
1. Customer-based corporate reputation = Customer satisfaction + Trust
   \[ CR = \alpha + \beta_1 CS + \beta_2 Trust + \mu \]
2. Customer loyalty = Customer-based corporate reputation
   \[ Loyalty = \alpha + \beta_1 CR + \mu \]
3. Word of mouth = Customer-based corporate reputation
   \[ WOM = \alpha + \beta_1 CR + \mu \]

3. Research Design and Methodology

The study was quantitative in nature. Data was collected from twin cities (i.e. Islamabad and Rawalpindi) of Pakistan. Convenient sampling method was used. A total of 243 questionnaires were distributed, out of which 210 questionnaires were returned by the respondents. After careful scrutiny of received questionnaires, 33 questionnaires were found incomplete or wrongly filled making them invalid for further analysis. Respondents were asked to answer the questions keeping in mind the mobile company whose connection they use frequently or on permanent basis. The questionnaire was adopted from Walsh et al. (2008) with modification according to our business environment. The questionnaire was having questions related to the corporate reputation dimensions and antecedents and outcomes of corporate reputation. There were total of 12 questions addressing four dimensions of corporate reputation. Antecedent variable part was having total of 7 questions, three questions addressing customer satisfaction, four questions for trust variable. Outcomes variable part was having total of 5 questions, three for loyalty and 2 for word of mouth measurement. In addition, research model used by Walsh et al. (2008) was also adopted for the research in hand. Customers were asked to answer the questions on 5 point Likert scale having options from strongly agree to strongly disagree where 1 stands for strongly agree and 5 for strongly disagree. Afterwards, pre-testing of questionnaire was done by distributing the questionnaire to 20 respondents. Respondents were
closely observed at the time of pre-testing. Some of the shortcomings/confusing questions were indicated by the respondents during pre-testing that were removed. Respondents include male and female within the age bracket of 20 to 50 years including professional and non professional respondents. Data was collected from the 2 x markets of Rawalpindi i.e. Saddar and Commercial market satellite town and 2 x markets of Islamabad i.e. Karachi company, G-9 Market and Jinnah super, F-7 Market.

4. Data Analysis

The data was analyzed using SPSS 20.0. Reliability analysis, descriptive statistics, correlation analysis and regression analysis were performed to prove the hypothesis. Cronbach’s alpha was calculated for reliability analysis of the construct and was found at 81.9%.

Table 4.1: Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>210</td>
<td>2.2172</td>
<td>.44675</td>
</tr>
<tr>
<td>CS</td>
<td>210</td>
<td>2.1873</td>
<td>.73067</td>
</tr>
<tr>
<td>Trust</td>
<td>210</td>
<td>2.2988</td>
<td>.59226</td>
</tr>
<tr>
<td>Loyalty</td>
<td>210</td>
<td>2.2155</td>
<td>.61719</td>
</tr>
<tr>
<td>WOM</td>
<td>210</td>
<td>2.3548</td>
<td>.82084</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>210</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Descriptive statistics shows the highest values of mean is 2.3548 and minimum value is 2.1873. Means values are very close to each other for all variables and remain close to 2. Highest value for standard deviation is 0.8208 and lowest value is 0.44675.

Table 4.2: Correlations

<table>
<thead>
<tr>
<th></th>
<th>CR</th>
<th>CS</th>
<th>Trust</th>
<th>Loyalty</th>
<th>WOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>CR</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CS</td>
<td>.530(**)</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trust</td>
<td>.636(**)</td>
<td>.376(**)</td>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Correlation matrix shows the relationship of the variables with each other. All the independent variables ie CS (Customer Satisfaction), Trust, loyalty and WOM (Word of Mouth) are highly correlated with dependent variable CR (Corporate Reputation) and significant at 0.01 level. Independent variables are also positively correlated with each other. Loyalty is highly positively correlated with CS and Trust. WOM is also positively correlated with other three independent variable ie CS, Trust and loyalty. The maximum value for correlation coefficient is 0.698 and the lowest coefficient of correlation is 0.342. All the coefficients are below then the 0.7 which shows that there is no multicollinearity in the variables. The matrix shows that all variables are related and have effect on each other and suitable for the regression test.

** Table 4.3: Antecedents of Corporate Reputation  
\( CR = \alpha + \beta_1CS + \beta_2Trust + \mu \)  

<table>
<thead>
<tr>
<th>Variables</th>
<th>( R^2 )</th>
<th>Adjusted ( R^2 )</th>
<th>F Statistics</th>
<th>( \beta )</th>
<th>t</th>
<th>Sig. (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS</td>
<td>.502</td>
<td>.498</td>
<td>104.520</td>
<td>.338</td>
<td>6.109</td>
<td>.000</td>
</tr>
<tr>
<td>Trust</td>
<td>.508</td>
<td>9.608</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Regression analysis of first model which has the deppendent variable corporate reputation and two independent variables Trust and Customer Satisfaction (CS). The results show the values of coefficient of determination \( R^2 \) is 0.502 which explains that the independent variables Trust and CS defines the corporate reputation upto approximately 50%. Remaining 50% are the other variables. As we have discussed in our study only two customer related variables were used. ‘t’ value for CS is 6.301 and for Trust is 9.608. P values are less than 0.05 (95% confidence level) which shows that the values are significant and Customer satisfaction and Trust has significant impact on the Corporate Reputation.
### Table 4.4: Outcomes of Corporate Reputation ($Loyalty = \alpha + \beta_1 CR + \mu$)

<table>
<thead>
<tr>
<th>Variable</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>F Statistics</th>
<th>$\beta$</th>
<th>t</th>
<th>Sig. (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>.460</td>
<td>.457</td>
<td>177.000</td>
<td>.678</td>
<td>13.304</td>
<td>.000</td>
</tr>
</tbody>
</table>

Regression analysis of second model which has the dependent variable loyalty and one independent variables Corporate Reputation. The results show the values of coefficient of determination $R^2$ is 0.460 which explains that the independent variable Corporate Reputation effects the loyalty upto approximately 46%. Remaining 54% are the other variables. ‘t’ value for Corporate Reputation is 13.304. P value is less than 0.05 (95% confidence level) which shows that the values are significant and Corporate Reputation has significant effect on the Customer Loyalty (CS).

### Table 4.5: (WOM = $\alpha + \beta_1 CR + \mu$)

<table>
<thead>
<tr>
<th>Variables</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>F Statistics</th>
<th>$\beta$</th>
<th>t</th>
<th>Sig. (F)</th>
</tr>
</thead>
<tbody>
<tr>
<td>WOM</td>
<td>.223</td>
<td>.220</td>
<td>59.794</td>
<td>.473</td>
<td>7.733</td>
<td>.000</td>
</tr>
</tbody>
</table>

Regression analysis of third model which has the dependent Word of Mouth (WOM) and one independent variables Corporate Reputation. The results show the values of coefficient of determination $R^2$ is 0.223 which explains that the independent variable Corporate Reputation effects dependent variable WOM upto approximately 22%. Remaining 78% are the other variables. ‘t’ value for Corporate Reputation is 7.733. P values are less than 0.05 (95% confidence level) which shows that the values are significant and Corporate Reputation has significant effect on the positive Word of Mouth (WOM).

## 5. Conclusion

Correlation matrix proves the positive relations of the variables with corporate reputation and among each other. All three regression model produced the significant results which shows that the Antecedent of the corporate reputation i.e. Customer Satisfaction and Trust are significant with Corporate Reputation. So we can conclude that if customer is satisfied with the products and services offered by the company than the reputation of the company in the eyes of the customer will increase. Same is the case with Trust variable. When customer has trust on the services by the company then it will increase confidence level of the customer on the company that the future offers and service quality of company will be the same or even improved consequently the reputation of the firm will be increased. While outcomes of the corporate
reputation ie Customer loyalty and WOM also have significant relationship with the Corporate Reputation. When the company has good reputation in the minds of the customer then customer loyalty will be increased. Customers have a general behavior of looking for the products and services of the good reputed companies. It is due to the fact that good reputed companies care more for the customers and are reliable. Moreover another outcome of the reputation is the positive Word of Mouth which is very influential. Positive word of mouth affects the potential customer more than the advertising / marketing efforts of the company.

<table>
<thead>
<tr>
<th>S.No</th>
<th>Hypothesis</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Customer satisfaction has a positive effect on customer-based corporate reputation</td>
<td>Accepted</td>
</tr>
<tr>
<td>2.</td>
<td>Trust has a positive effect on customer-based corporate reputation.</td>
<td>Accepted</td>
</tr>
<tr>
<td>3.</td>
<td>Customer-based corporate reputation has a positive effect on customer loyalty.</td>
<td>Accepted</td>
</tr>
<tr>
<td>4.</td>
<td>Customer-based corporate reputation has a positive effect on customers’ positive word of mouth.</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

5.1 Managerial Implications

There is lot stuff for the Managers to pay attention to. Common wisdom suggests that attending to the corporate reputation makes good business sense. Customer based corporate reputation is not only influenced by, but also influences important customer behavior related variables. The finding suggests that the delivering customer satisfaction can be very helpful in achieving their goals. When customers are satisfied they give more weightage to the elements of reputation. Another implication for the service firm is that the customer satisfaction and trust influencing customer based corporate reputation is built by the interaction of the customer with the employees of the company. So the employees should be empowered and necessary trainings should also be provided to them to deal with the customer and solve their problems. The results further suggest that the good reputation increases customer’s loyalty and thus the retention of the customer. In addition to that the positive word of mouth which has the promotional effect.

5.2 Further Research

The present study contributes to existing literature on important issue of management science that is corporate reputation for Pakistan which is developing market. It has its own business environment and customer requirement and we try to modify the study according to the needs of our country. There are several aspects which can be explored in future research in this area. First, we can expand our sample and include other cities. In investigating the determinants of corporate reputation we can look upon other factors that influence corporate reputation, for example after sale service, expenditure on research and development and quality control etc. From methodological point of view more sophisticated techniques can be used such
as oblique factor analysis. In addition the analysis of corporation perception about corporate reputation would add both side of the picture.

References


Corporate Governance Factors Drive Firms’ Earning Per Share: Evidence from Pakistan Stock Exchange Listed Companies

YASIR KHAN
Ph.D Scholar, Qurtuba University Peshawar.
Yasir.khan@abasyn.edu.pk

MUHAMMAD AMJAD
Ph.D Scholar, Accountant General Khyber Pakhtunkhwa
Peshawar
mamjaduni@yahoo.com

DR.SAIMA BATool

OBAID ULLAH BASHIR
MS-Scholar, Islamia College, Peshawar

Abstract

The aim of this study is to examine the corporate governance factors that drive the firms’ earning per share (EPS) sample of firms listed on Pakistan Stock Exchange (PSX) over the period of 2011 to 2016. This paper analyzed the impact and relationship of dependent variable (Earning per Share) and independent variables (Board Independence, Ownership concentration, CEO duality and Board diversity). The panel data collected from the sample of top 20 companies (market capitalizations) listed in Pakistan stock exchange. To investigate the relationship between variables the Pearson correlation and regression applied and to identify the impact of independent variables (board independence, ownership concentration, CEO duality and Board diversity) on dependent variable (earning per share) used regression tool. The study result of correlations and regression result revealed that board independence, ownership concentration and Board diversity have significant impact on performance while CEO Duality has negative impact on Firm financial performance.

Key words: Earning per share, Board Independence, CEO Duality, Market capitalizations and Firm Performance.

1. Introduction

To revitalize the shareholder confidence in firm’s operation, firm should declare the require amount of dividend that shareholders expected because shareholder invest their money in stocks in return of dividend and capital gain. These two outputs are stimulates the investors and some common factors that drive the dividend and capital gain. Hence, the corporate governance factors are consider the most prominent factors that drive the firm earning per share (Marxi Oli & Selvam, 2013). Since 1970’s the great depression the corporate governance became a terrific subject of economist, researchers, investors
and academician. Such crisis drifts the well-known corporations like Enron, Parmalat and Coloroll. Most of researchers and analyst argue that the main reason of failure of these firms was lack of good corporate governance. Thus, from last decade most of the scholars are trying to investigate the relationship of corporate governance with different firm performance measures. Corporate governance describes set of rules that erect the relationship between principle/s (Shareholder and other stakeholders) and agents (Chairman, Board director and other management). Board Independence, Ownership Concentration, CEO Duality and Audit fee are the corporate governance factors that analyzed in this study. Previous studies show a significant relationship of these factors with firm earning per share and other performance measurement (Marxi Oli & Selvam, 2013) (Najjar, 2012). The independent board has significant positive effect on firm earning per share. It means in board composition when non-executives directors that have no relation with firm and do not own share in corporation, included the firm earning per share travel positively (Meyer & Wet, 2013). They also explained that ownership concentration has significant negative correlation with firm earning per share. The study shows that in firm ownership when directors hold large number of stock in their ownership it has negative correlation and effect on earing per share.

In addition to the discussion another study explore by Georgiana on the relationship of CEO duality with firm performance. CEO duality refers the one individual who holds CEO and board chair also. The study suggests that CEO duality has positive and also negative relationship with firm performance (Georgiana, 2013). Another corporate governance factor that has a significant effect on firm earning per share is known as audit fee. The study reveals that audit fee has negative correlated with earning per share (Marxi Oli & Selvam, 2013).

1.1 Significance of Study

The study of corporate governance factors has great importance in regard of shareholder, stakeholder and investor community. To analyze the relationship and effect of CG factors with firm earning per share the investor can secure their investment. The earning per share is leading indicator of firm performance, therefore high earning per share indicate well perform business that also a positive indication for good economy.

1.2 Objectives of the Study

Usually most of the investor believes that the only prominent factor that effects the earning per share is the investor behavior rather than the other internal factors that are playing a major role in earning per share while there are more internal organizational factor as well exist that mold the earning per share and attract these investor investing behavior so the aim of the study is to investigate the internal organizational factors that affect earnings per share and to find out the relationship of these variables with EPS. The main objectives of the study are:

i. To ascertain the effect of corporate governance factors on Earing per Share (EPS) firms listed on Pakistan Stock Exchange (PSX).

ii. To ascertain the relationship between CG factors and firm Earning per Share (EPS) listed on Pakistan Stock Exchange.
2. Literature Review

Numbers of studies described and investigate the importance and relationship between corporate governance and firm performance measures. Every researcher tried to demonstrate the different characteristic of corporate governance in different scenario. Corporate governance is set of rules that ensure to provide the fair position of the firm to interested parties about their investment. Actually it states a system that highly influence on managerial decisions in respect of shareholder investment and firm performance (Roy, 2016). Due to scandals of Enron, Tyco, WorldCom and Parmalat the experts induce to provide the secure way to protect the corporations from such bad situation. Thus, in United Kingdom the Cadbury report (1992), Sarbanes-Oxley Act (2002) in America and Code of Corporate Governance (2002) in Pakistan came into existence. All these reforms basically aim to resolve the agency problem (Meyer & Wet, 2013).

The corporate governance mechanism tries to ensure a good relationship between shareholders and their agents known management. Hence most of studies show the effect of corporate governance factors on firm’s performance measures. Brown and Caylor (2004) and Gompers, Ishii and Metrick (2003) studied and investigate that a good and active system of corporate governance increase the profitability and produce higher return for shareholders. The relationship between independence board and firm performance has become divisive. Some studies suggest that these variables have positive relationship while some studies show negative or no relationship. Hence, the study of (Iwu-Egwunwu, 2010) revealed that the impact of independent directors/board on firm performance is not only mixed phenomena, it also a culture-bound. He explained that in US, there is no relationship found between independence board and firm performance while those structured and conducted studies shows positive relationship.

The study of (Baghat & Black, 2000) on “The Non-Correlation between Board Independence and Long Term firm performance” showed that the degree of board independence is correlated with performance measures but there is no evidence that the large number of independent directors increase the firm’s profitability, in contrast they found the undesirable effect of independent directors on firm’s profitability. While the study of (O. S, Olusola, & Abiodun, 2013) explores that board independence has significant relationship with organizational measures. They examine the relationship of three corporate governance factors (BI, BS and CEO duality) with organization measures (EPS). Their results revealed that board size and executive duality have negative relationship and board independence has positive significant relationship with organization measures. Another study of (Gull, Akram, Bilal, & Muzaffar, 2013) supports that board independence positive effect on performance measures (return on equity and earing per share). They investigate the impact of board independence on banking performance in context of Pakistan. The study results show that board independence has a positive significant impact on banking performances and also suggests that banks having independent board will perform better than having dependent board.
2.1 Board Independence

Most of previous studies argue significant relationship between concentration ownership and firm performance. Jensen Mackling (1976) stated to reduce the agency cost by managerial ownership that lead to better firm performance. Similarly, (Shleifer & Vishny, 1986) suggested that the agency problem can be manage and improve the firm performance by concentration ownership. They mentions the concentrations ownership as decree for governing the firms. The study of (Hill & Snell, 1988) on the role of private ownership concentration reported that ownership concentration and firm performance is directly correlated. The ownership structure has statistically significant impact on performance measures specially earning per share (Mousa & Desoky, 2012). Sheikh & Karim (2015) studied “effects of internal governance indicators on performance of commercial banks in Pakistan” and argued that there is negative relationship between ownership concentration and earning per share.

2.2 Ownership concentration

In organization there are two key positions (Chief Executive Officer and Board Chairman) that are considers the responsible body of the organizations management and operations. Chief Executive Officer (CEO) is the governing body of firms that manage, supervise and conduct the resources in such way to achieve the organization common goals. While Chairman of board is another key body that responsible for the strategy and policy making for the organization (Miller, 2005). Hence, person who holds the both position at a time is known as CEO duality. Previous literatures examine the relationship between CEO duality and performance measure. Jensen, (1993) explained that CEO duality and two other characteristics of board affect the corporate board monitoring potentials. According to (Yermack, 1996) CEO duality has no effect on firm performance. Recent study supports these results, They did not find evidence that CEO duality has significant effect on discretionary accruals (Kamran & Shah, 2014). O. S, Olusola, & Abiodun (2013), found a significant negative relationship between CEO duality and organizational performance. They also suggest that these two position should be occupied by different personnel. Alike (Ong, Heng, Ahmad, & Muhammad, 2015) studied relationship of CG attributes and performance and revealed that CEO duality significantly inverse relationship to firm performance. Modum, Ugwoke, & Onyeamu, (2013) also argued that duality has statistically significant effect on firm performance of quoted companies in nigeria. They recommend that these two positions should not be unified. While the study of (Joshua, 2007) and some other researchers found a significant and positive relationship between CEO duality and firm performance (Bhagat & Black, 2002).

2.3 CEO Duality

Various studies identify the relationship and effect of auditor’s committee and company performance. The study of (Ashbaugh, LaFond, & Mayhew, 2003) revealed that firm financial leverage and consulting committee of independent auditor are correlated. According to (Moutinho, Cerqueira, & Brandao, 2012) board diversity and firm performance have statistically significant relationship. They revealed that firm performance is highly connected with board diversity. The increase /decrease in board diversity respond
Significantly to firm performance increases (decreases). Sayyar, Basiruddin, Abdur Rasid, & Elhabib, investigated the impact of audit quality on firm performance. They argued that audit committee (proxy as audit quality) has insignificantly related to return on asset while significantly and positively relationship with Tobin’s Q. According to (Behbid & Madrakian, 2014) earnig management and audit committee have no relationship. They investigated the relationship between audit committe and earning management and revealed that there is no significant relationship between audit committe and earnig management.

2.4 Board Diversity

Board diversity or board composition tell us and reflect that how a board reflect its society in term of genders, ethnicity and professionalism. Milliken & Martins (1996) argued that board must be having members, who composed of both male and female. The same kind of study conducted by Biggins (1999) and found that diversity in board is very essential. Thompson & Wright (1997) carried out research and found that shareholders should maintain a diverse type of board structure. It is also worthwhile as Burton (1991) found and argued that diversity does not mean that the society should have same equal representation but it must be on the principles of merit. Robinson and Dechant (1997) argued that board diversity is helpful in maintaining good relationship with the outer world, it can improve the problem solving in the organization, bring creativity and help in decision making and better decisions.

Board diversity signify the jumble of male and female component in board of director of a company but board diversity analyze the impact of female member in board and her existence on board efficiency. Basically the sated analyses are ambiguous and not clear so for. According to Smith (2006) the female directors have effects on firm performance slightly having dependency on her education, subject of study and qualification. Some researchers are very much in favor of Gender diversity and its importance. According to Agency theory all the struggle and work should result maximizing profit for owner. While in practice it is noted that as and when managers who act as director of the boards doing their own domain and gain for themselves. To avoid agency problems there should be balance between inside and outside manager and the power much vested with a balance way in board to the directors. Mostly organizations are controlled by the persons who govern the board so they are making majority decisions for their own interest and benefits. According to Hampel (1998) as diversity of board is concern there should be a balance between directors so the board will be independent and in this way no one can dominate the board decision. Keasey (1997) argues that diverse boards are better being the presentation by the all the stakeholders in developing decisions of the firm. The resource dependence theory state that the board is basically firm’s internal resource, and the firm’s external resources are environment. For survival and better performance these resources play a vital role such resources are to be provided by the board members also it give a connection in firm and in firms environment. Many researchers have same opinion that board diversity has positive and significant effect on firm’s performance. While some have adverse opinion like inverse relationship between women directors and performance of the firm. Rose (2000) analyzes Denmark firms in which he found that there is an insignificant and negative relationship in between.

Enobakhara (2010) explain the Board diversity as the combination of men and women, diverse age groups, different and ethnic surroundings. According to Anastasopoulos et al (2002) corporate
Governance board diversity stress on, gender diversity that the insertion of women on firm boards of directors, measured as a device to perk up board assortment. The theme put more accentuation on the firm board size and the board containing the women in it in a stipulated time period. The board diversity has a positive effect directly as well as indirectly on corporate governance of a firm. While Goodstein viewed the board diversity as a constraint, even so the diverse perspectives are essential for effectiveness of board (Ogbechie & Koufopoulos, 2009). Dutta and Bose (2007) indicated that there is restricted existence of women inboards of directors, still mostly study show that the existence is slow but steady rise of the women existence on corporate boards all over the world. The relationship in gender diversity and firm financial performance are contrasting, taking into consideration the United states, Zahra and Stanton (1988) argues that there is no significant correlation in-between gender diversity and firm financial performance.

2.5 Hypotheses

To achieve the above objectives of the study the following hypotheses has been applied.

H1: There is significant relationship between Corporate Governance and firm Earning per Share.
H1a: Board independence has significant positive impact on firm financial performance lead to earnings per share.
H1b: Ownership concentration has strong favorable effect on earnings per share.
H1c: CEO duality has negative effect on firm performance caused earnings per share.
H1d: Board Diversity also caused significant positive trend in firm financial performance that effect earnings per share.

2.6: Theoretical Framework

Corporate Governance Factors

- Board Independence
- Ownership Concentration
- CEO Duality
- Board diversity

Earning per Share

(EPS)
3. Methodology of the Research

This research is an empirical study to determine the relationship between Corporate Governance factors and firm performance. The data was collected from firms listed on Karachi stock exchange. For this purpose the require data collected for the period of 2010 to 2015 from listed companies annual reports. The listed companies of Pakistan stock exchange are the population while top ten companies of Pakistan stock exchange has been selected as sample of the study.
Manufacture sector companies listed in Pakistan stock exchange

Annoor Textile Mills Ltd.
Ansari Sugar Mills Limited.
Apex Fabrics Ltd.
Apollo Textile Mills Ltd.
Arif Habib Investment Limited
Arif Habib Limited
Arif Habib Sec Ltd
Arpak International Investment Ltd.
Artistic Denim Mills Limited
Arj Garment Accessories Limited
Asfhaq Textile Mills Limited.
Asia Insurance Co. Ltd.
Asian Stock Fund Company Ltd.
Asim Textile Mills Limited

3.1 Statistical Tools
The following statistical tools have been used for the purpose of analysis and conclusions will be drawn on the empirical results.
- Correlation Analysis
- Regression Analysis

4. Data Analysis
4.1 Pearson Correlation
In order to find out the relationship and strength of association between Earning Per Share and Firm Performance.
Table 4.1: Correlation Analysis

<table>
<thead>
<tr>
<th></th>
<th>EPS</th>
<th>Board Independence</th>
<th>Ownership Concentration</th>
<th>CEO Duality</th>
<th>Board Diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board Independence</td>
<td>0.6920</td>
<td>1.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>0.390</td>
<td>0.337</td>
<td>1.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CEO Duality</td>
<td>-0.245</td>
<td>-0.282</td>
<td>0.251</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Board diversity</td>
<td>0.226</td>
<td>0.311</td>
<td>0.215</td>
<td>0.211</td>
<td>1.000</td>
</tr>
</tbody>
</table>

The above results of correlation shows that both Earning per share is positively significantly correlated with Board Independence having values 0.6920, similarly ownership concentration has also positive significant impact on earnings per share as result shows positive value of 0.390. CEO Duality are negatively correlated to Earning Per Share but the impact is significant. Board diversity has positively significantly correlated to Earning Per Share.

Table 4.2: Regression

<table>
<thead>
<tr>
<th></th>
<th>Co efficient</th>
<th>Standard Error</th>
<th>T. Value</th>
<th>P. Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Independence</td>
<td>0.300212</td>
<td>0.1334</td>
<td>2.25</td>
<td>0.0421</td>
</tr>
<tr>
<td>Ownership Concentration</td>
<td>0.362001</td>
<td>0.1265</td>
<td>2.86</td>
<td>0.0201</td>
</tr>
<tr>
<td>CEO</td>
<td>-0.28672</td>
<td>0.1592</td>
<td>-1.83</td>
<td>0.0705</td>
</tr>
<tr>
<td>Board diversity</td>
<td>0.4213</td>
<td>0.2600</td>
<td>1.62</td>
<td>0.0676</td>
</tr>
</tbody>
</table>

F=5.65, R-Square: 0.275

The above table 2 shows the results of regression effect. The R-square shows the changes in dependent variable firm performance caused by the independent variables. The F value shows the overall significance of the model. The F-value calculated =5.65 suggest that the overall model is significant, as it is above the critical value F=4. The results shows that Board independence has positive significant impact on EPS as its t=2.25 is above its tabulated value, i,e t=2. Ownership Concentration and Board diversity both shows significant Positive impact on the firm performance. As its T values are positive significant.

5. Conclusion

This empirical study revealed very strong significant relationship between Board Independence, Board diversity, Ownership Concentration and Firm Performance. It was observed that those companies whose boards are independent and have concentration of owners in business affairs, they perform better than those
that have not any system of these areas. It was observed that almost all firms have proper mechanism of these Corporate Governance factors.

Reference


The Impact of Share Pricing on Firm Performance: Empirical Evidence from Pakistan

MUHAMMAD ILYAS
Lecturer and PhD Scholar, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
milyas_85@awkum.edu.pk

DR. SHAHID JAN
Associate Professor, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
shahidjan@awkum.edu.pk

MUHAMMAD NISAR KHAN
Lecturer, Bacha Khan University, Charsadda
nisarmgt@bkuc.edu.pk

Abstract

Researchers examined the impact of share pricing on firms performance in Pakistan. Selected 98 firms from five different sectors listed on Karachi Stock exchange1. Selected sample on the bases of availability of complete data of sample firms during period of this study (2006-2011). Data used are secondary in nature and source of data is balance sheet analysis of listed firms. Used Net profit margin as depended variable while earnings per share used as independent variable and return on assets overheads and earnings before interest and tax used as control variables. For analysis used Panel data techniques as fixed and random effect models. On the basis of Hausman effect test select fixed effect model for analysis and concluded that the impact of earnings per share, earnings before interest tax and overheads are significant on net profit margin. However, impact of return on assets on net profit margin is insignificant.

Keywords: Share Price, Karachi Stock Exchange, Net Profit Margin, Earnings Per Share

1. Introduction

In the area of business and especially of finance the financial system as a whole plays an important role in any economy developmental process. In this area the capital market plays a vital role because it is an essential part of financial system. Moreover, stock exchange is a performance measure parameter of any economy. As an integral part of the whole financial system the stock exchange role is to mobilize savings, allocate resources in an efficient way. In case of Pakistan the stock market are still not developed though it start working in 1947 after independence, but it still provide its basic function of liquidity in efficient manner. Karachi stock exchange helps the economy and all sectors of economy by providing services to firms, investors and all other stockholders.

---

1 Karachi Stock Exchange
2 Now Karachi Stock Exchange is Pakistan Stock Exchange.
As we know the primary objective of any firm manager to enhance the value of firms for their shareholders and it is also clear from literature and empirical evidences that the shares price is play an important role in performance of market. Share price consider as a signal and as well a proxy for liquidity function of stock market. The investment in sense of securities as financial investment and it leads to the expansion of business investment in sense of economic investment. This investment from investors side in form of financial sense leads firm into economic sense of investment improve the status of firm by gaining long term funds, build positive image of firm in community, help in financial performance of firms and also provide an incentive clue for employees. In this research work the main concentration is focus to find out how share price effect the performance of firms and the shareholder face the risk. As any manager manages the internal appears of firms to maximize the value of firm, here therefore focus share pricing to affect either firm performance or not. From the literature revealed that researchers investigate the share pricing effect on firm performance in firms which offer initial public offerings. However, the share pricing also effect the performance of these firms which made already initial public offerings and now their share normally traded on stock exchange. Therefore, in this study researchers reveal to investigate the share pricing impact on firm performance of already offered initial public offerings.

2. Review of Literature

Gyimah and Akotey (2011) examined the effect of share pricing on performance of listed firms on Ghana stock exchange. Net profit margin used as dependent variable and EPS as independent variable and ROA, ROE, ROI and overheads used as control variables. Five companies used as sample of study and data is panel in nature. For the purpose of analysis used the random effect model and from results concluded that the relation of EPS and performance of firms is significant and positive. However, ROI and overheads are significantly but negatively related with performance of firms. ROA and ROE are insignificantly explain this relationship, concluded that the share price attract investors for investment. Ritter (1991) worked on USA public firms and concluded from the results that after going public in first 3 to 5 years their returns are negative and significant. Moreover, Jain and Kini (1994) investigate the operating performance of quoted companies during time period of 1976-1988. It was early time going public firms in USA and from results conclude that in their post issue performance are declined. However, revealed that investors expect that earnings growth of these public firms will continue and investors value such firms.

Kim, Moonchul and Ray (2004) examined the Thai initial public offerings and concluded that their operating performance declined, also find that firms depend on banking mode of finance face high performance decline in post listing period and growing firms performed well. Kutsuna, Hideo and Cowling (2002) studies JASDAQ companies and concluded that sales, ordinary profit and net growth in profits decrease after listing. Pagano, Panetta and Zingales (1998) analyzed Italian IPOs determinants and compare ex-post characteristics of these IPOs and firms of private. After IPO their profitability declined and increases after first years to third years. Cai and Wei (1997) examined the operating performance of initial public offering in Japanese firms in first five years and its concluded that these firms underperformed significantly.

Hypothesis

In the light of above discussion the following hypothesis is generated for testing on the basis of their theoretical background.

Ho: There is no impact of share pricing on firm performance.
3. Research Methodology

In this research work researchers examined the impact of share pricing on performance of listed firms on Karachi stock exchange. 98 listed firms from five different sectors are selected. Data is secondary in nature and source of data is balance sheet analysis for non-financial firms. Time period is six years from 2006 to 2011.

As the data is panel in nature therefore, used the panel data techniques for analysis. The general model is:

\[ Y_{it} = \alpha + \beta X_{it} + u_{it} \]

These techniques are common effect, random effect and fixed effect models. In case of common effect model there is a constant intercept for all cross sectional over the time periods, and in the case of fixed effect model the intercept for all cross sectional are fixed over time not constant.

\[ Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \ldots \ldots \ldots + \beta_k X_{kit} + u_{it} \]

In the situation of random effect model the situation of intercept of all cross sectional are random over time.

\[ Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \ldots \ldots \ldots + \beta_k X_{kit} + (\upsilon + u_{it}) \]

For the best model selection for panel data estimation techniques use the Hausman effect to select fixed or random effect model.

3.1 Variables and Its Measurements

3.1.1 Dependent variable

Net Profit Margin (NPM): It is calculated by net profit divided by sales.

3.1.2 Independent Variable

Earnings per Share (EPS): It means how much earning generated by a firm on per share basis. Calculated by using formula of total earning of firm divided by total number of outstanding shares.

3.1.3 Control Variables

Return on Assets (ROA): Calculated by net income by total assets.

Operating Profit Margin: It is calculated by EBIT divided by sales.

Overheads: It is calculated by overheads divided by total assets.

3.2 Research Model

For this study the research or statistical model is design on the basis of regression model.

\[ NPM_t = \alpha + \beta_1 EPS_t + \beta_2 ROA_t + \beta_3 OV_t + \beta_4 EBIT_t + \epsilon \]

NPMt is a net profit margin for firm at time t.
EPS<sub>t</sub> is earning per share for firm at time <i>t</i>.  
ROAt is return on assets for firm at time <i>t</i>.  
OV<sub>t</sub> is overheads for a firm at time <i>t</i>.  
EBIT<sub>t</sub> is operating profit margin for a firm at time <i>t</i>.  

4. Results and Discussion  
4.1 Fixed Effect Estimation Results  

Dependent Variable: NPM  
Method: Panel Least Squares  
Sample: 2006 2011  
Periods included: 6  
Cross-sections included: 588  
Total panel (unbalanced) observations: 3524  

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.014414</td>
<td>0.003372</td>
<td>-4.274484</td>
<td>0.0000</td>
</tr>
<tr>
<td>EPS</td>
<td>0.000984</td>
<td>0.000503</td>
<td>1.957133</td>
<td>0.0504</td>
</tr>
<tr>
<td>EBIT</td>
<td>1.347836</td>
<td>0.010292</td>
<td>130.9540</td>
<td>0.0000</td>
</tr>
<tr>
<td>ROA</td>
<td>0.007144</td>
<td>0.084719</td>
<td>0.084330</td>
<td>0.9328</td>
</tr>
<tr>
<td>OH</td>
<td>-0.242235</td>
<td>0.053568</td>
<td>-4.521987</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Effects Specification  

Period fixed (dummy variables)  

R-squared 0.842894  
Adjusted R-squared 0.842402

Panel data model of fixed effect estimation is applicable for this data. Net Profit Margin (NPM) used as dependent variable in this study and from the results concluded that earning per share (EPS) is significantly and positively related with net profit margin. Means when earning per share of firm increase the performance of firm will leads to high level and this support the view that share pricing has positive relation with firm performance. Earnings before interest tax (EBIT) and overheads (OH) are also have significant relationship with net profit margin, coefficient of overhead is negative, and it means inverse relation. Results of this study have similarities in conclusion with Gyimah and Akotey (2011) that overheads and earning per share are significantly related with net profit margin. Moreover, earnings before interest and tax has positively and significantly related with net profit margin. Return on assets (ROA) is insignificantly and positively related with net profit margin. This insignificant association of return on assets and net profit margin support the results of Gyimah and Akotey (2011).
Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>34.151738</td>
<td>6</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

To decide either fixed effect estimation or random effect estimation model is best for panel data analysis applied the Hauseman effect test. Result of Hauseman test provide the information that the fixed effect estimation is suitable for this study and random effect estimations test is not appropriate because the value of \( \rho \) value is less than 1 percent.

5. Conclusion

As in this study the researchers examined the impact of share pricing on the performance of firms listed on Karachi stock exchange, from the panel data analysis concluded that earnings per share, earnings before interest and tax and overheads have significant relationship with net profit margin. However, relationship of return on assets is insignificant with net profit margin. Therefore, concluded that the share prices effect the performance of firms listed on stock exchange.

References


Performance of Banks in Pakistan based on determinants of Profitability

AQSA SIDDIQ
Assistant Professor, University of Peshawar

KHURSHEED IQBAL
Assistant Professor, Brains Degree Postgraduate College

SHAMS UR REHMAN
Assistant Professor, Qurtaba University Peshawar

Abstract

The study aims to seek the internal factors that affect the profitability of banks in Pakistan from a period of 2009 to 2013 by using two proxies i.e. Return on Assets (ROA) and Return on Equity (ROE). The panel data of fifteen banks have been obtained from the financial statements of the banks. Therefore, Hausman test has verified that random effect model is most appropriate model for Return on Assets (ROA), conversely fixed effect model is prominent for Return on Equity (ROE) for the current study. The empirical results confirm that investment to total assets, leverage, Net Performing Loan (NPL) to gross advances, capital ratio and total deposits to total equity are the main determinants of profitability across both proxies (i.e. ROA and ROE). Leverage and capital ratio have significantly negative, however net performing loan to gross advance and total deposit to total equity have significantly positive influence on profitability of banks across both models. Moreover, NPL to gross advance is insignificant determinant of Return on Equity. The results are worthy for bankers and all stakeholders to make strategic decision for the competitiveness of banking sector in Pakistan.

Key words: Bank, Profitability, ROA, ROE, Fixed and Random Effect Model

1. Introduction

Financial institutions as effective intermediaries flow funds through economic units to support trade and commerce. Under the common legislative arrangement, the administrative responsibilities of banks, Development Finance Institutions (DFIs), and Microfinance Banks (MFBs) fall within the legal domain of State Bank of Pakistan (State Bank of Pakistan, 2009). The smooth operation of the economic system is possible due to the efficient operation of the banking sector. However, the industry gets remarkable attention from corporate managers, researchers and the diverse stakeholders around the world. The main goal of any firm is to maximize the wealth of shareholders by practicing best performance in term of efficient utilization of resources (Gitman, 2007). Furthermore, performance of a firm can be affected with two types of factors (i.e. internal and external factor). The internal dimensions include firm’s policy, decision and management style. On the other hand, the external dimensions are macroeconomic variables. The empirical study of Albertazzi and Gambacorta (2009) concludes that the relationship of profitability and overall business cycle is essential for the assessment of stability. The financial sector of economies is based on banking system to carry out all financial transactions. Thus, some factors like capital, management decisions, cost management,
poor quality, poor liquidity, and ineffective management can directly affect the performance of the sector. In the last few years the banking sector of Pakistan showing incredible performance, however if it is compared to international market, the industry faces lack of efficiency, and competitiveness that reflects low performance and stability. The ultimate goal of businesses is to increase their productivity and profitability. Therefore, banks are trying to manage cost, strengthen customer relationship, and develop products mix and pricing strategies. Thus, performance evaluation is the key concern for the study to improve organization efficiency and accountability. The main objective of the study is to evaluate bank’s performance in context of 15 Pakistani banks by selecting panel data from 2009 to 2013. The study uses two proxies of profitability (ROA and ROE) to measure the performance of the banking industry in Pakistan.

1.1 Objectives of the Study

The study objectives are as

- To identify the main determinants of bank’s performance in Pakistan.
- To evaluate the effect of micro factors (e.g.; investment to total assets, leverage, net performing loan to gross advances, capital ratio and total deposit to total equity) on Return on Assets (ROA).
- To assess the relationship of internal factors (e.g.; investment to total assets, leverage, net performing loan to gross advances, capital ratio and total deposit to total equity) with Return on Equity(ROE).

2. Literature Review

2.1 Determinants of Profitability

Philip Molyneux and Seth(1998) investigate the relationship of bank size with profitability, which depicts that banks size is dependent on the economies of scales, because large banks are more profitable than small banks. Demirguc-Kunt, Levine, and Min(1998) illustrate that higher fund would facilitate the banks to deliver and provide more loan lead to higher profitability. Molyneux and Thornton (1992) have determined the determinants of banks performance and concluded that profitability and interest rate are positively related with Return on Assets (ROA). Thus, they have also exhibited that banks pay higher interest on deposit to get and attract more funds from the potential stakeholders. Havrylchyk and Jurzyk (2006) have selected a sample of 265 banks in central and Eastern European countries over the period of 1995 -2003. They have examined the differences in profitability among foreign and domestic banks. They have also found that foreign banks earned higher profit than domestic banks. In addition, profitability of foreign banks has less affected by macroeconomics condition. Pasiouras and Kosmidou (2007) have shown that specific to banking characteristics and overall environment affect profitability of domestic and foreign banks. Furthermore, they have revealed that profitability of both domestic and foreign banks has been affected by the financial market structure and macroeconomics conditions. P. P. Athanasoglou, Brissimis, and Delis(2008) have demonstrated that bank size and business cycle have been positively influenced the bank’s profitability and credit risk, operating efficiency, higher debt turnover and high real rate of interest are positively associated with profitability (Ramlall, 2009). Furthermore, loan, equity, and deposit have a robust influence on bank profitability(Javaid, 2011). Therefore, higher loan has no significant effect on profitability, however, deposit and equity have a significantly positive influence on banks’ profitability. Hence, higher cost of production and higher total assets may not necessarily lead to higher profit. Bintawim Samar Saud(2011) has studied internal factors of the Saudi Banks and found that large banks have achieved a tremendous growth rate than
medium size banks. Further they have explained that banks’ size is negatively associated with bank profitability, while assets utilization has a positive effect on bank performance. Ramadan, Kilani, and Kaddumi (2011), have examined the relationship of bank profitability with internal and external factors. They have documented that bank profitability is associated with low credit risk, high lending activities and efficient cost management. Rahman et al. (2012), have conducted a study on 26 conventional and Islamic banks by using regression models over the period of 2006-2011. The empirical results have shown that size of the bank, capital and loan have significant impact on the performance of the selected banks. Size is negatively related while capital and loan are positively related with profitability while deposits have insignificant effect on the performance of banks. A study on the internal factors such as cost, size and liquidity of Sudan banks has concluded that cost, size and liquidity influence profitability of the banks (Eljelly, 2013). Iatridis and Persakis(2012), have examined the before and after effects of implementing IAS\textsuperscript{3} 32, IAS 39 and IFRS 7 by taking samples from UK and Greek banks. They have found that profitability of banks are influenced by size, capital and efficiency. Jan et al. (2014) have used two proxies of profitability (ROA and ROE) of insurance industry over the period of 2010-2013 by using multivariate regression model. The researchers have concluded that gearing ratio, NPLs ratio and asset management have significant affect on profitability of insurance industry in Pakistan across both proxies i.e return on assets and return on equity. Almazari (2014) has observed the internal factors of banks that affect profitability of Saudi and Jordanian banks over the period of 2005 to 2011 by employing financial ratios, Pearson’s correlation and regression analysis. He has revealed a positive relationship between return on asset and liquidity risk. On the other hand, negative relationship been found among net credit facility to total asset, net credit facility to credit ratio, cost income ratio and bank size. Jaber and Al-khawaldeh (2014), have studied the internal and external factors of commercial banks in Jordan over the period of 2007-2012. They have documented a positive and significant relationship of capital adequacy, size and liquidity with ROA.

2.2 Return on Assets (ROA)

The Return on Asset (ROA) is an effective determinant of bank’s profitability determined by net income to total assets. In addition, ROA demonstrates the revenue earned per dollar of assets reflecting the bank’s administrative skills to use its financial and real investment resources in producing income (Ben Naceur, 2003; Alkassim, 2005).

2.3 Return on Equity (ROE)

The Return on equity (ROE) refers to the amount that business gains by employing their shareholder equity. It determines the shareholder rate of return on their financial investment. Therefore, higher ratio indicates that business is capable of generate money internally, hence, higher rate of ROE is better than the low rate. Return on Equity ratio represents the rate of return on the investment by shareholder, which indicates the management ability in terms of proper utilizing of shareholder investment (Khrawish, 2011).

\textsuperscript{3} International accounting standard (IAS)
2.4 Capital Adequacy

Capital is one of the company specific aspects that can affect earnings. According to P. Athanasoglou, Brissimis, and Delis (2008) capital is the amount that is available and could be employed to improve business as well as act particularly in case of hostile condition. It generates liquidity and reduces the chance of undesirable conditions. The sufficiency of capital is evaluated through the capital ampleness that reveals strength and profitability of the organization.

2.5 Non-Performing Loan Ratio

Bank’s assets are integration of current assets, fixed assets and others; one of the variables that influence profitability. Banks’ loan is a leading resource that generates earnings. As by Dang (2011) the uppermost risk encounter by banking institutions would be the losses resulted from antisocial or delinquent loan. Thus, the best proxy for the asset quality is the nonperforming loan ratio. It's a major concern for most banking institutions to maintain the low level nonperforming loan as the high loans affect bank earnings. The lower the ratio the better may be the bank's efficiency.

2.6 Bank Liquidity

“Liquidity is an elusive notion therefore, it is easier to recognize than define” According to Sarb(2012) the liquidity can be defined in three ways, (i) financial instruments exchange for money without any loss of value, (ii) trading of an asset without any price concession and, (iii) monetary liquidity is circulating in the economy.

2.7 Capital Ratio

Capital serves as a source of funds along with borrowing and deposit for banks (Rasiah, 2010). The banks’ assets can be financed with two sources i.e. debt financing and internal financing (capital). Using the large amount of debt financing the banks may experience reduction in profitability, bankruptcy and problem of liquidity. Alternatively, banks with enough capital can take higher risks, absorb shocks originated from liquidity and credit risk. Sufian and Chong(2008) have claimed that banks in developing countries require strong capital structure and high level of equity to reduce the cost of capital and to enhance profitability. On the other hand, the lower level of equity and capital have negative impact on profit causing low performing banks.

3. Research Methodology

3.1 Data Collection, Analysis and Presentation

All the banks works under the rules and regulation of State Bank of Pakistan (SBP) and publish annual reports for all the stakeholders. Therefore, the secondary data of fifteen banks have been randomly selected in the study. The data of the selected banks have been obtained from the financial statements of the banks.

---

4Andrew Crockett in this issue of the Financial Stability Review.
over the study period 2009 to 2013. Furthermore, the panel data technique i.e. fixed-effect and random-effect models have been used to analyze the effects on performance and to determine the financial performance of banking sector in Pakistan.

3.2 Models
As given in Table 1, Return on Asset (ROA) and Return on Equity (ROE) have been used as dependent variables in the study. However, explanatory variables are investment to total asset ratio, total liability to total asset ratio, non-performing loans to gross advances, capital ratio and total deposit to total equity ratio. Thus, fixed-effect and random-effect models are employed with panel (time series and cross sectional) data.

ROA = \beta_o + \beta_1 ITA_{it} + \beta_2 TLTA_{it} + \beta_3 NPL GA_{it} + \beta_4 CR_{it} + \beta_5 TDTE_{it} + u_{it} 

(1)

ROE = \beta_o + \beta_1 ITA_{it} + \beta_2 TLTA_{it} + \beta_3 NPL GA_{it} + \beta_4 CR + \beta_5 TDTE + u_{it} 

(2)

Table 3.1: Measurements and Variables of the Study

<table>
<thead>
<tr>
<th>Variables</th>
<th>Scales</th>
<th>Proxies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>Return on Assets</td>
<td>ROA</td>
</tr>
<tr>
<td></td>
<td>Return on Equity</td>
<td>ROE</td>
</tr>
<tr>
<td></td>
<td>Investment in Total Asset</td>
<td>ITA</td>
</tr>
<tr>
<td>Independent</td>
<td>Total Liability to Total Asset</td>
<td>TL / TA</td>
</tr>
<tr>
<td>1</td>
<td>Non-Performing Loan to Gross Advances</td>
<td>NPL / GA</td>
</tr>
<tr>
<td>2</td>
<td>Capital Ratio</td>
<td>CR</td>
</tr>
<tr>
<td>3</td>
<td>Total deposit to Total Equity</td>
<td>TD / TE</td>
</tr>
</tbody>
</table>

4. Results and Discussions

Table 4.2 highlights the descriptive statistics of variables used in the study. As described in Table 3.1, return on asset and return on equity are dependent variables, whereas, investment to total asset, total liability to total asset, NPL to gross advances, capital ratio and total deposit to total equity are independent variables. All the variables have a positive mean value range from a 07.586 to 90.178 percent. The standard deviation of the variables shows that all observations in a data set are more close to the mean. The highest standard deviation of ROE and total deposit to total equity is 39.004 and 43.653 respectively. It indicates that there is a greater variation in the data set of ROE and total deposit to total equity ratio. It has been observed that some banks are well established and employ high deposits and equity that increase banks ROE and total deposit to equity. All other variables of the study have a low standard deviation and their values are close to their mean value indicating the consistency of the data.
Table 4.1: Descriptive Statistics (No of Observations=75)

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROE</td>
<td>75</td>
<td>-198.90</td>
<td>234.71</td>
<td>07.5861</td>
<td>39.00398</td>
</tr>
<tr>
<td>ROA</td>
<td>75</td>
<td>-005.41</td>
<td>003.06</td>
<td>00.5315</td>
<td>01.45586</td>
</tr>
<tr>
<td>Investment to Total Asset</td>
<td>75</td>
<td>007.98</td>
<td>058.02</td>
<td>34.5100</td>
<td>10.74836</td>
</tr>
<tr>
<td>Total Liability to Total Asset</td>
<td>75</td>
<td>062.78</td>
<td>098.42</td>
<td>90.1779</td>
<td>05.43216</td>
</tr>
<tr>
<td>NPL to Gross Advances</td>
<td>75</td>
<td>001.91</td>
<td>051.56</td>
<td>12.0836</td>
<td>09.30075</td>
</tr>
<tr>
<td>Capital Ratio</td>
<td>75</td>
<td>-003.10</td>
<td>036.91</td>
<td>08.7709</td>
<td>05.67206</td>
</tr>
<tr>
<td>Total Deposit to Total Equity</td>
<td>75</td>
<td>-042.00</td>
<td>376.00</td>
<td>13.8000</td>
<td>43.65300</td>
</tr>
<tr>
<td>Valid N (list wise)</td>
<td>75</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Output of stata software (data from financial statement of banks 2009- 2013)

Table 4.2 presents correlation matrix of dependent and independent variables used in the study. Moreover, in the data set there is no missing values, all correlations are based on 75 observations. Return on asset has positive correlation with investment to total assets, total liability to total assets, total deposit to total equity. However, Return on assets have negative relationship with NPL to Gross advance and capital ratio.

Table 4.2: Correlation Matrix between Variables of the Study (Obs. = 75)

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.ROE</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.Investment to Total Asset</td>
<td>0.296</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.Total Liability to Total Asset</td>
<td>0.011</td>
<td>0.125</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.NPL to Gross Advances</td>
<td>-0.159</td>
<td>-0.115</td>
<td>0.137</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.Capital Ratio</td>
<td>-0.060</td>
<td>-0.151</td>
<td>-0.563</td>
<td>-0.295</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>6.Total Deposit to Total Equity</td>
<td>0.669</td>
<td>0.017</td>
<td>0.160</td>
<td>0.098</td>
<td>-0.166</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Output of stata software (data from financial statements of banks 2009- 2013)

All the numerical values are less than six indicating no collinearity problem between variables. Investment to total asset NPL to Gross advance and capital ratio has negative correlation in the study, while other variables are positive correlated with investment to total asset. Moreover, total liability to total asset is negatively correlated with numerical value of -0.5634 and NPL to Gross Advances and capital ratio are inversely related with empirical value of -0.295. All the remaining variables are positively correlated except capital ratio with total deposit to total assets. As evidence in table 3, the correlation between investment to total asset, total liability to total asset, and total deposit to total equity ratio has been found positive with ROE. The results are consistent with the studies of Rahman et al. (2012), Jaber & Al-khawaldeh (2014) and Jan et al. (2014). Conversely, the correlation between NPL to gross investment, capital ratio and ROE has been noticed negative.
Table 4.3 exhibits that investment to total assets has positive and significant influence on Return on assets with p-value < 0.005. However, the coefficient value is 0.07139, which indicates that one unit increase in the value of investment to total assets could incline 71 percent of return on assets. This relationship is congruent with the findings of P. P. Athanasoglou, Brissimis and Delis(2008) and Jaber & Al-khawaldeh(2014). Leverage has inverse and significantly influence on profitability of Pakistani banks. Therefore, the t-value is -0.62, and coefficient value -0.7166, which shows that increase in the value of leverage would reduce return on assets. This result is inconsistent with prior studies such as Demirguc-Kunt, Levine, and Min(1998), Ramlall(2009) and Rahman et al. (2012). NPL to gross advance has negative and significantly related with return on assets of banking sector with p-value 0.000 and coefficient value of -01.8338. Hence, increase in the value of NPL to gross advance could decrease the percentage return on assets of banks. The significant relationship of NPL to gross advance is also consistent with results of Jan et al. (2014). The capital ratio of banks has inverse but significant association with profitability (ROA). Table 4 show t-value of capital ratio -0.38 and coefficient value -0.1838, respectively. Rahman et al. (2012) also support the significant influence of capital ratio and performance in Pakistani Banks. Total deposit to total equity has positive and significant influence on return on assets with highest value of t i.e. 09.99 and coefficient value 00.0062. This result is stand in line with the findings of Javaid (2011).

Table 4.3: Random-effect GLS Regression Model

| ROA                  | Coef. | Std. Err. | t     | P > |1|1  | [95% Conf. Interval] |
|---------------------|-------|-----------|-------|-----|---|---------------------|
| Investment to Total Asset | 0.714 | 0.264     | 02.71 | 0.007 | 00.1970 | 1.2309              |
| Total Liability to Total Asset | -10.717 | 2.321   | -04.62 | 0.000 | -15.2648 | -6.1683             |
| NPL to Gross Advances | -01.834 | 0.385 | -04.76 | 0.000 | -02.5882 | -1.0794             |
| Capital Ratio       | -10.184 | 2.323 | -04.38 | 0.000 | -14.7371 | -5.6305             |
| Total Deposit to Total Equity | 00.006 | 0.006 | 09.99  | 0.000 | 00.0050 | 0.0075              |
| Cons.               | 52.522 | 2.342  | 04.49  | 0.000 | 05.9319 | 15.1125             |

*Source: Output of stata software (data from financial statement of banks 2009-2013)*

Table 4.4 displays the empirical results of Return on Equity with explanatory variables. Investment to total assets are positive and significantly related with Return on equity with p value 0.010 and coefficient value i.e. 00.9191. The coefficient value indicates that one unit increase in the value of investment to total assets would increase 91 percent in Return on equity. Thus this results are congruent with the study of Jaber and Al-khawaldeh(2014).
Total liability to total assets is significant and inversely associated with profitability of the banks. The t-value is -0.940 and coefficient value is -13.5916, which compile that increase in the value of Leverage would decrease return on equity. On the other hand, NPL to Gross Advance finds insignificant but positive influence on Return on assets of banks. Capital ratio has significant and positive impact on return on assets with t-value of -0.0501 and coefficient value is -13.5711, respectively. Thus, this finding is consistent with the results of Rahman et al. (2012). Total deposit to total equity is positive and significantly influencing on return on equity of Pakistani banks. The highest value of t i.e. 12.20, confirms strong impact of total deposit to total equity. This results are consistent with the findings of Javid (2011). The overall result indicates that increase in investment, NPL and deposit have a positive effect on Return on equity and Liability and capital ratio have a negative effect on the ROE. The overall variation in the model has a significant effect except capital ratio, which p-value is > 0.005.

Table 4.4 : Fixed-effect Model

<table>
<thead>
<tr>
<th></th>
<th>Fixed-effects (within) Regression</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Obs</td>
<td>Number of Groups</td>
<td>Obs Per Group:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>= 75</td>
<td>= 15</td>
<td>Min</td>
<td>= 5.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Avg</td>
<td>= 5.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Max</td>
<td>= 5.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>F (5, 55)</td>
<td>= 39.49</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Prob &gt; F</td>
<td>= 0.000</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>Coef.</td>
<td>Std. Err.</td>
<td>T</td>
<td>P &gt;</td>
<td>t</td>
</tr>
<tr>
<td>Investment to Total Asset</td>
<td>0.9919</td>
<td>0.345</td>
<td>02.67</td>
<td>0.010</td>
<td>00.2283</td>
</tr>
<tr>
<td>Total Liability to Total Asset</td>
<td>-13.592</td>
<td>2.772</td>
<td>-04.90</td>
<td>0.000</td>
<td>-19.1463</td>
</tr>
<tr>
<td>NPL to Gross Advances</td>
<td>0.775</td>
<td>0.830</td>
<td>00.93</td>
<td>0.354</td>
<td>-0.8884</td>
</tr>
<tr>
<td>Capital Ratio</td>
<td>-13.571</td>
<td>2.719</td>
<td>-05.01</td>
<td>0.000</td>
<td>-19.0039</td>
</tr>
<tr>
<td>Total Deposit to Total Equity</td>
<td>0.007</td>
<td>0.001</td>
<td>12.20</td>
<td>0.000</td>
<td>00.0062</td>
</tr>
<tr>
<td>Cons.</td>
<td>13.010</td>
<td>2.768</td>
<td>04.70</td>
<td>0.000</td>
<td>07.4632</td>
</tr>
</tbody>
</table>

Source: Output of stata software (data from financial statement of banks 2009-2013)

5. Conclusion

The study has investigated the impact of internal factors on banks performance by using two proxies i.e. Return on Assets and Return on Equity in banking sector of Pakistan for the study period of 2009-2013. The data has been collected from the financial statements of the selected banks. Panel data technique is used to identify the impact of explanatory variable on performance. Hausman test has selected that Random effect model is appropriate for Return on Equity, however fixed effect model is prominent for Return on Equity. Investment to total assets, total liability to total assets, capital ratio and total deposit to total equity are significant Bank-level factors across both proxies (ROA and ROE). However, NPL to gross advance is significant with return on assets and insignificant on return on equity. The results are worthy for bankers and
all stakeholders to make strategic decision for the competitiveness of banking sector in Pakistan. Practically
the study may help bank decision makers to focus on the major banking activities that may increase the bank
ranking and financial performance positions comparing with other banks. The findings should assist the
management of commercial banks in crafting applicable financial strategies to realize the required planned
financial performance. The future directions suggest an investigation into the impact of ownership on bank
efficiency that is the difference in performance of banks domestically as well as internationally owned.

References
Almazari, A. A. (2014). Impact of Internal factors on bank profitability: Comparative study between Saudi
Arabia and Jordan. *Journal of Applied Finance & Banking, 4*(1), 125-140.
Alkassim, F. A. (2005). The Profitability of Islamic and Conventional Banking in the GCC Countries: A
Comparative Study.
determinants of bank profitability. *Journal of International Financial
macroeconomic determinants of bank profitability. *Journal of International Financial Markets,
Institutions and Money, 18*(2), 121–136.
Profitability: Evidence from Tunisia.
banking sector*. Ritsumeikan Asia Pacific University.
Applied Sciences. *International Business*.
and Growth.
Eljelly, A. M. A. (2013). Internal and external determinants of profitability of Islamic banks in Sudan:
the entry mode matter?
of Economics and Accounting*.
Jan, S., Iqbal, K., & ur Rahman, S. (2014). Determinants of Profitability of Islamic and conventional
Insurance Companies in Pakistan: an Internal Evaluation. *Abasyn University Journal of Social
Sciences, 7*(1).
Journal of Social Sciences, 59*.
Research Journal of Finance and ...


Impact of Interest Rate on Stock Prices Volatility: A Case of Textile Sector of Karachi Stock Exchange

MUHAMMAD SOHAIL KHALIL
Assistant Professor, City University of Science and I.T, Peshawar
khalilims@gmail.com

MUHAMMAD AAMIRNADEEM
Assistant Professor, City University of Science and I.T, Peshawar

MUHAMMAD TAHIR KHAN
Lecturer, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
mtahir@awkum.edu.pk

Abstract

This study investigates the relationship between interest rate and stock price volatility in textile sector of Karachi Stock Exchange. Initially, EWMA model is used to calculate the volatility of stock prices. Stock returns are calculated as a proxy to stock prices. Afterwards, linear regression analyzes the relation between interest rate and stock price volatility. The significance F change is below the limit of 0.05 showing goodness-to-fit of the model to project the responses from predictor to be reliable. The research concludes the relationship of interest rate with volatility of stock prices as slightly inverse in nature.

Keywords: Interest Rate, Stock Price Volatility, KSE

1. Introduction

Varied results were produced whenever attempts were made to test the relation between the interest rates and stock prices; however the literature indicates not exact but inverse relation between interest rates and stock prices (Kadir, Selamat, Masuga & Taudi, 2011). Leon (2008) came to a related conclusion about the Korean stock exchange. Zafar, Urooj and Durrani (2008) supported the same argument about returns in the market and interest rate that there is certainly a negative and important relationship between these two variables in Karachi stock exchange and a slightly negative relationship between interest rates and stock prices volatility. On the other hand one school of thought including Shankan and Jay (1990) and Campbell (1987) followed the argument that change in the interest rate positively affects the volatility of stock prices returns of the market. A similar argument was presented with some new results by Shah Rehman, Kamal and Abbas (2012) that there does not simply exist a straight negative relationship between KSE-100 index and interest rate in short run. They further explained that the revision of policy in 2009 by the central bank did not enhanced the morale of the market. However, out of three, it came down in two cases within the first three
days of decrease in the interest rate. Contrary, the market observed fluctuations in 2010 even when the key policy rate was changed.

1.1 Objective of the Study

The primary objective of this study is empirically analyze the relation between interest rate and stock prices volatility in Karachi stock exchange textile sector in other words to measure the impact on volatility in stock prices due to interest rate. However, to achieve the primary objective, there is a secondary objective which will be achieve first. Secondary objective include finding the volatility of stock prices. Further the secondary objective serves as mean to achieve the primary objective.

2. Review of Literature

Interest rate and stock prices are two important factors of the economic growth and numerous theories depict that there is some sort of relationship between interest rate and stock prices (Shah, Rehman, Kamal & Abbas, 2012). Researchers have done a lot research to find out the relationship between interest rate and stock prices. However, these studies exhibit different results (Serletis & king, 1997). Some authors like Moya, Lapena and Sotos (2013) said that increase in interest rate inversely affects stock price. They argued that since it increases the interest expense of highly leveraged companies, as a result cash flows available at the time for future dividend payments reduces, thus share price becomes negatively affected. On the other hand researcher like Uddin and Alam (2009) found that interest rate and stock prices are negatively related to each other. It can be observed that as interest rate increases, the liquidity in the stock market reduces and hence stock prices changes (Fischbacher&zeisberger, 2011).

Influence of the interest rate on stock prices is an important phenomenon to regulatory authorities and investors. Regulatory authority which controls the monetary policy makes necessary changes in the rate of interest to control money supply in the market. As a result, investors have to respond to this action of the authorities for the reason that it affects the required rate of return on financial assets (Chen, Roll & Ross, 1986). Goske and Roll (1983) found that there happens to be an opposite relationship between interest rate and stock prices. They further clarified their argument that high interest rate signals towards high unemployment, less economic activity and therefore less earnings of the firms. Adding to the argument, Shah et al. (2012) also mentioned that if the company has greater financial liabilities and lesser financial assets, then the real value of financial assets will be affected by the fluctuation in interest rate and it should benefit the firm instead of reducing its share prices.

Zordan (2005) concluded that past indication demonstrates that interest rate and stock prices are negatively co related, the same fact was witnessed back in 1980’s; specifically at the time of post-world war II. If the era from the late 1940’s till the mid of 1960’s it has been observed that inflation and interest rate both were low and stable. Hence stock prices were going well; not only in nominal terms but also in real terms. Historic evidence shows negative relationship between assets sensitive to interest rate including bonds and stock prices the relationship of interest rate and stock prices can likewise be witnessed in the period from 1877 to 1906, from 1906 to 1920, from 1920 to 1929, from 1929 to 1949 and also from 1949 to 1966.

Contrary to this, Flannery and James (1984) have a different argument related to changes in interest rate. They reasoned that instead of having decrease in stock prices, increase in interest rate should benefit in the firms with more financial liabilities as compared to financial assets (not real assets).
Mukit (2013) presented the argument by investigating through granger causality test that increase in interest rate affects stock prices negatively in the Bangladeshi Market. The effect is seen in the long run more significantly. The scholar termed it as systematic risk and recommended that this risk should be taken into account by the investors while making investment and portfolio decisions. A similar type of argument was presented by Uddin and Alam (2009) that some countries have negative relationship between the interest rate and change in the stock prices but positive relationship between change in the interest rate and change in the stock prices they also found negative relationship between these variables in both situations for Bangladesh, Colombia, Italy and S. Africa.

At firm level, interest rate variation may affect stock prices in numerous ways but the degree of the effect may vary from firm to firm (shah et al., 2012). Moya et al. also reasoned that stock prices become negatively affected by the increase in the interest rate for the reason that it increases the expense of interest for the companies which are highly leveraged. This reduces the cash flow available for future dividend payments. However, they also mentioned about the recent work which has suggested that now interest rate has less exposure over the time mainly because of the availability of better tools for management of its risk.

According to the previous work done, there exists a negative relationship between interest rate and stock returns never the less the relationship is not that much binding. The price index 200 of Korea and its weekly negotiable deposits were studied and the study found that there does exist a kind of strong predictive power for stock returns and weak for volatility (Kadir, Selamat, Masuga & Taudi, 2011). Zafar and Durani (2008) who worked on monthly returns of Karachi stock exchange favored these findings. They observed negative and significant relationship between market return and interest rate. However, and insignificant negative relationship exists between variance and interest rate.

Adjasi (2009) claimed that not only uncertainty but also the rate of interest intensifies the volatility of stock prices. His argument is based about the effect of macroeconomic uncertainty on stock prices volatility and used EGARCH model to show the significance of positive spillovers of volatility of cocoa prices and interest rate to stock prices in Ghana stock exchange. However, in the case of gold prices, oil prices in and money supply, a significant negative volatility. Most of the work done to find out the impact of macroeconomic variables like interest rate on stock prices volatility emphasizes on the developed markets. However, in the near past, considerable amount of work is evolving on the macroeconomic fluctuations and stock markets variations in the emerging markets mainly focused on South America, Eastern Europe and Asian markets yet limited on African markets (Ajasi, 2009).

West (1986) mentioned in his paper that stock prices volatility can also be reasoned to be the outcome of expected presented discounted value of dividend. While studying stock price volatility, Xu (2006) also made his argument related to the impact of stock price volatility on the strategy for R & D in the biotech industry by particularly taking the case of drug discovery. Substantial movements of stock prices are caused by two important economic variables; real interest rate and GNP. It was found that interest rate was the cause of too much short term stock prices volatility. It is not claimable to predict exact turning points of real interest rate. However; basic analysis can definitely contribute to considerable amount to detect the probable average value of real interest rate. These types of models are helpful in setting the asset mix policy and forecast comprehensive trends of stock prices (Spiro, 1990). Subhani, Hassan, Moten And Osman (2011) explored the volatility of equity market in comparison to stock returns with various countries using GARCH 1-1 model and found the interest rates and exchange rates catalyze the stock returns volatility for the economies.
examined by them except of Hong Kong. This particular research talks about the impact of interest rate on the stock prices volatility in non-financial textile sector companies listed at Karachi stock exchange. The effect on volatility stock prices caused by the interest rate is measured between the time periods of 2007-2014.

2.1 Proposed Hypothesis

\( H_0 = \) Interest rate has negative impact on stock price volatility.

\( H_1 = \) Interest rate has positive impact on stock price volatility.

![Figure 1: Theoretical Framework](image)

3. Methodology

3.1 Variables Studied

The study is based on the relationship between two variables; interest rate and stock price volatility. As both the variables are quantitative in nature the effects of all other corresponding variables are ignored.

3.1.1 Independent Variable

Interest rate is taken as independent variable in this study. For this research, increase and decrease of interest rate will be taken as independent of any other changes in other variables. Shah et al. (2012) described interest rate as a rent of money lent as loan for the lenders and on the other side from the borrowers point of view, borrowing cost for money borrowed. Interest rate is the fee of borrowing for borrowers and income for the lenders risk associated with it is known as key source of uncertainty for the companies (Moya, Lapena & Sotos, 2013). Riske free rate i.e. 06 months T-bill rate is taken as proxy for interest rate (shah et al. (2012).

3.1.2 Dependent Variable

Stock prices volatility is taken as dependent variable of this research stock price is the price of single share of the company. When investor pays the price of the share, it indicates that he buys the dividends paid on the share and its earnings of the company are distributed among its owners hence the market price depicts that price to be paid for the ownership of the company (Gorden, 2009). The effect of interest on stock prices is negative because as the Risk free rate increases, the discount rate also increases; hence investors can gain more return in less risky and risk free securities as compared to stocks. This decreases the demand of stocks and hence the stock prices go down. Volatility can be defined as the disparity of stock prices which will be going to take place or has happened in the past. Positive and negative; both kinds of volatility exist. Usually
positive volatility is a good sign from shareholder’s perspective while on the other hand negative volatility is matter of concern form investor’s point of view. High volatility is in fact disparity or variations in prices of security during short period of time and low volatility mean fewer variations in specific time period.

3.2 Data Set

Monthly panel data of stock prices is taken for the period of 07 years i.e. from 2008 to 2014 of the population which is textile sector of KSE 30 companies are selected for the study using simple random sampling as a technique. Whereas proxy for interest rate is 06 months T- bill rate.

3.3 Data Collection Method and Procedure

Secondary data is required for the research and is taken from the official website of Karachi stock exchange (KSE) data storage sites including opendoors.pk and business recorder. T-bill rate i.e. interest rate data is taken form the official website of State bank.

3.4 Statistical Test

Exponentially moving average (EWMA) is used to find the volatility of the stock prices, whereas for the impact of interest rate linear regression is used;

\[ V_{sp} = \alpha_0 + \alpha_1 i + U_t \]

Where

- \( V_{sp} \): represents stock price volatility
- \( \alpha_0 \): represents constant
- \( i \): represents interest rate at given time
- \( \alpha_1 \): represents parameter of change in \( i \)
- \( U_t \): represents errors in the calculations which have the possibility to occur in a given time.

\[ \delta^2_t = \lambda \delta^2_{t-1} + (1 - \lambda)R^2_{t-1} \]

Where

- \( \delta^2_t \): volatility
- \( \lambda \): Exponential weighted Co efficient

Value of \( \lambda \) is taken as 0.94

\( R^2 \): represents square of stock prices
4. Analysis and findings

Table 4.1: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R square</th>
<th>Adjusted R square</th>
<th>Std. Error of the Estimate</th>
<th>Change statistics</th>
<th>Durbin-watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R square change</td>
<td>F change</td>
</tr>
<tr>
<td>1</td>
<td>.064</td>
<td>0.004</td>
<td>.004</td>
<td>.003108010 647987</td>
<td>.004</td>
<td>10.340</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Interest Rate
b. Dependent variable: Stock Returns Volatility

The adjusted R square is 0.4% which explains the proportion of variation in the stock prices volatility explained by the interest rate. The value of adjusted R square is less, albeit the model is strongly reliable. The reason for its reliability is that there is only one independent variable due to time and resource constraint. Conversely more independent variables will show more effect in adjusted R square. The significance F change is .001 which is below .05 showing that the ability of the model taken for the research is durable enough to explain the variables. As the model is strongly able to explain the relation between the variables therefore out puts resulting from the said model are reliable stating that model can strongly predict the relationship between the interest rate and stock prices volatility of textile sector of KSE. Very low value of Standard error also suggesting less error in the prediction of volatility of stock prices.

Table 4.2: Coefficients

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>1 (constant)</td>
<td>.002</td>
<td>.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate</td>
<td>0.12</td>
<td>.004</td>
<td>-.064</td>
<td>4.958</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent variable: Stock returns Volatility

The constant unstandardized B value is 0.002. The magnitude of unstandardized beta is trivial. However, the negative sign with the beta is significant. Demonstrating that interest rate is inversely related thus confirming the alternative hypothesis. So when the interest rate is increased stock prices observe less volatility in textile sector of KSE. Likewise, standardized co efficient beta value of interest rate is -0.64 showing the inverse correlation by the value of -0.64 between them with negative sign indicating inverse relation.
5. Conclusion

The model comes out to be strong in predicting the responses of stock prices volatility by interest rate with very less error and more accurate forecasting. The study also concludes the relationship between stock price volatility and interest rate to be inverse. However, this negative relationship is not very substantial. The result of this study follows the previous researches together with Moya et.al (2013) which concluded that there is very little negative relation between interest rate and stock prices in Spanish market but if industries like utilities, banking, food and beverages have significant negative relationship of interest rate and stock prices. Same like Shah et al. (2012) also mentioned that interest rate fluctuations in either direction do give shock to stock prices negatively; however they come to their status quo after some time thus there exists some relation between the two said variables. Uddin and Alam (2009) came to the parallel conclusion to upkeep the theoretical argument which says that interest rate and stock prices are negatively related.

References


Flannery, M. J., & James, C. M. (1984). The Effect of Interest Rate Changes on the Common


The Effect of Personality Traits on Organizational Commitment: Moderating Role of Distributive Justice: A Case of Public Sector Female Colleges of District Peshawar

IMRAN SAEED
International Islamic University, Islamabad

GHAYYUR QADIR
Lecturer, Institute of Business Studies and Leadership
Abdul Wali Khan University, Mardan
ghayyurqadir@awkum.edu.pk

SAIF ULLAH KHAN
Lecturer, Institute of Management Studies, Peshawar

Abstract
Many studies have been conducted on personality traits in different organizations and in different culture, different region and in different countries. The current study is talk about the two traits of personality i.e agreeableness and neuroticism and their effect on employee organizational commitment. And the main contribution of this study is to introduce distributive justice as a moderator variable. Data was collected from public sector female colleges of a Peshawar district. The sample size of this study was (n=120) and the data was cross-sectional in nature. The results reveal that the direct effect of agreeableness and distributive justice on organizational commitment is significant and positive while neuroticism has insignificant effect on organizational commitment. While the combined effect shows that both interactions terms has positive and significant effect on organizational commitment.

Key Words: Agreeableness, Neuroticism, Organizational Commitment and Distributive Justice

1. Introduction
This study is specifically carried out for investigating the effect of Agreeableness and Neuroticism on Organizational commitment in the MS students of Agriculture University Peshawar. In the present situation it is very important for each and every organization to work on the internal psyche of employees, shareholders and stakeholders in order to make them committed to the organization because if it is not so then the employees cannot work selflessly for the organization rather they would only go for personal achievements and not for organizational achievements. Therefore in order to save organization from this chaos and anarchy; organization must practice the tool of distributive justice which will ultimately lead towards organizational commitment.

In organizational commitment the personality of an individual involved, plays a vital role. Personality is referred to the set of characteristics of cognitive nature of a person which effects the direction of his thinking. In other words we can also define personality as those mental characteristics which differentiate
one person from another in accordance with his position (Plomin et al, 1998). Lewis Goldberg proposed Big Five model in regards with the characteristics of personality which is known as Five-Dimension personality model.

1. Openness to Experience: The internal drive of an individual towards being imaginative, independent and variety lover rather than being static.
2. Conscientiousness: The internal drive of an individual towards being organized and disciplined rather than being careless.
3. Extraversion: A social able and interactive personality is an extravert personality who denies being somber and reserved.
4. Agreeableness: A person can be called Agreeable who trusts others and is soft hearted by nature.
5. Neuroticism: It is the tendency of an individual in order to be self-satisfied and calm vs. the owner of insecure and paranoid personality (Santrok, 2008).

Distributive Justice which is the second main item of research that targets the distribution of goods and resources which are considered important in regards with the social criteria (Foa & Foa, 1974) and the fairness that is received by an individual in the outcome they receive (Frohlich, 2007). If we have a look so we will find that there are number of rules used to allocate these resources and goods of social nature (Deutsch, 1985) but 2 are the most attention grasping in them: the rule of equity according to which people must be given rewards in accordance with the input provided by them in the shape of their contribution. (Adams, 1963, 1965) and the second rule is equality rule according to which all members of the group are rewarded on same basis without considering their input as important. Therefore it is quite evident that by practicing the justice in the distribution of organizational rewards can ultimately result in the phenomenon called organizational commitment.

Organizational commitment is that dimension of an individual which is very necessary to be made available at work place because due to this a partnership sense can be created between the worker and work place. Organizational commitment is therefore the equalization degree that is necessary to be achieved by the organization in order to make its employees motivated to not only accept the rules and objectives of the organization but also to make them a loyal part of overall organizational effort (Mowdy et al, 1982). Therefore from the above discussion we can say that in order to bring stability in organization on every level, organization must make its employees committed towards it.

1.1 Research Objective

The objectives of this research are as under:

- To investigate the effect of Neuroticism and Agreeableness in regards with Organizational Commitment.
- To investigate the mediating role of Distributive justice between Neuroticism, Agreeableness and Organizational Commitment.

2. Literature Review

2.1 Organizational Commitment

Different researchers have different views about commitment concept with organization. Organizational commitment links itself to loyalty of an employee towards their workplace, their sense of identification to
their organization (i.e., the level of pride they get at workplace and to internalize the goals of their organization), and their ultimate attachments with organizational workups (i.e. personal hardships faced just for the improvement of organization) (Mowday, Porter, & Steers, 1982). However, in accordance with the views of different scholars; it is just the loyalty of employees towards the place they are involved in which defines their commitment level (Price & Mueller, 1986). If we talk about the researchers of Taiwan so we will see that most of them show alignment with the concept presented by Porter, Steer, Mowday, &Bouliaian (1974); that concept elaborates commitment to the workplace as the extent to which an employee feels recognized and participative in regards with the place where they invest their professional abilities. Therefore to explain this relationship of employees and his workplace is hard. Organizational commitment is one’s psychological commitment with organization.

It is indeed worth considering analyzing the commitment of employee towards his job field which is basically dependent on the relationship of worker and their workplace and how this bonding of employee and his workplace leads to the inducement of positive behavior in workers. (e.g., behavior of worker as firm’s citizen etc) (See Meyer & Allen, 1997). There is three characteristics that an organizational commitment has, (a) value commitment, (b) effort commitment, (c) retention commitment. Organizational commitment is an individual willingness to utilize his or her efforts and have retention intentions in an organization. However the vast horizon of literature also explains those factors which decrease the commitment level towards job place such as conflicts and ambiguities in the roles performed by employees along with the problems faced by employee from their family side (Griffin, 2006; Hogan, Lambert, Jenkins, &Wambold, 2006; Lambert, Hogan, Paoline, & Clarke, 2005).

2.2 Distributive Justice

Distributive justice concerns the nature of a socially just allocation of goods in a society. A society in which incidental inequalities in outcome do not arise would be considered a society guided by the principles of distributive justice. The concept includes the available quantities of goods, the process by which goods are to be distributed, and the resulting allocation of the goods to the members of the society. Often contrasted with just process, which is concerned with the administration of law, distributive justice concentrates on outcomes. This subject has been given considerable attention in philosophy and the social sciences. In Social Psychology, Distributive Justice is defined as perceived fairness of how rewards and costs are shared by (distributed across) group member (Forsyth, 2006). For example, when workers of the same job are paid different salaries, group members may feel that distributive justice has not occurred. To determine whether distributive justice has taken place, individuals often turn to the distributive norms of their group (Forsyth, 2006). A norm is the standard of behavior that is required, desired, or designated as normal within a particular group (Farlex, 2013). If rewards and costs are allocated according to the designated distributive norms of the group, distributive justice has occurred (Deutsch, 1975).

2.2.1 Types of Distributive Norms

1. Equity: Member’s outcomes should be based upon their inputs. Therefore, an individual who has invested a large amount of input (e.g. time, money, and energy) should receive more from the group than someone who has contributed very little. Members of large groups prefer to base allocations of rewards and costs on equity.
2. Equality: Regardless of their inputs, all group members should be given an equal share of the rewards/costs. Equality supports that someone who contributes 20% of the group’s resources should receive as much as someone who contributes 60%.

3. Power: Those with more authority, status, or control over the group should receive more than those in lower level positions.

4. Need: Those in greatest needs should be provided with resources needed to meet those needs. These individuals should be given more resources than those who already possess them, regardless of their input.

5. Responsibility: Group members who have the most should share their resources with those who have less.

2.3 Distributive Justice in Organizations

In the context of organizational justice, distributive justice is conceptualized as fairness associated with outcomes decisions and distribution of resources. The outcomes or resources distributed may be tangible (e.g., pay) as well as intangible (e.g., praise). Distributive justice targets the practice of fairness while allotting the rewards which are considered worthy in regards with social means (Foa & Foa, 1974) and the perceived fairness of the outcomes that one receives (Frohlich, 2007). It is the perceived fairness of the rewards distribution. The concept of ensuring justice in distribution is basically originated from a theory that is named as Social Exchange Theory (Blau, 1964; Adams, 1965), which is having its all focuses focused on the equity while defining the exchanges of subsequent nature. Equity and equality theory also represent the beliefs of fair reward distribution. The rule exercised by this distribution tactic called equity is to reward an individual in regards with his efficient provision to the organization (Adams, 1963; 1965), and on other side; in the other tactic of distribution called equality; the individual must be rewarded equally without taking the level of his input into consideration. (Deutsch, 1975). Distribution justice also refers to how an individual and societies distribute the benefits and burdens in fair manners. Because our society has a limited resources and wealth, now the question is arises, how to distribute them? And the most common answer is that the public wealth should be distributed in reasonable manner that each and every individual get the fair distribution and fair share.

2.4 Research Hypothesis

- \( H_0 \): There is insignificant relationship between Agreeableness and Organizational Commitment.
- \( H_1 \): There is significant relationship between Agreeableness and Organizational Commitment.
- \( H_0 \): There is insignificant relationship between Neuroticism and Organizational Commitment.
- \( H_1 \): There is significant relationship between Neuroticism and Organizational Commitment.
- \( H_0 \): There is insignificant relationship between Distributive Justice and Organizational Commitment.
- \( H_1 \): There is significant relationship between Distributive Justice and Organizational Commitment.
- \( H_0 \): Distributive justice will insignificantly moderate the relationship between agreeableness and organizational commitment.
- \( H_1 \): Distributive justice will significantly moderate the relationship between agreeableness and organizational commitment.
- \( H_0 \): Distributive justice will insignificantly moderate the relationship between neuroticism and organizational commitment.
• **H₃**: Distributive justice will significantly moderate the relationship between neuroticism and organizational commitment.

3. **Methodology**

Ojo (2003) defined the term *methodology* as a set of rules and procedures of explicit nature on which we base a research in regards with the claims of knowledge which are evaluated. This section encompasses the methods which are utilized for the achievement of defined objectives of the study under consideration. This chapter covers the population of the research study, sampling method/procedure, and sample size, theoretical framework, research hypothesis, variables of the research, their measurements, data collection and data analysis. All these are illustrated in the subsequent sections.

3.1 **Sampling and Sample size**

In the research study considered, female public sector colleges of a district Peshawar was taken as a universe of the study. Convenient sampling technique was used in this study. And the total sample size of this study was (n=120), from academic as well as administration staff.

![Figure 1: Theoretical Model](image)

3.2 **Data Collection**

Data collection comprises itself as a pivotal component of a research. This study utilized primary data that was gathered through four different questionnaires which was consolidated into one. The entire questionnaire distribution was random among the different employees of public sector colleges of a Peshawar district. For preserving this research from any erroneous effect the questionnaire was personally administered.

3.3 **Data Analysis**

In order to infer about the collected data we have utilized the Statistical Package for Social Sciences (SPSS) v. 20. Since the study used qualitative variables, so the results were shown in terms of counts and percentages. To develop the relationship among the variables: agreeableness, neuroticism, distributive justice...
and organizational commitment correlation and regression analysis were utilized. Regression analysis is expressed in equation as:
\[ Y = a + bx \]

4. Results and Discussion

4.1 Distribution of Respondents Regarding Demographic Variables

The data for this research study was collected from the different employees of public sector colleges of a Peshawar district with the total figure of respondents 120 as sample. The classification of the Demographic variables: age, income per month, specialization and gender is explained in counts and percentages and is presented in the tables 4.1 and 4.2 below. The table 3 highlights the distribution of respondents in accordance with their age, experience and specialization while table 4 explains the distribution of the respondents in regards with their gender. In accordance with the age group distribution, most of the respondents were counted in the age group of 26 to 30 with the highest percentage of 76.8%, 12 respondents came under the age line of 31 to 35 with the percentage of 9.6%; while the percentages of 8.8%, 3.2% and 1.6% were recorded for the age groups of 36 to 40, 20 to 25 and 41 and above. The second demographic variable under study was income in which the maximum percentage was followed by the income group of 10,000-20,000 with the percentage figure of 27.2% while for other income groups: 41,000-50,000, 51,000 and above, 21,000-30,000 and 31,000-40,000 the recorded percentages were 24%, 18%, 16% and 14.4% respectively. The last demographic variable in this table described specialization fields of the respondents in which maximum respondents were from the Admin side with the highest percentage of 46.7%; respondents from the group of Junior Teacher carried the percentage of 38.3% while respondents of the Senior Teacher recorded the percentage figure of 14.2%.

<table>
<thead>
<tr>
<th>Age Group (Years)</th>
<th>No (%)</th>
<th>Income per month No (%)</th>
<th>Specialization Job title</th>
<th>No (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-25</td>
<td>4 (3.2)</td>
<td>10,000-20,000</td>
<td>Admin</td>
<td>46 (38.3)</td>
</tr>
<tr>
<td>26-30</td>
<td>96 (76.8)</td>
<td>21,000-30,000</td>
<td>Junior Teacher</td>
<td>56 (46.7)</td>
</tr>
<tr>
<td>31-35</td>
<td>12 (9.6)</td>
<td>31,000-40,000</td>
<td>Senior Teacher</td>
<td>17 (14.2)</td>
</tr>
<tr>
<td>36-40</td>
<td>11 (8.8)</td>
<td>41,000-50,000</td>
<td>Assistant Professor</td>
<td>1 (.8)</td>
</tr>
<tr>
<td>41 and above</td>
<td>2 (1.6)</td>
<td>51,000 and above</td>
<td>Associate Professor</td>
<td>0 (0)</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>Total 100</td>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

4.2 Reliability Analysis

The Cronbach’s alpha of variables which included in this study are here given in table no 4.2. The alpha values of all variable shows that the data which collected for this study are reliable, the alpha value of
Agreeableness is $\alpha=.77$, Neuroticism $\alpha=.71$, Distributive justice $\alpha=.68$ and Organizational commitment $\alpha=68$.

Table 4.2: Cronbach’s alpha

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach’s alpha</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeableness</td>
<td>0.770</td>
<td>Reliable</td>
</tr>
<tr>
<td>Neuroticism</td>
<td>0.716</td>
<td>Reliable</td>
</tr>
<tr>
<td>Distributive justice</td>
<td>0.687</td>
<td>Reliable</td>
</tr>
<tr>
<td>Organizational commitment</td>
<td>0.684</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

4.3 Regression Analysis

The statistical tool of Regression analysis was utilized in order to see the significant or insignificant effect of agreeableness, neuroticism and distributive justice on organizational commitment. It is therefore worthy to mention that since the data was cross sectional and qualitative in nature; the determined value of coefficient was expected to be low that is why the primarily reliance was based on t ratio, p value and f value.

4.4 Regression Analysis between Agreeableness and Organizational Commitment

Table 4.3 shows that there is significant and positive relationship between agreeableness and organizational commitment i.e $R^2=.473$, $\beta=.294$, and $p=.002$, so the overall relationship and effect of agreeableness on organizational commitment is significant; these results are aligned with (Meyer & Allen, 1997). The other trait i.e neuroticism has negative and insignificant relationship with organizational commitment, the value indicate that $R^2=.003$, $\beta=.064$, and $p=.563$, this relationship results are aligned with Carducci, Bernardo J (2009). The moderator variables which is distributive justice has also positive and significant effect on organizational commitment, here the values shows that $R^2=.343$, $\beta=.128$, and $p=.04$, so these results are matching with the prior research of Costa. PT & McCrae, RR (1987). Here in this study there are two independent variables so here we have create two interaction terms, the first interaction term i.e distributive justice*agreeableness, the results find that there is positive and significant effect of moderator variable on organizational commitment, the results shows that $R^2=.275$, $\beta=.163$, and $p=.05$. so it shows that moderator variables has positive and significant effect on organizational commitment which aligned with prior research of DeNeve KM, Cooper C (1998), they find that there is positive effect of distributive justice on organizational commitment. Here in this study DJ is used as a moderator variable. The second interaction term i.e distributive justice*neuroticism, as direct relationship of neuroticism and organizational commitment is insignificant, so here the combined effect of distributive justice and neuroticism show positive and significant relationship, the value of a regression analysis shows that $R^2=.24$, $\beta=.246$ and $p=.006$. 
Table 4.3: Regression and moderation analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreeableness</td>
<td>.294**</td>
<td>.064</td>
<td>.128*</td>
<td>.163*</td>
<td>.246**</td>
</tr>
<tr>
<td>Neuroticism</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributive Justice</td>
<td></td>
<td></td>
<td>.343</td>
<td>.27</td>
<td>.24</td>
</tr>
<tr>
<td>Justice * Agreeableness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distributive Justice * Neuroticism</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R Squared</td>
<td>.473</td>
<td>.003</td>
<td>.343</td>
<td>.27</td>
<td>.24</td>
</tr>
</tbody>
</table>

Note: *p< .05, ** p < .01.

5. Discussion and Conclusion

It is illustrated the summary and conclusion inferred on the basis of the findings obtained from the analysis of agreeableness, neuroticism, distributive justice and organizational commitment of the public sector colleges of Peshawar districts. This research study was carried out in order to elaborate the effect of agreeableness and neuroticism on organizational commitment with the moderating role of distributive justice among the female staff working in public sector colleges of district Peshawar. In order to achieve the objectives of this research study, primary data was gathered from a sample of 120 respondents. This sample was taken by utilizing the method of convenient sampling. A structured closed ended questionnaire was utilized to gather the required information from the respondents. These questionnaires were randomly distributed among the female staff working in public sector colleges of district Peshawar (n = 120). The perception of the respondents was measured by utilizing five point Likert scale. Cronbach’s alpha was used for the affirming the reliability of the collected data.

The statistical tool of Pearson Correlation was grounded to obtain comparisons of means regarding the Demographic variables, Agreeableness, Neuroticism, Distributive justice and Organizational commitment with the confidence interval of (P<0.01). The results inferred positive significant relationship among all the variables understudy except neuroticism which shows insignificant relation with organizational commitment. This figure in actual clarifies that: if an employee is agreeable by nature so he will not rebel any of the rules of organization and thus will show higher organizational commitment. In order to give further clarification in regards with research objectives, regression analysis was also utilized for the variables of the study. It is worthy to mention that since the data was cross sectional and qualitative in nature; the determined value of coefficient was expected to be low that is why the primarily reliance was based on t ratio, p value and f value.

The results obtained from regression analysis of agreeableness and Organizational commitment (B=0.293, t-ratio=3.201, p-value =0.002, F value =10.284, and R square =0.473). The results also inferred positive but insignificant association between neuroticism and organizational commitment (B =0.064, t-ratio =0.579, p-value =0.563, F value =0.336, and R square = 0.003). Moreover, the results regarding distributive justice and organizational commitment were counted as significant (B=0.128, t-ratio=2.554, p-value=0.04, R square=0.343). The main contribution in this study as to introduce the moderating role of distributive justice so the results shows that distributive has significant and positive relationship with organizational commitment, the values of both interaction term are R square= .275, β= .163, t= 4.01 and p=.05 and R square=.24, β=.246, t= 2.74 and p=.006.
It was thus found out in this study of female staff working in public sector colleges of district Peshawar that agreeableness and distributive justice play a vital role in making an individual committed while neuroticism is that personality factor which demolishes the spirit of commitment in an individual towards the organization.

5.1 Conclusion

This research studied the effect of agreeableness and neuroticism on organizational commitment with the moderating role of distributive justice among the female staff working in public sector colleges of district Peshawar. The conceptual research framework of this study showed a considerable association among variables which were taken into account for conducting the study. From this research study, it was finalized that there is a positive and relations between agreeableness and organizational commitment while a negative association is observed among the neuroticism and distributive justice with organizational commitment among the female staff working in public sector colleges of district Peshawar. The generalization of data showed that the female staff working in public sector colleges of district Peshawar possessed positive perception regarding the distributions.

The following recommendations are recommended for the data under study:

1. Agreeableness is that personality factor which by every means sustain employee as committed to the organization. Therefore, organization must highlight those who are agreeable by nature because they can bear any kind of bad rather worst situation and can prove their loyalty selflessly.
2. Every university must give a keen concentration towards their distributions of rewards to which in case of students are: management rules and regulations, management collaboration with students etc, in order to make them committed to the organization. Otherwise, the contrast of it will make them hostile and rebellion to all rules and regulations of the university.
3. If the universities do not assure fairness in all of their defined distributions so it will make their student neurotic which will ultimately have negative effects on the commitment level and will not result in making them an effective stake of the organization. The universities should emphasize on individualistic approach in regards with students by ensuring fairness in every operation that is conducted in the university. This will enhance the commitment level of the students towards the organization and they will not only become agreeable but will also result in “positive word of mouth marketing” from their side which ultimately will result in increasing the goodwill of university in general society.

References


Risk Management and Performance of Conventional Banks in Pakistan

ALAM REHMAN
NUML University Peshawar
alamrehmannumul@yahoo.com

YASIR KHAN
Ph.D Scholar, Qurtuba University Peshawar
yasirok62@yahoo.com

ARIF HUSSAIN
Assistant Professor, Abdul Wali Khan University, Mardan
findarif@yahoo.com

Abstract
The study examines the relationship between risk management and performance of conventional banks in Pakistan. The study has been conducted using Capital adequacy ratio, non-performing loan ratio, Cost per loan ratio, Cash reserve ratio and Z-scoring ratio as the proxies of risk management and Return on asset has been used as the proxy of the bank financial performance. The study has used random sampling technique for the 20 conventional banks for the period 2010 to 2016. The study uses correlation and simple OLS to test the hypothesis. The results reveal that capital adequacy ratio and Z-scoring have positive significant impact on the conventional banks, financial performance, where as Non-performing ratio, cost per loan ratio and cash reserve ratio predicting negative affect on the financial performance of the conventional banks in Pakistan. The study has practical as well as theoretical implications. The results are expected to help policy makers to rehash their policies by encompassing the approaches that facilitate the risk management of banks in Pakistan. The study will also help researchers in strengthening their level of understanding of these relationships. Replication of the study may help to validate the hypothesized model and their consequent application in the organizations that share somewhat similar organizational structures.

Key words: Risk management, conventional Banks, Pakistan, Correlation and Regression

1. Introduction

In the recent past the worldwide financial institutions witnessed a huge meltdown around the globe. This worldwide meltdown affected all types of industries especially the banking industry was suffered a lot. The banking industry especially Leman-Brothers and Bear Stearns were suffered and embrace even bankruptcy. This forces them to prepare a framework of tough regulations to better deal with the anger of the public(Valencia,2010;Nocera,2009). These financial crises were due to various means and were subject to various explanations. The utmost determining factor which got serious attention during this
particular crises era was the risk management disclosure. It is therefore concluded that risk management is a significant tool, helping the trust of general public, shareholders and other stakeholders. Risk management helps a kind of transparency and reliability in the bank. Due to this emerging effect of risk management in banks, all banks are much more committed towards a significant framework of risk management to foster smooth return and stability. Every bank tries to provide framework of risk management to better deal with the public sentiments and the interest of shareholders and stakeholders. There are various reasons of failure in risk management, like the very limited role of risk management department while loans are being granted generously. So this make serious for the risk managers not having proper voice and loans are granted without them been on board and some time the lack of timely forecast make the issue of risk management in financial sector. This has resulted and compelled the risk managers to furnish and establish rules of risk management in order to avoid too much concentration on assets and to minimize the volatility of return. It has been noticed that worldwide global financial crises did not affected the Pakistan banking industry at all but it served as a wakeup call to the banks and all other financial institutions in Pakistan. The low exposure to such crises were due to simple instruments are being traded in the banking sector of Pakistan and banks do not have more liquidity as compared to the institutions in the developed world.

Pakistan is country where limited researches have been conducted in the area of risk management and mostly researchers found that risk management practices are very vital for the smooth functioning of the banks. In connection to the risk management Afsin (2010) argued that most daily operations which are performed in banks are risky by nature due to which banks need to have efficient risk management strategy to urgently implement it in dealing such risks. He asserted that non-performing loan ratio and cost per ratio has significant negative correlation with bank performance i-e ROA and ROE. Similarly, Mirakhor (2007) argued that strong risk management can help both private and public banks to minimize their risk exposure and such ability can improve the competitive ability in the market. He argued that NPL ratio has negative impact on the financial performance, thereby documenting that the more non-performing loans of a bank will have adverse impact on the financial performance of banks and also evidenced that capital adequacy ratio has positive significant impact on the financial performance of banks. Paola and Alessandra (2012) argued that risk management has positive impact on the profitability of the banks. Ali said (2013) argued that credit risk has negative impact on the financial performance of banks, while he found that operational risk has also negative correlation with financial performance of banks in Pakistan. In the line of the findings of above few authors, Selma et al (2013) also argued that NPL and cost per loan ration has negative significant impact on the profitability of banks. They argued that as these ratio increases it will have adverse impact on the profitability of banks. They found liquidity negatively associated with the firm profitability. In contrary to those who believe that NPL and cost per loan ratio have negative impact on profitability, Omer et al (2011) documented that NPL and Cash reserve ratio (CRR) have positive impact.

The appetite to have credit from banks has increased, which need to develop a comprehensive strategy to better deal with credit dilemma in banks and to properly manage the associated risks more effectively and efficiently. The banks must need to develop an accurate balance between risk management and its growth through ensuring transparency and governance and formally regulating the credit been provided by bank. Due to the availability of new business avenues, there is probability of new risk too, which need
to be handled and managed. Applying the above principle will improve asset quality and risk management practices of banks. The banks usually face risks in their operation, capital, liquidity and credit. The banks in developing countries always confronted with the credit risk, like increase in non-performing loans and provision for loss loan ratio foster problem for the policy makers of banks. Moreover the lack of capital (shortage of deposits) also pose problems for the banks decision makers. The bank also faces problems due to their liquidity as more liquidity would keep bank away from earning return and maximizing growth. So placing funds in appropriate avenues is always a serious challenge to the decision makers in banking sectors. So the element of bank risk is associated with its operation, capital, solvency, liquidity and credit. In Pakistan studies have not tested the Z-scoring ratio as a proxy of risk management. This study is unique in this regard and that the study uses very fresh available data like the data up to 2016.

Risk management in conventional banks, in Pakistan is a real challenge for the management and policy makers as Pakistan economy is very volatile economy and there is step competition in banks across the country. The banks also having different strategies in term of their information and shareholder disclosure which have somehow impact on the financial performance. Therefore a research need to be conducted to comprehensively analyzed the relationship of risk management factors with the banks financial performance. So the study is conducted to ascertain the kinds of risk associated with the conventional bank performance and to investigate the impact of risk management practices on the financial performance of the conventional banks in Pakistan.

1.1 Research Questions

1. What kind of risks is there in conventional banks in the banking sector of Pakistan?
2. What kind of relationship is there between risk management practices and financial performance of conventional banks in Pakistan?

2. Literature Review

Risk management is essential and vital in banking industry for significant performance. The stack holder trust required for corporate grown in general market and which is possible only by managing various risk (Afzin 2010). Li Yuqi (2007) conducted study analyzing the relationship of bank risk management practices and its profitability. The data was analyzed through simple Ordinary Least Square and he found that credit ratio and liquidity ratio has negative relationship with the bank profitability. The study further elaborate that risk management; set of Control and moderator variables like the GDP growth rate, inflation rate and interest rate can also significantly effect the performance of banking sector. Hakim and Neamie (2001) analyzed the impact of risk management, specially the credit risk practices on the financial performance of banks in Ghana, covering period of 1993-1999 using fixed effect random effect model. The results found that credit risk is positively correlated with bank profitability. In contrast some researchers indicate negative relation among these variables, like liquidity if increases will inversely effect the bank performance. The study further suggested that commercial banks need to allocate its fund more effectively and efficiently in all its business units and avenues.

Agyei and Dasah (2012) analyzed the impact of risk management, specially the credit risk practices on the financial performance of banks in Ghana, covering period of 2005-2009 using the Ordinary Least Square,
resulting that credit risk is negatively correlated with bank profitability and liquidity ratio has negative but insignificant impact on the financial performance. A similar study was conducted by Kolade and Ojo (2012) and investigated the impact of risk management specifically credit risk and capital risk using the data of 11 year through regression. The study revealed that Non Performing Loan Ratio has negative but insignificant impact on the firm return on assets while capital adequacy ratio has positive significant effect on the firm return on assets. Ogboi and Unuafe (2013) also analyzed the relationship between the firm risk and financial performance. Their study found the inverse relation between Non Performing Loan and firm performance, indicating that as the non-performing loans tend to increase it directly reduce the financial performance. The study farther found that the cost loan ratio has insignificant negative impact on the financial performance of banks by using time series cross sectional data and the was analyzed through System of General methods of Moments(GMM), which considered to be the appropriate model in analyzing the cross sectional data. Funso (2012) also analyzed panel data covering the period of 2000-2010 by using ROA as the proxy of financial performance and the Non-Performing Loan to loan & advances and loan loss provision(loan loss provision to classified loans). The results indicated that both these ratio have negative relationship with the bank financial performance.

Kithinji (2010) investigated the impact of credit risk management, comprised of Non-Performing loan to total loan ratio and loan loss provision of the credit risk and the liquidity ratio for the liquidity risk. The study found that these ratios as increase in size do not have any impact on the financial performance of Kenyan Commercial banks. The study used data from 2004 to 2008 and evidenced insignificant results for the credit risk management proxies and significant negative results for the impact of liquidity risk on the financial performance ratio. Similarly, Wanjoji (2013) also investigated the relationship of risk management and financial performance, the results evidenced very good risk management practices and found that the increase in these ratios do not have sufficient impact on the financial performance of banks by using panel data of five years covering the span from 2008 to 2012. Anguka (2012) conducted study analyzing the relationship of bank risk management practices and its profitability. The data was analyzed through simple OLS and also tested for fixed effect and random effect and found that credit ratio and liquidity ratio has negative relationship with the bank profitability. The study also evidenced that capital adequacy ratio has positive but insignificant relationship with the firm financial performance. This study analyzed the data of Microfinance banks in Kenya.

Ogilo(2012) analyzed the impact of risk management on the performance of commercial banks and found that there is some relationship between the credit risk management determinants exploring through CAMEL indicators like (Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity) and the financial performance in these selected banks. The study revealed that CAMEL components like capital adequacy, asset quality, management efficiency and liquidity showed weak correlation with financial performance (ROE) whereas earnings were found strongly correlated. This study evidenced that such model can also be used representing the risk management of a bank. Similarly, Jackson (2011) also conducted study using the same CAMEL model as by Ogilo (2010), he also found similar results obtained by the previous researchers using the same CAMEL model. He argued that the same independent variables of the CAMEL model can be used as independent variables covering risk management of bank. On the other hand, Wangai and Gathogo (2012) conducted primary research using questionnaire and found that non-performing loans significantly effects the profitability of banks, especially micro finance
banks. So it was conclude that risk management is very vital for the bank performance. The study also found that operational risk and capital adequacy risk can also affect the financial performance significantly.

2.1 Theoretical Framework

After the review of relevant literature, the following theoretical framework has been developed.

![Theoretical Framework Diagram]

2.2 Research Hypothesis

The Research is based on the following research hypothesis.

- **H1**: Capital adequacy ratio has positive significant impact on the financial performance of conventional banks in Pakistan.
- **H2**: NPL ratio has negative significant impact on the financial performance of conventional banks in Pakistan.
- **H3**: CLA has negative significant impact on the financial performance of conventional banks in Pakistan.
- **H4**: Z-scoring ratio has positive significant impact on the financial performance of conventional banks in Pakistan.
- **H2**: CRR ratio has negative significant impact on the financial performance conventional banks in Pakistan.

2.3 Operational Definitions and Measurement

The study uses independent and dependent variables to test the hypothesis of this study. All these variables have been operationally defined and measured below.

2.4 Independent Variables

Following independent variables have been used in this study.
2.4.1 Capital Risk

Capital is very vital to any firm and has a greatest for shareholders. Capital ratio has been differently measured and calculated by different researchers, however in this research CAR has been measured as the bank’s Tier1 cap + Tier 2 capital / total risk weighted assets.

2.4.2 Credit Risk

Credit plays a key role in bank’s activities and asset portfolio. The high percentage and proportion of credit affect the bank’s performance and is a serious concern to the managers in banking sector. The Non-Performing Loan ratio (NPL), Cost per loan assets ratio (CLA) and Z-scoring ratio has been used as proxies of credit risk.

1. NPL = Non performing loans / total gross loans
2. CLA = operating cost / total loan assets
3. Z-score = \( Z = X_1 + X_2 + X_3 + X_4 + X_5 \)

\( X_1 = \) Working Capital / Total Assets.
\( X_2 = \) Retained Earnings / Total Assets.
\( X_3 = \) Earnings Before Interest and Taxes / Total Assets.
\( X_4 = \) Market Value of Equity / Book Value of Total Liabilities.
\( X_5 = \) Sales / Total Assets.

2.4.3 Liquidity Risk

Liquidity is one of the key concerns to the managers in financial sector. Maintaining best level of liquid asset is always a challenge to the managers and the decision makers in banking sector. In this study cash reserve ratio will be used, and will be measured as the total cash / Total deposits.

2.5 Dependent variable

Return on asset has been used as dependent variable of the study.

2.5.1 Model Specification

The following model has been used to test the hypothesis of the study.

\[
\text{ROA}_{it} = \beta_0 + \beta_1 \text{CAR}_{it} + \beta_2 \text{NPLR}_{it} + \beta_3 \text{CLA}_{it} + \beta_4 \text{CRR}_{it} + \beta_5 \text{Z-score}_{it} + \epsilon_{it}
\]

3. Research Methodology

This is a quantitative research as the secondary data has been quantitatively quantified. The relationship between independent variables and dependent variable have been analyzed and investigated through correlation and regression analysis. The population of this study includes all conventional commercial banks listed on Pakistan stock exchange. Simple random sampling technique has been used for the data collection of this study. Those conventional banks have been included in the data collection which had existence in the banking sector since last five years. The data of 20 conventional has been collected for
the period 2010 to 2016. The data for the analysis of this study has been collected from the KSE web site, banks, annual reports and state bank site. The data was analyzed through statistical techniques i.e. Correlation and Regression analysis. Stata software has been used for the analysis of the data.

4. Results and Discussion

4.1 Correlation Analysis

The table 4.1 shows the results of the correlation of the study. The results indicate that Capital adequacy ratio is positively significantly correlated with the firm financial performance proxy, the return on Assets. This documents that as the value of this ratio increases it will increase the financial performance. The correlation results also reveals that NPL ratio is negatively significantly correlated with the financial performance of banks, which documents that increase in NPL ratio will enhance the financial performance of banks. Similarly cost per loan ratio and cash ratio also showing negative correlation with financial performance of banks but the severity it carries insignificant. It implies that an increase in the Cost per loan ratio and cash ratio will negatively affect the bank financial performance but the impact would not be Sevier due to the insignificant values. The results show a positive significant correlation between the Z-scoring ratio and financial performance. There by documenting that an increase in this ratio will enhance the bank’s profitability.

Table 4.1: Pearson Correlations analysis

<table>
<thead>
<tr>
<th>Variables</th>
<th>ROA</th>
<th>Capital Adequacy Ratio</th>
<th>Non-Performing Loan Ratio</th>
<th>Cost Per Loan Assets</th>
<th>Cash Reserve Ratio</th>
<th>Z-score ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital Adequacy Ratio</td>
<td>0.233</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Performing Loan Ratio</td>
<td>-0.284*</td>
<td>-0.111*</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost Per Loan Assets</td>
<td>-0.031**</td>
<td>-0.021**</td>
<td>0.199</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash reserve ratio</td>
<td>-0.0800</td>
<td>-0.021**</td>
<td>0.024</td>
<td>-0.130</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Z-score ratio</td>
<td>0.324*</td>
<td>-0.419**</td>
<td>-0.196</td>
<td>0.129</td>
<td>-0.020**</td>
<td>1</td>
</tr>
</tbody>
</table>

4.2 Regression Results

Table 4.2 shows the effects of risk management proxies on the financial performance proxy of conventional banks in Pakistan. The results document a positive significant impact of the Banks’s Capital adequacy ratio on the financial performance, as the tabulate T-value is 2.028, which is significant at 5% probability level. The results also reported positive significant impact of Z-scoring ratio on the banks’ return on assets, as the tabulated T-value of Z-scoring ratio is 2.908, which is significant at 5% level of probability. The results show a negative significant effect of the NPL ratio on the banks, financial performance. The tabulated T-value is negatively significant at the 5% probability level. However the results reported negative insignificant impact of Cost per loan ratio and Cash reserve ratio on the banks, return on assets. The explanatory power of the model is quite satisfactory as the R-square value tabulated.
is 0.58, which documents that 58% changes in banks financial performance (ROA) is caused by the set of predicating variables of the study. The F-value is statistically significant at 5% probability level, which indicates that the overall model is fairly statistically fitted and significant. The multicollinarity statistics show that there no multicollinarity issue in the data. The tabulated values of tolerance and variance inflation factor (VIF) are within the acceptable ranges, thereby documenting that no multicollinarity issue in the data of the study. As per Gujarati (2004) the value of VIF for a variable should not exceed 10, however the tabulated values of all explanatory variables are less than 2, which predict non-existence of multicolinarity in the data.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Std.Error</th>
<th>t-value</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy Ratio</td>
<td>.124</td>
<td>0.0611</td>
<td>2.028</td>
<td>.014</td>
<td>.623</td>
</tr>
<tr>
<td>Non-Performing Loan Ratio</td>
<td>-.121</td>
<td>0.0514</td>
<td>-2.351</td>
<td>.003</td>
<td>.789</td>
</tr>
<tr>
<td>Cost per Loan Assets</td>
<td>-.098</td>
<td>0.0711</td>
<td>-1.378</td>
<td>.089</td>
<td>.766</td>
</tr>
<tr>
<td>Cash Reserve Ratio</td>
<td>-.023</td>
<td>0.0262</td>
<td>-8.76</td>
<td>.435</td>
<td>.809</td>
</tr>
<tr>
<td>Z-score Ratio</td>
<td>.213</td>
<td>0.0732</td>
<td>2.908</td>
<td>.001</td>
<td>.755</td>
</tr>
</tbody>
</table>

\[
R^2 = 0.58 \quad \text{Adj.} R^2 = 0.57 \quad F = 34.78F(\text{sig.}) = .000
\]

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients</th>
<th>Std.Error</th>
<th>t-value</th>
<th>Sig.</th>
<th>Tolerance</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Adequacy Ratio</td>
<td>.124</td>
<td>0.0611</td>
<td>2.028</td>
<td>.014</td>
<td>.623</td>
<td>1.786</td>
</tr>
<tr>
<td>Non-Performing Loan Ratio</td>
<td>-.121</td>
<td>0.0514</td>
<td>-2.351</td>
<td>.003</td>
<td>.789</td>
<td>1.890</td>
</tr>
<tr>
<td>Cost per Loan Assets</td>
<td>-.098</td>
<td>0.0711</td>
<td>-1.378</td>
<td>.089</td>
<td>.766</td>
<td>1.122</td>
</tr>
<tr>
<td>Cash Reserve Ratio</td>
<td>-.023</td>
<td>0.0262</td>
<td>-8.76</td>
<td>.435</td>
<td>.809</td>
<td>1.456</td>
</tr>
<tr>
<td>Z-score Ratio</td>
<td>.213</td>
<td>0.0732</td>
<td>2.908</td>
<td>.001</td>
<td>.755</td>
<td>1.498</td>
</tr>
</tbody>
</table>

5. Conclusion

The study has been conducted with the aim to find and investigate the impact of risk management on the financial performance of conventional banks. The study has been conducted using Capital adequacy ratio, non-performing loan ratio, Cost per loan ratio, Cash reserve ratio and Z-scoring ratio as the proxies of risk management and Return on asset has been used as the proxy of the bank financial performance. The study has used random sampling technique for the 20 conventional banks for the period 2010 to 2016. The final results have been predicted on the bases of simple OLS. The results revealed that capital adequacy ratio has positive significant impact on the banks, financial performance, which is in line with the findings of previous studies of Li and Zou (2014) and Alshatti (2015). However some previous studies evidenced a negative impact of CAR on the financial performance of firm, i.e Felix and Claudine (2008). The results reported negative significant impact of NPL ratio on the banks, return on assets. The same ratio was tested by Felix and Claudine (2008), Kargi (2011) and Omer et al (2011) who also have documented negative significant impact of NPL on the profitability of a firm. The results documented a negative impact of cost per loan ratio, which is line with the findings of Omer et al (2011) and Alshatti (2015). Similarly the study evidenced a negative insignificant impact of Cash reserve ratio on the financial performance of conventional banks. The results of CRR ratio are contrary to the findings of Afsin (2010) and Ali (2013), whom documented positive relationship of CRR with the financial
performance. The results showed a positive significant impact of Z-scoring ratio on the financial performance. The ratio is an addition in the risk management studies in Pakistan and has not been tested before. The study has some policy implications. This study will help the decision makers and top management of the banking sector to overlook on these key areas of banks to tighten their polices and take remedial actions if they feel weaknesses in the practices of risk management. Similar studies can be conducted in future using moderating and mediating variables like GDP of a country, information disclosure and risk disclosure.

References
But Omer, et al. (2011). Positive association with bank performance, liquidity risk (CRR) has positive impact. In Paper to be presented at the International conference (pp. 1-35)
A Study of Practices and Outcomes of HRM in Pakistan

DR. SAIMA BATool
Chairperson, Qurtuba University of Science and Information Technology, Peshawar
dr.saimabatool90@yahoo.com

YASIR KHAN
Ph.D Scholar, Qurtuba University of Science and Information Technology, Peshawar
vasirok62@yahoo.com

MUHAMMAD TAHIR
Business Administration Department, Iqra National University, Peshawar, Pakistan.
tahirkhanzaee@gmail.com

MUHAMMAD IDREES
Assistant Professor, Abdul Wali Khan University, Mardan

Abstract

HRM is capable of employee’s development and enhanced organizational competitiveness, thus it can contribute positively for developing countries. However, there is poor understanding and limited research about HRM in developing countries context. Pakistan also embraced HRM almost a decade ago; however, the experience is producing mix results. The current study is carried out with the objective to assess the HRM Practices and the HRM outcomes in Pakistan. The study utilizing semi-structured interviews and data was collected from sixty HR Personnel working in various organizations. Key findings of the study are that despite implementation of different HRM practices, overall degree of HRM sophistication is low. Moreover, HRM is producing positive outcomes including diversity, better discipline, and superior performance. Some negative HRM outcomes including bureaucracy, corruption, and unnecessary control are also reported in this study. The results point towards limited sophistication of HRM function in Pakistan which needs to be increased in scope to produce more favorable outcomes.

Keywords: HRM, Recruitment, Training, Outcomes, Pakistan

1. Introduction and Background

HRM is capable of developing employees and enabling organizations to compete more successfully in global markets. Therefore, the demand of Globalization is pushing organization in developing countries to embrace HRM. HRM is comparatively a new field in Pakistan; however, it has gained substantial foothold during the last decade(Qayum, 2011). In Pakistan, HRM is evolved from traditional Personnel Management and as a consequence, many organizations have restructured their Personnel divisions and renamed it as Human Resource Divisions(Siddiqui, 1997; Khilji, 1995). Business Schools across the Universities in Pakistan have started offering Masters, MPhil, and PhD degrees in HRM and decent level
of HRM related academic research is also going on in Pakistan. Despite such indicators of growth, it can be argued that the development of HRM in Pakistan is limited in nature. For example, a study by Khilji (1999a) empirically studied HRM in Pakistan and found that HRM in Pakistan is suffering from inconsistency between the policies and actual HRM practices. The same study also commented on general environment of Pakistan which characterize formal and hierarchical structure with little employee’s involvement in devising HR policies and practices, centralization of HRM departments, and major communication gap between employees and HRM department. Since, there are limited studies related to the nature of HRM practices in Pakistan; therefore, the current study is conducted with a view to identify the current status of HRM in Pakistan.

1.1 Pakistan’s Brief Profile

According to the World Bank Country Partnership Strategy Progress Report (2013), Pakistan is facing significant political, economic, and constitutional challenges. The country is experiencing militancy, sectarian violence, and natural disasters such as floods as major barriers towards development (World Bank, 2014). The reports also commented on poor Human Development record as country is lagging behind from other similar nations in terms of resource allocation for education (Currently 2% of GDP), enrollment in education, infant mortality rates, and gender disparities. Continuous economic instability is resulting in low development budgets, FDI flight, high unemployment, and uncertainty about future (Mirza, 1995; Klein, 1992).

Despite poor political, economic, and social indicators, Pakistan is showing signs of improvement. In May 2013, nationwide general elections were conducted for National and Provincial assemblies. The elections were significant because it was the first time in Pakistani history that an elected Political party (Pakistan People’s Party) completed its constitutional period of five years (2008 to 2013) and handed over the government to next election winning political party. The peaceful transfer of power shows that country is restoring towards democracy and its political system is stabilizing. Similarly, according to Labor Force Survey of 2012-2013 by Federal Bureau of Statistics shows that the literacy rate is improving as literacy rate for the population above ten years of age in the country is 59.8% based on 71% for Male and 48% for female. The brief discussion about Pakistan shows that business environment in Pakistan is filled with challenges as well as some opportunities and potential for growth.

1.2 Aims and Objectives

The study aims to explore the current status of HRM in Pakistan while more specifically the objectives of the study are to identify the practices and the outcomes of HRM in Pakistan.

1.3 Significance

Most of the HRM related research is conducted in Western context while there is scarcity of HRM related research in developing countries. The literature on HRM in Pakistan is also very limited and demand greater attention from researchers. The study is expected to bridge the literature gap and enhance our understanding of HRM in Pakistan.
2. Literature Review

The following section discusses key theories and previous researches which are relevant for the current study.

2.1 HRM in Pakistan

Different elements of HRM include philosophy, policies, programs, practices and processes (Schuler, 1992). HRM philosophy refers to the organization’s attitude towards dealing with its human resource. HRM policies on the other hand provide the link between the organization’s business needs and specific people related business issues. HR practices also provide the motivation to match the specific role behavior required to reinforce the desired performance. This paper is mostly focusing on HRM practices; however, inference can be drawn about HRM philosophies and policies by looking at HRM practices.

Generally, key HRM practices include recruitment and selection, training and development, job analysis and appraisal, reward management, and health and safety (Coda et al, 2009; Buhler, 2002). In general, most Pakistani organizations are involved in these practices; however, the way these practices are performed is a matter of interest for this study. Different studies are conducted about the way HRM is practiced in Pakistan. The first significant study is conducted by Khilji & Wang (2006) that focused on HRM practices in Pakistan. The major findings of the study are that during recruitment process candidates use contacts and influence to gain employment. Low priority is given to employee’s training and appraisals interviews are mostly based on one way discussion. Often goals are difficult and handed without consulting to employees and pay is mostly not linked to performance but depends on whom an individual relates with. In other studies also conducted by Khilji (1999a, 1995), she described HRM in Pakistan at its infancy stage. Khilji threw light on organizations culture in Pakistan by highlighting features such as centralized authority, formal and hierarchical structure, low autonomy, and communication gap between management and workers. Similarly, Jamal (1998) commented that usually top level management is involved in HR related policy making while middle and lower level workers has little involvement in the process. The above mentioned studies shows that HRM in Pakistan is not much different from other developing countries as organizations face difficult external environment accompanied with centralized and bureaucratic internal culture which is causing difficulties in designing and implementing effective HRM related policies and practices.

2.2 HRM Practices and Outcomes

HRM practices are expected to increase the performance of individuals and organizations. Most HRM-Performance researches used HRM bundle concept which assumes that combined impact of HR Practices is more than their individual impact (Datta et al, 2005; Huselid, 1995; Arthur, 1994). Commonly HPWS include practices such as sophisticated selection, high degree of training, flexible work arrangements, internal promotions, incentive based compensation, and information sharing (Datta et al, 2005; Pfeffer, 1998; Huselid, 1995). A vast body of literature exist on HPWS and Performance but perhaps the most notable study on HR-Performance relationship is conducted by Huselid (1995). Huselid (1995) empirically showed that the use of selected HRM practices has significant effect on intermediate employee outcomes e.g. turnover, productivity, and on short and long-term measures of corporate
financial performance. Similarly, Gongget et al. (2009) found that there is positive relationship exists between performance oriented HR subsystem and firm performance while the relationship was mediated by middle manager’s affective commitment. Snape and Redman (2010) also found a positive impact of HRM practices on organizational citizenship behaviour through an effect on perceived job influence or discretion. Overall, the literature is consistent on positive role of HRM in shaping employees behaviour and improving individual and organizational performance.

3. Methodology

The following section furnishes the review of research design, sampling and data collection, and data analysis for the current study.

3.1 Research Design

According to the Easterby et al., (1991) the leading research paradigms identified in the literature are positivism and subjectivism. Positivism paradigm views reality as objectively observable; while, subjectivism paradigm proposes to understand reality through sensation, reflection, and intuition. Subjectivism is also related to constructivism which views truth as a particular belief system held in a particular context and constructed in individual’s mind (Healy and Perry, 2000). This paradigm suggests that a researcher should construct reality by interacting with different individuals (Perry et al., 1999). In the light of research objective and the constructive paradigm, it is decided to exclusively use qualitative method of data collection for this study. The decision to use qualitative method is made since qualitative methods enable researcher to gain a better initial understanding of the problem as well as opulent prospects to explore viewpoints, phenomena, attitudes, and influences (Healy & Perry, 2000; Maxwell, 1996). Qualitative data collection method is also suitable as the prime objective of this study is to explore issues with greater details and accuracy rather than confirming a statistical relationship between different variables.

3.2 Sampling and Data Collection

The data was collected from HR personnel including HR Managers, HR Assistant and so on. The method of convenient sampling was utilized to gather data from HR personnel who were initially contacted through a group page of social networking website and agreed to give interviews. After initial acceptance, interviewees have been contacted in order to set schedule for interview. The profile of the interviewees is given in the table 4.1.

<table>
<thead>
<tr>
<th>Table 4.1: Demographic Characteristics of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>FREQUENCY</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>GENDER</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
</tbody>
</table>

Batool, Khan, Tahir & Idrees 169 ISSN: 2520-0739
The demographic profile of the respondents shows that most respondents were male (71%), belonged to the age groups of 30-39 years old (56%), and performing the duties of HR officer (75%). Moreover, 40% respondents belonged manufacturing and 60% belonged to services sector respectively. Most respondents (80%) had the HR related work experience between 4 to 8 years. Interview Method: Semi structured interviews were conducted from HR personnel. HR personnel are selected as suitable respondents since they are chiefly responsible for design, implementation, and evaluation of HRM policies and practice. Both face to face and phone method were used to conduct interview. Interviews were conducted in Urdu.

<table>
<thead>
<tr>
<th>AGE GROUP</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20-29</td>
<td>8</td>
<td>13.33%</td>
</tr>
<tr>
<td>30-39</td>
<td>34</td>
<td>56.66%</td>
</tr>
<tr>
<td>40-49</td>
<td>10</td>
<td>16.66%</td>
</tr>
<tr>
<td>50 and Above</td>
<td>8</td>
<td>13.33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ROLE/STATUS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HR/Personnel Director</td>
<td>1</td>
<td>1.66%</td>
</tr>
<tr>
<td>HR/Personnel Officer</td>
<td>45</td>
<td>75%</td>
</tr>
<tr>
<td>HR/Personnel Assistant</td>
<td>12</td>
<td>20%</td>
</tr>
<tr>
<td>Others</td>
<td>2</td>
<td>3.33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ORGANIZATIONAL OWNERSHIP</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Sector</td>
<td>13</td>
<td>21.66%</td>
</tr>
<tr>
<td>Private Sector</td>
<td>47</td>
<td>78.33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NATURE OF ORGANIZATIONS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>24</td>
<td>40%</td>
</tr>
<tr>
<td>Services</td>
<td>36</td>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HR RELATED WORK EXPERIENCE</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4 Years</td>
<td>8</td>
<td>13.33%</td>
</tr>
<tr>
<td>4.1-8 Years</td>
<td>48</td>
<td>80%</td>
</tr>
<tr>
<td>8.1-12 Years</td>
<td>2</td>
<td>3.33%</td>
</tr>
<tr>
<td>Above 12 Years</td>
<td>2</td>
<td>3.33%</td>
</tr>
</tbody>
</table>
which is a national language of Pakistan and can be understood by most of the educated Pakistanis. On average, an interview took between 30 to 45 minutes. All interviews were recorded and additionally short notes were taken during the interviews.

3.3 Interview Contents

A semi-structured interview was developed based on the research objectives and included the following key questions accompanied by leading questions accordingly.

1. While managing human resource, how do you conduct different HR practices such as HR planning, recruitment and selection, training and development, performance management, compensation management, communication, employee involvement, and so on?
2. How will you describe your work related activities in a typical working day?
3. What is your organization’s HR related philosophy? Do you have formal HR policy?
4. Do you think that your organization’s HR related philosophy, policy, and practices are consistent to each other?
5. In theory, HRM is supposed to produce positive outcomes for individuals, teams, units, and firm. The outcomes include attitudinal, behavioral, financial, and strategic one. Do you see any of these or other outcomes of HRM in your organization? Any specific example?

3.4 Data Analysis:

Miles and Huberman (1994) suggest that qualitative data analysis involves three steps including data reduction, data display, and drawing conclusion. The data collected through semi structured interviews were reassessed several times in order to make sense of it. Key themes in the data were identified, noted down, and translated simultaneously. The key themes were revised in order to arrive on conclusion.

4. Findings

This section presents the findings of current study. As the interviews were conducted in Urdu; therefore, direct quotes are translated and reproduced here in English. Maximum efforts are taken to avoid loss of meaning in translation.

4.1 Findings on HRM Practices

The results show that organizations differ in terms of how they practice HRM. Table 4.2 summarizes the qualitative evidence on HRM practices.

<table>
<thead>
<tr>
<th>Qualitative Evidence</th>
<th>Indication</th>
</tr>
</thead>
<tbody>
<tr>
<td>“HR planning is not done systematically. It is very much on ad-hoc basis. Because of environmental changes and huge workload, we are unable to think much about the future”</td>
<td>Poor HR Planning</td>
</tr>
<tr>
<td>“Recruitment and selection process is sophisticated as well”</td>
<td>Emphasis on proper recruitment and</td>
</tr>
</tbody>
</table>

Batool, Khan, Tahir & Idrees 171 ISSN: 2520-0739
as complicated. We try our best to ensure fairness in the process. There are so many candidates who have similar credentials. Often we have to drop the exceptionally good candidates because they are not considered very suitable.”

“Annual Confidential Review is used to gain support and to punish the rivals. For this reason, I don’t think that the system is bringing any true results at all”

“In the past, people preferred public sector organizations because government offered job security. Now the situation is changing. Most of the government jobs are on contract. The workload is also increased and employees are expected to perform even in public sector”

“There is no Pay difference between men and women. Even in some cases, women are earning higher than men”

“Government salaries are comparatively lower. Despite over time, total salary is not much. Majority of employees have permanent jobs, therefore they can’t leave their job which results in demotivated staff. Extra income by bribery is common in most government jobs and this is where they make a lot of money”

“A good portion of our time is consumed to solve conflicts. These conflicts are mostly personality based and are result of poor resource allocation and negative organizational politics. Sometimes they (conflicts) just run parallel to the organizational day to day work”

“Downsizing is common. Pakistani employees have little protection from law, therefore, terminating employees is pretty easy”

<table>
<thead>
<tr>
<th>Problems in Appraisals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay equality between gender</td>
</tr>
<tr>
<td>Job security, demotivation, and corruption in public sector organizations</td>
</tr>
<tr>
<td>The responsibility of HR to resolve conflict</td>
</tr>
</tbody>
</table>

It is found that private organizations are practicing HRM more extensively as compare to the public sector organizations. Similarly, service oriented organizations are using more sophisticated HR practices as compare to the manufacturing organizations. Starting from HR Planning, results indicate that the sophistication of HR planning is very low. Mostly, the HR planning is done on short term basis for example organizations make HR planning at the start of particular season such as summer or winter. Mostly managers rely on past data and personal judgment for planning HR needs. The excessive workload on HR Personnel also reduces their ability to plan ahead. Results on recruitment and selection shows that generally it is considered as the most important HR related function and Pakistani HR Personnel frequently involves in recruitment and selection process. HR managers in Pakistani private
sector organizations uses more sophisticated recruitment methods including internet, word of mouth, and newspaper advertisements. Interviews are commonly used during selection process which is mostly one to one basis while virtual or computer based interviews are not common. Mostly, preference is given to candidates who have qualification from reputed universities as well as candidate location is also important.

The results on job design indicate that Pakistani organizations try to follow a strict division of labor. Jobs are designed narrowly, while employees are selected based on their specializations. Employee’s careers are also based on specialized areas. It is also found that training function is not very sophisticated in Pakistan. Limited training is offered in private sector organizations, which is further lower in public sector organizations. Common training method is ‘On the job training’, where a senior person shows a new member about how to perform certain tasks. Performance management is very much informal and practice of appraisal is limited to minority organizations. Appraisal system in public sector organizations is called Annual Confidential Review where employees have to give feedback on their colleagues without showing it to the colleague. The process is also not practiced in its true spirit.

The results on reward management indicate that Pakistani organizations offer basic salaries along with various allowances. Private sector organizations offer more incentives, more individual performance based pay, and overall more competitive salaries. On the other hand, public sector organizations offer lower salaries but offer job security, lower workload, and reliable pension plans approved and governed by the government. However, current trend indicates that reward management in public sector organizations is also becoming similar to the private sector organizations. Additionally, it is found that gender based pay differences are not common and overall the pay difference between men and women is decreasing.

The results also indicate that most of the time, HR Managers are involved in resolving conflict and handling employee grievances. Conflict between workers or between workers and managers is common and often HR managers have to handle such conflicts. Downsizing is also common and most Pakistani organizations frequently involves in it. Mass downsizing is done on the basis of mismatch between demand and supply and it is seasonal in nature. Individual employees are also terminated on the basis of negative image which is developed after some negative feedback or due to a particular incident. Downsizing or terminating in public sector organization is comparatively difficult because management have to follow a detailed and time consuming procedure in order to compliance with law. Overall, the results show that degree of sophistication of HRM practices in Pakistani organization is low to medium depending on the nature of organization and maturity of HRM function.

4.2 Findings on Outcomes of HRM

Results on the outcomes of HRM indicate that HRM in Pakistani organization is producing both favorable and unfavorable outcomes. The favorable outcomes include diversity at workplace, better discipline, and superior performance; while, the negative outcomes include more bureaucracy, corruption, and excessive control on employees. Table 3 provides a summary of qualitative evidence related to the outcomes of HRM in Pakistani organizations.
### Table 4.3: Qualitative Evidence on Outcomes of HRM in Pakistani Organizations

<table>
<thead>
<tr>
<th>Qualitative Evidence</th>
<th>Indication</th>
</tr>
</thead>
<tbody>
<tr>
<td>“The result of giving more attention to female in recruitment and selection is that workforce is more diverse now which created a favorable workplace environment. Employee’s productivity, discipline, and customer service quality seems to be improving”</td>
<td>Using affirmative action to increase diversity and positive effects of diversity</td>
</tr>
<tr>
<td>“HRM practices resulted in improved turnover rate and lower absenteeism. Both factors contribute in improving the operations of our organization”</td>
<td>Positive outcomes of HRM practices including lower turnover and absenteeism</td>
</tr>
<tr>
<td>“HRM has brought order in this family oriented organization. Before HRM was introduced, there were severe discipline problems. People were not following timings, leaves, or other discipline related policies. HR Department has created a sense of monitoring among employees”</td>
<td>Monitoring role performed by HRM</td>
</tr>
<tr>
<td>“Employees in Pakistan are not easier to deal. To be a successful HR Manager, you need to be tough minded. However, the impact of HRM is significant. HR contributes in overall performance of an organization. This is something which top managers should realize soon”</td>
<td>HRM resulting in improved organizational performance</td>
</tr>
<tr>
<td>“HRM Department was created in this organization about 5 years ago. Since then, positive effects such as higher productivity and profitability can be seen very clearly”</td>
<td>Operational problems due to the creation of HR department</td>
</tr>
<tr>
<td>“In the past, employees related issues were dealt by general management. As part of restructuring, the organization (factory) took initiative and setup the HR department. Since then, the overall functioning is disturbed. The communication, reporting, and decisions seems to be slowed down because of HR department”</td>
<td>Slow communication because of HRM department</td>
</tr>
<tr>
<td>“HR created an extra managerial layer between middle and top level management. Most of the communication has to follow this channel”</td>
<td>HR involvement in organizational politics</td>
</tr>
<tr>
<td>“There are conflicts and on-going politics between different departments at different levels. Even there is conflict between top management and HR therefore blocking each other progress is norm”</td>
<td></td>
</tr>
</tbody>
</table>
"In Pakistani culture, prospective candidates for jobs are ready to pay money to become selected. I know many HR Managers who even asked people to pay just for shortlisting them"

"HR has created a lot of stress for ordinary employees as now they have to provide explanations for minor issues. Employees sometimes leaves those organization where there is strict control brought by the HR department"

Corruption in the form of taking money against promise to provide job by HR Managers

Employee monitoring and control by HRM function and its outcomes

The results indicate that giving attention to the HRM practices specially diversity focused practices are resulting in diverse as well as better quality staff and improved discipline which subsequently has several advantages. HRM is also contributing in improving performance level of individuals, teams, departments, and whole organization. On the other hand, the negative impact of HRM on organization is also realized by HR Personnel which includes corruption, slow decision making, and strict control affecting employees negatively. According to the respondents, taking money in return for appointing a person or promise to appoint is quite often practiced. It is a common form of corruption by HR department; however, other sources of corruptions are also utilized by HR managers such as taking money from employees in return of providing some favors. Few respondents also pointed that female prospective candidates have to face some issues due to HR Managers as some HR Managers asks prospective female candidates to go out with them or some other unsuitable favors in return of a promise that employment will be given to them.

Finally, another negative impact of HRM is the excessive monitoring and strict control of employees. According to the respondents, Pakistani managers and business owners want a strict control over employees; therefore, in such environment HR plays a role of employee’s police which affects employees negatively. To become more successful, HR in Pakistan needs to promote the positive outcomes while negative outcomes should be further investigated and minimized.

5. Discussion

The objective of the study was to identify the current HRM practices and the perceptual outcomes of HRM in Pakistan. HR Personnel belonging to diverse organizations were interviewed in order to achieve the research objectives. The interview findings reveal that HRM practices in Pakistan are not very sophisticated. HR planning is on ad-hoc basis, while recruitment and selection is sophisticated but effected by nepotism and ‘sifarish culture’. Training activity is limited; performance management is informal; and appraisals are not properly practiced. Similarly, reward system is not well designed, and downsizing is quite common. The results are quite similar to the findings of Khilji and Wang (2006) who stated that HRM practices in Pakistan are not very sophisticated or properly implemented. These results are also similar to other findings for example Khilji (1999b) stated that hiring in Pakistani organization is not necessarily on merit. Moreover, she also found that Pakistani organizations is weak in employees training and career management activities and also not utilizing the services of training provider organizations. Qureshi (1995) also found that management in Pakistan has failed to develop or implement systems that are fair, led by assessment of training needs, and linked to career development plans of individual employees.
The less sophisticated level of HRM in Pakistani organizations can be explained by using Ulrich framework. Ulrich (1997) identified four key roles for HRM including administrative expert, employee champion, change agent, and strategic business partner. It seems that currently HRM in Pakistan is mostly performing the administrative role; while, other roles such as strategic business partner or employee champion role is not being performed very effectively. Thus, it is recommended that HRM in Pakistan needs to enhance the scope of activities it performs and the breadth of stakeholder’s interest it serves. The findings also show that HRM in Pakistani organization is producing favorable outcomes as well as negative ones. Mostly, HRM and Performance studies focuses on the impact of HRM bundle on individual and firm performance (Snape and Redman, 2010; Gongg, et al, 2009; Harter et al, 2002; Huselid, 1995; Arthur, 1994). Instead of looking at the statistical relationships between HRM practices and individual or organizational level outcomes, the current study adopted a qualitative approach which helped in uncovering the hidden outcomes. The positive HRM outcomes (discipline, performance) are in line with outcomes found in other studies (Snape and Redman, 2010; Gongget al, 2009; Datta et al, 2005; Harter et al, 2002; Huselid, 1995; Arthur, 1994). The negative HRM outcomes (bureaucracy, corruption) are rarely identified in literature; however, it can be argued that these negative outcomes can be overcome by proper implementation of HRM and Management practices.

HRM, if applied properly, can be a potential source of competitive advantage for organizations (Huselid et al, 1997; Poole and Jenkins, 1996; Schuler, 1992). A strategic approach to HRM is generally characterized by linking the external and internal environment of the business to the management of HR (Baird and Meshoulam, 1988; Beer et al, 1984). These features emphasize the need to achieve consistency and complementarities among HR practices including the uniformity of practices and treatment among individuals, continuity in HR philosophy and practice, and technical complementarities among policies and practices (Baron and Kreps, 1999). Our findings indicates that despite the development of HRM departments and formal written HRM policies, still the HRM function in Pakistan is limited in scope and proving an organizational fad. A reason for this can be that despite introduction of HRM nationwide, the attitude of organization towards its employees is unchanged and many organizations cannot see the potential of its human resource. Therefore, to make HRM really working, the attitude of organizations and management needs to be changed.

5.1 Conclusion

It can be concluded that HRM has gained some foothold in Pakistan as organizations have created separate HRM departments and some formal HRM practices and policies are in place; however, the implementation and sophistication level of HRM practices is still low. Due to poor implementation of HRM which is limited in scope, the full benefits of the functions are unattained. In order to take full benefit from HRM functions, organizations as well as the top management need to give greater importance to the HRM function. HRM function itself also needs to take care of the interests of different stakeholders and assume more responsibility towards strategic planning and execution. At national level, more proactive and dynamic role from HR promoting bodies is also needed.
5.2 Implications

Our findings have implications for HR Personnel as well as for management and organizations. First of all, Implications for HR Personnel is that they should actively develop themselves by seeking new knowledge, improving their skills, and connecting with the latest researches in the field as such development will help them in brining growth to HRM function and tackling many HRM and work related challenges. Furthermore, HRM personnel in Pakistan that it should take a proactive approach in order to make the function and practices more sophisticated. Management and organizations need to change their attitude and philosophy of employee’s management and should empower HRM department so that true benefits of HRM function can be nurtured. Without giving due attention to HRM, it will only remain a function clerical in nature, and will not contribute much in organizational competitiveness.

Researchers and practitioners are also encouraged to take a context driven approach and develop HRM practices and models which are suitable and applicable in Pakistani cultural and Institutional settings. At national level, there are certain organizations which are involved in promoting HRM such as Pakistan Society for Human Resource Management (PSHRM) and Pakistan Human Resource Network (PHRN). These organizations have some good membership base but they are not as developed as Society for Human Resource Management (SHRM) in USA, and Chartered Institute of Personnel and Development (CIPD) in UK. It is recommended that at National level these organizations should be involved in activities such as curriculum development for HR related courses, conducting exams, accreditations, research activities, and so on. These actions will result in improving the competencies of ordinary HR Personnel, enhancing the uniformity across the country and promotion of HRM at national level.

5.3 Limitation and Directions for Future Research

The research focused on only two aspects namely practices and outcomes while other aspects such as prospects, challenges, processes are not included in this study which remains a limitation. Some limitations also originates from the methodology and sampling procedure as a sample size and solely relying on qualitative method for data collection makes it difficult to generalize the findings. The findings of the study are also subject to the researcher’s interpretation bias which also remains a limitation. A future researcher should use a larger sample drawn from organizations operating in diverse industries or sectors along with quantitative methods to collect and analyze data. A future research should also link the topic with convergence or divergence discussion and assess the HRM practices in Pakistan by issue of effects of Pakistani national culture on HRM.

References


