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&
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Sarhad Journal of Management Sciences (SJMS) is the 2nd academic and research journal of Sarhad University of Science and Information Technology, Peshawar, Pakistan. The journal has an established peer-review process for quality evaluation. The journal is published twice a year. It welcomes academic and research contributions from scholars, researchers, and academicians across the world in the discipline of Management Sciences.

Objectives of the Journal
The Journal has the following objectives:

- ► To provide a platform to scholars, researchers, and academicians for sharing and enriching their knowledge;

- ► To contribute in the promotion of research culture in the country;

- ► To explore new vistas in the field of Business and Management;

- ► To facilitate scholars and researchers in their research endeavours to contribute quality research and to publish their ideas, results and findings; and

- ► To promote quality research culture compatible with international standards.

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The journal solicits research work related to the discipline of Business and Management. The journal welcomes unpublished, original research papers, review papers, research survey and even tutorials. Authors are responsible for the reliability and validity of the contents of their research work. Editors and publisher are not accountable in this regard.

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MESSAGE FROM PATRON IN CHIEF

Sarhad University of Science & Information Technology has since long dedicated itself to imparting high quality education and engaging in purposeful research. All its educational programs are designed to enable the faculty and students to develop and polish research skills in their respective areas of specialization. In the area of academic research the University has been facilitating its researchers to participate in research related activities inside and outside the university. The purpose of this facilitation is to create, disseminate and then apply knowledge. This will help them in developing their critical, analytical and logical thinking, and knowledge of societal matters. Keeping this in mind, the university started its own research journal—Sarhad University Journal of Basic and Applied Sciences (SUJBAS). This was a multi-disciplinary research journal and was accepting quality research papers from diverse disciplines. However, the trend of specialization in research, in general, and in the business education in particular, made it imperative for us to have a separate field-focused journal. The Sarhad Journal of Management Sciences (SJMS) is the outcome of this thinking. The editorial board of the Journal is represented by reputed researchers/ academicians around the globe. The time is not far away when this journal will be recognized as a forum for learning and exchanges of ideas in business education. It is hoped that Sarhad Journal of Management Sciences would nurture a culture of critical academic research. Finally, I want to thank my editorial board for their tireless contribution and efforts to make this journal a reality. Thanks to all the reviewers, who spared their invaluable time for peer review of all research papers included in this journal.

Prof. Dr. Salim-ur-Rehman
(Patron-in-Chief)
Sarhad Journal of Management Sciences (SJMS)

Sarhad Journal of Management Sciences (SJMS)

MESSAGE FROM EDITOR IN CHIEF

It gives me great pleasure and honor to welcome you to the Sarhad Journal of Management Sciences (SJMS). It is my expectation this journal will give our field an academic voice and a venue for research that will enhance our critical and intellectual understanding of business education-related issues. Ultimately, as any academic endeavor must begin and end with the interests of enriching the existing knowledge in mind, I believe Sarhad Journal of Management Sciences (SJMS) will play its role appropriately. The Journal is, therefore, the ideal venue for the discussion of quality research in our field. In this way, we hope we will be able to fill an important academic niche. As such we welcome and encourage submission of quality original academic research focused on a wide range of business related issues. We are honored to share the work of so many committed and thoughtful people. We appreciate your support and are so happy to have you as a contributor and reader of our journal. The journal editorial team is committed to maintain a high international and scientific standard by publishing original articles of research in order to establish the journal as one of the informative journals in business education. The journal editorial board appeals to all researchers globally to contribute genuinely to advance the task of our journal in order to serve the academic community. We are looking forward to receiving your submission of articles, reports and notes.

Dr. Wali Rahman

(Editor-in-Chief)
Sarhad Journal of Management Sciences (SJMS)

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HUMAN RESOURCE DEVELOPMENT, PUBLIC ADMINISTRATION AND THE NEED FOR REFORMS: A CASE OF PAKISTAN'S PUBLIC SECTOR

Dr. Zekeriya Nas, Associate Professor, Yuzuncu Yil University, Van/Turkey
Email: idilbret@hotmail.com

Dr. Wali Rahman, Assistant Professor, Sarhad University of Science & IT, Peshawar.
Email: wali.ba@suit.edu.pk

Dr. Haji Rahman, Assistant Professor, Preston University, Islamabad
Email: haji616@yahoo.com

Abstract

Keeping in view the complexity of work environment in the changing organizational environment caused by advancement in technology on the one hand and the diverse needs of the a rapidly growing population on the other hand, the role of training and development becomes more stark in terms of quality and quantity both. Training and development as an HR activity enables organization members to capture knowledge and skills required for their effective performance. It also helps them to adapt to changing circumstance and to shoulder new responsibilities. Needless to say, this recognition of training by the government and management experts in the country, the approach toward this concept in the public sector service appears to be of mere waste and ruse. This paper is supposed to look into the concept of manpower training and development in the quality of service in the public sector of Pakistan so as to have some in-depth understanding of the problems being faced. The study will be recommending some recommendations as to how improvement could be affected.

Key Words: Administration, human resource development, reforms, bureaucracy.

Introduction

The field of development administration got attention in the 1950 due to the practical needs of administrators and academics who felt the demands for action and explanation in the face of concrete phenomena and operational necessities (Hess, 1995). The phenomenon of globalization of the world economy has necessitated the transformation of societies through the process of development. The traditional approach to development was questioned and the need for a more holistic approach to development was severely felt (Stiglitz, 1998). With this in mind, the conceptualization of development was broadened. From mere infrastructural development it transitioned to develop-ment in all aspects. Development, is now, a deliberate effort to build or strengthen institutions, with the end to enable them to manage public services and design good policies (Natsios, 2010). To affect all these, the role of state has got more intensified in terms of both quality and quantity. If state wants to successfully dispense away with this responsibility, the development of administration is essential for it

ensures the equitable distribution of public goods and incentives and sustains the economic institutions--the prime tasks of welfare regimes.

Therefore, it is of prime importance to understand the politics--as development seen as a political process and not a technical one. This requires the intervention of a legitimate state with will and capacity to bring it about--which determine how development administration, HR development, and public sector reforms are brought about or hindered.

Administration has a very critical function of facilitating and supporting all the organs of any organization to ensure the implementation of policies in letter and spirit. According to organizational model organizational mental products or outputs are the results of bargaining and interactions among different players and stakeholders. These players have different objectives and interests that influence the overall organizational milieu in different degrees. Therefore, one has to be cautious about jumping at the conclusion that organizational outputs are only caused by calculated decisions by management. Effective administration is the one that helps to minimize the conflict and engender cooperation among the players. However, effective administration can only be manned with experienced and trained personnel which in turn are the output of training institutes in a country.

The Role of Training Institute

The importance of training institutes has widely been acclaimed given the growing complexity of organization environment in the presence of advancement in technology and the relative importance of stakeholders/ customer. These institutes are supposed to help organizational HR assets to have the required potential for performing their assigned jobs effectively, enable them to adapt to the fluid organizational conditions and betterly dispense away their new responsibilities (Jones, George, & Hill, 2003). In case of Pakistan this need was realized in the very early years of the country life. The system in vogue is primary a colonial legacy and has been questioned largely. Therefore, it was realized that the administrative system could not meet the expectations of the new nation. The need for "this fundamental reforms in the administrative machinery of Pakistan was expressed in the First Five Year Plan (1955-60)" (Jadoon & Jabeen, 2006, p. 121).

To affect that on the desired lines training of the administrators was thought highly imperative. And in this way the need for pre-entry and in-service training of civil servants and public administration education was recognized. In this regard the United States extended technical assistance in setting up a number of training institutes for education in Public Administration. And by the mid of 1960s some 06 training institutions were fully operational for public administration education.

During this helping process, American professors, consultants, and some American educated Pakistani administrators and academicians got involved and through this way American style of affecting public administration attracted the attentions of managers in these institutions. This influence can be gauged from the fact that in the 1960s,

"public administration was the major category in the technical assistance program of the United States, which aimed at improving the administrative capability of developing countries" (Jadoon & Jabeen, 2006, p. 123).

However, despite the proliferation of universities offering degrees in Public Administration and the establishment of various training institutes for in-job trainings, the service delivery of public sector is as poor as it was. This connotes that despite the recognition and importance of training institutes and public expenses on these institutes, and the claims by the managements of these institutes in their various reports, the experience of manpower training and development in the public sector of Pakistan happens to be more of ruse and waste. Therefore, there is a need to examine the quality of public service affected by the manpower training and development and to understand the issues that are faced.

Bureaucracy in the Change Process

Pakistan has acquired a bureaucratic legacy from the Britain and has since remained a bureaucratic polity. "Both civil and military bureaucracy occupies most powerful position in the political system of Pakistan. Bureaucratic elites, military and civil, have directly and indirectly ruled Pakistan throughout its history as an independent nation" (Jadoon & Jabeen, 2006, p. 133). Countries where bureaucracies rule are subject to stern regulation in knowledge creation and dissemination and do not encourage intellectual endeavors outside state control. It has been observed that academicians and universities have very strong opposing point of view vis-à-vis the bureaucracy as the latter enjoys authoritarian psyche. In this milieu the generally perception is that the authoritarian nature of the country bureaucracy is considered the main reason of hindrance of bringing any positive change process in the status quo.

The Bureaucratic Politics Model (BPM), defined by Allison (1969), is considered one of most referred to decision-making perspectives and has great relevance with change process. The focus of the model, in terms of public sector, can be paraphrased as whatever we see in the bureaucracy is the consequence of give and take and interactions of interests amongst the interest groups with different degree of influence. Thus change can only be affected either if one group interest dominates the rest or in ideal case if there happens to be some congruence among the interest group.

In this model the bone of contention is: pursuing narrow self-interest by the bureaucratic agents which determines the directions of the national policy formulation. The result is a vast variation among public policies from state to state. Whatever the case may be, the output is definite: the more the number of the players with efforts to maximize their self-interest the more directionless national policy seems to be. From this one can conclude that formulation of any national policy seems to be a distant reality.

The Politics of the Bureaucracy

In such situation the critical element to understand is to the dimensions of national politics and its implications for overall development of the nations. To further understand the politics of bureaucracy one has to recognize the existence of *two distinct but related levels.* And according to Lindner and Rittberger (2003) here politics and maneuvering over policy formulation occurs. These levels are:

a) The first level is concerned with the creation of the institutions (*rules of the game)*; and
b) The second is concerned with the operation (*games within the rules)*.

(a) The first level is the formulation of rules. These rules are formally expressed in office manuals that are fundamental for any decision from minor to major. However, the rules involve much more than the formal office manuals. There exists wider "*informal* institutional aspects expressed in the culture, political culture and ideology which can have a critical part to play in maintaining, preventing or undermining the consensus and adherence to the formal rules" (Leftwich, 2008, p. 7). For example CSS culture, PCS culture, rank culture, union culture, etc. Researchers (Helmke & Levitsky, 2004; Lauth, 2000) consider them part of the rules of the game. It is to be remembered and one has to recognize that it this level which, in essence, establishes the 'regime' type: here the "basic processes are constituted which pertain to the formation, maintenance and enforcement of the institutions and standard procedures for conducting politics...administrative and judicial institutions which will facilitate growth and development" (Leftwich, 2008, p. 9). It is here that desired changed is affected. By analyzing bureaucracy in Pakistan it seems to be happy with the status quo as it protects their interest of more perks and privileges with fewer responsibilities. After all what is the need of shaking it and bringing change?

(b) *Games within the rules*: This occurs on daily basis in diverse debates and dialogues over the issue of policy as theory and policy as practice (Leftwich, 2008). This sort of bureaucratic politics is predictable in outcomes and does not cause major structure change. This sort of politics can be observed in the red-tapism and the bureaucracy seems to cherish it.

Pakistani bureaucracy has many salient features. One among them is its unwanted preference for generalists (Kennedy, 1987). The perks and privileges that this cadre (includes Civil Service of Pakistan (CSP) and the District Management Group (DMG) has been enjoying since long are the driving forces that lend the required blood for its sustenance. This cadre, in majority cases, occupies top positions in the state machinery at both provincial and federal levels and other state-owned corporations. This issue of the role of professional versus generalists had a burning issue and has come under discussion in the First Five Year Plan. The decision came out of this debate was in favour of the generalists and it was decided not to eliminate the generalists. However, a glimpse of change was observed when it was also decided to give due importance to the professionals. The generalists, therefore, were successful in retaining their preeminent positions till today. On the other hand the professionals have been found

less active in snatching any prominent position in the bureaucracy. The general psyche in this regard is that the generalists and the elitists bureaucracy in the top policy in no way would allow any entity in the federal as well as in provincial secretariats to change the rule of the game and let the professionals to have a tool-oriented and professional discipline of Public Administration. It was because of such reasons that discipline of Public Administration has never been in good books of the bureaucracy.

The Politics of Development

Development by analysis is a transformative process (Stiglitz, 1998). And "*the politics of development* is about changing not only *how* resources are used, produced and distributed, but also about how decisions are taken about such changes and about the politics which sustain, implement and extend them*" (Leftwich, 2008, p. 10). Leftwich (2008) sums up the political nature of development in two simple propositions:

- *"When people change the way they use, produce and distribute resources, they also change their (social and political) relations – relations of power - with each other"*; and
- *"When people change their political and social (power) relations with each other, they usually change the way they use, produce and distribute resources"*.

The problem in development countries is the absence of any established rules of the game which encourage making developmental choices and formulating developmental strategies. Furthermore, the existing institutions do not promote growth and development (Leftwich, 2008).

What Determines Players' Interests?

While looking into the difference between what the bureaucratic system was supposed to do and what actually it has been doing since long, one finds an array of disturbing, and at the same time interesting, questions like "what happened"; "why it happened"; and "how it happened". However, if one wants to give one sentence answer to these questions it can be summarized that it is story of good intentions—accountability and transparency—gone bad. The consequences of these counter-bureaucratic trends explain a great deal about why bureaucracy in Pakistan has been designed the way it is. This journey of compliance and bureaucracy "gone bad" is neither a single person's effort nor a one-time act. There are a number of players like persons involved, culture, and power structure relationship and the time the journey has taken. They can be summarized below:

► Individual attributes of players

- Personal goals (including unassociated political considerations)
- Personalities
- Views of the "national interest"

► Parochialism – "where you stand depends on where you sit"

- ▪ Concern for welfare/perpetuation of bureau colors goals
- ► Sense of service to superiors and charges

It will not be out of place to mention Wilson (1989) four types of bureaucracy:

- **P**rocedural **organization:** In these organizations managers observe only the process and are not concerned with the result or outcome of the process.
- **Craft organizations:** In these organizations the activities of the employees are hard to observe but their outcomes are relatively easy to evaluate. Military Accounts Department is a good example of such organizations which this paper addresses.
- **Coping organizations:** In these organizations the outcomes cannot be observed.
- **Production agencies:** In these organizations there are observable outputs and routine work processes, laws, and regulations.

The story of Pakistani bureaucracy is a history of worse routinization. There hardly seems any development within its rank and file. One can observe diverse forms printed some 50 years back, with the same obsolete working procedure. It appears to be a marvelous example of apprenticeship. The input of officer esp. the CSS cadre can hardly be observed. The lower and lower middle level operators are the de facto decision makers. The higher level bureaucracy is simply a stamp body. The concept of organizational development neither peeped into nor there seems any sign of such change intrusion. It is important to explore how this obsolete system persists? Why routinization is preferred over change/organizational development? It may be called a story of "good intentions" that benefit less and cost the public exchequer more.

Challenges and Opportunities

Public administration is, no doubt tasked with a huge responsibility. Public sector universities as well as private sector universities have been offering diverse programs in public administration. At the same time Govt. has been encouraging scholars for research in the field of public administration. Public administration in Pakistan is recognized as a management discipline. The Higher Education Commission of Pakistan treats Public Administration under the category of management sciences.

The greatest challenge to the public administration today, is the restoration of not only diminishing but almost the diminished trust of the common man on its capacity to deliver. This erosion of trust has caused a serious dint in the public-state relationship. The rising militancy, regionalism, sectarianism, unrest within the rank and file of the public are the products of failure of state machinery and public administration is soul of the state machinery. The role of the universities prior to the job stage and training institutes during the job has to be quantitatively and qualitatively strengthened.

The second challenge is the weak moral education and no emphasis on nationalism and state-hoodship. No doubt technical education is essential, however, until and unless it is controlled and directed by the moral education, consequences have always been found disastrous.

The third challenge is the existence flaw in the power syndrome. The common adage of power corrupts and absolute power corrupts absolutely happens to be very true. Power thirst is a very common phenomenon within the human psyche. But when one gets unlimited power, its judicious use becomes the test of one's technical and moral nerves. The absence of any control mechanism causes serious damage to the person's integrity, trust, honesty and service delivery responsibility.

The country has a history of experimentations with the devolution plan under which it is generally presumed that power will be shifted to the newly established either basic democracies or district governments and local bodies provides a great opportunity for growth of Public Administration as an academic and professional discipline. Looking into the need of expert public administration experts, one can easily conclude that that these experts with the required skill of management and are fully educated to safeguard and protect the democratic values can provide the new local government institutions with an unprecedented human capital needed for the successful implementation of the devolution plan. Such a blend of managerial skills and sensitivity to public interest could only be provided if training institutes are strong and up-to the mark for provision of the desired training.

The rising non-profit sector in Pakistan also provides tremendous opportunity for growth and demand of trained personnel. Universities and training institutes are required to design programs which may prepare their graduates for this expanding sector. Once the public sector universities and training institutes create their niche in the job market, private sector universities will definitely respond and will most likely initiate them. To reach this stage, the government has to play its role by recognizing and appreciating the importance of public training.

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THE CHOICE OF GOVERNING MECHANISM
AN ORGANIZATION ECONOMICS PERSPECTIVE

Zia Ullah, Assistant Professor University of Central Punjab, Lahore
Email: dr.ziaullah@ucp.edu.pk

Dr. Muhammad Zeb Khan, Sarhad University of Science & IT, Peshawar
Email: zebkhan.ba@suit.edu.pk

Abstract

Organization economics, with its two main strands of transaction cost economics and agency theory, primarily deals with the question of how organizations emerge and survive. It focuses on the analysis of competition within hierarchies (organizations) rather than markets and addresses questions such as why organizations exist, how they are managed, why some perform better than others, and why they tend to cooperate. This study attempts to juxtapose other relevant perspectives and organization theories to bear on the same questions. The purpose is to understand where and how organization economics and other perspectives converge and diverge. The study depends on the work of famous scholars contributing to various perspectives for drawing conclusions.

Key Words: Transaction cost economics, agency theory, organization theory

Introduction

Modern organizations are complex and managers require a good deal of understanding to properly manage them. Not only are organizations complex but have to satisfy different stakeholders with (most often) conflicting goals. Both academicians and practitioners have come up with various theories and perspectives to facilitate better understanding of how organizations come into being, how structural and cultural characteristics affect their performance, and why some of them eventually decline and die.

Organization economics is concerned with the question of how organizations emerge and survive. It deals with the analysis of competition within hierarchies (organizations) rather than markets. For organizational economists, organizations exist in "seething caldrons" of competition where individuals, institutions, and governments all seek to obtain some part of the success that a particular firm may enjoy (Moran & Goshal, 1996). As a distinct perspective, it attempts to answer such questions as:

i. Why organizations exist?
ii. How firms should be managed?
iii. Why some organizations perform better than others?, and
iv. Why organizations tend to cooperate?

The economists Coase (1937) and Williamson (1975) explored the question by focusing on the transaction costs that are incurred in exchange relationships. Transaction cost theory, a variant of organization economics, explores the question of why organizations exist. In his influential article, "the nature of the firm", Coase (1937) argued that negotiating, writing, and enforcing exchange contracts are costly. If there is uncertainty, firms must collect information on the value, price, quality, and availability of resources. A firm or organization may decide to reduce these costs by producing the resources itself or acquiring them from other firms. In other words, the reason for existence of firms is their ability to reduce cost of certain transactions. According to Williamson (1975), markets and hierarchies (governance mechanisms) are alternative instruments for completing a set of transactions. In general, mark forms of governance rely on prices, competition, and contracts to keep all parties to an exchange informed of their rights and responsibilities. Hierarchical forms of governance, on the other hand, bring parties to an exchange under direct control of a third party. These authoritative third parties then attempt to keep all parties to an exchange informed of their rights and responsibilities. Economic actors choose that form of governance (market or hierarchy) that reduces any potential exchange problems created by bounded rationality or the threat of opportunism.

The second stream of research within organizational economics, typified by agency theory, relates to answering the question of whether those associated with the firm agree about how it should be managed.

The agency theory, originally developed by Meckling (1976), focuses on the relationship between managers and stockholders. According to this theory, agency relationship occurs whenever one partner in a transaction (the principal) delegates authority to another (the agent) with the welfare of the principal affected by the choices of the agent. The delegation is problematic in that: (a) the interests of principal and agent will typically diverge; (b) the principal cannot perfectly and costlessly monitor the actions of the agent; and (c) the principal cannot perfectly acquire the information available to or possessed by the agent. These conditions constitute the possibility of opportunistic behavior on the part of agent against the welfare of the principal. Assuming that agency costs exist, it is clear that both the principal and the agent have strong incentives to minimize these costs. Thus, the principal and the agent have common interests in defining a monitoring and incentive structure that reduces outcomes as close as possible to what would be the case if information exchange were costless. The two sources of agency problems are the moral hazard and adverse selection on the part of agent.

The Strategic Management Theory developed by Porter (2008) addresses the question of why do some organizations outperform others. Porter has developed the five forces model of environmental threats and identified strategies to reduce such threats. The threats are: threat of rivalry, threat of substitute, threat of suppliers, threat of buyers and the thread of new entry. These threats either reduce the revenue of the firm or increase the cost the firm. Porter (2008) has identified different strategies to reduce these threats

like exploiting economies of scale, differentiating products, and lobbying imposition of barriers to entry.

Cooperative Organizational Economics relates to collusion and strategic alliance of different firms in order to possess a monopolistic position or to enhance efficiency (Axelrod, 1984). A set of firms is said to be colluding when they cooperate to reduce the total output of products or services in an industry below what would be the case if they were competing in that industry (Bensaou, 1999). The collusion may either be explicit or tacit. Strategic alliance, on the other hand, is aimed to exploit resource complementarily. The resources controlled by two or more firms are complementary when their economics value combined is greater than their economic value separately (Gulati & Singh, 1998). There are two broad classes of strategic alliance: Contractual Alliance and Join Venture. The purpose of contractual alliance is to develop, design, manufacture, market or distribute products or services and where a separate firm is not created to manage this relationship. This relationship is managed through some sort of contract. Unlike tacit collusion, the effect of contractual alliance is to increase economic activities, not to reduce economic activities below the competitive level. Joint ventures are also cooperative relationship with the purpose of developing, designing, manufacturing, marketing products or services. Unlike contractual alliances, joint ventures always involve the creation of a separate firm to manage this relationship (Heide & John, 1990).

Insight from other Perspectives

The rational perspective, developed by classical economists (such as Adam Smith) and sociologists (such as Max Weber), is the most widely accepted and the one with the most compelling arguments concerning the origins of organizations. It attributes the emergence of organizations to the division and coordination of labour. Division of work implies that different people perform different activities because of the need to apply special skills to tasks for improving efficiency (Greif, 1995). And to the extent that the various skills required are of differential complexity, variable incentives structures evolved. Weber placed great emphasis on technical expertise and a fixed division of labour among officials (Weber, 1922). When work is divided, someone must oversee and coordinate the division so that each activity is rationally linked to the principal goal in addition to fixing responsibility for failure. In other words, horizontal division of labour is usually accompanied by a vertical hierarchy that provides oversight and thus organization comes into being (Smythe, et al., 2000).

The human relations perspective, developed and promoted by scholars such as McGregor (1960), Barnard (1938), and Eltan Mayoinsists that organizations are cooperative systems that have come into existence because of the limitations of individuals. The organizations rely on the willingness of participants to make contributions. A variety of incentives can be used to induce participants including material rewards, opportunities for distinction, prestige, and power (Mitchell & Lason, 1987). According to Chester Barnard, formal organizations arise out of and are necessary to informal organizations but when formal organizations come into

operation, they create and require informal organizations. In formal structures facilitate communication, maintain cohesiveness, and promote willingness to serve the organization.

The contingency perspective, which is based on the work of Lawrence and Lorch (1967) and Woodworth (1965) who argue that appropriate managerial action and organization design depend on the particular parameters of the situation. As opposed to rational approach, which seeks universal principles to be applicable to every situation, contingency theory attempts to identify contingency factors (e.g. organizational size, strategy, competition, and technology etc.) that prescribe an appropriate design and action (Luthans, 1973). In other words, there is no one best organizational form or decision but many, and their suitability is determined by the goodness of fit between organizational form and environment or a particular decision and situation (Lawrance & Lorsch, 1967). Similar to the contingency perspective, transaction cost theory (a version of organizational economics) argues that markets and hierarchies are alternative instruments for completing a set of transactions. The economic actors will choose that form of governance (contingency) that reduces any potential exchange problems created by bounded rationality and the threat of opportunism.

According to Neo-Marxist perspective, organizations are social structures that protect and further the interest of the capitalist class (Braverman, 1974). Since the capitalist cannot personally supervise each task directly owing to physical, mental, or time constraints, he has to develop control mechanism in the form of organizational hierarchies and formal rules. The agency theory has an alternative explanation for the emergence of hierarchy and other control mechanisms. According to agency theory the delegation of authority from principal to agent is inevitable (cognitive and time constraints of the principal) but problematic in that the interests of principal and agent will typically diverge. Thus, the principal and agent have common interests in defining and monitoring and incentive structure that produces outcomes for less agency costs.

Another useful perspective for understanding organizations is the resource dependence approach. It means that organizations depend on the environment but strive to acquire control over resources to minimize their dependence (Pfeffer & Salancik, 1978). Organizations are vulnerable if vital resources are controlled by other organizations, so they try to be as much independent as possible. Organizations seek to reduce vulnerability with respect to resources by developing linkages with other organizations (Scott, 1981). Organization linkages require coordination which reduces the freedom of each organization to make decisions without concern for the needs and goals of other organizations. Dependence on shared resources gives power to other organizations. Organizational economics views the acquisition of resources from the environment as necessary for survival and organizations try to control resources by entering into strategic alliances with others. Porter (2008) developed a powerful model that firms use to choose and implement strategies that will generate above normal economic performance. Porter identified five set of threats to the profits of the firm in an industry: the threat of rivalry, the threat of entry, the threat of substitutes, the threat of suppliers and the threat of buyers.

All these threats act to either reduce a firm's revenues or increase its economic costs. The firm profits can motivate entry from at least two sources: from firms entering an industry from the outside, or from firms that are already in an industry entering into a new segment of that industry. According to institutional perspective, just as organizations need efficient production to survive, they need legitimacy from the stakeholders as well (Meyer, & Rowan, 1977). It describes how organizations survive and succeed through congruence between an organization and the expectations from the environment. This view believes that organizations adopt structures and processes to please outsiders, and these activities come to take on rule-like status in organizations (Meyer, & Scott, 1983). Thus, according to the institutional perspective, organizations have two essential dimensions—technical and institutional. The technical dimension is the day to day work technology and operating requirements. The institutional structure is that part of the organization most visible to the outside public. The technical part is governed by norms of rationality and efficiency, but the institutional dimension is governed by expectations from the external environment (Meyer & Rowan, 1990). Organizations adapt to the environment by signaling their congruence with the demands and expectations stemming from cultural norms, standards set by professional bodies, funding agencies, and customers.

According to the network perspective, many organizations now occupy a middle ground between markets and hierarchies that are referred to as network organizations (Hamilton, 1986). Network organizations are temporary alliances, arrangements, or agreements designed to combine the core competencies and capacities of different firms for the purpose of research, design, and production for a particular market (Powell, et al., 1996). The network is characterized by cooperation, collaboration, and the sharing of information. The network reduces the problem of sunk costs in capital, inventory, and labour (Uzzi, 1997). Organization economics does not advocate any particular governance mechanism. According to transaction cost economics (a stream of organization economics), the choice of any governance mechanism (market, hierarchy, network) primarily depends on the cost of transaction which is affected by many factors including cost incurred on breach of contract and frequency of transaction.

Table 1: *Various perspectives on organization*

Questions	Organization Economics	Rational Perspective	Human Relations Perspective	Contingency perspective	Neo-Marxist Perspective	Resource Dependence Perspective	Institutional Perspective	Network Perspective
Why organizations exist?	To reduce costs and monitor performance	To achieve specific goals and enhance efficiency	To achieve complex (formal and informal) goals	To serve different stakeholders	To serve capitalist interests	To acquire valuable resources	To satisfy the needs of internal and external environment	To capitalize on the benefits of interdependence
How firms should be managed?	Through formal controls and norms	Through structural controls	Through cultural controls	No best approach—it depends	Through collaborative and cooperative mechanisms	Through internal cooperation and external competition	Through strategic fit	Through strategic alliances
Why some perform better than others?	Cost reduction	Best practices	Teamwork	Best fit	Shared benefits	Capitalizing on rare and valuable resources	Increased legitimacy through isomorphism	Flexibility
Why organizations tend to cooperate?	To achieve economy of scale		Organizations are embedded in society		To acquire more powers	To leverage on others strengths	To be considered part of the whole community	Norm of reciprocity prevails

Discussion and Conclusion

There has been a proliferation of literature on the choice of organizational forms from the perspective of Organization Economics (OE) where the underlying argument is based on efficiency. According to OE, some forms of governance (market, hierarchy, and network) are better in terms of transaction costs than others. Organization Economics, with its two main streams—transaction cost theory and agency theory—implicitly assumes that markets are efficient due to scale of economies, specialization, administrative costs and incentives (Boerner & Macher, 2001). But because contracts are incomplete due to future uncertainty and weak legal systems, markets may incur additional costs which leads to the firm becoming a cheaper alternative (Leiblein, 2003). However, hierarchical governance provides weaker incentives for performance because of team work (Leiblein, 2003). But there are then agency costs associated with hierarchy form of organization because of opportunism and asymmetry of information. Organization Economics, therefore, has been and will continue to be an important set of theoretical tools for the analysis of organizational phenomena. It addresses some of the most fundamental issues in organizational research and complements other theories of the firm to fully explain how organizations actually work. It, though, provides a useful lens through which various forms of organizations, is complete in all ways. A more useful approach toward building a science of organization would be to integrate legal, economic, sociological, and institutional perspectives. Focusing on any single perspective, however powerful it may be overshadows much of the empirical regularities thereby limiting its capacity to guide practice.

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COMOVEMENT BETWEEN PAKISTANI EQUITY MARKET AND BRICS COUNTRIES: AN INVESTIGATION THROUGH CO INTEGRATION ANALYSIS

Zahirullah, PhD Scholar, University of Peshawar
Email: zaheer1854@gmail.com

Adeel Rahim, Lecturer Sarhad University, PhD Scholar, University of Peshawar
Email: adeel.ba@suit.edu.pk

Abstract

This study is conducted to check the co-movement between the equity markets of BRICS countries that is Brazil, Russia, India and China with Pakistan. These countries are selected because they are world emerging markets. Co-movement is checked through co-integration analysis. Ten years monthly stock indices are taken for analysis that is from July 2006 to June 2016. No cointegration is found between Pakistani equity market and the BRICS countries. So, this favours the international portfolio investors. Furthermore, Brazilian market is found to be the most attractive market for the portfolio investors in order to maximize their wealth by minimizing their risk levels. The future research can be extended by using high frequency data in order to check the comovement and cointegration.

Key Words: Comovement, cointegration, BRICS, equity markets, ADF, financial risk, diversification

Introduction

No country is self-sufficient; every country depends on one another in way or another. The changes made in modes of trade and business has raised many options and opportunities to the investors to maximize their wealth. There are many factors involved in the advancement of trade, business and investment. Some of the factors responsible for the advancement of the business include technology, trade reforms, political and economic interests and the interdependency on one another. The various trade agreements, trade liberalization and economic integration between various countries have opened doors for the investors to invest across borders in order to take advantages from the investment opportunities. All this allow investors to diversify their investments in order to increase their profits with the minimum level of risk taken. Co-integration is a statistical term which is a property of time series variables.

BRICS Countries and Pakistan

The concept of BRICS was first coined by Goldman Sachs (2001) in his research paper. He said that BRICS countries that are Brazil, Russia, India and China will play a key role in the world's economy in the future. In another paper in 2003 by Goldman Sachs, tried to predict the future of world economy over the next 50 years. In that paper it has been predicted that BRICS countries would be key players in world's economy. It is forecasted that BRICS together will have greater economy than the Group of

Six(USA, UK, France, Germany, Japan and Italy) of the world in not more than the next 40 years. It has also been forecasted that over the next 50 years of time span only US and Japan can defend their position to be in the Group of Six. This situation will be only due to the emergence of new markets. According to the paper BRICS countries have many problems especially the infrastructure and their political situation.

Today we clearly see that the predictions made by Goldman Sachs (2001) are on its way to be proved. BRICS are gaining its importance economically as well as the politically. Few achievements they made over the last few years or so include the joining of World Trade Organization (WTO) by China in 2001, a step towards modernizing its industries. Brazil has gained tremendous momentum in lifting its economy over the last few years. Brazil joined strategic partnership with its two other members that is India and China.

Purpose of the Study

Purpose of the study is give guideli**nes** to the policy makers, academia and investors to invest in markets which suit them well. The study will give all the stated parties an edge over the others while considering these countries for policy, research and an investment purpose. The objective of the study is to examine and verify the co-movement between Pakistan stock market and markets of Brazil, Russia, India and China. They are collectively termed as BRICS countries and are the emerging markets of the world. To check the co-movement through co-integration analysis is also an objective of the study. The study will contribute in the field of investment and trade, policy making and further research. The study will give guidance to the portfolio investors to minimize their risk and maximize their wealth. This paper consists of mainly four chapters. The first chapter is the "Introduction". Second chapter is about the work done in the related field in past that is the "Literature Review". Third chapter defines the "Methodology and Data Analysis" and final chapter is the ultimate "Conclusion and Suggestions".

Literature Review

Number of studies have been undertaken to analyze the comovments amongst different stock markets. Tahir and Sabir (2013) inquired the relationship between developed markets and South Asian Markets and their impact on Karachi Stock Exchange (KSE) Pakistan. They analyzed the data from July 1999 to June 2011 for four major South Asian Markets and four developed markets. They used correlation, unit root, and Granger Causality and co integration and found no relation amongst the developed markets and South Asian markets under correlation test whereas they stated that India and US markets are correlated. They further found a strong relationship between Karachi Stock Exchange and Chinese Stock Exchange under Granger Casuality test. They suggested the managers that KSE shall be included in developed market portfolios as KSE has no cointegration with the developed markets. So, they suggest the investors to invest in South Asian Markets as it will be beneficial in minimizing the risk and maximizing their wealth.

Chang, Nieh and Wei (2006) conducted a study to check a long term equilibrium linkage between Taiwan's equity market and the four developed European markets of France, Germany, United Kingdom and Netherlands. Chang et al (2006)analyzed the data and concluded that there is no cointegration after testing the four pairs of statistical tests that are PO, HI, JJ and KPSS. With this result they said that Taiwani investors can take long term financial benefits by diversifying their portfolio and investing in the selected European markets. They said that these findings will help investors in the long run.

Camelia and Ilie (2012) conducted a study to check the impact of stock market variability on the economic activities of Romania and the reasons responsible for the crash of Romanian stock market in the context of correlation and co movement of stock markets. They checked the correlation and the co movement of Romanian Stock market with North American and European markets. Finally they said that Romanian investors imported the financial crisis by investing heavily in North American and European markets as a strong correlation and co movement was found amongst them.

Cheung et al., (2006) stated that structure of information is different in the crisis than in the non-crisis situations. This has been observed after the Asian financial crisis in 1997. They have checked the relationship amongst four East Asian markets and US market. After the analysis they said that it is the US market which leads the four Asian markets all the time that is before, during and after the financial crisis. They also stated that during the crisis time Japanese currency is responsible for affecting these four markets.

Chow, Huang and Niu (2012) applied regression and time varying correlation to check the integration amongst East Asian markets namely Korea, China, Hong Kong, Taiwan and Singapore and co movement with US market. Chow et al., (2012) found that integration has been increased amongst Korea, Hong Kong Taiwan and Singapore whereas integration of China has been increased since the opening of Shanghai stock market in 1990 and the US recent crisis has affected the economies of East Asian Countries. They have an interesting finding that despite the investment and trade relations Japan and US have not so close integration rather China's linkages has been increased with US.

Friedman and Shachmuove (2008) conducted a study in which they used VAR model by taking eight European countries daily returns and they find that UK, France, Germany and Netherland have strong linkages whereas the smaller markets are independent. They have further investigated that UK has 91% of innovations of its own and it is leading market, so it is not influenced by others whereas others are affected by the larger economies like Germany and France.

Worthington and Higgs (2007) have examined the relationship and integration amongst the Asian equity markets which include three developed markets that is Hong Kong, Singapore and Japan and eight emerging economies namely Korea, Malaysia, Philippines, Taiwan, China, India and Thailand. They tested unit root test, cointegration and Granger causality test on the data and stated that there is long term relationship amongst them. They added that they also have causal relationship. They

concluded that there is strong integration amongst the stated Asian markets just like European Union has it.

Busse, Goyal and Wahal (2009) examined the investment opportunities available for the US investors globally and came to the conclusion that due to many differences between the developed market and the emerging markets there is high level of variability in returns as well as the associated risk of the investment. With these findings they stated that it is harder for the investors to perform superior as compared to others.

Lucey and Muckley (2000) conducted a study and examined the short term as well as long run interrelationship between the Asian and European markets extended to the United States of America. They concluded that in short term Asian markets do not have that level of cointegration with European and US market as that between US and European markets. On other hand they concluded that Asian market have long run interdependencies with US markets and they further founded that this long run interdependencies are absent between US and European markets. So present their final remarks as that in long run correction are not informative from the diversification point of view. So they suggested US investors to take co integration into account rather than correlation if he has inclination towards diversification.

Ali et al., (2011) said that the key factors in arousing the interest of investors to invest in other stocks to subject of co-movement between the stocks of different countries is the increasing level of globalization. They conducted a study in which they had tried to investigate the co movement between Pakistani equity market and seven other countries which include U.S.A, U.K, India, Malaysia, Taiwan, Singapore, Indonesia and Japan. They investigated this through co integration test and monthly stock prices have been used for a period of ten years that is from July1998 to June 2008.They concluded that Pakistani equity market has no co-integration with the markets of U.S.A, U.K, Singapore , Taiwan and Malaysia. Here they have suggested the investor to invest freely and it will help them to minimize their risk and maximize their wealth. While Co-integration do exists between Pakistan equity market and China, Indonesia, India and Japanese equity market and the stock prices move together. So here the investor has very low chance of risk minimization while investing in these countries Stocks along with the investment in Pakistani equity market. During the data analysis they had tested the variables for the unit root to give order to the integration by employing Augmented Dickey Fuller statistics (ADF). After establishing the order of integration, co integration test was applied to predict (check) the long run relationship. Finally Granger Causality has been applied to check the short run relationship among the stock indices of different markets. The study shows that co integration vary with the selection of frequency of stock that is suing , daily, weekly, monthly ,quarterly stock indices/prices.

Trivedia and Birav (2013) said that financial crisis over the globe (1997, 2008 etc.) has inclined the interest of the research to work in this particular field that is theoretical and applied finance. Stock market is one of the most attractive areas for conducting an

applied research. Many policy makers, financial investors and academicians have provided many results by analyzing this issue. They investigated the co movements between the emerging and developed stock equity from the global financial crisis perspective. They took daily indices closing prices for the period of ten years that is from January 2003 to January 2013. They run series of integration test and found that co-movements, interdependency and inter-linkages do exists between developed and under developed equity markets .They found that the highest return payer country is Hungary and emerging stock market country with relatively high risk ratio is Romania. While among the developed equity markets France and Japan were found with highest return payer and having risk ratio. They used advanced level econometric models and technologies.

Aktan and Bulut (2008) conducted a research to examine the impact of corporate entrepreneurship on the financial performance of the firms in Turkey. The data taken for analysis include 2032 respondents of active 312 firms. They run multiple regression and confirmatory factor analysis to test the hypothesis. They found that there is a positive correlation between the tested hypotheses that is the innovativeness, risk orientation (level of risk taking) relative aggressiveness and proactiveness of entrepreneurs firms with the financial performance.

Ruxanda and Stoenescu (2009) tested bivariant and multi variant co integration and their applications in different stock markets which include stock exchange indexes from Romania, France and U.S.A. They have used stock prices daily. Dickey fuller and unit root test were used and they found that non stationary series were three and every series is of 1st order integration They also tested Engle Granger procedure and found that BAT(Romania stock series) and CAC40 (France stock exchange) are integrated. So finally they estimated the error correction model. So they found that around 2 % of the gap between the two series is adjusted every day. Finally they run Johansen procedure and concluded that co integration system is formed between the three series. Eventually they came to the conclusion that co integrated variables can be used to generate error correction model.

Zhou (2013) conducted a study of co movement relation between U.S.A, U.K, Japan and the Asian emerging markets and he found that there exists a common long term equilibrium relationship of some emerging markets with some developed markets. He also said the interdependency increase between the Asian emerging markets and developed markets after 1997 Asian financial crisis. Levy and Sarnat (1970) stated that one of the reasons for going for diversification internationally is that stock prices move together within a close economy where the investing cannot minimize their risk and maximize their wealth.

Grubel and Fadner (1971) said that the stock prices of both global and international move together and have no or weak relationship which results in higher gains and lower loss due to changes only in exchange rates. They further stated that co movement of stock prices across countries are not related due to different government setups, policies, Management, and economic dependencies. Sodie, *et al*. (1999) found that the

risk can be minimized if investors invest in unrelated stock and there are higher possibilities and securities across countries have low correlation. So investors can easily diversify their portfolio by investing in a cross countries securities.

Worthington (2003) checked the stock prices linkage of Asian markets for the period of January 1998 and February 2000. Six emerging markets of Taiwan, Indonesia, Thailand, Philippines, Korea and Malaysia and three developed markets of Japan, Singapore and Hong Kong. By using multi co integration analysis results. He has shown that there is lower causal relationship among the Asian markets so he suggested that investors can go for diversification in the Asian markets. Kawan et al., (1995) studied the markets of Australia, U.K, Japan, Hong Kong, Singapore, U.S, South Korea, Taiwan and Germany and came to the conclusion that these markets have lead-lag relationships. Ghosh, *et al.* (1999) found that there exist a long run equilibrium relationship between some of the Asian markets and some of the emerging markets. Singh (2010) came to the conclusion that Indian and Chinese markets have co integration with developed markets of U.S.A, U.K, Japan, and Hong Kong after the mortgage crisis of 2008 under the granger causality analysis.

Zhou (2008) found out that the Chinese markets has the highest return also with the higher risk level while India has the highest standard deviation. They showed that Indian and Indonesian markets have higher co integration with U.K. China has Co integration with U.S.A. Singapore has co integration with Japan and Philippines have co integration with Japan and U.K. So they have lower diversification opportunities among themselves. They found that after the Asian financial crisis in 1997 the positive correlations have increased among these countries so here investors have little chance to minimize their risk of portfolio.

Romana (2013) quantified the impact of global financial crisis on the emerging capital markets. They found out that the emerging capital markets have asymmetric volatility effects taking in account the fact that negative information has more intense and adverse effects than the positive information. BRICS economies that are Brazil, Russia, India and China have emerging capital markets and empirical analysis is based on this. They have used the methodology including unit root test, granger causality test, BDS test, and Augmented Dickey Fuller stationary test and Johansen co integration method. Romana (2003) stated that internationalization of capital emerging market have very deep implication with the 2007 global financial crisis that started from U.S. Wong, Perum, Terrell, and Lim (2004) found that there exists comovement between some Asian emerging markets and the developed where as some emerging markets differ from other developed markets where they have long term equilibrium relationship. They found that the co integration has been increased since 1997 Asian financial crisis, so, the advantage of diversification is adversely affected.

Methodology

Most of the studies have shown that most of the markets have co movements amongst them. Due to globalization, formation of trade blocks and trade and investment contracts between markets, have increased the opportunities for the investors all over

the globe. Researchers have shown that many markets have integration amongst them. Using correlation, unit root, and Granger Causality and co integration Tahir and Sabir (2013) found no relation amongst the developed markets and South Asian markets under correlation test whereas they found that India and US markets are correlated. They further found a strong relationship between Karachi Stock Exchange and Chinese Stock Exchange under Granger Casuality test. They suggested the managers that KSE shall be included in developed market portfolios as KSE has no cointegration with the developed markets. So, they suggest the investors to invest in South Asian Markets as it will be beneficial in minimizing the risk and maximizing their wealth.

The more the co integration or co movement, the less it is beneficial for the investors to diversify its portfolio. Here the motive of the investor is diversifying its portfolio and maximizing their wealth. If the co integration is low then it will be beneficial for the investors to invest in those markets. All this is backed by the portfolio investment theory which says that investors can maximize their wealth and minimize their risk through diversification that is by making a portfolio of investments rather than stick to just one type of securities or market. This means not putting all the eggs in a single basket.

Research Design

The research is quantitative as degree of co movement and co integration has to be checked amongst the selected markets. In quantitative research we have to deal with numerical data, explaining a phenomenon. Secondly various statistical tests are applied on the data to get the ultimate results. Here in this study the co movement has to be checked between Pakistani equity market and the four emerging markets of the world namely Brazil, Russia, India and China (BRICS) through co integration analysis. The co movement differs amongst the stock indices from time to time. This inconsistent behaviour is due to the selection of time period, the frequency of observation taken that is daily, weekly or monthly and the selection of stock markets to be tested.

Data Collection and Sample

The data type for the research is secondary one and is collected from the secondary sources. Websites of the stock markets under study and yahoo finance site are used for collecting the required data. Monthly stock indices are taken of each market from their websites and yahoo finance. The data consists of 120 monthly observations for the period from July, 2006 to June, 2015 for each. The reasons behind taking monthly indices not daily, quarterly or annual stock indices is that quarterly or annual data may result in false results when not compromising on the available degrees of freedom required in selecting appropriate lag structures (Patra, & Poshakwale, 2006). The following are stock market of the selected countries for the study.

Table 1   *Selected Countries and their Stock Markets*

Country	Index
Pakistan	Karachi Stock Exchange (KSE-100 Index)
Brazil	Brazil Stock Exchange (BOVESPA)
Russia	Russia stock market (MICEX)
India	Bombay Stock Exchange (BSE Sensex)
China	Hong Kong Stock Exchange (Hang Seng Index)
South Africa	Johannesburg Stock Exchange (JSE)

Specification of Variables

The variables to be tested are the degree of co movement and correlation of stock markets indices between Pakistani equity market and BRICS countries that is Brazil, Russia, India and China. Variables are formed in such a way that co-movement and co-integration is checked in the following sequence;

- Pakistan and Brazil
- Pakistan and Russia
- Pakistan and India
- Pakistan and China
- Pakistan and South Africa.

The data that is to be tested is taken from the stock markets websites and yahoo finance. The tests to be tested on the required data include unit root test, Engle Granger test and cointegration analysis. Data is normalized in two cases. Firstly logarithmic transformation is taken to check the stationarity of the data. Secondly natural logarithm is taken to check non-stationarity of the data for the co-integration purpose.

I)   *Log (P0/P1)*

II)   *Log (P1)*

Unit Root Test (ADF)

To check the long run relationship between Pakistan stock market (KSE) and equity markets of the BRICS countries. It is important to verify whether the data series is stationary or non-stationary. For this entire, augmented Dickey Fuller unit root test has been in use. It has the following model in mathematical form.

$$\Delta Yt = \beta 0 + \beta 1 Yt\text{-}1 + \beta 2 \Delta Yt\text{-}1 + \varepsilon t$$

$\beta 1$ is examined to check the stationarity of the data. Where

$$\beta 1 = \sigma\text{-}1$$

Co-integration Test

Engle Granger test is employed to check the co-integration between time series data of Pakistani equity market and BRICS countries markets. The data sets are said to be co-integrated if certain common deviation or drift is found amongst them. Linear combination of *Wt* and *Ut* must be stationary if they are co-integrated.

Mathematically;

$$Wt = \beta Ut \text{ - } Vt$$

So at first step all the data is transformed in logarithmic form then unit root test (ADF) is employed to check the data whether it is stationary or non-stationary. Then data is passed through co-integration test for which Engle Granger test is employed.

Data Analysis and Interpretation

After devising the methodology, the time series data is passed through many statistical tests. At the first step descriptive analysis is performed, after that, unit root test (ADF) is employed. At the third step after verifying the stationarity via unit root test the co-integration test is conducted by running the test of Engle Granger.

Descriptive Analysis

Descriptive statistics is performed after the logged transformation of the data for the selected markets.

Table 2 *Descriptive Statistics of the Selected Countries*

Country	Mean	Standard Deviation	Maximum	Minimum	Skewness	Kurtosis
Pakistan	0.0193	0.0732	0.2022	-0.2204	-0.6359	1.2893
Brazil	0.0265	0.0621	0.1445	-0.1215	-0.3267	-0.2846
Russia	0.0238	0.0763	0.1472	0.1821	0.6282	0.0300
India	0.0214	0.0744	0.1461	-0.1983	-1.0332	1.0784
China	0.0132	0.0556	0.1441	-0.1703	-0.6441	1.5934

Mean is the average value. Standard deviation is the level of risk. Skewness is the data distribution of the time series around the mean whereas kurtosis shows the peakness or flatness of the time series.

The table above shows the values of descriptive statistics in terms of mean, standard deviation, stocks maximum and minimum returns, the skewness and kurtosis of the time series. Mean is the average value of the time series. Brazil has the highest mean value and China has the lowest mean value. Russia has the highest level of standard deviation followed by India and Pakistan respectively. Skewness shows the normal distribution of the data. The skewness value for Pakistan, Brazil, India and China is negative which means that extreme values lies on the left and most of the values are clustered on the right side of the mean whereas Russia also has the same data distribution but with positive value of 0.6282 which is also less than zero. Kurtosis is a statistical term which shows the height or flatness of the data distribution. All the time series of the selected markets have values less than 3 which mean that normal distribution has wider peakness and is more flat than normal. Also, the extreme values have less probability and most of the data is concentrated around the mean. This type of distribution is termed as platykurtic.

Unit Root Test (ADF)

The Augmented Dickey Fuller Test is employed to check the stationarity of the time series.

Table 3 *Augmented Dickey Fuller Test*

	Level	
Indices	**With Constant**	**With Constant and Trend**
Pakistan	0.3186	0.9905
Brazil	0.9503	0.02795
Russia	0.7755	0.9306
India	0.972	0.4356
China	0.7964	0.8262

*The table presents P-value @ 5% significance level which shows stationarity of the series.

The above table is the result of the Unit Root Test (ADF) which shows that time series of all the selected markets are non-stationary with P-value greater than 0.05(5%) with constant at level. The time series is stationary for Brazil having P-value less than 0.05(5%) with constant and trend. Here H0 is rejected while rest of the series is found to be non-stationary. Means H0 is accepted and H1 is rejected.

Engle Granger Test

After running ADF test with the help of which we found whether the data is stationary or non-stationary, Engle Granger test is employed to check the cointegration amongst the markets.

Table 4 *Engle Granger Test*

Country	P-Value
Pakistan and Brazil	0.9263
Pakistan and Russia	0.2706
Pakistan and India	0.8207
Pakistan and China	0.8527
Pakistan and South Africa	0.9281

*Co-integration test showing P-value @ 5% significance level.

Analyzing the results of the Engle Granger output stated in the Table above, it can be inferred that step one tests the stationarity of KSE which shows that KSE time series is non-stationary. Step two shows that the time series of Brazil is also non-stationary. As a result of the cointegrating regression, it can be inferred that the regression residual is also non-stationary which shows that the two series are not cointegrated having P-value greater than 0.05 that is 5%. Similarly co-integration is examined for KSE and Russia. Results were the same for both series as cited above that time series of both the markets are non-stationary and the residual P-value is also greater than 5%(0.05) which means that no cointegration is found amongst them. Similar findings are found for the other two combinations that is no combination of time series found to be co-integrated.

Conclusion

After conducting the study regarding the co-movement between Pakistan stock market and markets of the selected countries namely Brazil, Russia, India and China through co-integration analysis by using their monthly indices, it has been concluded that Brazil has the highest returns where as Russia has the highest level of standard deviation. So, it is inferred from the analysis that Brazil is the most attractive market from the investment point of view for portfolio managers or investors where investors can minimize their level of risk and maximize their wealth. After analyzing the co-integration test of Engle Granger it has been concluded that Pakistan has no co-integration with any of the selected markets means that Pakistan is not co-integrated with Brazil, Russia, India or China. It is recommended for the Pakistani portfolio investors to invest freely in the selected markets without any hesitation as no co-integration is reported amongst them.

The research can be extended by examining the co-integration for the higher frequency (daily or weekly). The other area to extend this research is to examine the relation of Pakistani equity market with other markets. This study is supplement for the academia for further investigation of relationship amongst these markets by using different models and variables.

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AN ANALYSIS OF STUDENTS ACADEMIC PERFORMANCE: A CASE STUDY OF SARHAD UNIVERSITY, PESHAWAR, PAKISTAN

Rabia Shah, Assistant Professor, Department of Business administration, Sarhad University of Science & IT, Peshawar, Pakistan.
Email: rabia.ba@suit.edu.pk

Waheed-ur-Rahman, Assistant Professor, Department of Business Administration, Sarhad University of Science & IT, Peshawar, Pakistan
Email: waheedrehman.ba@suit.edu.pk

Gohar Abbas, Assistant Professor, Department of Business administration, Sarhad University of Science & IT, Peshawar, Pakistan
Email: abbas.ba@suit.edu.pk

Abstract

The researcher has tried to investigate the factors affecting academic performance of graduate students in this article. In the study academic performance (student's grades/marks) is taken as a dependent variable and the gender, age, Attendance, schooling, Household Income, residential area, medium of schooling; daily study hours and accommodation as independent variables. 100 students were selected though simple random sampling for data collection and the data was collected through structured questionnaire from the different departments of Sarhad University of Peshawar. For analysis, linear regression analysis, correlation analysis, and descriptive analysis are used. It was extracted from the findings that attendance, Household income and daily study hours significantly contribute to the academic performance of graduate students.

Key Words: Academic performance, attendance, household income, age, daily study hours

Introduction

Students' performance remains at top priority for academicians. Students performance is meant for making a difference locally, regionally, nationally and globally. Educators, trainers, and researchers have long been interested in exploring variables contributing effectively for improving quality of performance of learners. Student's performance is affected by internal and external variables. The researcher after studying several studies on the relevant field of research identified that there are many factors that contribute towards student's academic performance. Such as students' effort, previous schooling is among the important factor that can affect their performance (Siegfried & Fels, 1979). Another analysis showed some other factors affecting student academic performance in 81 an introductory biochemistry course at the University of the West Indies Benjamin, 1994), parents' education, family income (Devadoss & Foltz, 1996), self motivation, age of student, learning preferences (Aripin, Mahmood, Rohaizad, Yeop, & Anuar, 2008), class attendance (Romer, 1993), and entry qualifications as the affecting factors.

Researchers conducted detailed studies about these factors contributing to student performance at different study levels. Durden and Ellis (2002) are of the opinion that student's previous educational results are also among the important factors of student's future success. Graetz (1995) suggested "A student educational success is contingent heavily on social status of student's parents/guardians in the society. Minnesota (2007) observed that higher education performance depends upon the academic performance of graduate students. Considine and Zappala (2002) noticed that parent's income or social status positively affects the student test score in examination).

Karshan (2005) concluded that students whose parents are educated score higher on standardized tests than those whose parents were not educated. Fantuzzo and Tighe (2000) claim that educated parents can better communicate with their children regarding the school work, activities and information being taught at school. Educated Parents can better assist their children in their work and participate at school. Tsinidou, Gerogiannis and Fitsilis (2010) claim that "education services are often not tangible and are difficult to measure because they result in the form of transformation of knowledge, life skills and behavior modification of learners".

The relationship between gender and academic achievement of the students has been discussed for decades Elite, (2005). Chambers and Schreiber, (2004) view that a gap between the achievement of boys and girls has been found, with girls showing better performance than boys in certain instances. Mccoy, (2005) is of the view that gender, ethnicity and father occupation are significant contributor to students' achievement. Peng and Hall (1995) had the same view about the students performance. Jeynes (2002) found that "social and economical status of students is generally determined by combining parent's qualification, occupation and income standard".

Although in many cases students who come from sound socio-economic background perform better because they have all the facilities required for better study environment such as stated by Pedrosa et.al (2006) in their study on social and educational background argue that students who come from higher socio-economic status sometimes fail to perform well in their studies due to extra comfort provided to them where as students from poor socio-economic and educational background mostly perform better than those coming from higher socio-economic and educational area.

It was observed that that employment negatively affects students' academic achievement stated that an increase in the amount of hours worked was the most important variable. In a study, more hours worked decreased the probability of being an "A grade" student Pritchard, (1996). According to Furr and Elling (2000), 29% of the students working 30-39 hours per week and 39% of those students working full time indicated that work had an inverse impact on their academic progress. Whereas high-quality, part-time jobs that seemed to extend career-related skills may contribute to improved levels of "career maturity," and such type of jobs are assumed to be more flexible and work with students' schedules (Healy, O'Shea, & Crook, 1985).

While exploring the impact of absenteeism on students performance many researchers (Devadoss & Foltz, 1996; Durden & Ellis, 1995; Romer, 1993; Park & Kerr, 1990;

Schmidt, 1983), provide a consensus that students who miss classes perform poorly compared to those who attend classes.

This research let the researcher to make certain assumptions about different factors contributing towards student's academic performance those are stated below:

H1   There is an impact of gender on students' performance.

H2   There is an impact of the type of school (i.e. Government /Private) on students' performance.

H3   There is an impact of the area of residence (i.e. Urban /Rural) on students' performance.

H4   There is an impact of mode of instruction in school (i.e. English /Urdu) on students' performance.

H5   There is an impact of accommodation facility (i.e. Hostelries/Day Scholar) on students' performance.

H6   There is an impact of students' attendance on the students' performance.

H7   There is an impact of financial constraints on the students' performance.

Research Methodology

The study aimed at identifying student's performance by considering different factors such as the dependent variable(graduate student academic performance which can be studies by identifying their scores or grades and gender, age, attendance, schooling, father/guardian social economic status, residential area, medium of schooling, study hour and accommodation as an independent variables. Linear regression analysis was used to assess the impact of all these independent variables on the dependent variable. The sample of 100 graduate students was selected for the study purpose from the Sarhad University of Science and Information Technology Peshawar.

Simple random sampling technique was employed in the selection of sample from the targeted population. The questionnaires were distributed to the students personally so that the true responses could be obtained. Close ended questionnaires were used for data collection. Data from Questionnaires was compiled, sorted, edited, classified and coded into the coding sheet of SPSS 20.0 (version).

The researcher has used regression analysis for conducting analysis. Correlation was also applied to check the positive or negative relationship between the significant variables. For testing the hypothesis that the academic performance of graduate students of Sarhad University was tested using built in t-test function in SPSS.

Discussion and Result

The table 1 is the summaries the fitted or expected linear regression model by the method of least square. We use the SPSS in determining the results. The summary given below explains the academic performance based upon gender, age, attendance, schooling, father/guardian social economic status, financial constraints, part time job

and residential area, medium of schooling, tuition, study hour and accommodation as independent variables.

Table 1 *Regression Analysis of Dependent and Independent Variables*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.855[a]	0.731	0.644	0.65306

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Intercept)	1.414	1.422		0.994	0.327	-1.477	4.304
Average attendance of the student	0.034	0.007	0.54	4.506	0	0.018	0.049
Age of the student	-0.11	0.053	-0.241	-2.08	0.045	-0.217	-0.003
Gender of the student	-0.165	0.395	-0.043	-0.42	0.678	-0.968	0.637
To which area student belong	-0.264	0.218	-0.122	-1.21	0.235	-0.707	0.18
Where do you live?	0.012	0.25	0.005	0.046	0.963	-0.497	0.52
Medium of instruction at school	0.125	0.224	0.057	0.559	0.58	-0.331	0.581
in which college have you studied?	-0.129	0.292	-0.045	-0.44	0.661	-0.722	0.464
Your household income	0.0605	0.166	0.025	0.202	0.002	-0.303	0.37
Financial Constraints	0.207	0.259	0.088	0.798	0.431	-0.32	0.733
Daily study hours	0.259	0.102	0.325	2.555	0.015	0.053	0.466

Findings of the above analysis comprises of the following points: Adjusted R^2= 64%; R^2 shows that 64% variations in academic performance is due to the gender, age, attendance, schooling, father/guardian social economic status, residential area, medium of schooling, part time job, financial constraints , study hour and accommodation. The coefficients of Attendance show that test score will increase by .034 units if he remained regular throughout the program and shows higher percentage of attendance. Coefficient of attendance is also significant at 5% level of significance. The coefficients of Age shows that a unit increases in Age, decreases in academic performance by -0.110, holding other factors as constant. Age is a l s o significant at 5% level of significance.

It was observed that if gender is female then it will decrease the academic performance by -0.165 units. Whereas the significance level at 5% shows it insignificant for the study. While studying about the impact of the coefficients of Urban (Residential Area) the researcher came to know that if we increase a unit in urban graduates this will cause of decrease in academic performance by -0.264, keeping other factors as constant. Whereas the significance level at 5% shows it to be an insignificant variable for the study.

While identifying about the Government (Medium of Schooling) it was analyzed that a unit increase in Government (Medium of Schooling) graduates gives an increase in academic performance by 0.129, keeping other factors as constant. But the significance level at 5% shows it to be an insignificant variable for the study. In order to judge the impact of accommodation whether graduate is Hostelries or Day Scholar the researcher identified that if one unit of day scholar is increased it shows the increase in academic performance by 0.012, keeping other factors as constant. Whereas the significance level at 5% shows it to be an insignificant variable for the study.

As stated above researcher also searched about the impact of mode of instruction whether it is English or Urdu and it was observed after analyzing the data that a unit increase in English Medium (Medium of Schooling) shows the increase in academic performance by 0.125, keeping other factors as constant. Although the significance level at 5% shows it to be an insignificant variable for the study. While searching about the Schooling background (Govt/Private) the researcher analyzed that a unit increases in Govt. School (Background of Schooling) cause of decrease in academic performance by -0.129, keeping other factors constant. Whereas the significance level at 5% shows it to be an insignificant variable for the study. While studying about the impact of Income on student's performance it was observed that if we increase one unit of Income it will increase the academic performance by 0.06, keeping other factors as constant. Whereas the significance level at 5% shows it to be a significant variable for the study. In order to check whether financial constraints have any impact on students performance or not the researcher came to know after analyzing the data that if one unit of financial constraints is increased it will increase the academic performance by 0.207, keeping other factors as constant. Whereas the significance level at 5% shows it to be an insignificant variable for the study.

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While searching about the impact of daily study hours on students' performance the results show that one unit increase in daily study hour's increases the academic performance by 0.259, keeping other factors as constant. Whereas the significance level at 5% shows it to be a significant variable for the study.

Table 2 *Correlation Analysis of the Significant Independent Variables*

		Average attendance of the student	Age of the student	Your household income	Daily study hours
Marks /CGPA of the student	Pearson Correlation	.773**	-0.216	.447**	.614**

The regression analysis explained the variables that cause variation in academic performance of the students. Hence the significant independent variables were selected and further relationship was identified in table 2, which showed that test score and attendance are positively correlated this implies that students who are more regular show higher scores. The next one is age which shows negative correlation with the scores. Then the household income which also showed a positive relationship although not very strong but still has a relationship with the obtained scores of the students. This relationship clarifies that the parents having high household income affect positively the performance of the students. Another important factor is study time which after attendance shows strong relationship with the students' academic performance. The overall Correlation results show that attendance and daily study hours i.e. 77 % and 61 have strong relationship with the students' performance.

Table 3 *Students' Performance and Gender*

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Diff	Std. E. Diff
Marks / CGPA of the student	Equal variances assumed	4.82	0.03	-0.19	98	0.854	-0.107	0.579
	Equal variances not assumed			-0.35	65.6	0.737	-0.107	0.306

In above table the two tailed value (p-value) is greater than 5%, so we can not reject the null hypothesis and conclude at statistically the performance of graduate student do not vary with gender.

Table 4 *Students' Performance and Medium of Instruction*

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Diff	Std. E. Diff
Marks /CGPA of the students	Equal variances assumed	0.005	0.943	0.44	98	0.66	0.144	0.326
	Equal variances not assumed			0.44	43.58	0.66	0.143	0.326

In table 4 the two tailed value (p-value) is less than 5%, so we reject the null hypothesis and conclude at statistically the performance of graduate student vary with medium of instructions. That means if students are taught in English language or any other language effects the students performance , it might be because when students from the start are taught in international language do not have understanding problems in later stages if same language is used.

Table 5 *Students' Performance and Residential Area*

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Diff	Std. E. Diff
Marks /CGPA of the students	Equal variances assumed	3.41	.068	2.76	98	.005	3.41	1.235
	Equal variances not assumed			3.15	71.20	.002	3.40	1.082

In above table the two tailed value (p-value) is greater than 5%, so we can not reject the null hypothesis and identify that the performance of graduate student does not vary with residential area. In residential area urban and rural areas were taken, so it obvious that living areas have no significant impact on students performance.

Table 6 *Student Performance and Schooling*

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Diff	Std. E. Diff
Obtained Score	Equal variances assumed	3.52	.064	2.36	98	.024	3.043	1.290
	Equal variances not assumed			2.79	63	.006	3.042	1.089

In above table the two tailed value (p-value) is less than 5%, so we reject the null hypothesis and conclude at statistically the performance of graduate student vary with schooling perspectives as if they belong to private or government schools. Hence it is observed that schooling whether it is Private school or Government schools it definitely put effect on student's performance.

Table 7 *Students Academic Performance and Accommodation*

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Diff	Std. E. Diff
Obtained Score	Equal variances assumed	.19	.667	-1.4	98	.162	-.46	.321
	Equal variances not assumed			-1.9	42	.163	-.46	.321

In above table the two tailed value (p-value) is greater than 5%, so we can not reject the null hypothesis and identify that the performance of graduate students does not vary with where they live. Those who live at their own homes don't show greater differences from those staying at hostels.

Table 8 *Students Academic Performance and Financial Constraints*

		Levene's Test for Equality of Variances		t-test for Equality of Means				
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Diff	Std. E. Diff
Obtained Score	Equal variances assumed	4.6	.038	-.92	98	.365	-.32	.352
	Equal variances not assumed			-1.01	31.3	.323	-.32	.320

In above table the two tailed value (p-value) is greater than 5%, so we can not reject the null hypothesis and observe that the students having financial constrains perform some time same results means it does not affect the performance of graduate student.

5.   Conclusion

To identify the student's performance different factors were considered in the study such as the academic performance of the students (Grades/ CGPS) and gender, age, attendance, schooling, father/guardian social economic status, residential area, medium of schooling, study hour, accommodation, part time job and financial constraints. Linear regression analysis was used to assess the impact of all these independent variables on the dependent variable. The results showed that the model explained 64 % impact of the students performance with the above studied variables, out of which four (i.e. Attendance , study hours, household income and age) were significant. It was observed that attendance was highly and positively correlated to the students performance which shows that students who are more regular in attending lectures obtain greater performance along with daily study hours and parental income, whereas it is inversely related to the age of the students. While testing the hypothesis the researcher identified that gender, residential area, accommodation and financial constraints have no impact on student's performance whereas medium of instruction and schooling background have and impact on student's academic performance.

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IMPACT OF SOCIALIZATION ON ORGANIZATIONAL COMMITMENT OF EMPLOYEES: A CASE STUDY OF PRIVATE DEGREE COLLEGES IN NOWSHEHRA, DISTRICT, KPK

Saqib Shahzad, Demonstrator, Abdul Wali Khan University, Mardan
PhD-Scholar, Institute of Management Sciences, Peshawar
Email: saqibshahzad26@gmail.com

Shahzad Khan, Assistant professor, University of Haripur, Haripur

Dr. Fayyaz Ali Shah, Assistant Professor, Islamia College University Peshawar.
Email: akhoon47@yahoo.com

Abstract

Implementations of HR practices carry a significant weightage towards organization's success. The study was focused to find out the impact of socialization process on organizational commitment of employees working in private degree colleges. 200 hundred questionnaires were distributed among the teaching staff of degree colleges using convenient sampling technique. 126 properly filled questionnaires forming a response rate of 63% were analyzed to get meaningful results. The results of the study showed that socialization process was found to have significant impact on organizational commitment of employees.

Key Words*:* HR practices, Socialization, Organizational commitment

Introduction

Socialization process starts right after, when an employee apply for a job in an organization. This process in which both employees and organizations are new for each other so they need time and a proper way that they could know each other. So the formal process for this is called Socialization. Socialization is an overview of organization for new comers and focusing on successful outcomes from new employees and suggest practical steps for socialize newcomers (Cable & Thomas, 2006). Work experience has a very little effect in the adjustment of employee in any new organization because it was a whole new environment for employee (Adkins, 1995). Socialization process leads to a healthy environment both for organization and newcomers and also reduces early turnover rates in organization because of adjustment (Saari & Judge, 2004). Socialization process also creates self justification that can shape employee's future and also improves productivity (Staw, 1980). Organizational socialization refers to the mechanism through which new employees acquire the necessary knowledge, skills, and behaviors to become effective organizational members and insiders. When an employee gets socialized and get committed with an organization so that is good for an organization to achieve its goals easily. Employees have lots of expectations like, pay, behavior, promotions, rewards, opportunities etc that can influence job satisfaction (Judge & Church, 2000). There are different cultured

people in an organization having different views so they are also having different ways for their socialization to get job satisfaction and their commitment with organization.

Research Questions

1. What are the determinants of socialization process?
2. Is there any relationship between socialization and organizational commitment?

Objectives of the Study

Following are the objectives of the study.
- To study determinants of socialization.
- To explore the impact of socialization on organizational commitment.

Significance of the Study

Among the HR practices socialization is considered as one of the significant factor that motivates employees to adjust quickly and in a good manner in the organization. Initially the more informal interaction of new inductees with the current members of the organization the more it is easier for the inductee to adapt to the environment. This study carries importance of socialization for both employee and employer. Employers will have to carry a formal socialization process for new employees so that they can be productive and helps to achieve their goals and objectives by dedicated involvement having no hesitation. Newcomers compare their values from organizational values before entering the organization to ensure the satisfaction and commitment of the job.
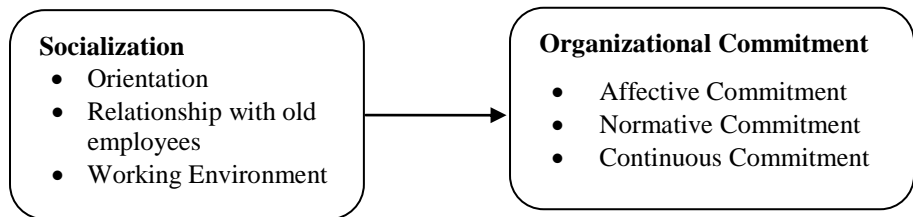
Literature Review

Socialization is a process in which an individual gain knowledge, skills, norms, values to enter in a new group of community, it is the combination of expectations and rules through which a newcomers adjust themselves in a new environment and make a commitment with organization to accept their norms and values and follow the rules and regulations positively integrating into a new group of people. As far concern to organization needs to provide an effective orientation to newly hired employees to help in their socialization (Adkins, 1995). Socialization process starts right after the selection of an employee, organization needs their employee to know about their organization and work in an environment by which both company and employee satisfy. Socialization for newly hired employees is good for relationship between organization and employees and moreover, formal and collective socialization tactics helps remove uncertainty in early work experiences (Ashforth & Saks, 1996). *Socialization* refers to "the process by which an individual acquires the attitude, behavior, and knowledge needed to participate as an organizational member" (Cable & parsons, 2001). Researchers called it *person-organization fit* or the well-suited between person and organization they are employed; it is a key to maintaining a *flexible* and devoted *workforce* that is vital in a *competitive business environment* and a stiff labor market. There are several factors effecting job satisfaction and *employee commitment*. *Commitment* is a *psychological state* that ties an individual to the organization. It refers

to the 'likelihood that an individual will stick to the organization, feel psychologically attached to it, whether the job is satisfying or not'. Organization commitment is an attitudinal predictor of employees' behavior and intentions (Mowday, Porter & Steers, 1982). Affective commitment is defined as the affective and emotional attachment of an individual with the organization and made a strong involvement and accepts the membership of the organization (Meyer & Allen, 1990). Affective commitment has been most powerfully linked to optimistic job-related behaviors (presence, organizational residency behavior) (Meyer & Herscovitch, 2001). Meyer et al. (2002) highlighted through *meta-analysis*, the real predecessors, partners and results of authoritative responsibility. Adeyemo (2000) found a productive and positive relationship amongst training and authoritative duty. As per Bhatla (2011) ingested on the essential for such representatives and how their organization can extend the development and work viability of the business all in all. Also roused on the undertakings played by the HR executives to grow laborer Commitment for a general public's being. The investigation of Mangundjaya (2012) that representative drawing in and worker conferring can give a higher result on execution and in addition at work fulfillment. What's more, there is likewise a positive connection between hierarchical responsibilities.

H1: Socialization practice has a significant impact on organizational commitment of employees.

CONCEPTUAL FRAMEWORK

Socialization
- Orientation
- Relationship with old employees
- Working Environment

→

Organizational Commitment
- Affective Commitment
- Normative Commitment
- Continuous Commitment

Research Methodology

The study was explanatory in nature. The population of the study was the private degree colleges in Nowshehra district. All the teaching staff in these degree colleges formed the target population of the study. A sample size of 200 was selected for data collection. Data was collected through self administered questionnaires using convenient sampling technique. Out of 137 filled questionnaires 11 questionnaires were found defective (improperly filled), so the results are based on 126 properly filled questionnaires. The response rate was 63% excluding the incomplete questionnaires. The research instrument comprised of three sections i.e. Section A consisted of demographic characteristics of respondents i.e. Gender, Age, Qualification etc, Section

B included the items related to the socialization socialization and it was measured by three sub variables including Orientation with 7 questions, relation with old employees consisting 6 and working conditions having 6 questions, while Section C consisted of organizational commitment which was measured by three sub variables i.e. 1st including affective commitment having 4 questions, 2nd was normative commitment having 5 questions) and 3rd was continuous commitment having 4 questions All responses of the variables were measured by five point Likert scale ranging: 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree.

Table 1: *Reliability Statistics*

#	Variable	Cronbach's Alpha	No of items
1	Orientation	0.714	7
2	Relationship with Old Employees	0.781	6
3	Working Environment	0.766	6
4	Affective Commitment	0.801	4
5	Normative Commitment	0.784	5
6	Continuous Commitment	0.809	4

Table 1 of reliability statistics shows that for orientation the value of Cronbach's alpha is .714. It represents that there were 7 items (questions) asked for measuring orientation. Since the Cronbach's alpha value is greater than .7 it means that the questions asked were highly related and the questionnaire was highly reliable. Similarly the Cronbach's alpha values for relationship with old employees is 0.781, for working environment α = 0.766, for affective commitment α= 0.801, for normative commitment α= 0.784 and for continuous commitment α=0.809 show that the entire questions to the respective variables were highly related and thus the questionnaire was highly reliable.

Table 2 *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
					R Square Change	F Change	Sig. F Change
1	.429[a]	.451	.439	.53671	.439	10.126	.001

a. Predictor: (Constant), Socialization

The above table 2 of model summary shows that, the value of R=0.429 representing 42.9% positive association between socialization and organizational commitment. The value of Adjusted R square = .439 representing the 43.9% of variance in the organizational commitment has been explained due to variation in socialization. The value of F change is 10.126 with p=.001 (p≤.05) represents that model is statistically highly significant.

Table 3 *Coefficients*

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	**Std. Error**	**Beta**		
1	(Constant)	1.641	.450		3.664	.000
	Socialization	.514	.129	.489	3.219	.001

a. Dependent Variable: Organizational Commitment

The table 3 of coefficients shows that for socialization the value of β=.514 representing that one unit increase in socialization causes 0.514 units increase in organizational commitment. The t-value = 3.219 with significance level=.001 (p≤.05), so hypothesis is accepted i.e. socialization has insignificant effect on organizational commitment.

Conclusion

The aim of the study was to find out the impact of socialization of organizational commitment of employees. The teaching staff in private colleges in district Nowshehra was the target population of the study. The results of the study showed that socialization was found to have a positive influence on the organizational commitment of employees towards organization. The results pointed out towards an important aspect that the success of organization specifically depends upon the proper implementation of HR practices. Proper implementation of organizational policies that can keep employee at ease and well adjusted to the organization may help in increasing their intentions to show higher level of commitment towards organization. This will also help in reducing the costs of organization regarding turnover ratio.

Limitations of the Study

The study was only focused in one district and one city i.e. Nowshehra was targeted. The sample size also served as a limitation. Financial resources in reaching to the masses in the selected area also created hurdles. The study was cross sectional in nature. The variables of the study were also limited. Only private colleges were targeted. lack of time was also a limitation.

Further Study

In future the study may be repeated considering that the number of independent variables to be increased for more composite model regarding organizational commitment. In addition to the private degree colleges the public sector degree college may also be included in the study. A comparative is suggested for more in depth results.

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THE IMPACTS OF ENTREPRENEURIAL ORIENTATION ON ORGANIZATIONAL PERFORMANCE: STUDY OF PAKISTANI SMES

Jawad Hussain, [1]Assistant Professor, Department of Management Studies, University of Malakand. Email: jawadhussina79@gmail.com

Abid Khan, PhD student, Department of Management Sciences, Qurtaba University of Science & Information Technology, Peshawar.

Fayaz Ali Shah, [3]Assistant Professor, Department of Management Sciences, Islamia College, Peshawar. Email: akhoon47@yahoo.com

Abstract

Entrepreneurial orientation has been the area of interest by many researchers in the field of entrepreneurship and management. However, empirical evidences reveal that most of these studies have been conducted in developed countries and have reported mixed results. Analyses on the subject in developing countries are lacking. This study investigates the role of entrepreneurial orientation on firm performance. This study used survey data from a random sample of 213 small and medium sized enterprises (SMEs) located in Sialkot region, Province of Punjab Pakistan. The findings support the hypothesis that entrepreneurial orientation associates with firm performance. This study contributes to the body of knowledge by taking EO as five dimensional construct (innovativeness, risk taking, proactiveness, competitive aggressiveness, autonomy) rather three dimensional construct. and organizational performance comprising of non financial indicators such as customer satisfaction, employees satisfaction, service quality, innovation and growth. The study offers suggestions to policy makers and future directions.

Key Words: Entrepreneurship, management, orientation, development, SMEs performance, innovativeness, proactiveness.

Introduction

Small and Medium Enterprises (SMES) has been the main source of employment creation, economic growth and prosperity in both developed and developing countries (Akhtar *et al.*, 2015; Aziz *et al.*, 2014; Ismail *et al.*, 2014). SMEs represent more than 90 percent of the total number of firms worldwide, with employment of approximately around 70 percent and contribution of about 60 percent to GDP (Ayyagari *et al.*, 2011). Pakistan's economy is largely SME driven economy where these SMEs represent almost 93 percent of all the enterprises, employing nearly 80 percent of the non-agricultural labour force (Malik *et al.*, 2011). However the contribution of SMEs to gross domestic product (GDP) towards Pakistan's economy is only 30 percent, which seems to be insignificant (Khalique *et al.*, 2011; Kureshi *et al.*, 2009; Mirani and Shah, 2012; Subhan *et al.*, 2014). This is despite various policies, measures and support

programs which the government of Pakistan has initiated and implemented in order to stimulate the growth and improve the competitiveness of the SME sector (Hafeez *et al.*, 2012). Since SMEs represent the major portion of the industrial sector in most of the developed and developing countries, it is more important to study the behavior of this important sector and practice such strategies that facilitate the achievement of growth and greater performance the sustainable economic growth (Jabeen and Mahmood, 2014). Entrepreneurial orientation is key strategic orientation that when adopted and practiced leads the organization towards greater organizational performance and sustainable competitive advantage (Hakala, 2013; Wiklund and Shepherd, 2005). It entails specific organizational-level behavior inclined towards risk-taking, self-directing activities, engaging in innovation and reacting proactively and aggressively to out-perform the competitors in the marketplace and improve the firm performance (Hakala, 2011; Lumpkin and Dess, 1996; Olaniran, 2016). Entrepreneurial orientation is a viable strategy that ensures the firm' survival and enable an organization to make effective responses to the external competitive and challenging business environment. Previous researches have highlighted that firms that adopt entrepreneurial oriented strategy are better able to leverage the market opportunities and ensure their long term survival and growth (Lumpkin and Dess, 1996; Zhao *et al.*, 2011).

Dynamic, strong and efficient SMEs are acknowledged to play their key role in creating competitive advantage and facilitating the process of economic development (Batool and Zulfiqar, 2013). Being key drivers to economic growth, there is a need to study the behaviour of SMEs in order to provide insight on ways to enhance competitiveness and improve performance (Hafeez *et al*. 2012). Also, there is a need to focus on the manufacturing sector of the SMEs, since this sector has the potential to promote economic development and competitiveness. The share of manufacturing sector to GDP rose in the last 10 years from 14.7% in 1999-2000 to 18.7% in 2010-11 (Hafeez *et al.*, 2012; Khan and Khalique, 2014). In the rapidly changing business environment, firms need to adopt entrepreneurial approach is necessary (Aziz *et al.*, 2014), as it helps firms to prosper and grow in competitive and uncertain environments and facilitate the deployment of knowledge-based resources in discovering and exploiting the market opportunities prior to the competitors (Olaniran, 2016). Previous researches have highlighted that higher levels of entrepreneurial orientation enable firms to better identify and grab business opportunities in a way that differentiates them from non-entrepreneurial firms (Covin *et al.*, 2006; Gathungu *et al.*, 2014; Rauch *et al.*, 2009). Ahmad *et al*. (2013) suggested adopting entrepreneurial oriented approach by SMEs to exploit the potential and benefits of this sector to compete in national and international markets. While a number of studies have investigated the EO–performance relationship, there is a dearth of research investigating the EO–performance relationship within the context of SMEs in developing countries. Thus, the main objective of this study is to investigate the relationship of entrepreneurial orientation and business performance in SMEs operating in a developing economy, like Pakistan. The rest of the paper has been structured as follows; the second section presents a review of the theoretical framework, previous empirical researches and formulation of the research hypotheses. The third section

discusses the research methodology, sample and the variables used in the study. The fourth section analyzes the results obtained, while the final section summarizes the main conclusions and discussion of the findings.

Literature Review

Entrepreneurial orientation

Entrepreneurial orientation (EO) is the process of creating strategy that provides the basis for entrepreneurial decisions and actions for the organization (Rauch *et al.*, 2009). Lumpkin and Dess (1996) define EO as the policies and practices which enable a firm to adopt an entrepreneurial position when facing new business opportunities. Miller (1983) argued that entrepreneurial organizations are engaged in product/market innovation, and are concerned with risky ventures and are the first to come up with proactive innovations beating the competitors to the bushes. Miller (1983) proposed three dimensions of EO: innovativeness, risk taking, proactiveness. Innovativeness refers to the ability of the organizations willingness to support and engage in new ideas, novelty, experimentation and creative processes that may possible result in new products, services or processes (Lumpkin and Dess, 2001). Risk taking refers to "the degree to which managers are willing to make large and risky resource commitments … in the interest of obtaining high returns by seizing opportunities in the marketplace" (Lumpkin and Dess, 2001, p. 144). Proactiveness is the ability of a firm to take the initiative and reach the unexplored market, exploit the emerging opportunity and shape the environment of a firm conveniently (Rauch *et al.*, 2009). Lumpkin and Dess (1996) added two new dimensions that also characterize EO, namely competitive aggressiveness and autonomy. According to Lumpkin and Dess (1996) "competitive aggressiveness refers to a firm's propensity to directly and intensely challenge its competitors to achieve entry or improve position, that is, to outperform industry rivals in the market-place." Autonomy refers to the extent to which individuals or team enjoy freedom and able to peruse market opportunities from the initial idea to completion (Lumpkin and Dess, 1996; Lumpkin and Dess, 2001).

### Entrepreneurial orientation and business performance

Researchers have developed consensus that entrepreneurial orientation contributes to a firm's performance (Kajalo and Lindblom, 2015; Lumpkin and Dess, 2001; Rauch *et al.*, 2009). Organizations that act entrepreneurially are better able to respond to the challenges posed by external environment and adjust their operations in the cut throat competitive environments (Covin and Slevin, 1989; Hakala, 2013). Entrepreneurial orientation facilitates a firm to proactively scan the external environment and take the benefit of emerging opportunities in the marketplace (Kwak *et al.*, 2013; Wang, 2008).

Previous researches on the investigation on entrepreneurial orientation and performance relationship have highlighted that entrepreneurial orientation is crucial for the long term survival and growth of the organization. As such, the empirical research (Wiklund and Shepherd, 2005) about entrepreneurial orientation reported that

entrepreneurial orientation contributes to organizational performances. Mahmood and Ibrahim (2016) conducted their study in Nigeria and found a significant and positive relationship between entrepreneurial orientation and SMEs performance. Hussain *et al*. (2015) analyzed study on the relationship between entrepreneurial oientation and firm performance on Malaysia SMEs and concluded that entrepreneurial orientation is the key driver of firm performance. Eggers *et al* (2013) reported based a study on 660 SMEs in Austria and found that entrepreneurial orientation is positively related to the SME growth. They argue that if an SME desires to grow, entrepreneurial orientation is needed to fuel these growth aspirations. Likewise, the crucial role of entrepreneurial orientation has been reported in facilitating the attainment of firm performance (González-Benito *et al.*, 2009). Rauch *et al*. (2009) performed a meta-analysis of the relationship between entrepreneurial orientation and business performance. Their study included 51 articles and reported a significant positive relationship between entrepreneurial orientation and organizational performance.

However, entrepreneurial orientation has been reported to have no positive impact on firm performance at all (Slater and Narver, 2000). Walter *et al*. (2006) found that EO is not directly related with business performance. Runyan *et al*. (2008) reported no effect of entrepreneurial orientation on firml performance due to the effect of other independent variables. Swierczek and Ha (2003) found only a partial positive relationship between entrepreneurial orientation and business performance. Kreiser *et al*. (2013) highlighted that the relationship between entrepreneurial orientation and firm performance is non-linear. Some studies posited even a curvilinear entrepreneurial orientation- performance relationship (Dai *et al.*, 2014; Su *et al.*, 2011; Wales *et al.*, 2013). Despite the increasing number of researches investigating the impact of entrepreneurial orientation on organizational performance, the results are inconclusive (Faiz and Ahmad, 2015), depending on the type of performance measure used (Hakala, 2013; Rauch *et al.*, 2009) and difference in the context where the study is investigated (Lumpkin and Dess, 1996). Based on the foregoing discussion, the following hypothesis is proposed:

H1: Entrepreneurial orientation has a significant effect on organizational performance.
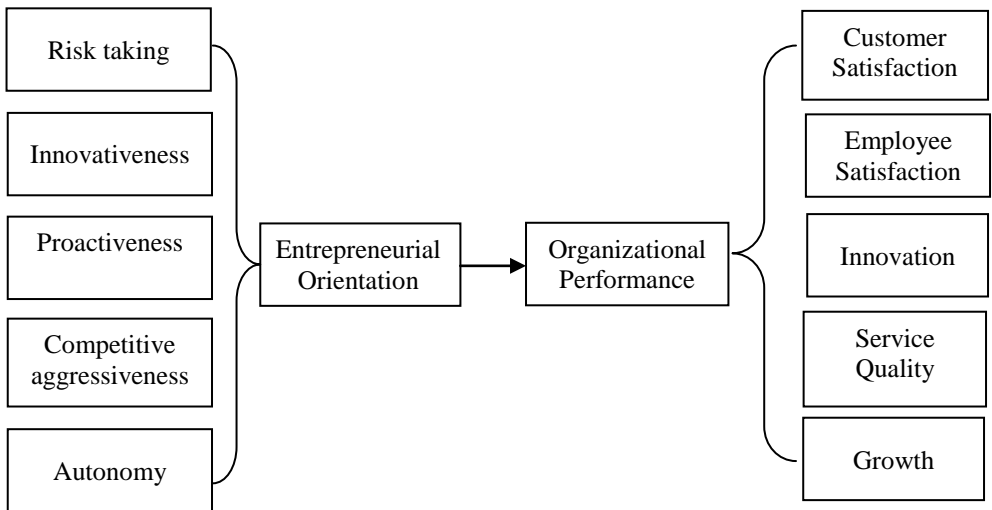
Fig 1: Research Framework

Methodology

Sampling and data collection procedures

The present study is conducted in Sialkot region, Province of Punjab Pakistan, which is considered to be the hub of entrepreneurial activity in Pakistan (Hussain *et al.*, 2012; Khan *et al.*, 2010). According to an estimate, there are more than 7000 entrepreneurs in the region (Akhtar *et al.*, 2015). These entrepreneurs are involved mostly in the manufacturing sector belonging to small electrical appliances like fans and related components, garments and apparel, leather goods, earthen ware, sports, silver ware and surgical goods. Sample of 367 owners/managers of these enterprises were part of the study. In case, if owner or manager was not available, the his/her proxy was used to represent the enterprise. These SMEs were registered with Sialkot Chamber of Commerce and Industry (SCCI). Majority of the businesses were owned and operated by families (57.3 %). Out of the total questionnaires mailed to SME owner/managers, 239 questionnaires were collected, 26 questionnaires were found to be incomplete and were thus eliminated because of incomplete information. Thus total of 213 questionnaires were accepted and used for further analysis.

Measures

This study adopted the five dimensions of entrepreneurial orientation, including risk taking, innovativeness, competitive aggressiveness, proactiveness and autonomy, as proposed by Lumpkin and Dess (1996). Several studies followed five dimensional approach in relation to different performance indicators (Hughes and Morgan, 2007; Lee *et al.*, 2011; Lee and Lim, 2009; Li *et al.*, 2009; Pearce *et al.*, 2010; Zhang *et al.*, 2014). For this study, four dimensions of entrepreneurial orientation namely, risk taking, innovativeness, competitive aggressiveness were measured adapting the scales

developed by Lumpkin and Dess (1996) and Lee and Lim (2009). Proactiveness dimension of entrepreneurial orientation was measured adapting the scale developed by Miller (1983). The scale for proactiveness has been validated by Wang and Altinay (2012). The measurement scale for the present study used 5-point Likert scale where 1 was strongly disagree and 5 was strongly agree to measure the perceptions of the respondents on these five dimensions. There were total 17 items in the scale divided as follows: proactiveness (04 items), risk taking (03 items) innovativeness (03 items) competitive aggressiveness (04 items) and autonomy (03 items). For example, 'our business undertakes market research in order to identify market opportunities','we enjoy facing a difficult task from which other people want to keep away', 'we always try to develop new products /services which are not offered by competitors', 'We watch competitors' business strategies to react against them promptly', and so forth.

Firm performance was measured through a subjective approach. Non-financial measures like employee satisfaction, innovation, customer satisfaction, service quality, human resource practices etc are used for measuring performance of an organization. For the study and to manage the scope of the study, non-financial measures of organizational performance like customer satisfaction, employee satisfaction, innovation, quality of service and growth were taken. Growth is normally measured in financial terms but for the current study subjective measure of growth was taken. Subjective approach for data collection was used as generally owner/managers are not willing to provide the information concerning to financial data to outsiders (Aziz *et al.*, 2014; Jabeen and Mahmood, 2014). The perceptions of the respondents were taken on a 5 point Likert scale in which 1 denoted strong disagreement and 5 denoted strong agreement.

Data Analysis and Findings

Reliability

Reliability of an instrument indicates that the internal consistency of items used to measure constructs. It is commonly measured through Cronbach alpha reliability test. If the value of Cronbach alpha is more than 0.6, it is considered good and all items of a construct can be analyzed by summing them up as one measurement (Hair, 2003; Nunnally, 1978). For the present study, reliability of the survey questionnaire has been calculated. The results of the reliability analysis indicate that the Cronbach Alpha achieved for both the construct i.e. entrepreneurial orientation and performance are greater than 0.6 thus making the instrument reliable for further statistical analysis.

Table 1: *Reliability Scores for Variables*

Variables	No. of Items	Cronbach Alpha
Entrepreneurial Orientation	17	0.899
Organizational Performance	20	0.926

Sample characteristics

The results of the demographic analysis indicate that majority of the businesses are owned and operated by males (87.3%), while only handful of respondents were found to be females (12.7%). This shows that the manufacturing sector is male dominated. The education level of respondents indicate that majority of them are bachelor degree holders (54.9%). This is followed by respondents who have attained masters degrees (22.5%) and intermediate or high secondary certificate (18.8%). Respondents who had either attained their high school certificate (matriculate) or below were found to be 3.8%. Business ownership was found to be dominated by families (49.3%) as compared to self ownership (36.2%) or partnerships (14.6%). In response to line of business, majority of the respondents were involved in the manufacturing of small electrical appliances like fans and related components etc. (23.5%). This line of business was closely followed by garments and apparel (22.1%) and leather goods (20.2%). Further analysis of business lines indicate that earthen ware (12.2%), sports (8.5%), silver ware (8%) and surgical goods (5.6%) categories were on lower side of spectrum.

Table 2 Sample Profile

Item		Count	Percent
	Male	188	87.3
Gender	Female	27	12.7
	Total	213	100
	less than matriculate	1	.5
	Matriculate	7	3.3
	Intermediate	40	18.8
Education	Bachelor	117	54.9
	Masters	48	22.5
	Total	213	100.0
	Self	77	36.2
Business Ownership	Family	105	49.3
	Partnership	31	14.6

	Total	213	100.0
	Surgical Goods	12	5.6
	Leather Goods	43	20.2
Line of Business	Electrical Appliances	50	23.5
	Earthen Ware	26	12.2
	Silver Ware	17	8.0
	Garments and Apparels	47	22.1

Testing of hypothesis

Regression analysis was performed to check the effect of predicting variable (IV) Entrepreneurial Orientation (EO) on the criterion variable (DV) that is organizational performance. The results indicate that EO (β=0.645, t=11.359, p<0.001) is positively and significantly associated to business performance. Hence, this result supports H1. The result of the study is in line with the previous studies that have reported positive association between entrepreneurial orientation and organizational performance.

Table 3   *Regression Of Entrepreneurial Orientation*

Variables	Adjusted R- square	Beta	F- value	Sig.
Entrepreneurial Orientation	0.577	0.645	85.45	.000*

Sig p < 0.001

Discussion and Conclusion

Entrepreneurial orientation is a strategic construct indicating the inclination and behaviours of organizations towards opportunity recognition and exploitation. Researchers have indicated that entrepreneurial orientation is a multi-dimensional construct whose dimensions though interlinked vary independently with varying degrees of influence on performance (Fairoz *et al.*, 2010; Kreiser *et al.*, 2002; Lumpkin and Dess, 2001). Further, it has been highlighted that entrepreneurial orientation as a composite variable and its individual dimensions would impact performance differently in different cultural environments and contexts (Kellermanns *et al.*, 2008; Lumpkin and Dess, 1996; Zahra, 2008).

This study examines that how entrepreneurial orientation can affect the business performance of small and medium enterprises in Pakistan. It means that as the entrepreneurial orientation level increases, the degree of business performance

also increases. The results of the present study indicate that there exists a strong influence of entrepreneurial orientation of the top management on organizational performance ($\beta = 0.645$, $p = 0.000$). This study is in line with the previous studies that reported significant impact of entrepreneurial orientation on organizational performance (Alegre and Chiva, 2013; Covin *et al.*, 2006; Hakala, 2013; Lumpkin and Dess, 1996; Shirokova *et al.*, 2016; Wiklund and Shepherd, 2005; Zhao *et al.*, 2011). All these studies have reported that stronger entrepreneurial orientation of the firms enhances organizational innovation and performance. It means that as the level of entrepreneurial orientation increases, the degree of organizational performance also increases.

The present study only looked into strategic orientations from the SMEs perspective. Research that targets not only business companies but also government departments or organizations and non-profit organizations is suggested to be conducted since strategic orientations result in competitive advantage. Also this study analyzed strategic orientation of SMEs without analyzing the role of government policies and departments involved in developing the framework for SMEs development in the country. It is advised that future research may analyze the role of government policies along with strategic orientations of the SMEs to gather a more in-depth information and knowledge on the SMEs behavior and their competitiveness. It is further advised that other strategic process variables such as human resources and organizational structure be taken into account for analyzing the role of entrepreneurial orientation towards performance. Furthermore this study concentrated on SMEs in one city of Pakistan. The entrepreneurial small and medium organizations are clustered in other cities as well. Therefore, it is suggested that future studies should also include SMEs from other industrial hubs of the country to overcome this limitation. Seventh, the study focused on single informant for data collection. It is highly recommended that multiple respondents from a single organization be selected for data collection to gauge the true nature and effect of entrepreneurial orientation on organizational performance.

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